



Fund Overpayment Recoupment Policy

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FUND Overpayment Recoupment Policy

The Board of Trustees ("Board") of the Public School Teachers' Pension and Retirement Fund of Chicago ("Fund") has a fiduciary obligation to protect, secure, and maintain the assets of the Fund. Any amounts overpaid to Members, beneficiaries, or third parties due to fraud, misrepresentation, or error are Fund assets. Accordingly, the Board, consistent with its fiduciary obligations, as set forth in Article I of the Illinois Pension Code, and its authority as set forth in 40 ILCS 5/17-151.1, must take reasonable steps to recoup amounts overpaid. This Policy sets forth the process for recoupment of overpayments.

Consistent with the Internal Revenue Service Revenue Procedure Employee Plans Compliance Resolution System, the Chief Financial Officer or Executive Director have the authority to write off any overpayment that does not exceed one hundred dollars (\$100). In addition, the Chief Financial Officer or Executive Director may write off any overpayment that does not exceed \$1,000 if the likely cost of recovery exceeds the overpayment. Any such write off must be appropriately documented.

Overpayments after Death

If the overpayment amount(s) was electronically deposited into the decedent's bank account, the Fund will attempt to electronically reverse amounts deposited in error and will take any other reasonable steps to recover the overpayment. If the decedent received paper checks, the Fund will immediately place a stop payment on the checks. In the event, that the Fund is unable to recover the overpayment from the bank, it will take the following steps to attempt to recoup the overpayment:

The Fund will offset any amount owed against any death benefit payable or against any other sum that may be payable; if any overpayment amount remains payable, the Fund will deduct the overpayment from any surviving spouse's monthly benefit at a rate of twenty-five percent (25%) of the monthly benefit until the overpayment is repaid in full.

In the event that there is no survivor's pension payable, the Fund Legal Department will send a demand letter(s) to the administrator or executor of the decedent's estate. If the Fund does not receive a response and/or payment within a reasonable period of time not to exceed 90 days, and the amount of the debt exceeds one thousand dollars (\$1,000), the Fund will file a creditor claim against the decedent's estate, provided that the anticipated cost of collection does not exceed the amount to be collected.

If the decedent died intestate and/or left a small estate that was not subject to probate, the Fund will attempt to collect the debt from the decedent's representative, next of kin, or any other person identified as having possession or control of the decedent's account(s) or the

proceeds of the overpayment. The Fund Legal Department will send a demand letter(s) to the identified person(s). In the event that the Fund does not receive a response and/or payment within a reasonable period of time not to exceed 90 days, and the amount of the debt exceeds one thousand dollars (\$1,000), Fund may pursue reasonable means of collection, provided that the anticipated cost of collection does not exceed the amount to be collected.

In the event that a beneficiary or recipient of the proceeds of the overpayment acknowledges the debt, but is unable to pay the amount in full due to a demonstrated financial hardship, the Fund's Chief Legal Officer or designee shall have the authority to negotiate a payment plan, provided that any such payment plan must be acknowledged in writing by the debtor, and must be appropriately documented and approved by the Executive Director. The Executive Director will report any such payment plan to the Board of Trustees.

Overpayments Due to a Retiree's Return to Work

The provisions of this [Chapter/Article] do not apply to overpayments resulting from a retiree's return to work. For policies governing recoupment of such overpayments, see Title 3, Chapter E.

Overpayments Due to Miscalculation of Non-Duty Disability Benefits

In the event a Member received an overpayment resulting from a miscalculation of a Non-Duty Disability Benefit, the Member shall be notified in writing. The notice will provide sufficient detail regarding the overpayment calculation, and will provide the Member with notice of the administrative appeal rights, as applicable. No less than 30 days after the date of the notice, the Member's benefit will be corrected and the Member will have the option to repay the overpayment by deducting 10% of the Member's monthly benefit until the entire overpayment is repaid, or by actuarially adjusting the Member's benefit such that the overpayment(s) will be recouped over the life of the Member and the survivor.

