



## **Information Bulletin**

### **Tier 2 Early Retirement Pensions**

**October, 2021**

***IPPFA Information Bulletin.*** This bulletin presents information on pensions for Tier 2 fire and police retirees who retire *prior* to age 55. This is a subject matter on which numerous questions have been presented to IPPFA office staff and attorney/instructors at IPPFA seminars and conferences.

*This bulletin is provided for background information only. Refer to the Pension Code, your pension board and/or your pension fund's attorney for any benefit estimate or final determination of benefits.*

**Tier 2 Early Retirement Pensions - Illinois Pension Code.** The Pension Code sections 3-111(d) and 4-101(c) detail the retirement benefits for Tier 2 personnel and are appended at the end of this bulletin.

**Tier 2 Early Retirement Pensions - Summary of Provisions:** A Tier 2 police officer or firefighter is eligible for retirement benefits upon attainment of 10 years of service. The pension is calculated at 2.5% of his or her “final average salary” for each year of service, payable on or after attainment of age 55. The “final average salary” is almost always the average monthly salary during the last four years of service (by law, it is the highest 48 consecutive months within the last 60 months of service). Note that the Pension Code also allows the average salary calculation to consider the highest 96 consecutive months of salary within the last 120 months of service if that will produce a higher salary calculation. The highest allowable pension is 75% of final average salary.

However, if a retiree with sufficient credit of at least 10 years wishes to draw his or her pension *prior* to age 55, the pension may be started any time beginning at age 50. If the pension is commenced earlier than age 55, this results in a decrease in the monthly amount. The decrease is 6% for each year the officer or firefighter commences his or her pension prior to age 55 (proportioned monthly for partial years).

**Tier 2 Early Retirement Pensions - Example:** John is a 44-year-old Tier 2 participant with 12 years of service and a final average salary of \$6,000 per month. If he leaves the department at age 44, what can John collect and when?

*Answer:* John has 12 years of service at 2.5% per year so he has earned 30% of his \$6,000 final average salary - or \$1,800 per month beginning at age 55. However, he may begin drawing your pension as early as 50 years old, but the pension will be reduced by 6% per year. For example, his pension would be \$1,692 at age 54 or as low as \$1,260 at age 50.

As a Tier 2 participant who anticipates leaving the job before age 55, John should check with the Pension Board regarding any important procedures for applying for pension.

**Early Retirement Reduction Provisions are Common.** An early retirement age with a reduction provision is a new feature added to the Pension Code with the Tier 2 fire and police changes. But outside of Articles 3 & 4, early retirement reductions have been commonplace in other Illinois plans for decades (Tier 1 teachers, IMRF, universities, state employees). They are also present under Social Security, private union plans and corporate plans.

These arrangements all work basically the same way. A “normal” or “full” retirement age is established and the formula pension is payable at that age (which is 55 in the case of Tier 2 fire/police). If a member wishes to draw earlier, commonly up to 5 years sooner, he or she may do so at any qualifying age but must pay a penalty to compensate the pension fund for the early commencement of pension payments. If a retiree doesn’t draw the pension earlier than age 55, there is no need for a penalty and there is no penalty.

**By:** Daniel W. Ryan, Project Coordinator

**Approved:** James McNamee, President, IPPFA

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## APPENDIX

**Illinois Pension Code - Police:** The Pension Code (3-111(d)) states as follows:

(d) Notwithstanding any other provision of this Article, the provisions of this subsection (d) apply to a person who is not a participant in the self-managed plan under Section 3-109.3 and who first becomes a police officer under this Article on or after January 1, 2011.

A police officer age 55 or more who has 10 or more years of service in that capacity shall be entitled at his option to receive a monthly pension for his service as a police officer computed by multiplying 2.5% for each year of such service by his or her final average salary.

The pension of a police officer who is retiring after attaining age 50 with 10 or more years of creditable service shall be reduced by one-half of 1% for each month that the police officer's age is under age 55.

**Illinois Pension Code – Fire:** The Pension Code (4-101(c)) states as follows:

(c) Notwithstanding any other provision of this Article, the provisions of this subsection (c) apply to a person who first becomes a firefighter under this Article on or after January 1, 2011.

A firefighter age 55 or more who has 10 or more years of service in that capacity shall be entitled at his option to receive a monthly pension for his service as a firefighter computed by multiplying 2.5% for each year of such service by his or her final average salary.

The pension of a firefighter who is retiring after attaining age 50 with 10 or more years of creditable service shall be reduced by one-half of 1% for each month that the firefighter's age is under age 55.