COALITION FOR QUALIFIED PLAN STATUS

for Illinois Article 3 Police Pension Funds & Article 4 Firefighter Pension Funds

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

June 2013

Dear Illinois Article 3 Police Pension Fund / Article 4 Firefighter Pension Fund:

As many of you know, in 2008 the Internal Revenue Service ("IRS") raised concerns about whether Illinois Article 3 and Article 4 Pension Funds were in compliance with federal tax law and strongly encouraged the Funds to obtain Qualified Plan Determination Letters. It is recognition as a Qualified Plan that allows our Pension Funds to receive the following tax benefits:

- the tax-exempt status of duty disability pensions,
- the withholding of payroll contributions on a pre-tax basis,
- the ability to transfer creditable service time between funds with no tax penalty,
- the ability to roll-over pre-tax contribution refunds into another qualified plan (IRA, 457, etc)
- the benefit of not having to pay tax on investment income,
- the eligibility for certain investment options available only to qualified plans.

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 IRS then issues a Determination Letter, which reflects the IRS's opinion that the plan document complies with federal tax law.

The plan documents for Illinois Article 3 and Article 4 Funds had not kept pace with changes in federal tax law. As a result, a coalition of interested organizations was formed (including AFFI, IGFOA, ILFOP, IMTA, IPFA, and IPPFA) to work with the Illinois Department of Financial and Professional Regulation, Division of Insurance (DOI), 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.

Overview of Determination Letter Project

The Coalition was successful in obtaining Determination Letters for our Article 3 and Article 4 Pension Funds, and those letters are available on the DOI's webpage. The letters are valid for a 5-year cycle, and the current letters expire January 31, 2014.

Ice Miller will need to file the applications for the new Determination Letters very soon. As with the prior cycle, if any additional compliance language is needed in the plan documents, the Coalition will draft and sponsor the proposed legislation changes required to ensure consistency. The DOI will again serve as the entity requesting the Determination Letters for all of the Article 3 and Article 4 Funds. This approach will require very little effort on the part of each individual Fund. When the IRS issues the Determination Letters, the DOI will hold them and copies will be available on their webpage.

We believe that this approach will serve your Fund very well. Each Fund will be able to rely upon the Determination Letter obtained for the relevant group of plans (Article 3 or Article 4), with a minimum of cost and effort.

(please turn over)

Contribution to Fund Project

Please keep in mind that we need only two Determination Letters – one for Article 3 Funds and one for Article 4 Funds. During the prior cycle, each Fund was asked to voluntarily contribute only $400 to cover the filing fees and legal and accounting expenses involved in the 2009-2014 cycle. If a Fund was to apply individually for a Determination Letter, they would incur a $1,000 filing fee in addition to the expenses and fees for professional assistance in applying for the Letter. Therefore, this united approach was very cost-effective. The contribution also included the costs associated with an annual review and update of the plan documents for each of the five years within the 2009-2014 cycle to be sure that the plans remained in compliance.

The Coalition is asking each Article 3 and Article 4 Pension Fund to contribute $300 for the 2014-2019 cycle.

This voluntary $300 contribution will cover the filing fees and legal and accounting expenses for the 2014-2019 cycle. This figure was determined presuming the majority of the Article 3 and Article 4 Funds participate. Each Pension Fund that elects not to contribute increases the burden placed upon its neighbors. Additionally, it will be necessary to apply for a new Determination Letter and possibly update the State Statutes/Administrative Code every five years. Although the DOI has expended considerable time and interest in assisting the Coalition, the State has no vested interest in obtaining Qualified Plan Status or in making the contributions mandatory. If this voluntary effort cannot be sustained on an ongoing basis, our ability to maintain Qualified Plan status into the future will fall into jeopardy.

Administration

The contributions are held in a designated account administered by Lauterbach & Amen, LLP, to be used exclusively for current and ongoing IRS compliance issues. Approval by a majority of the members of the Coalition is required before any funds are disbursed. Lauterbach & Amen, LLP is providing via their website (www.lauterbachamen.com) a full accounting of all of the Pension Funds that have contributed as well as a detailed listing of all funds disbursed and remaining. All excess funds available in the account after obtaining the current Determination Letters are being applied to annual updates to maintain compliance and to the 2014 renewal of the Determination Letters.

Please send your contribution as indicated below:

Amount of Check: $300
Payable to: Coalition for Qualified Plan Status
Send to: P.O. Box 1486
Warrenville, IL 60555-1486

If you have any questions whatsoever, please do not hesitate to contact any of the Coalition Members listed below. **Thank you for your prompt response and your continued support!**

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