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Legislative Update Police Pension Funds

Update Update Update **Public Act 096-1260** Update Update Update
Senate Bill 3022 signed into law July 23, 2010
Effective July 23, 2010

Additions to Illinois Law:

Public Act 096-1260/SB 3022 provides that Article 3 police officers may receive credit for military service served prior to employment by a municipality, 40 ILCS 5/3-110 (b-5) (new). The new law allows an Article 3 police officer to receive creditable service in the pension fund, not exceeding 2 years, for military service served prior to employment as an active police officer of a municipality.

(40 ILCS 5/3-110 (b-5))

(b-5) Creditable service includes all periods of service in the military, naval, or air forces of the United States entered upon before beginning service as an active police officer of a municipality, provided that, in accordance with the rules of the board, the police officer pays into the fund the amount the regular contributor during such period, plus an amount determined by the Board to be equal to the municipality's normal cost of the benefit, plus interest at the actuarially assumed rate calculated from the date the employee last became a police officer under this Article. The total amount of such creditable service shall not exceed 2 years.

Synopsis:

Public Act 096-1260/SB 3022 amends Article 3 of the Illinois Pension Code, providing a police officer the opportunity to receive no more than 2 years of creditable service time in the police officer's pension fund for time served in the military, naval, or air forces of the United States prior to employment by the municipality as an active police officer.

Due to the lack of statutory clarity and documented legislative guidance, the Illinois Department of Insurance Legal Division is unable to provide definitive interpretive assistance to the Public Pension Division with regard to Public Act 096-1260. The Illinois Department of Insurance is working with the General Assembly to clarify this Act.

The following guidance for implementing this Act is based upon a related provision governing the purchase of military service set forth in Article 4 of the Pension Code and is furnished to assist the Article 3 pension funds until further statutory guidance is provided.

The police officer must be in active service as a police officer on or after July 23, 2010.

The police officer is required to make written application to the police officer's pension fund to receive credit for the service in the military, naval, or air forces of the United States. Discharge papers or separation documents, the DD Form 214, Certificate of Release or Discharge from Active Duty, or a similar form, should be provided to the pension fund board as proof of service in the military, naval, or air forces of the United States.

The police pension fund should make rules on the manner in which the police officer is to pay the appropriate amount for the purchase of military service to the pension fund.

The police officer must make contributions to the police officer's pension fund equal to:

- i) the amount the police officer would have contributed if he or she would have been a regular contributor during the period of time, plus ii).

The employee contributions are to be based on the rates during the applicable number of months immediately prior to the date of membership in the police pension fund. The date of membership in the fund is the date of membership in the police officer's current pension fund. The salary to be used in computing the contributions is the salary of the police officer on the date of membership in the pension fund.

- ii) an amount determined by the pension fund board to be equal to the employer normal cost of the benefits accrued for that military service, plus iii).

The salary to be used in computing this amount is the same salary used to compute the employee contributions under item i), the salary at time of membership in the fund. The employer normal cost amount as a percentage of salary is and has been provided on the Illinois Department of Financial and Professional Regulation / Illinois Department of Insurance, annual Actuarial Valuation Balance Sheet / Actuarially Determined Tax Levy reports, or by an independent actuary. Further explanation of this determination is below.

** For the purpose of computing the contributions required under i) and ii) the Total Normal Cost percentage found on the Actuarial Valuation Balance Sheet / Actuarially Determined Tax Levy report will be used in the example that follows. The Total Normal Cost percentage is the sum of the employee contribution rate under i) plus the employer normal cost percentage under ii).

- iii) interest at the actuarially assumed rate calculated from the date of membership to the date of payment on the amounts under items i) and ii). The Department of Insurance Public Pension Division recommends that the actuarially assumed rate of interest used in the interest calculation be the rate assumed and used annually for funding purposes. This rate is determined by the Department Of Insurance Public Pension Division or by the independent actuary. The assumed interest rates provided by the Illinois Department of Financial and Professional Regulation / Illinois Department of Insurance equaled:
 - a. 6.5% prior to the fund's fiscal year ending in 1987, and
 - b. 7.0% for the fund's fiscal year ending in 1987 and after.

Computing Police Officer's Contributions To The Fund

Employee Contributions Under i) and Employer Normal Cost Under ii)

The police officer is required to contribute to the Article 3 police pension fund employee contributions as described under i) above and the municipality's or employer normal cost as described under ii) above. The employee contributions and the employer normal cost can be computed in one step by using the total normal cost percentage and the police officer's salary.

