Chicago Teachers' Pension Fund

Title III: Benefits

Chapter A: Retirement, Disability and Death Benefit Program

Article TBD: Calculation of Final Average Salary for Legacy Members

(For employees who have no Validated Service on or after July 3, 2011)

Sec. 1 Purpose

Pursuant to Section 17-116 of the Pension Code, a Member's pension benefit is based, in part, on the Member's "Final Average Salary" or "FAS." This Rule sets out the process by which Final Average Salary is calculated for Members who have no validated service on or after July 3, 2011.

Sec. 2 Definitions

(a) Legacy Member – A Member with no Validated Service after July 2, 2011.

(b) Salary – Any form of fixed, regular compensation received by a Member in consideration of non-optional services performed by a Member, subject to all applicable limits and restrictions imposed on qualified plans under the Internal Revenue Code and by the Illinois Pension Code. For a full definition of the types of compensation included in "Salary," see [Article TBD]

(c) Annual Rate of Salary – The Salary earned by a Member during a complete year of work. In a Fiscal Year in which a Member worked the expected number of payroll periods, as defined by the Employer's pre-defined calendar, the Member's Annual Rate of Salary for that Fiscal Year is equal to their Fiscal Year Salary. If a Member worked less than a complete year in a Fiscal Year, the Member's Annual Rate of Salary is a Normalized Annual Rate of Salary.

(d) Fiscal Year Salary – The Salary paid to a Member during a Fiscal Year.

(e) Normalized Annual Rate of Salary – The Salary earned by a Member in a Fiscal Year (if the Member's Earned Payroll Periods are less than the Expected Payroll Periods) plus the Salary earned in the number of immediately preceding payroll periods necessary for the Member's Earned Payroll Periods to equal the Expected Payroll Periods.

(f) Day – For the purposes of calculating FAS, any amount of time reported by an Employer as worked by a Member during a calendar day, regardless of its duration, equals one Day worked (e.g. 15 minutes of reported work counts as a Day).

(g) Expected Payroll Periods – The number of payroll periods in a Fiscal Year for which the Member could have earned at least five days of Service, as set forth on the Employer's pre-designated payroll calendar(s).

(h) Earned Payroll Periods – Payroll periods in which the Member earned at least five days of service. Earned Payroll Periods can never be greater than the number of Expected Payroll Periods in a Fiscal Year. Payroll periods in excess of the payroll periods set forth in the Employer's pre-designated payroll calendar will not be used to account/adjust for missing payroll periods in another Fiscal Year.

Sec. 3 Procedures

Staff will continue to maintain, develop, and update procedures, as needed, to effectuate this Rule and to ensure the proper calculation of benefits. Staff will also continue to develop and update educational, explanatory, and illustrative materials, as needed, to further clarify the means and manner by which "Final Average Salary" is determined.

Sec. 4 Final Average Salary or "FAS":

For Legacy Members, FAS will consist of the average Annual Rate of Salary for the 4 consecutive Annual Salary Years, beginning with each Fiscal Year within the last 10 Annual Salary Years, when such average Annual Rate of Salary was highest.

If a Member does not have 10 complete Annual Salary Years, the Member's FAS will be calculated using as many Annual Salary Years as the Member earned.

Sec. 5 Calculation of FAS for Legacy Members

(Note: If a Member is retiring with reciprocal service, see Section [__] of this Rule, below)

A Legacy Member's FAS is determined through a multi-step process as outlined below:

<u>Step 1:</u> To determine the Member's 10 most recent Annual Salary Years, the Fund subtracts ten calendar years from the end date of the most recent pay period for which the Member earned service credit. If the first day of this ten-year period falls in the middle of a pay period, the ten-year period will begin with the first day of the next subsequent pay period. The resulting time period is equivalent to 10 calendar years.

