

*“I was told there would be no math!”*

## The Basics of Pension Benefit Calculations (Articles 3 & 4)

Presented By:

Allison Barrett, Director



Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

# *Pension Benefits Administration*

- Tier I vs Tier II
- Calculation of Benefits
  - Retirement
  - Disability
  - Survivor
- Transfers & Service Purchases
  - Disability
  - Military
  - SERS
  - Portability
  - Reciprocity



# *Tier I vs Tier II*

- Anyone first hired into the Pension Fund **UNDER THIS ARTICLE** after 01/01/11 is Tier II
  - “first hired”
  - Under *this* article
  - Prior Fund status irrelevant
  - Elburn Police example
  
- Once you are Tier I you are always Tier I
  - Once you are Tier II you are always Tier II



# *Pension Benefit Calculations*

- Initial benefit calculation
- Initial increase calculation
- COLA's
  - Cost of Living Adjustments (annual increases after initial increase)



# *Retirement Pension – Initial Calculation*

## ■ Tier I

- 50 years old / 20 years of service
- % of final salary
- % driven by length of creditable service
- Maximum 75%
  - 20 Years            50%
  - Years 21-30      2.5%
  - **FIRE ONLY**
    - Months 1-11            1/12 of 2.5%



# POP QUIZ

## Q: True or False

For Tier I, you **must** be 50 years old and must have completed 20 years of active service to be eligible for a retirement pension.



# *Retirement Pension – Initial Calculation*

## ■ Tier I – FIRE

- 60 years old / 10-19 years of service
- % of final salary

Years	Percentage
10	15.0%
11	17.6%
12	20.4%
13	23.4%
14	26.6%
15	30.0%
16	33.6%
17	37.4%
18	41.4%
19	45.6%



# *Retirement Pension – Initial Calculation*

## ■ Tier I - POLICE

- 60 years old / 8-19 years of service
- % of final salary
- 2.5% for each completed year





# *Retirement Pension – Initial Calculation*

## ■ Tier II (Fire & Police)

- 55 years old / 10 years of service
- 2.5% of final average salary for each year
- Maximum 75%
- *Pension reduced by ½ of 1% for each month between age 50 - 55.*
- *No service credit for completed months like Tier I Fire*



# *Tier II Retirement - EXAMPLE*

- DOB 08/19/1981
- Service 10/01/2011 – 04/30/2035 (23 years)
- Effective date of retirement 05/01/2035 (age 53 years, 8 months)
- Final average salary = \$5,238.09

## Benefit

a.  $(2.5\%) \times (\$5,238.09) \times (23) \rightarrow \$3,011.90/\text{mo}$

## *Reduction*

a. *# of full months between retirement age and age 55*  $\rightarrow 16$

b. *Statutory reduction %*  $\rightarrow (1/2\%) \times (16) \rightarrow (8\%)$

c.  $(8\%) \times \$3,011.90 = \$240.95/\text{month} \leftarrow \text{reduction}$

b.  $\$3,011.90 - \$240.95 = \$2,770.95$



# *Retirement Pension – Initial Increase*

## ■ Tier I

### □ WHEN? Latter of

- Month *after* turn 55
- Month *after* retired for one year

### □ HOW MUCH?

- (1/12) of (3%) of (original benefit) for each completed month of pension.
- Minimum 3%; maximum 15%



# *Retirement Pension – Initial Increase*

## ■ Tier II

### □ WHEN? Latter of

- January after turn 60
- January after retired for one year

### □ HOW MUCH? Lesser of

- 3% of original benefit
- 1/2 annual CPI-U
  - 2019 = 1.15% (half of 2.3%)
- (Can't decrease)



# *Retirement Pension – Annual COLAs*

- Tier I – Cost Of Living Adjustment

- WHEN?

- January after initial increase

- HOW MUCH?

