

**CITY OF SAULT STE. MARIE  
POLICE AND FIRE PENSION**

**Revised and Approved -**

**December 2021**

**QUESTIONS AND ANSWERS  
ABOUT THE POLICE AND FIRE  
RETIREMENT SYSTEM**

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The purpose of this booklet is to describe in simple language the main provision of Public Act 345 of 1937 as amended. The operation of the Police and Fire Pension System is governed by the detailed provisions of the act, relevant labor agreements, and the Pension Board's official rules and regulations. Copies of Act 345 and these official rules and regulations are available upon request from the Pension Board. This booklet is written for informational purposes only and does not hold an authoritative position with respect to any potential conflict between it and the provisions of Act 345, bargaining unit contracts, or any other applicable State or Federal laws.

## **1. When May I Retire?**

Based on contract provisions or employment agreement.

### Police Patrol

The plan's years of service requirement shall be 20 years.

### Police Command Officers

The plan's years of service requirement shall be 25 years. Members who complete between 20 and 25 years of service shall terminate employment as a deferred vested participant, and pension payments shall begin the first day of the calendar month immediately after the month in which the member's written application for the pension is filed with the retirement board that is on or after the date the member would have been eligible to retire had the member continued in employment.

### Fire Fighters and Fire Captains

Attained age of 50 and at least 25 years of credited service. 25 years are not required if you terminate employment after age 60.

### Non-union Police & Fire Personnel (Chiefs and Police Captain)

Police Chief and Police Captain are covered by retirement provisions the Police Command Unit, and Fire Chief is under the Fire Captains agreement. Inclusions in FAC are dictated by the employee handbook. Consistent with language in the applicable employment agreement.

## **2. How Is the Amount of My Service Pension Calculated?**

Based on contract provisions or employment agreement. Calculations are based on three primary factors: years of service, your multiplier, and final average compensation (FAC).

### Police Patrol

For hires prior to 7/16/18, 2.8 % on the first 25 years of credited service. For hires after 7/16/18, 2.6% on the first 27 years of credited service. All hires in this unit earn no additional percentage on subsequent years. The maximum benefit an employee can

obtain is 70% of Final Average Compensation. No benefit shall exceed the employee's base pay at the time of retirement regardless of calculation method.

Police Command Officers

2.8% multiplier for all years of service to a maximum benefit of 75% of FAC with service eligibility after 25 years. This applies to all members entering the unit after 7/1/02, currently all members. No benefit shall exceed the employee's base pay at the at the time of retirement regardless of calculation method.

Firefighters

2.8% on the first 25 years of credited service and 1% on subsequent years. No benefit shall exceed the lieutenant's base pay at the time of retirement regardless of calculation method.

Fire Captains

2.8 % on the first 25 years of credited service and 1% on subsequent years. No benefit shall exceed the captain's base pay at the time of retirement regardless of calculation method.

Non-union Police & Fire Personnel (Chiefs and Police Captain)

For hires prior to December 2013, choice of any of the current labor agreements covering employees of the Police and Fire Departments.

For hires after December 2013, choice of labor agreement within the same department, Police Chief and Captain may choose from Police Patrol Unit or Sergeants Unit, and Fire Chief may choose from Fire Fighters or Fire Captains agreements. Consistent with language in the employment agreement.

An election shall be made at the time of hire.

**3. What is Final Average Compensation (FAC)?**

Final Average Compensation (FAC) is the average of salaries used in the benefit calculation and amounts to be included are based on contract provisions and/or employment agreement. Not all items of pay are included in FAC, only those as listed below. Average compensation for a year is based on a calendar year and final payouts are added to the calendar year prior to retirement, see #4.

Police Patrol

FAC shall be measured under M.C.L. 38.556(f) as the 3 highest years' compensation in the last 10 years immediately prior to retirement. Officers will not be paid for accumulation of sick leave at retirement and won't have vacation or sick leave pay off included in FAC, nor will they accumulate personal leave.

### Police Command Officers

Final Average Compensation shall be measured under M.C.L. 38.556(f) as the highest 3 years' compensation in the last 10 years immediately prior to retirement.

Officers hired after 7/1/93 will not be paid for accumulated sick leave at retirement and won't have vacation or sick leave pay off included in FAC, nor will they accumulate personal leave.

