



# Illinois Department of Insurance

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## The Siren

Toll Free (800) 207-6958

Fax (217) 524-5978

### Legislative Update Police Pension Funds

Update Update Update **Public Act 096-0297** Update Update Update  
House Bill 3656 signed into Law August 11, 2009  
Law became effective August 11, 2009

#### Additions to Illinois Law:

Transfer of Creditable Service from Article 3 Police  
Pension Fund to Article 3 Police Pension Fund

40 ILCS 5/3 - 110

#### Transfer of Creditable Service from Article 3 Police Pension Fund to Article 3 Police Pension Fund

(40 ILCS 5/3-110)  
Sec. 3-110

(d) (2) If the board of the pension fund to which creditable service and related contributions are transferred under Section ~~3-110.7~~ or 7-139.9 determines that the amount transferred is less than the true cost to the pension fund of allowing that creditable service to be established, then in order to establish that creditable service the police officer must pay to the pension fund, within the payment period specified in paragraph (3) of this subsection, an additional contribution equal to the difference, as determined by the board in accordance with the rules and procedures adopted under paragraph (6) of this subsection. If the board of the pension fund to which creditable service and related contributions are transferred under Section 3-110.7 determines that the amount transferred is less than the true cost to the pension fund of allowing that creditable service to be established, then the police officer may elect (A) to establish that creditable service by paying to the pension fund, within the payment period specified in paragraph (3) of this subsection (d), an additional contribution equal to the difference, as determined by the board in accordance with the rules and procedures adopted under paragraph (6) of this subsection (d) or (B) to have his or her creditable service reduced by an amount equal to the difference between the amount transferred under Section 3-110.7 and the true cost to the pension fund of allowing that creditable service to be established, as determined by the board in accordance with the rules and procedures adopted under paragraph (6) of this subsection (d).

(3) Except as provided in paragraph (4), the additional contribution that is required or elected under paragraph (2) of this subsection (d) must be paid to the board (i) within 5 years from the date of the transfer of contributions under Section 3-110.7 or 7-139.9 and (ii) before the police officer terminated service with the fund. The additional contribution may be paid in a lump sum or in accordance with a schedule of installment payments authorized by the board.

...  
(5) If the additional contribution that is required or elected under paragraph (2) of this subsection (d) is not paid in full within the required time, the creditable service shall not be granted and the police officer (or the officer's

surviving spouse or estate) shall be entitled to receive a refund of (i) any partial payment of the additional contribution that has been made by the police officer and (ii) those portions of the amounts transferred under subdivision (a)(1) of Section 3-110.7 or subdivisions (a)(1) and (a)(3) of Section 7-139.9 that represent employee contributions paid by the police officer (but not the accumulated interest on those contributions) and interest paid by the police officer to the prior pension fund in order to reinstate service terminated by acceptance of a refund.

...

### **Synopsis:**

Section 3-110 now allows a police officer who elects to transfer creditable service time accumulated in an Article 3 police pension fund to another Article 3 police pension fund the option of either (A) paying an additional contribution equal to the difference between the true cost of transferring said creditable service time and the amount of monies the prior fund would transfer to the current fund as determined under Section 4404.73 of Administrative Code 4404 or (B) having the creditable service time earned in the prior fund and credited to the current fund reduced in lieu of payment of an additional contribution. The officer must be an active member in an Article 3 police pension fund and make written application to the current Article 3 police pension fund.

If an officer provides an irrevocable written authorization to transfer creditable service time, the officer must include in that letter whether the officer will (1) pay the additional contribution to have all creditable service time earned in the prior pension fund credited to the current pension fund or (2) have the creditable service time earned in the prior pension fund and credited to the current pension fund reduced in lieu of payment of an additional contribution. Within thirty (30) days after receiving the irrevocable written authorization, the prior fund must transfer all of the officer's creditable service time in that fund along with the payment of all monies required to be transferred pursuant to Section 4404.73 of Administrative Code 4404. The officer's participation in the prior pension fund is thereby terminated.