- 3% compounded (3% of the amount received the prior year)



# *Retirement Pension – Annual COLAs*

## ■ Tier II – Cost Of Living Adjustment

### □ WHEN?

- January after initial increase

### □ HOW MUCH? Lesser of

- 3% of original benefit
- ½ annual CPI-U
  - 2019 = 1.15% (half of 2.3%)
- (Can't decrease)



# **Disability Benefits**

**(No difference between Tiers!)**

- 1. Line of Duty**
- 2. Occupational Disease**
- 3. Non Duty**



# POP QUIZ

**Q: True or False**

A line of duty disability is granted at 65% of pensionable salary.





# 1-DUTY Disability Pension

## □ WHAT?

- Sickness, accident or injury during act of duty

## □ WHEN?

- No minimum service requirement

## □ HOW MUCH? (Fire @ 08/06/99; Police @ 02/01/01), greater of

- 65% of salary
- Eligible retirement pension

# 2-OCCUPATIONAL DISEASE Disability Pension

## □ WHAT?

- Cumulative effects of job

## □ WHEN?

- Must have completed 5 years of service

## □ HOW MUCH? (Fire @ 08/06/99; Police @ 02/01/01), greater of

- 65% of salary
- Eligible retirement pension

# 3-NONDUTY Disability Pension

## □ WHAT?

- Off-duty accident, injury

## □ WHEN?

- Fire – Must have completed 7 years
- Police - No minimum service requirement

## □ HOW MUCH?

- 50% of salary



# Disability Pension INCREASES

- Initial Increase

- WHEN?

- January after age 60

- HOW MUCH?

- 3% of original pension for each year



# Disability Pension INCREASES

- Subsequent Increase / Annual COLAs

- WHEN?

- Every January after initial increase received
    - (Annual IME until 50)

- HOW MUCH?

- 3% of original pension

# DEPENDENT Benefit – FIRE only

## □ WHO?

- Birth or adopted children
- Duty or Occupational Disease Disability

## □ WHEN?

- Start immediately
- Until 18 years old (or for lifetime if handicapped) or married

## □ HOW MUCH?

- \$20/month initially
- 3% compounded COLA every January (immediately)

# Survivor Benefits



# POP QUIZ

**Q: True or False**

A survivor's benefit shall be paid to the person identified by the member per the relevant paperwork.





# *Survivor Benefits - Eligibility*

## ■ Surviving Spouse

- If member is **active** or on **disability pension** at time of death, or **marries pre-retirement**:
  - Spouse at time of death = eligible for pension
  
- If member **marries post-retirement**:
  - Fire → must be married for at least 12 months
  - Police → ineligible!! (must be married at time of retirement)
  
- Remarriage has no effect on continued eligibility



# *Survivor Benefits - Eligibility*

If no Surviving Spouse...

## ■ Dependent Children

- Birth, adopted
- Under 18 (unless handicapped)
- Unwed



# *Survivor Benefits - Eligibility*

If no Surviving Spouse or Dependent Children...

- Dependent Parent(s)

- Claimed as a dependent on member's 1040



# *Survivor Benefits - Eligibility*

If no Surviving Spouse or Dependent Children or Dependent Parents...

## ■ Estate

- If contributions paid in > benefits received
- Payable to “ESTATE”, not executor



# *Survivor Benefits – Benefit – Tier I*

## ■ Fire – Initial Benefit

### □ Spouse

- Greater of 54% of pensionable salary or benefit to which the member was entitled at time of death (@ 07/01/04)
- Additional 12% per dependent, **max 75%**

### □ No Spouse → Dependent Children

- 20% of pensionable salary, **max 75%**

### □ No Spouse or Children → Dependent Parents

- 18% of pensionable salary



# *Survivor Benefits – Benefit – Tier I*

## ■ Police – Initial Benefit

- Benefit to which the member was entitled at time of death
- Split evenly if multiple children or if 2 parents



# *Survivor Benefits – Benefit – Tier I*

- Fire & Police - Increases

- No COLAs for survivors



# *Survivor Benefits – Benefit – Tier II*

- Fire & Police
  
- Initial Benefit
  - 66 2/3% of earned *pension* at time of death





# *Survivor Benefits – Benefit – Tier II*

## ■ Initial Increase

### □ WHEN?

- January after survivor turns 60

### □ HOW MUCH? Lesser of

- 3% of original benefit
- ½ annual CPI-U
  - 2019 = 1.15% (half of 2.3%)
- (Can't decrease)



# *Survivor Benefits – Benefit – Tier II*

- Subsequent Increases/Annual COLAs

- WHEN?

