



# Illinois Department of Insurance

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## The Siren

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## Legislative Update Firefighter Pension Funds

U p d a t e U p d a t e U p d a t e **Public Act 095-1056** U p d a t e U p d a t e U p d a t e

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.

## Synopsis:

Amends Article 4 of the Illinois Pension Code, providing a firefighter the opportunity to receive up to 24 months of creditable service time in the firefighter's pension fund for time served in the military, naval, or air forces of the United States prior to employment by the municipality as a firefighter.

The firefighter must be in active service as a firefighter on or after April 10, 2009.

The firefighter must apply in writing to the firefighter's pension fund to receive credit for the service in the military, naval, or air forces of the United States. Discharge papers or separation documents, the DD Form 214, Certificate of Release or Discharge from Active Duty, or a similar form, should be provided to the pension fund board as proof of service in the military, naval, or air forces of the U.S.

The firefighter must make contributions to the firefighter's pension fund equal to:

- i) the employee contributions that would have been required had the service been rendered as a member, plus (ii).

The employee contributions are to be based on the rates during the applicable number of months immediately prior to the first date of membership in the fund. The first date of membership in the fund is the original entry date in the fund. The salary to use in computing the contributions is the entry salary of the firefighter at the first date of membership in the fund.

- 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).

The salary to be used in computing this amount is the same salary used to compute the employee contributions under item i), the entry salary of the firefighter. The employer normal cost amount as a percentage of salary is and has been provided on the Department of Financial and Professional Regulation / Department of Insurance, annual Actuarial Valuation Balance Sheet / Actuarially Determined Tax Levy reports. Further explanation of this determination is below.

\*\* For the purpose of computing the contributions required under i) and ii) the Total Normal Cost percentage found on the Actuarial Valuation Balance Sheet / Actuarially Determined Tax Levy report will be used. The Total Normal Cost percentage is the sum of the employee contribution rate under i) plus the employer normal cost percentage under ii).

- iii) interest at the actuarially assumed rate provided by the Department of Financial and Professional Regulation / Department of Insurance, compounded annually from the first date of membership in the fund to the date of payment on items (i) and (ii). The assumed interest rates provided by the Department of Financial and Professional Regulation / Department of Insurance are:

- a. Prior to the fund's fiscal year ending in 1987, the rate equaled 6.5%.
- b. For the fund's fiscal year ending in 1987 and after, the rate equals 7.0%.

## **Computing Firefighter's Contributions To The Fund**

### **Employee Contributions Under i) and Employer Normal Cost Under ii)**

The firefighter is required to contribute to the Article 4 Firefighter Pension Fund employee contributions required under i) and the employer's normal cost under ii). The employee contributions required under i) and the employer's normal cost under ii) can be computed in one step by using the Total Normal Cost percentage and the firefighter's salary.

The total normal cost percentage can be found on the actuarial valuation report, or tax levy report, provided by the actuary. On the Department of Financial and Professional Regulation / Department of Insurance Actuarial Valuation Balance Sheet / Actuarially Determined Tax Levy report, this percentage can be found on the second page, third line, which reads, "Percent of Total Normal Costs to Total Annual Salaries of \$ \*\*\*.\*\* is \*\*.\*\*%." This percentage includes the firefighter's employee contribution percentage to the Article 4 Firefighter Pension Fund as well as the municipality's normal cost contribution percentage. The firefighter's salary to be used for the service time being credited to the Article 4 Firefighter Pension Fund is to be the firefighter's salary on the first date of membership in the fund. For the creditable service time being credited, the total of the amounts under i) plus ii) equals the sum of each fiscal year's total normal cost based on the firefighter's salary earned in each respective fiscal year. Each fiscal year's total normal cost should equal: 1) the total normal cost percentage for a fiscal year for which creditable service time is being credited multiplied by 2) the salary received during the applicable fiscal year.

### **Interest on the Employee Contributions Under i) and Employer Normal Cost Under ii)**

After determining the amount under Section 4-108.(c)(1.5)(i) and (ii) as described above, interest is computed on that amount from the first date of membership in the pension fund to the date of payment.

See the example on the next page.

