

COALITION FOR QUALIFIED PLAN STATUS

*Educating the Public and Governmental Entities Concerning the Maintenance of
IRS Qualified Plan Status for Article 3 and Article 4 Illinois Public Pension Funds*

AFFI * IGFOA * ILFOP * IMTA * IPFA * IPPFA * PBPA

December 2019

Members of the Pension Board of Trustees:

As you may recall, the Internal Revenue Service ("IRS") raised concerns in 2008 that our Illinois Article 3 Police and Article 4 Firefighter Pension Funds were not in compliance with federal tax law, and the IRS strongly encouraged the Funds to obtain a Determination Letter confirming their "Qualified Plan" status. It is recognition as a Qualified Plan that grants our pension plans the following tax benefits:

- tax exemption for line-of-duty disability pensions
- ability to allow pre-tax payroll contributions
- ability to transfer service time between Pension Funds with no tax penalty
- ability to allow roll-overs of contribution refunds other Qualified Plans (such as a 457, IRA, etc.)
- tax exemption for Pension Fund investment income

To be recognized as a Qualified Plan, the plan document (the Illinois Statutes and Department of Insurance Administrative Code) must incorporate federal tax law changes as they are adopted. The plan documents for Illinois Article 3 and Article 4 Pension Funds had not kept pace with changes in federal tax law. As a result, a coalition of interested organizations formed (including AFFI, IGFOA, ILFOP, IMTA, IPFA, IPPFA and PBPA) to work with the Illinois Department of Insurance, Ice Miller LLP (a law firm that represents a number of governmental pension plans) and Lauterbach & Amen, LLP to address compliance issues for the Pension Funds as a group.

Success of Determination Letter Project

The Coalition has been successful in obtaining Determination Letters for our Article 3 and Article 4 Pension Funds. The Letters were originally valid for a 5-year cycle, with the most current Letters effective through January 31, 2019. However, prior to their the expiration, the IRS advised that any existing Determination Letters would remain valid indefinitely, provided that the plan documents remained compliant with federal tax law. **Copies of the Determination Letters from 2014 and 2019 are available on the Department of Insurance's webpage** using the following link: <https://insurance.illinois.gov/Applications/Pension/Reference.aspx>.

Contribution to Fund Project

During the initial cycle from 2009 through 2014, and the subsequent cycle through 2019, each Article 3 and Article 4 Pension Fund was asked to contribute \$400 and \$300, respectively, to this effort in order to cover the filing fees and legal and accounting expenses involved. Contributions have been held in a

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designated account administered by Lauterbach & Amen, LLP, to be used exclusively for current and ongoing IRS compliance issues. (Approval by a majority of the Board of Directors of the Coalition is required before any funds are disbursed.) A full accounting of all the contributions received as well as a detailed listing of all funds disbursed and remaining can be found on Lauterbach & Amen's website www.lauterbachamen.com.

In anticipation of the formation of the Police Officers' Pension Investment Fund and the Firefighters' Pension Investment Fund, the Board of Directors of the Coalition has elected to dissolve the Coalition and disburse the remaining account balance to the contributing pension funds. Enclosed please find remittance reflecting a proportion of the account balance, determined by dividing your Fund's contributions by the total amount received from all contributing Funds and multiplying the resulting figure (percentage) by the remaining account balance.

The entire Board of Directors sincerely thanks everyone who participated in and contributed to this effort, and we wish you a safe and joyous holiday season.

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