- January after initial increase

- HOW MUCH? Lesser of

- 3% of original benefit
    - ½ annual CPI-U
      - 2019 = 1.15% (half of 2.3%)
    - (Can't decrease)



# Transfers and Service Purchases



# *Transfers & Service Purchases*

- ❑ Ways to purchase additional creditable service other than actually working
- ❑ All methods take into account the **“Give-to-Get” Theory**



# *Transfers & Service Purchases*

## ❑ **Disability Pension Buy Back**

### ❑ TIME

- ❑ Up to 3 years of disability time

### ❑ COST

- ❑ Must pay contributions that would have been withheld
  - ❑ Using salary at time of disability
  - ❑ Interest – 6% compounded from each missed pay date to repayment date
- ❑ AND must return to active service for just as long





*Disability Buy-Back* *Police Fire* **The Siren**

Toll Free 1-800-207-6958

Tom Jones, Chief Administrator

Fax 217 524-5978

## Legislative Update Police Pension Funds

Update Update Update Update Update Update Update

Signed by Governor George H. Ryan 02/01/01

Law becomes effective Immediately

*Max 3 Years*

### Changes Illinois Law

- |   |   |
|---|---|
| 1. Self-Managed Plan                        | 40 ILCS 5/3-105.2,<br>40 ILCS 5/3-109.2,<br>40 ILCS 5/3-109.3 |
| 2. Creditable Service                       | 40 ILCS 5/3 - 110   |
| 3. Rate of Pension                          | 40 ILCS 5/3 - 111   |
| 4. Pension Increase                         | 40 ILCS 5/3 - 111.1   |
| 5. Pension to Survivors                     | 40 ILCS 5/3 - 112   |
| 6. Benefits and Self Manage Plan            | 40 ILCS 5/3 - 113.1   |
| 7. Disability Pension - Line of Duty        | 40 ILCS 5/3 - 114.1   |
| 8. Disability Pension - Not on Duty         | 40 ILCS 5/3 - 114.2   |
| 9. Disability - Stroke                      | 40 ILCS 5/3 - 114.3   |
| 10. Occupational Disease Disability Pension | 40 ILCS 5/3 - 114.6   |
| 11. Marriage after retirement               | 40 ILCS 5/3 - 120   |
| 12. Re-entry after service                  | 40 ILCS 5/3 - 124.1   |
| 13. Contributions                           | 40 ILCS 5/3 - 125.1   |
| 14. Reserves                                | 40 ILCS 5/3 - 127   |

**3-110 Creditable service. (a-5)** "Up to 3 years of time during which the police officer receives a disability pension ... shall be counted as creditable service provided that (i) the police officer returns to active service after the disability for a period at least equal to the period for which credit is to be established and (ii) the police officer makes contributions to the fund based on the rates specified in Section 3-125.1 and the salary upon which the disability pension is based. These contributions may be paid at any time prior to the commencement of a retirement pension."

- The police officer may, but need not, elect to have the contribution deducted from the disability pension or to pay them in installments on a schedule approved by the board.
- If not deducted from the disability pension, the contribution shall include interest at the rate of 6% per year, compounded annually, from the date for which service credit is being established to the date of payment.
- "If contributions are paid under this subsection (a-5) in excess of those needed to establish the credit, the excess shall be refunded." **Eligibility:** This subsection applies to persons receiving a disability pension under Section 3-114.1, 3-114.2, 3-114.3 or 3-114.6. As well as persons begin to receive such a disability pension after the effective date. **Effective Date:** Immediately.



# *Transfers & Service Purchases*

## ❑ **Military Service (after hired)**

### ❑ TIME

- ❑ Can purchase up to 5 years if after 07/01/73

### ❑ COST

- ❑ Must pay employee contributions
- ❑ No interest



# Military Service & It's Effect on Public Pensions

Article 3 & 4 pension funds  
(Downstate & Suburban Police and Fire Pension Funds.)