Officers hired after 07/01/02 will not be paid for accumulated sick leave at retirement, won't have vacation, sick leave pay off, annual sick leave pay or monthly payment for opting out of employer provided healthcare included in FAC, nor will they accumulate personal leave.

### Fire Fighters

FAC shall be measured as the highest 3 years' compensation in the last 5 years immediately prior to retirement for computation.

For employees hired before 7/1/08, payment for unused sick leave upon retirement shall be included in FAC at 25% up to a maximum of 360 hours. For employees hired after 7/1/08 payment for unused sick leave at termination shall not be included in FAC.

Employees hired after 7/1/08 are not eligible for the 25 and over accumulation of vacation. Vacation payoff shall not exceed 2 years of accumulation.

Employees hired after 03/01/13 are not eligible for payouts of vacation.

Payment of \$450 per month for non-use of employer paid health insurance (Opt out) shall not be included in FAC.

Payment for using 48 hours or less of sick leave (SLPO) shall not be included in FAC.

### Fire Captains

FAC shall be measured as the highest 3 years' compensation of the last 5 years immediately prior to retirement for computation.

For employees hired before 7/1/08, payment for unused sick leave at termination shall be included in FAC at 50% up to a maximum of 408 hours.

For employees hired after 7/01/08 payment for unused sick leave at termination shall not be included in FAC. Vacation pay off shall not exceed 2 years of accumulation.

Payment of \$450 per month for non-use of employer paid health insurance (Opt out) may not be included in FAC.

Payment for using 48 hours or less of sick leave (SLPO) shall not be included in FAC.

#### 4. What Is Considered A Year With Respect To FAC?

A year is any calendar year from January 1 to December 31, which is consistent with IRS reporting requirements. Inclusions in this time period are determined by pay check issue date, as opposed to pay period ending date or date work actually performed. Years included are not necessarily consecutive.

#### 5. Illustrations of Pension Calculations

<b><u>POLICE AND FIRE PENSION CALCULATIONS</u></b>				
as of	Jul-21			
DEPARTMENT		POLICE	POLICE	POLICE
UNIT		PATROL	PATROL	COMMAND
				transfer into unit
HIRE DATE	>07/01/1993	>07/16/18	>07/01/2002	
Hourly Wage	\$ 27.50	\$ 27.50	\$ 32.57	
Hours Per Year	2,080	2,080	2,080	
Base Annual Wage	\$ 57,203	\$ 57,203	\$ 67,737	
Typical wages over base (+OT)	111%	111%	130%	
best 3 years out of...	10	10	10	
illustrative best year	\$ 65,000	\$ 65,000	\$ 88,500	
illustrative 2nd best year	\$ 64,500	\$ 64,500	\$ 88,000	
illustrative 3rd best year	<u>\$ 64,000</u>	<u>\$ 64,000</u>	<u>\$ 87,500</u>	
3 Years Total Annual Wage	\$193,500	\$193,500	\$ 264,000	
Avg Annual Base Wage (1/3)	\$ 64,500	\$ 64,500	\$ 88,000	
Multiplier	2.80	2.60	2.80	
plus 1% for each yr >25	-	-	1.00	
# Years Required	20	20	25	
Min Yrs Pension (FAC x Mult x Yrs)	<b>\$ 36,120</b>	<b>\$ 33,540</b>	<b>\$ 61,600</b>	
At Higher # Years				
For example - years	25	25	30	
Pension Cal'd	<b>\$ 45,150</b>	<b>\$ 41,925</b>	<b>\$ 66,000</b>	
Maximum Amount				
% FAC	70%	70%	75%	
based on % FAC	\$ 45,150	\$ 45,150	\$ 66,000	
or Base Pay	\$ 57,203	\$ 57,203	\$ 67,737	
Number of Years Maximized	31.67	27.00	27.49	