The total normal cost percentage can be found on the actuarial valuation report, or tax levy report, provided by the actuary. On the Illinois Department of Financial and Professional Regulation / Illinois Department of Insurance Actuarial Valuation Balance Sheet / Actuarially Determined Tax Levy report, this percentage can be found on the second page, third line, which reads, "Percent of Total Normal Cost to Total Annual Salaries of \$ **.* is **.***%." This percentage includes the police officer's employee contribution percentage to the Article 3 police pension fund as well as the municipality's normal cost contribution percentage. The police officer's salary to be used for the service time being credited to the Article 3 police pension fund is to be the police officer's salary on the date of membership in the police pension fund. For the creditable service time being credited, the total of the amounts under i) plus ii) above equals the sum of each fiscal year's total normal cost. Each fiscal year's total normal cost should equal: 1) the total normal cost percentage for a fiscal year for which creditable service time is being credited (the year or two prior to the police officer's date of membership in the fund), multiplied by 2) the salary received at the date of membership.

Interest on the Employee Contributions Under i) and Employer Normal Cost Under ii)

Interest is computed on the total normal cost amount (the police officer contributions plus the municipality's normal cost amount) under Section 3-110(b-5) described above as i) and ii) from the date of membership in the fund through the date of payment.

The following example illustrates the computations to determine the police officer's cost:

Example:

Information Needed:

- 1) Time being credited to the Article 3 Police Pension Fund for military service.

21 months, 17 days

- 2) Police Officer's date of membership in the pension fund.

August 12, 1991

- 3) The police officer's salary on the date of membership.

\$27, 895

- 4) Fiscal year end of Article 3 Police Pension Fund.

April 30

- 5) Dates for which creditable service is being credited to the Article 3 police pension fund.

October 26, 1989 through August 11, 1991

- 6) The total normal cost percentage for the Article 3 police pension fund corresponding to the fiscal year for which creditable service time is being credited (See Table 1 below).

- 7) Date of payment to credit additional service time.

9/30/2010

TABLE 1: Total Normal Cost Percentages

<u>Police Pension Fund Fiscal Year End (FYE)</u>	<u>Total Normal Cost Percentage (Police Fund) (as of FYE)</u>
April 30, 1990	23.72%
April 30, 1991	23.57%
April 30, 1992	23.81%

Determination of the Amount the Police Officer will need to Pay to the Article 3 Police Pension Fund:

1) Determine the total normal cost [the employee contribution, i), plus employer normal cost, ii)], in a particular fiscal year by multiplying the salary by the total normal cost percentage for the corresponding year.

Total Normal Cost Calculation

<u>Police Fund Fiscal Year End (FYE)</u>	<u>Assumed Salary as Military Employee (through FYE)</u>	<u>Total Normal Cost Percentage (as of FYE)</u>	<u>Total Normal Cost: (Employee Contributions and Employer Normal Cost)</u>
April 30, 1990	Salary from October 26, 1989 through April 30, 1990 is for 6 months, 5 days = \$ 27,895.00 X [(6/12) + (5/365)] = \$ 27,895.00 X [.5 + .0137] = \$ 27,895.00 X [.5137] = \$ 14,329.66		
	\$ 14,329.66	X 23.72%	= \$ 3,399.00
April 30, 1991	Salary from May 1, 1990 through April 30, 1991 is for 1 year = \$ 27,895.00		
	\$ 27,895.00	X 23.57%	= \$ 6,574.85
April 30, 1992	Salary from May 1, 1991 through August 11, 1991 is for 3 months, 11 days = \$ 27,895.00 X [(3/12) + (11/365)] = \$ 27,895.00 X [.25 + .0301] = \$ 27,895.00 X [.2801] = \$ 7,813.39		
	\$ 7,813.39	X 23.81%	= <u>\$ 1,860.37</u>

Total Normal Cost (Employee Contributions and Employer Normal Cost):

$$\$ 3,399.00 + \$ 6,574.85 + \$ 1,860.37 = \$ 11,834.22$$

2) Determine the interest on the employee contributions and employer normal cost per 40 ILCS 3-110(b-5). First determine the interest period, the period of time between the date of membership in the fund and the date of payment. Second, determine the interest rate to be used. Assuming the Department Of Insurance Public Pension Division tax levy report was used for funding purposes, for periods of time through the fiscal year ending in 1986 a 6.5% interest rate should be used, while for the periods of time after the fiscal year ending in 1986 a 7.0% interest rate should be used.

Interest Period

Date of membership in the pension fund: August 12, 1991
 Date of Payment: September 30, 2010

Interest Period: August 12, 1991 through September 30, 2010
 = 19 years, 1 month, 19 days
 = 19 + [(1/12) + (19/365)]
 = 19 + [.0833 + .0521]
 = 19 + [.1354]
 = 19.1354 years

Total Normal Cost (Employee Contribution and Employer Normal Cost) Plus Interest

Total Normal Cost (Employee Contribs. and Employer Normal Cost) <u>(Contribution Amount)</u>	<u>Interest Period</u>	Contribution Plus Interest = [(Contribution Amount) X <u>{(1+.07)^(Interest Period)}</u>]
\$ 11,834.22	19.1354	\$ 43,192.66

Total Police Officer Contribution required to
 be paid to the Article 3 Police Pension Fund: **\$ 43,192.66**