The military call up has probably affected police and firefighters perhaps more than any other group. The Pension Division has been receiving inquiries concerning military service and the effect on police and firefighters' pensions. Questions such as: What is the affect of military service on my pension? Does military time counts towards creditable service? What about pension contributions? The Pension Code 40 ILCS 5/3-110(b) for police officers and 40 ILCS 5/4-108(c) for firefighters address these issues.

40 ILCS 5/4-108(c). **Military Service** - Creditable service includes military service in the reserves (voluntary or called), military, naval or air force of the United States not to exceed 5 years (exception: a **firefighter** with more than 5 years of creditable service on July 1, 1973 shall receive the total amount as of that date). The **firefighter** must pay required contributions (including what is normally the municipality's) if the latter made no contribution on behalf of the firefighter upon applying for a permanent pension. The code contains no provision for any assessment of interest charges. Reference Section 4-108, (c), (1) and (2) for special cases regarding service prior to July 1, 1976.

5/3-110(b). **Military Service** Creditable service includes all periods of service in the military, naval or air forces of the United States, not to exceed 5 years. (Exception: a **police officer** with more than 5 years of creditable service on July 1, 1973 shall receive the total amount thereof as of that date.) This period of service must be entered upon while on active status as a **police officer** of a municipality. The **police officer** must upon applying for a permanent pension, and in accordance with the board, pay into the fund the amount the officer would have contributed if he or she had been a regular contributor during such period, if the municipality for which the officer served, has made no contributions on behalf of the police officer.

Any questions concerning this issue please feel free to contact the Pension Division: 217-782-7542

[www.ins.state.il.us/pension/pension](http://www.ins.state.il.us/pension/pension)

*Pension Division Advisory Services*

36

(c) Lauterbach & Amen, LLP - 2019







Illinois Department of Insurance

February 19, 2003

The Siren

Toll Free 1-800-207-6958

Tom Jones, Chief Administrator

Fax 217 524-5978

## Military Service ADDENDUM

### FIRE FUNDS ONLY

The following is an addendum to a recent Siren concerning:

### Military Service & It's Effect on Public Pensions

The pension division reviewed the recent *Siren* release regarding military service and it's effect on public pension and would like to clarify and expand upon the previous release. The pension code concerning who would make contributions while a firefighter served in a military call up would reflect the same as the police version in 40 ILCS 5/3-110(b). The firefighter like the police officer would only have to make their portion of the contribution if the village or city did not make the firefighters contribution on behalf of the firefighter while they served in the military. For further information please review federal law 38 USC Chapter 43 Sec. 4318 Reemployment Rights of Members of the Uniformed Services.

Following is the Illinois pension code as written:

(40 ILCS 5/4-108)

Sec. 4-108. Creditable service.

(C)(1) Service in the military, naval or air forces of the United States entered upon when the person was an active firefighter, provided that, upon applying for a permanent pension, and in accordance with the rules of the board the firefighter pays into the fund the amount that would have been contributed had he or she been a regular contributor during such period of service, if and to the extent that the municipality which the firefighter served made no such contributions in his or her behalf. The total amount of such creditable service shall not exceed 5 years, except that any firefighter who on July 1, 1973 had more than 5 years of such creditable service shall receive the total amount thereof as of that date.

We hope this clarifies any misunderstanding of our previous release.



# *Transfers & Service Purchases*

## ❑ **Military Service (before hired)**

### ❑ TIME

- ❑ Can purchase up to 24 months

### ❑ COST

- ❑ Must pay full amount of new unfunded liability  
(employee & employer contributions plus interest)





## Illinois Department of Insurance

August 19, 2009

## The Siren

Toll Free (800) 207-6958

Scott J. Brandt, Acting Chief Administrator

Fax (217) 524-5978

# Legislative Update Firefighter Pension Funds

Update Update Update **Public Act 095-1056** Update Update Update  
Senate Bill 2362 signed into Law April 10, 2009  
Law became effective April 10, 2009

### Additions to Illinois Law:

Article 4 firefighter may receive credit for military service served prior to employment by a municipality, 40 ILCS 5/4-108 (1.5) (new)

### Allows an Article 4 firefighter to receive credit for up to 24 months of creditable service in the pension fund for military service served prior to employment by a municipality.

