August 19, 2014

CITY OF BLOOMINGTON   ER: 03327
ATTN: PATTI-LYNN SILVA
109 E OLIVE ST
BLOOMINGTON IL 61701-5219

Dear Mrs. Silva:

I am glad that we were able to help you with your questions when we talked on the phone. Per your request, we are writing this letter to provide you with examples of the 125% rule, how it tries to control pension spiking and how it relates to the Accelerated Payment (AP) invoice.

When a member retires, the pension calculation determines an individual Final Rate of Earnings (FRE). Per the Pension Code, it is defined as "the monthly earnings obtained by dividing the total earnings received by the employee during the period of 48 consecutive months of service within the last 120 months of service in which his total earnings were the highest" (ILCS 5/7-116(a)).

To help avoid the effect of end of career payouts, the Pension Code provides for the 125% rule which states "the earnings to be considered for each of the final three months of the final earnings period shall not exceed 125% of the highest earnings of any other month in the final earnings period (ILCS 5/7-116(d)(5).

To help put this into perspective, the examples attached show the wages paid out under your current policy (See Exhibit 1) and pro forma wages showing the end of career amounts paid during a single month (See Exhibit 2). In exhibit 1, the 125% rule did not reduce the wages for pension purposes resulting in an FRE of $12,140.67. In Exhibit 2, the 125% rule reduced the wages for pension purposes resulting in an FRE of $10,517.60, a reduction of $1,623.07

For comparison purposes, the two FRE amounts would result in the following pension calculations:

	Exhibit 1 Amounts	Exhibit 2 Amounts
Final Rate of Earnings	$ 12,140.67	$ 10,517.60
Monthly pension for member	$ 6,537.22	$ 5,663.27
Present value of the pension	$ 1,189,648.78	$ 1,030,606.63
AP Invoice amount	$ 223,830.48	$ 67,709.42

As you can see, the policy of spreading out the payment and therefore avoiding the 125% rule, increased the cost of the pension by $159,042.15 ($1,189,648.78 - $1,030,606.63).