## 5. Illustrations of Pension Calculations

<b>POLICE AND FIRE PENSION CALCULATIONS</b>							
as of	Jul-21						
DEPARTMENT		FIRE	FIRE	FIRE	FIRE	FIRE	
UNIT		FIREFIGHTERS	FIREFIGHTERS	FIREFIGHTERS	CAPTAINS	CAPTAINS	
HIRE DATE		<07/01/2008	>07/01/2008	>03/01/2013	<07/01/2008	>07/01/2008	>07/01/2012
Hourly Wage		\$ 19.05	\$ 19.05	\$ 19.05	\$ 22.17	\$ 22.17	\$ 22.17
Hours Per Year		2,912	2,912	2,912	2,912	2,912	2,912
Base Annual Wage		\$ 60,936	\$ 60,936	\$ 60,936	\$ 64,555	\$ 64,555	\$ 64,555
Typical wages over base (+OT)		134%	134%	134%	134%	134%	134%
best 3 years out of...		5	5	5	5	5	5
illustrative best year		\$ 75,500	\$ 75,500	\$ 75,500	\$ 108,300	\$ 108,300	\$ 108,300
illustrative 2nd best year		\$ 74,100	\$ 74,100	\$ 74,100	\$ 112,800	\$ 112,800	\$ 112,800
illustrative 3rd best year		\$ 73,100	\$ 73,100	\$ 73,100	\$ 107,100	\$ 107,100	\$ 107,100
3 Years Total Annual Wage		\$ 222,700	\$ 222,700	\$ 222,700	\$ 328,200	\$ 328,200	\$ 328,200
Avg Annual Base Wage (1/3)		\$ 74,233	\$ 74,233	\$ 74,233	\$ 109,400	\$ 109,400	\$ 109,400
Vacation pay at retirement							
maximum hours		672	576	-	720	720	-
hours x rate		\$ 12,799	\$ 10,970	\$ -	\$ 15,961	\$ 15,961	\$ -
Sick pay at retirement							
maximum hours		360	-	-	408	-	-
hours x rate		\$ 6,856	\$ -	\$ -	\$ 9,045	\$ -	\$ -
Total of Above		\$ 242,355	\$ 233,670	\$ 222,700	\$ 353,206	\$ 344,161	\$ 328,200
FAC (Total/3, annualized)		\$ 80,785	\$ 77,890	\$ 74,233	\$ 117,735	\$ 114,720	\$ 109,400
Multiplier		2.80	2.80	2.80	2.80	2.80	2.80
plus 1% for each yr >25		1.00	1.00	1.00	1.00	1.00	1.00
# Years Required		25	25	25	25	25	25
Min Yrs Pension (FAC x Mult x Yrs)		\$ 56,550	\$ 54,523	\$ 51,963	\$ 82,415	\$ 80,304	\$ 76,580
At Higher # Years							
For example - years		30	30	30	30	30	30
Pension Cal'd		\$ 60,589	\$ 58,418	\$ 55,675	\$ 88,302	\$ 86,040	\$ 82,050
Maximum Amount							
% FAC							
based on % FAC							
or Base Pay		\$ 60,936	\$ 60,936	\$ 60,936	\$ 64,555	\$ 64,555	\$ 64,555
Number of Years Maximized		26.94	27.94	29.32	19.58	20.10	21.07

## **6. Will My Spouse Continue to Receive Payments After I Die?**

When you retire you will be paid a Service Pension for as long as you live. Upon your death your eligible spouse will be paid 60% of your Service Pension for the remainder of your spouse's life under the straight life plan. To be eligible, your spouse must have been married to you on both your date of retirement and your date of death and must be listed as your beneficiary on forms at retirement.

To illustrate, suppose your Pension is \$5,000 per month (\$60,000 per year). Upon your death, your surviving spouse will be paid \$3,000 per month (\$36,000 per year).

You may also provide for payments to your eligible spouse by electing Option I or Option II as described below. Generally, it is not in your financial interest to do this because of the automatic 60% available to eligible spouse beneficiaries. **If no option is selected, your eligible surviving spouse will automatically receive 60% of your Service Pension.**

Option I and Option II are computed to be the actuarial equivalent of the Service Pension, which means they have the same cost to the Retirement System at the time you retire. They are made available as a convenience to you in planning your personal retirement program. The amount of an Option Pension is based on the amount of your Service Pension and on the age of you and your beneficiary.

### Option I – 100% Survivor Pension (maximum to survivor beneficiary)

Under this option you would be paid a *reduced pension (as compared to the straight life pension described above)* for as long as you live, with the added provision that upon your death the beneficiary nominated by you at the time you elected Option I would start to be paid 100% of your *reduced pension* for the remainder of your beneficiary's life.