(40 ILCS 5/4-108(c)(1.5))

(1.5) Up to 24 months of service in the military, naval, or air forces of the United States that was served prior to employment by a municipality or fire protection district as a firefighter. To receive the credit for the military service prior to the employment as a firefighter, the firefighter must apply in writing to the fund and must make contributions to the fund equal to (i) the employee contributions that would have been required had the service been rendered as a member, plus (ii) an amount determined by the fund to be equal to the employer's normal cost of the benefits accrued for that military service, plus (iii) interest at the actuarially assumed rate provided by the Department of Financial and Professional Regulation, compounded annually from the first date of membership in the fund to the date of payment on items (i) and (ii). The changes to this paragraph (1.5) by this amendatory Act of the 95th General Assembly apply only to participating employees in service on or after its effective date.



# *Transfers & Service Purchases*

## ❑ **Police/Article 3 only - To Article 14 (SERS)**

### ❑ TIME

- ❑ Can transfer up to 5 years of service

### ❑ COST

- ❑ Must repay refund if applicable, with 6% interest
- ❑ Member must pay SERS the difference between the True Cost and the amount sent from the Article 3 Fund



# *Transfers & Service Purchases*

## □ **(POLICE) Article 3 to Article 3 “Portability”**

### □ Requirements

1. Active with at least one fund
2. At least two years of service with prior fund, unless
  - Left due to lay-off
  - Left prior to 08/17/97



# *Portability*

## ❑ **POLICE only - Article 3 to Article 3**

### ❑ Three calculations

#### 1. **REFUND** (*prior fund calculates*)

1. Remit to prior fund contribution refund
2. Plus interest - 6% compounded annually from date of refund to date of repayment



# Portability

## □ Three calculations - continued

### 2. From PRIOR Fund to CURRENT Fund (*prior fund calculates*)

a. Employee contributions

b. Interest on (a)

1. at 6% compounded annually from date of each payroll deduction to date of transfer

2. *Represents interest earned by Prior Fund on employee contributions*

c. Match of (a) and (b) – *represents employer contributions plus interest earned by Prior Fund on those contributions*



# *Portability*

## □ Three calculations - continued

### 3. **TRUE COST** (*current fund engages actuary*)

- a. Must be completed by certified enrolled actuary
- b. Additional unfunded liability incurred by the Current Fund for absorbing the officer's additional service.





# *Portability*

❑ **If the TRUE COST is *more than* the amount coming from the Prior Fund:**

❑ Option 1

❑ Officer remits difference to Current Fund

❑ Up to 5 years to pay

❑ Officer receives credit for 100% of service with Prior Fund



# *Portability*

## ❑ **If the TRUE COST is *more than* the amount coming from the Prior Fund:**

### ❑ Option 1 - example

- 4 years of service with Prior Fund
- Prior Fund sends \$30,000 to Current Fund
- True Cost is \$40,000
- **Officer remits \$10,000 to Current Fund and receives credit for an additional 4 years of service**



# *Portability*

❑ **If the TRUE COST is *more than* the amount coming from the Prior Fund:**

❑ Option 2

❑ Officer remits nothing to Current Fund

❑ Officer receives a reduced (prorated) service credit and the rest of the service time IS LOST and CANNOT be purchased at a later date.



