



INFORMATION BULLETIN
Conversion of Article 3 Police
Disability Pension to Retirement Pension
August 2021

The Pension Code allows a police officer 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 5/3-116.1) (from Ch. 108 1/2, par. 3-116.1)

Sec. 3-116.1. Disability pension option. A police officer age 50 or older who is receiving a disability pension may by written application to the board, elect the disability pension option if the period during which a disability pension was paid when added to the period of active service equals at least 20 years. The election shall permit the officer to continue to receive a retirement pension for the remainder of his or her life of 1/2 of the salary at the date of the retirement on disability in lieu of any amounts which would have been payable to the officer under Section 3-111.

(Source: P.A. 83-1440.)

Converting a Police Disability to a Service Retirement Pension.

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.

The salary that is considered when a disability pension is converted is the salary in effect at the time of the disability, unless the individual was hired prior to October 1, 1973. If the officer was hired before that date, then the pension is converted based on the salary in effect at the time of conversion.

If the officer had less than 20 years of active service, a disability pension is converted to a service pension in the amount of 50% of salary. If the officer had more than 20

years of active service, the officer converts to a service retirement at the percentage of pay set in the Pension Code at the time he went on disability pension.

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.