The following example should more clearly illustrate the computations:

**Example:**

Information Needed:

- 1) Time being credited to the Article 4 Firefighter Pension Fund for military service.

21 months, 17 days

- 2) Firefighter's first date of membership in the pension fund, which should be the original date of entry into the pension fund.

August 12, 1991

- 3) The firefighter's salary on the date of entry.

\$27, 895

- 4) Fiscal year end of Article 4 Firefighter Pension Fund.

April 30

- 5) Dates for which creditable service is being credited to the Article 4 Firefighter Pension Fund.

October 26, 1989 through August 11, 1991

- 6) The total normal cost percentage for the Article 4 Firefighter Pension Fund corresponding to the fiscal year for which creditable service time is being credited. (See Table 1 below).

- 7) Date of payment to credit additional service time.

6/30/2009

**TABLE 1: Total Normal Cost Percentages**

<u>Fire Pension Fund Fiscal Year End (FYE)</u>	<u>Total Normal Cost Percentage (Firefighter Fund) (as of FYE)</u>
April 30, 1990	23.72%
April 30, 1991	23.57%
April 30, 1992	23.81%

Determination of the Amount the Firefighter will need to Pay to the Article 4 Firefighter Pension Fund:

1) Determine the total normal cost, the employee contribution under i) plus employer normal cost under ii), in a particular fiscal year by multiplying the salary paid in that year by the total normal cost percentage for the corresponding year. These are the amounts per 40 ILCS 4-108(c)(1.5)(i) and (ii).

Total Normal Cost Calculation

<u>Fire Pension Fund Fiscal Year End (FYE)</u>	<u>Assumed Salary as Military Employee (through FYE)</u>	<u>Total Normal Cost Percentage (as of FYE)</u>	<u>Total Normal Cost: (Employee Contributions and Employer Normal Cost)</u>
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April 30, 1990	Salary from October 26, 1989 through April 30, 1990 is for 6 months, 5 days = \$ 27,895.00 X [(6/12) + (5/365)] = \$ 27,895.00 X [.5 + .0137] = \$ 27,895.00 X [.5137] = \$ 14,329.66	X      23.72%	=      \$ 3,399.00
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April 30, 1991	Salary from May 1, 1990 through April 30, 1991 is for 1 year = \$ 27,895.00	X      23.57%	=      \$ 6,574.85
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April 30, 1992	Salary from May 1, 1991 through August 11, 1991 is for 3 months, 11 days = \$ 27,895.00 X [(3/12) + (11/365)] = \$ 27,895.00 X [.25 + .0301] = \$ 27,895.00 X [.2801] = \$ 7,813.39	X      23.81%	= <u>\$ 1,860.37</u>
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**Total Normal Cost (Employee Contributions and Employer Normal Cost): \$ 11,834.22**

2) Determine the interest on the employee contributions and employer's normal cost per 40 ILCS 4-108(c)(1.5)(iii). First determine the interest period, the period of time between the first date of membership in the fund and the date of payment. Second, determine the interest rate to be used. For periods of time through the fiscal year ending in 1986 a 6.5% interest rate should be used, while for the periods of time after the fiscal year ending in 1986 a 7.0% interest rate should be used.

**Interest Period**

Date of membership in the pension fund: August 12, 1991  
 Date of Payment: June 30, 2009

Interest Period: August 12, 1991 through June 30, 2009  
 = 17 years, 10 months, 19 days  
 = 17 + [(10/12) + (19/365)]  
 = 17 + [.8333 + .0521]  
 = 17 + [.8854]  
 = 17.8854 years

**Total Normal Cost (Employee Contribution and Employer Normal Cost) Plus Interest Calculation**

Total Normal Cost (Employee Contribs. and Employer Normal Cost) <u>(Contribution Amount)</u>	<u>Interest Period</u>	Contribution Plus Interest = [(Contribution Amount) X <u>{(1+.07)^(Interest Period)}</u> ]
\$ 11,834.22	17.8854	\$ 39,689.92

Total Firefighters Contribution required to be paid to the  
 Article 4 Firefighter Pension Fund: **\$ 39,689.92**