<u>Step 2:</u> Next, the Fund adjusts this period of 10 calendar years to account for any missing pay periods. The resulting range is equivalent to ten complete Annual Salary Years. Only Salary that falls within these ten Annual Salary Years may be included in the Member's FAS calculation. If a Member does not have sufficient service credit to form ten Annual Salary Years, the Member's FAS will be determined using as many Annual Salary Years as are available, including the last partial Annual Salary Year.

To convert the ten calendar year period determined in Step 1 into ten Annual Salary Years, the Fund compares each pay period within the 10-year range to the corresponding pay period on the Employer's pre-designated payroll calendar for the appropriate payroll group. If the Employer's calendar establishes five or more expected days for a pay period and the Member's Salary earned during the pay period is greater than zero, the pay period is designated as "expected." If the Employer's calendar establishes five or more days and the Member's Salary earned during the pay period is zero, the pay period is designated as "missing." If the Employer's calendar establishes exactly three expected days, the period is designated as "partial" regardless of the Member's Salary. If the Employer's calendar establishes fewer than three expected days and the Member's Salary is greater than zero, the pay period is designated as "extra."

If the number of missing periods is greater than the extra periods, the Fund extends the 10-year period by one expected pay period for each "missing" period in excess of the number of "extra" periods. Each additional pay period must have a total Salary greater than zero for the period to be considered an additional period. If there are more extra than missing periods, no additional pay periods are needed to extend the 10-year Salary Range.

Step 3: Next, the Fund determines the Member's first set of four complete Annual Salary Years (known as an "iteration") within the adjusted ten-year range using a process similar to that identified in Step 1.

Beginning with the most recent pay period for which the Member earned Salary, the Fund subtracts four calendar years from the end date of the pay period and adds one day. If the first day of this four-year period falls in the middle of a pay period, the four-year period begins with the first day of the next subsequent pay period. The Fund then identifies the number of missing, partial, and extra pay periods within the four-year range and extends the four-year period by one pay period for each missing pay period that exceeds the number of extra periods using the same method described in Step 2. The resulting period represents four complete Annual Salary Years.

Step 4: The Fund then calculates the Member's Average Annual Rate of Salary for the iteration identified in Step 3 by adding the total Salary earned during the included pay periods and dividing the sum by 4.

Step 5: The Fund then repeats the process described in Steps 3 and 4 for each iteration of four Annual Salary Years within the 10 Annual Salary Year period identified in Step 2, beginning with each preceding pay period until an iteration includes every pay period within the Member's ten-year range.

The highest Average Annual Rate of Salary from all the potential iterations is the Member's Final Average Salary.

Sec. 6 20% Cap on Increases to Annual Salary (40 ILCS 5/17-116(c))

For Members who commenced employment with an Employer after August 31, 1979, when determining a Member's average Annual Rate of Salary pursuant to Step 4 of Section 5 of this Rule, that part of any Member's Salary for any Annual Salary Year which exceeds the Member's Salary for the preceding Annual Salary Year by more than 20% will be excluded.

Staff shall develop written procedures consistent with this Section and the Fund's current practices to ensure that a Member's Annual Rate of Salary does not exceed the 20% cap.

A. Determine four 1-year calendar ranges within each 4-year iteration

To determine the four annual measuring periods within the 4-year salary range determined in Step 3, above, the Fund first subtracts 1 year and adds 1 day to the end-date of the latest payroll period within the iteration. If the end-date of the 1-year calendar range falls in the middle of a pay period, the 1-year calendar range begins with the next subsequent pay period.

Next, the Fund determines the number of pay periods the Member was expected to have worked (expected days for the period equal 5 or greater) during the 1-year calendar period using the Employer's pre-defined calendar for the Member's payroll group. Periods identified as partial pay periods are not counted as expected pay periods within the 1-year calendar range.

Continuing with the first period after the initial 1-year calendar range, the Fund repeats the same procedure for each preceding calendar year period until four 1-year calendar ranges and their number of expected pay period have been established. The end of the fourth 1-year calendar range must always equal the end of the 4-year calendar range, as adjusted for missing payroll periods pursuant to Step 3, above.

