



INFORMATION BULLETIN
Conversion of Article 4 Fire
Disability Pension to Retirement Pension
May 2021

The Pension Code allows a firefighter who is retired on a disability pension to convert his or her status to a regular service retirement. This is not mandatory but is also not reversible once a conversion is made. The specific provision in the law is as follows:

(40 ILCS 5/4-113) (from Ch. 108 1/2, par. 4-113)

Sec. 4-113. Disability pension option. (a) A firefighter who has not completed 20 years of creditable service and is receiving a disability pension under this Article whose disability continues for a period which when added to his or her period of active service equals 20 years may, if age 50 or over, elect to retire from the fire service by submitting written application to the board. A firefighter exercising such option shall be entitled to continue to receive a retirement pension equal in amount to the disability pension he or she was entitled to as a disabled firefighter on the date he or she was removed from the municipality's payroll for disability. A firefighter electing to exercise such option shall be entitled to the automatic increase in pension provided under subsection (a) of Section 4-109.1.

(b) A firefighter who is receiving a disability pension under this Article who has sufficient creditable service to qualify for a retirement pension and is age 50 or more may elect to permanently retire from the fire service at any time by submitting written application to the board. The salary to be used in the determination of such firefighter's pension shall be based on the salary attached to the rank held by the firefighter in the fire service at the date of the election to retire. All other conditions in the computation of the pension shall be based upon the provisions of Section 4-109 which were applicable to the firefighter while he or she was in active service as an employee. A firefighter electing to exercise such option shall be entitled to the automatic increase in pension provided under subsection (a) of Section 4-109.1. (Source: P.A. 83-1440.)

As noted in the statute, to be eligible for such a conversion, the disability retiree must be at least 50 years old and have at least 20 years of pension participation when active time is added to the period on disability. There are two categories of firefighter and different conversion rights, depending on whether or not the firefighter actually worked 20 or more active years, explained below.

Less than 20 years of active service. If the disabled firefighter had less than 20 years of active service, a disability pension is converted to a service pension in the amount of 50% of salary. The salary used for this calculation is the salary used to compute the disability pension when the firefighter first retired on disability.

Twenty (20) or more years of active service. However, if the firefighter had more than 20 years of active service, the retiree converts to a service retirement at the percentage of pay set in the Pension Code at the time he went on disability pension. Most importantly, the salary used for the calculation is the salary in effect at the time of conversion from disability to service retiree status.

An example in the latter category: Chris had 25 years of Tier 1 active service and retired with a 65% line-of-duty disability pension. His salary at the time of disability retirement was \$4,000 per month and his pension is \$2,600. Sometime after age 50, Chris elects to retire. The salary then attached to his rank is \$5,400 per month. His retirement pension, based on 25 active years, is 62-1/2% of \$5,400 or a monthly payment of \$3,375.

Cost-of-Living adjustments (COLA). A Tier I member who converts from disability to regular retirement will have COLA adjustments that begin as early as age 55 (instead of age 60) and are compounded as opposed to a simple 3% on the original regular pension amount.

Note that survivors cannot convert a disability benefit; only the retired firefighter may do so while still alive.

Factors to Consider in Converting a Disability Pension. A decision to convert a disability pension is a personal one and a pension board, trustee or the IPPFA generally cannot advise a disability retiree on this matter. There are factors that the individual will have to consider, including but not limited to the following:

A duty-disability pension is federally tax-free. A duty-disabled pensioner does not owe federal tax on a disability pension, and neither will a surviving spouse. If he converts, his pension and a survivor pension become taxable.

Other taxes may go up. Medicare B premiums incur a surcharge when federal adjusted gross income hits certain levels. Also, taxpayers with adjusted income above certain (high) levels pay a surcharge on investment income.

Social Security taxes may go up. A taxpayer may pay lower or no tax on Social Security income when their incomes fall below certain levels.

How does an individual disability pensioner sort all this out? It may be best to sit down with a financial planner or tax accountant and work through the various scenarios that this information presents. In the meantime, just remember that converting from disability to service retirement for a pension boost and better COLAs is not a simple decision.

The views expressed in this Information Bulletin should not be relied upon by a pension board or an individual for legal or tax advice.

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