ISSUE BRIEF

House Bill 4249:
Transfers from Article 3 Funds to IMRF

IMRF Position:	Sponsor(s):
OPPOSE	**Representative David Friess**

Proposed Change in the Law

This bill would make two changes for active members in the IMRF Sheriffs' Law Enforcement Personnel (SLEP) plan. First, it would create a permanent transfer provision that allows active members of the IMRF SLEP plan to transfer up to 15 years of service earned in an Article 3 police pension fund to IMRF SLEP. The Article 3 fund would transfer the employer and employee contributions accumulated in the police fund, plus interest, to IMRF.

Upon transfer, members would receive either the amount of service credit that the moneys transferred actually pays for in IMRF or the total amount of service credit earned in the Article 3 fund by also paying to IMRF any additional amounts that would have been in the IMRF account had the member participated in IMRF for that entire period.

It would also put Tier 2 members who complete these transfers into the Tier 1 SLEP plan as long as the amount of service being transferred from the Article 3 fund was greater than the amount of service earned in the IMRF SLEP plan at the time of application.

Reasons for Position

IMRF is a pre-funded retirement plan where the cost of the pension is funded over the member's working career. By allowing members to transfer service credit outside of this funding plan, it increases the likelihood that an unfunded liability will be created. While the bill requires an "actuarial" calculation of the cost of the transfer, actuarial calculations are only reliable for large groups. It is impossible to accurately apply actuarial principles to determine the exact cost for a specific individual. The IMRF Board has a general policy of opposing legislation that seeks to

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create temporary transfer windows from another fund into IMRF outside of the Reciprocal Act, While the policy does not apply to permanent transfer provisions directly, the concerns are the same, if not more severe with permanent transfer provisions.

Making the transfer provision permanent in turn makes any predictions of the potential costs even more difficult. Generally, members do not purchase the service during a temporary window, even if they are otherwise eligible, until they are close to retirement. There may then ultimately not be another open window during their tenure. This effectively limits, at least to some degree, the number of transfers that take place, thereby limiting any potential negative fiscal impact. By making the option permanent, however, it would mean more people will be eligible for the transfer, potentially increasing the Fund’s liability and negatively affecting both the employers’ rates and our funding levels.

The bill requires that the member either make up any difference between what was transferred from the Article 3 fund to IMRF or receive only the amount of service credit that the money transferred would equal, which is a positive. IMRF is concerned, however, that the language does not go far enough to allow it to set a rate that truly pays for the service or at least as close as possible since a true actuarial rate cannot be reliably calculated for an individual.

These members would also qualify to switch from Tier 2 to Tier 1. Eligibility to go from Tier 2 to Tier 1 is calculated at *application*, but the actual conversion doesn’t happen until the member actually completes the transfer and there are no deadlines or requirements that the transfer be made at the time of application. So, a Tier 2 member may turn in an eligible application, but not actually make the transfer until many years later. During that time, the employer rate calculation included the member’s demographics as a Tier 2 employee and then at retirement, the member suddenly becomes a Tier 1 member, which has not been funded.

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