B. Determine four Annual Rates of Salary within each 4-year iteration

Next, the Fund determines the Member's Annual Rates of Salary for each of the four years included in each 4-year iteration.

Beginning with the same pay period used for establishing the initial 1-year calendar range in subsection A, above, the Fund adds the Member's total Salary earned in each pay period in which the Member's Salary was greater than zero until the number of pay periods included equals the number of expected pay periods for that 1-year calendar range. Each expected pay period (expected days for the period equal 5 or greater) in which the Member's Salary is greater than zero counts as one payroll period. If the Member earned Salary in a partial pay period, the Salary is included in the annual Salary total, but the pay period does not count toward the total number of pay periods. When the number of pay periods included in the calculation equals the number of expected pay periods for initial 1-year calendar range, and the pay period end date is equal to or greater than the end date of the 1-year calendar range, the total Salary included in the calculation equals the Member's Annual Rate of Salary for the first year of the 4-year iteration.

Continuing with the next preceding payroll period, the Fund then repeats this process of adding Salary and counting pay periods until the number of pay periods included equals the number of expected pay periods for the second 1-year calendar range and the pay period end date is equal to or greater than the end date of the calendar range. The resulting Salary equals the Member's Annual Rate of Salary for the second year of the 4-year iteration.

The Fund repeats this same process to determine the Member's third and fourth Annual Rates of Salary. The pay periods included in the fourth Annual Rate of Salary cannot go beyond the earliest period included within the 4-year calendar range determined in Subsection A.

Finally, the Fund performs the same calculation for a fifth Annual Rate of Salary, which is used solely for the purpose of determining whether the Member's Annual Rate of Salary for the fourth year of the iteration exceeded the Member's previous Annual Rate of Salary by more than 20%.

.

C. Rebalance 1-year Annual Salary ranges

In certain circumstances, the calculations described in Subsection B will result in a Member's Fourth Annual Rate of Salary being truncated by the end of the 4-year calendar period before including the full number of expected payroll periods. When this situation occurs, the Fund will perform a "rebalancing" process to take into account extra periods used to offset missing periods which were not within the same year.

The rebalancing process is identical to the process of adding Salary and counting pay periods described in Subsection B, except that the rebalancing process begins with the earliest pay period included in the Member's fourth Annual Rate of Salary and continues with each successive period until the number of pay periods included in the calculation equals the expected number of pay periods for the fourth 1-year period. After the 4th year is rebalanced, the Fund will determine if there are any extra periods left in the prior years (years 1 – 3). If there are extra periods that have not been used, the Fund will attempt to rebalance the 3rd salary year. This process will continue until there are no extra periods to use for rebalancing.

D. Apply 20% cap to each Annual Salary range

Once the Fund has determined a Member's four Annual Rates of Salary for each 4-year iteration, it determines whether any Annual Rate of Salary exceeds the preceding Annual Rate of Salary by more than 20%.

Sec. 7 Establishing Representative Salary Record for Each Pay Period

During the FAS calculation, the Employer's pre-designated payroll calendar is used to determine a Member's expected number of pay periods. If an Employer maintains different calendars for different groups of employees, the Fund applies the calendar corresponding to the Member's pay group for each pay period. If a Member has multiple salary records in a pay period with different pay groups – or no salary records at all – the following rules determine which pay group will be deemed the “Representative Salary Record” for that pay period.

- If a Member has multiple salary records for a pay period, the last reported record is used as the Representative Salary Record for that pay period.
- If an employee has no salary record for a pay period (i.e. a “missing” period), the most recent preceding salary record reported for the same Fiscal Year will be the Representative Salary Record for the missing period. If there is no preceding salary record within the same Fiscal Year, the next subsequent salary record reported after the missing period shall be the Representative Salary Record.