### **Section 4404.80 Current Fund Payment Schedule, Determination of Creditable Service Time to be Credited and Notification to the Police Officer**

Within 14 days after receipt of the prior pension fund's notification, the current pension fund shall notify the requesting officer of:

(a) The additional contribution needed from the officer to transfer the designated creditable service time as required by Section 3-110 of the Illinois Pension Code [40 ILCS 5/3-110] should the officer elect to have all creditable service time earned in the prior fund credited to the current fund under 40 ILCS 5/3-110(d)(2), option (A). The additional contribution should represent the true cost necessary to transfer the designated creditable service time minus the amount payable by the prior pension funds as calculated pursuant to Section 4404.73 of this Part leaving a balance payable by the officer to satisfy the true cost of effectively transferring the designated creditable service time. This additional contribution is in addition to any amount required to be

paid by the officer to reinstate the prior creditable service when a refund had been received as calculated in Section 4404.76 of this Part. In addition, the current pension fund must:

- 1) Specify the method of payment as either a lump sum or a schedule of payments, to include 6% annual interest on the declining balance, and any fees, not to exceed the 5 year statutory limit (see 40 ILCS 5/3-110(d)(3)), deemed acceptable by the current pension fund board of trustees and that payment must be made in full before the officer terminates service; and
  
- 2) Notify the officer that, once final authorization has been given pursuant to Section 4404.90 of this Part, the transfer cannot be reversed and failure to satisfy the agreed to payment arrangement will result in a forfeiture of the employer paid portion and any accumulated interest on the designated creditable service time pursuant to Section 3-110.7 of the Illinois Pension Code [40 ILCS 5/3-110.7]. ; and

(b) The amount of creditable service time that will be credited to the current pension fund should the officer elect to have the creditable service time earned in the prior pension fund and credited to the current fund reduced in lieu of payment of an additional contribution. The reduced amount of creditable service time to be credited to the current pension fund shall equal the portion of the creditable service time accumulated in the prior pension fund after applying to that creditable service time the ratio of the amount of monies transferred from the prior pension fund to the appropriate true cost amount as determined under Section 4404.50 of this Part. If the ratio of the amount transferred from the prior pension fund to the appropriate true cost amount is greater than one, only the amount of actual creditable service time accumulated in the prior pension fund is credited to the current pension fund. Any amount required to be paid by the officer to reinstate the prior creditable service when a refund had been received as calculated in Section 4404.76 of this Part must still be paid to the prior pension fund.

$$\begin{array}{rcccl}
 \text{Service Credited} & & \text{Service Accumulated} & & \text{(Monies from Prior Fund)} \\
 & = & & \times & \hline
 \text{To Current Fund} & & \text{In Prior Fund} & & \text{(Appropriate True Cost)}
 \end{array}$$

In addition, the current pension fund must notify the officer that, once final authorization has been given pursuant to Section 4404.90 of this Part, the transfer cannot be reversed. Creditable service time transferred out of the prior pension fund and not credited to the current pension fund is lost. It may not be transferred to another pension fund and may not be reinstated in the pension fund from which it was transferred.

The following example should more clearly illustrate the computation:

**Example:**

Information Needed:

- 1) Total creditable service time accumulated in the prior pension fund  
9 years, 5 months, 26 days  
=  $9 + (5/12) + (26/365)$   
=  $9 + 0.4167 + .0712$   
= 9.4879 years
  
- 2) Monies to be transferred from the prior pension fund to the current pension fund pursuant to Section 4403.73 of Administrative Code 4404  
\$90, 451.16
  
- 3) True Cost of Transferring creditable service earned in the prior pension fund pursuant to Section 4404.50 of Administrative Code 4404  
\$146,651.96

**Service Time Credited to Current Fund**

Service Time Credited	=	9.4879 years	X	<u>\$ 90,451.16</u>
To Current Fund				\$146,651.96
	=	9.4879 years	X	0.6168
	=	5.8521 years		
	=	5 years + (0.8521x12) months		
	=	5 years + 10.2252 months		
	=	5 years + 10 months + (0.2252x31) days		
	=	5 years + 10 months + 6.9812 days		
	=	5 years, 10 months, 7 days		

The amount of creditable service time to be credited to the current pension fund should be 5 years, 10 months, and 7 days.