Other Overpayments

In the event that a Member received any other overpayment(s), the Member shall be notified in writing. The letter will provide sufficient detail regarding the overpayment calculation, and will provide the Member with notice of the administrative appeal rights, as applicable. The Member may repay the overpayment(s) in a lump sum, or choose one of the below options, as applicable.

The Member shall have the option to assign his or her death benefit to the Fund to offset all or a portion of the overpayment(s) amount payable to the Fund. Any such assignment must be irrevocable, in writing, signed by the Member, and notarized. For purposes of calculating the offset, the Fund shall use the minimum death benefit payable. In the event that the actual death benefit payable exceeds the amount of the overpayment(s) payable, the excess shall be payable to the decedent's designated beneficiary or estate, as applicable.

If the overpayment(s) are equal to or greater than \$15,000, the Fund will actuarially adjust the Member's monthly pension benefit such that the overpayment(s) will be recouped over the life of the Member and the survivor. If there remains any amount payable after the Member's death, the Fund will offset any amount owed against any death benefit payable or against any other sum that may be payable; if any overpayment amount remains payable, the Fund will actuarially adjust the survivor's pension benefit. If the Member died without a surviving spouse, and an amount remains after the death benefit offset, the remaining overpayment debt will be appropriately documented and approved by the Executive Director, written off by the Fund, and reported to the Board of Trustees.

If the overpayment(s) are less than \$15,000 but greater than \$100, the Fund will deduct twenty-five percent (25%) of the Member's monthly pension benefit until the overpayment(s) are repaid in full. If there is more than one overpayment and the accumulated amount of all overpayments is less than \$15,000 the Fund will deduct the entirety of one overpayment before beginning the deduction of another overpayment. If there remains any amount payable to the Fund after the Member's death, the Fund will offset any amount owed against any death benefit payable or against any other sum that may be payable; if any overpayment amount remains payable, the Fund will deduct twenty-five percent (25%) of the survivor's monthly pension benefit until the overpayment(s) are repaid in full. The Executive Director or his designee shall have the authority to reduce the deduction to fifteen percent (15%) of the Member or survivor's pension benefit upon proof of financial hardship. If the Member died without a surviving spouse, or the Fund was unable to recoup the overpayment(s) from the surviving spouse's benefit, the Fund will attempt to recoup the remaining debt from the decedent Member's estate, provided that the anticipated cost of collection does not exceed the amount to be collected.

Other Means of Recoupment

In the event that any of the methods of recoupment described above are inadequate or insufficient to effect a full recovery of an overpayment, the Board of Trustees shall have the discretion, in consultation with Board Counsel or the Fund's Chief Legal Officer, to employ other means of recoupment not inconsistent with the applicable provisions of the Pension Code.

Waiver of Recoupment

Borrowing from the guidance issued by the United States Department of Labor ("DOL"), the Board may rely on DOL Advisory Opinion 77-08 which states that "depending on the facts and circumstances involved, the hardship to the participant or beneficiary resulting from such recovery or the cost to the Fund of collection efforts may be such that it would be prudent, within

the meaning of section 404(a)(1)(B), for the Fund not to seek recovery from the participant or beneficiary of an overpayment made to him.” Likewise, in Revenue Procedure 15-27, the IRS clarified that, depending on the nature and circumstances of the overpayment, plans have the flexibility not to seek full recoupment from participants when it would be prudent to compromise the fund’s claim.

The Board of Trustees shall have the discretion to waive all or part of an overpayment due from a Member or survivor when the Board of Trustees determines in its discretion that recoupment would be manifestly unjust because: (1) the overpayment was solely the result of error on the part of the Fund; (2) the overpayment was not discovered for many years after it occurred and that the delay has been prejudicial to the Member or survivor; and (3) recoupment of the overpayment would cause severe financial hardship. Any such waiver must be approved by the Board of Trustees, and the basis for the waiver must be documented in the minutes of the meeting in which the waiver was approved.

In the case of a third-party obligated to the Fund, the Board may consider the reasonableness of efforts to recover any specific overpayment depending on the facts and circumstances, including the likely costs of collection, the cause and nature of the overpayment, the length of time the overpayment continued, and the recipient’s financial circumstances. However, such a waiver is presumptively disfavored.