# *Portability*

## ❑ **If the TRUE COST is *more than* the amount coming from the Prior Fund:**

### ❑ Option 2 - example

- 4 years of service with Prior Fund
- Prior Fund sends \$30,000 to Current Fund
- True Cost is \$40,000
- **Officer remits nothing to Current Fund and receives credit for an additional 3 years of service**
  - 4 years x (30,000 / 40,000) = 3 years



# *Portability*

- ❑ **If the TRUE COST is *less than* the amount coming from the Prior Fund:**
  - ❑ Officer does not receive a “refund” of the excess money
  - ❑ Officer cannot use excess money to purchase additional service





# Illinois Department of Insurance

March 24, 2011

## 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



# *Reciprocity*

- ❑ Article 4 / FIRE ONLY
- ❑ Between at least two Article 4 funds
- ❑ “Combines” service time – does not “move”



# *Reciprocity*

## ❑ Requirements

- ❑ Must have at least 1 year of service with Prior Fund(s)
- ❑ Must have at least 3 years of service with Final Fund
- ❑ Must be 50 years old and have at least 20 years of service between funds
- ❑ **If hired after 07/01/04, must notify funds & DOI of intent *within 21 months of date of hire with current fund***





# *Reciprocity*

- Cost to FF (3 calculations )

1. Repay contribution refund (*to all Prior Funds*)

- Plus 6% interest

2. Additional 1% contribution (*to all Prior Funds*)

- 6% interest

- Lump sum / installments

3. Additional 1% contribution (*to Current Funds*)

- 6% interest prior to “Declaration Date”

- Employer withholds add'l 1% from paycheck as of “Declaration Date”

**All money due to all Funds must be paid prior to separation of service from final Fund.**



# *Reciprocity*

- ❑ Pension Benefit – Retirement

- ❑ Prior Fund(s)

- ❑ 1/12 of 2.5% of final monthly salary for each month of service in that fund(s)

- ❑ Final Fund

- ❑ Calculate benefit as if ALL service was with this fund, using salary of this fund
    - ❑ Subtract amount(s) paid by prior fund(s)

- ❑ Multiple 1099R forms



# *Reciprocity*

- ❑ Pension Benefit – Line of Duty or Nonduty Disability
  - ❑ Full benefit paid by Current Fund
  
- ❑ Pension Benefit – Occupational Disease Disability
  - ❑ Benefit paid by all funds to whom reciprocity payments have been completed
  - ❑ Each fund pays a prorated share based upon length of service





# Illinois Department of Financial and Professional Regulation

September 30, 2004

## The Siren

Toll Free (800) 207-6958

Scott J. Brandt, Acting Chief Administrator

Fax: (217) 524-5978

### Legislative Update Firefighter's Pension Funds

u p d a t e u p d a t e u p d a t e **Public Act 093-0689** u p d a t e u p d a t e u p d a t e

Both Houses overrode Governor's veto July 1, 2004

Law becomes effective July 1, 2004

#### Changes to Illinois Law:

Tax cap exemption	35 ILCS 200/18-185
Transfer of creditable service from Article 7	40 ILCS 5/4 - 108.4 (new)
Transfer to Article 4 pension fund	40 ILCS 5/7 - 139.10 (new)
Increase in pension to minor or disabled child	40 ILCS 5/4 - 109.1 (c-2)
Minimum pension increases	40 ILCS 5/4 - 109.2 (e) (f) (g) (h) (i)
Employee creditable service	40 ILCS 5/4 - 109.3 (new)
Pension to survivors	40 ILCS 5/4 - 114
Contributions by firefighters	40 ILCS 5/4 - 118.1

#### Synopsis:

Creates the exemption of costs for the new benefits from the Property Tax Extension Law.

Allows transfer of firefighter service time credited under IMRF to an Article 4 pension fund.

Grants increases to, or on behalf of, minor or disabled surviving children in each of the next five years.

Incrementally increases the minimum disability, survivor, and retirement pensions in each of the next five years.

Incorporates the option for a firefighter to combine creditable service from multiple Article 4 funds for the purpose of meeting the 20-year service requirement for retirement pension.

Changes the surviving spouse pension of a firefighter, **who died while receiving a retirement pension**, to no less than 100% of the monthly retirement pension that the deceased firefighter was receiving at the time of death.

Moves the eligibility date to 100% of salary to the surviving spouse pension that results from a firefighters death due to sickness, accident, or injury, which was duty, related to January 1, 1988.

Effective July 1, 2004, firefighter payroll deduction goes to 9.455%.

### Pension Division Advisory Services

(c) Lauterbach & Amen, LLP - 2019



# **BONUS MATERIAL**

## **After-Tax Contributions and Why You Should Care**



# *Taxability of Pension Benefits*

## ■ Pre-tax contributions

### □ “Employer Pick-up Plan”

- Common term = pre-tax contributions
- IRS allowed in early 1980’s
- Irrevocable
- Decreases taxable earnings → decreases tax withheld → increases take-home pay

### □ Recognize decrease in taxable earnings NOW



**Analysis of the Effects of Pre-tax Contributions ("Employer Pick-Up")  
versus After-tax Contributions\***

A pre-tax contribution deduction lowers the taxable earnings; therefore less tax is actually withheld, which generates a larger take-home amount.

	<u>After-tax</u>	<u>Pre-tax</u>
Bi-weekly Gross Salary	2,000.00	2,000.00
Police Pension Contribution (9.91%)	(198.20)	(198.20)
<b>Federal Taxable Wages</b>	<b>2,000.00</b>	<b>1,801.80</b>
<b>Federal Tax Deduction</b>	<u>(321.00)</u>	<u>(271.00)</u>
Net/Take-home Pay	1,480.80	1,530.80

*\* Assumes no other pre-tax deductions, such as 457, pre-tax insurance, etc, and assumes federal tax withholding status of "Single, 0" using 2010 IRS tax tables*



# *Taxability of Pension Benefits*

## ■ After-tax contributions

- After-tax Contributions – recognize decrease in taxable earnings when you collect your pension
- A portion of After-Tax contributions is used to decrease taxable pension earnings until “used up”





# *Taxability of Pension Benefits*

- Recovering after-tax contributions
  - Recovery #1 – recover all at once
  - Recovery #2 – Safe Harbor Method
  - Recovery #3 – Simplified Method



# *Taxability of Pension Benefits*

- Recovery example – \$40,000 career after-tax contributions
  
- #1-Using all at once
  - Gross pension of \$60,000
  - Report taxable pension of \$20,000 the first year (\$60,000-\$40,000)
  - Subsequent years – fully taxable



# *Taxability of Pension Benefits*

- Recovery example – \$40,000 career after-tax contributions
  
- #2-Safe Harbor Method (300 months)
  - $\$40,000 / 300 \text{ months} = \$133.33/\text{month}$
  - $\$133.33 \times 12 = \$1,599.96/\text{year}$
  - Report taxable amount \$1,599.96 less than gross until \$40,000 is used up
  - Example: Gross = \$60,000; Taxable = \$58,400.04



# *Taxability of Pension Benefits*

- Recovery example – \$40,000 career after-tax contributions
  
- #3-Simplified Method
  - Use # of months based on IRS table (age / marital status) – ranges from 210-410 months
  - $\$40,000 / 410 \text{ months} = \$97.56/\text{month}$
  - $\$97.56 \times 12 = \$1,170.72/\text{year}$
  - Takes longer to fully recover



# *Taxability of Pension Benefits*

## **SO WHAT?!**

- #3-Simplified Method

- PENSION FUND **MUST** CALCULATE AND REPORT THE RECOVERY ON THE 1099R IF THE BENEFIT WAS FIRST PAID AFTER DECEMBER 31, 1997.



# *Taxability of Pension Benefits*

- Recovery continues with survivor
- If survivor dies, Fund should notify estate of remaining contributions available for estate to recover



# *Contact Information*

**Benefits Hotline - (866) 952-6329**

**Benefits Hotline – fax – (866) 952-2430**

**[benefits@lauterbachamen.com](mailto:benefits@lauterbachamen.com)**

Lauterbach & Amen, LLP

668 N. River Road

Naperville, IL 60563

630.393.1483 Phone

[www.lauterbachamen.com](http://www.lauterbachamen.com)

Allison R. Barrett, Director

[abarrett@lauterbachamen.com](mailto:abarrett@lauterbachamen.com)