### Option II – 50% Survivor Pension (generally minimum to survivor beneficiary)

Under this option you would be paid a reduced (as compared to straight life pension described above) pension for as long as you live, with the added provision that upon your death the beneficiary nominated by you at the time you elected Option II would start to be paid 50% of your reduced pension for the remainder of your beneficiary's life.

The Pension System actuaries will calculate the Option I and Option II amounts upon request. The cost for this report is the responsibility of the prospective retiree and is not an eligible cost to the Police and Fire Pension System. Beneficiaries of Option I and II must have an insurable interest in the life of the retiring member, and although close blood relationships or marriage is implied, it is not necessarily a requirement. Beneficiaries may include a brother, sister, natural or adopted child, or parent of the member. Options must be selected in writing prior to the effective date of the member's retirement, and selection may be made by contacting the City's Human Resources Department.



## **7. Can I Provide For Payments to a Non-Spouse Beneficiary (or to a non-eligible spouse beneficiary) Upon My Death?**

Act 345 provides that you can provide protection for a beneficiary with an insurable interest in your life by electing Option I or Option II when you retire. Your election cannot be changed after you retire.

## **8. What Happens If I Leave City Employment Before I Can Retire?**

If you terminate employment with the Police or Fire Department (other than by death or total and permanent disability) after you have completed 10 years of credited service, you are eligible for a Deferred Pension if you leave your own accumulated contributions on deposit with the Retirement System (Fire Police Pension Plan).

## **9. What If I Do Not Have the 10 Years of Credited Service Required For A Deferred Pension?**

Upon written application to the Retirement Board, you will be refunded the amount of your contributions together with interest at 2% compounded annually. The Pension Board will issue an IRS required 402 Notice which explains the handling of the refund. Post-tax contributions may be returned to you without tax implications. If pre-tax contributions and interest are not rolled over to another qualified plan, the Pension Board is required to remit 20% of the total to the IRS. The distribution may also be subject to a 10% IRS penalty. The Pension Board is not required to withhold tax on distributions less than \$200.

The Notice includes a Request Form which you are required to fill out and sign. Unless waived by the applicant in writing, there is a 30 day waiting period during which you may change your decision about how to make your withdrawal of pre-tax contributions and interest.

## **10. What If I Become Disabled In The Line of Duty?**

If you become totally and permanently disabled from duty as a result of your performance of duties of assigned Police or Fire work for the City and your application for a Duty Disability Pension is approved by the medical committee and the Retirement Board, you will be paid a Duty Disability Pension equal to 50% of your Average Final Compensation until you attain age 55 years or recover. If you remain fully disabled from duty and attain age 55, you will be given additional credited service from your date of disability to age 55 and your Disability Pension will be recomputed. The re-computation will be done on a basis similar to the computation of a Service Pension (see questions #2).

To illustrate, suppose you are 40 years old and your application for a Duty Disability Pension is approved. If your credited service is 12 years and your FAC is \$36,000 you would be paid a Duty Disability Pension of \$18,000 ( $0.5 \times \$36,000$ ) until you reach age 55, assuming you do not recover. When you attain age 55 you would be given additional service credit for the 15 years

prior to age 55 and your pension will be recomputed based on 27 years of service, your FAC and the benefit formula in effect at the time you became disabled.

Any time within the 60 days preceding your 55<sup>th</sup> birthday you can elect to receive your pension in accordance with Option I or Option II instead of a Straight Life Pension terminating at death (See #6 for a description of Option I and Option II).

Your Duty Disability Pension is reduced by the amount of any Worker's Compensation or disability benefits you receive.

### **11. Suppose I Am Disabled But Not In The Line Of Duty?**

If (a) you are totally and permanently disabled for duty, and (b) you have completed at least 5 years of credited service and c) your application for a Non-Duty Disability Pension is approved by the medical committee and the Police and Fire Pension Board, you will be paid a Non-Duty Disability Pension equal to 1.5% (.015) of your FAC multiplied by your credited service payable until you attain age 55 or recover. When you attain age 55, your disability pension will be recomputed. This re-computation will be done on a basis similar to the computation of a Service Pension. Any time within the 60 days preceding your 55<sup>th</sup> birthday you can elect to receive your pension in accordance with Option I or Option II instead of a Straight Life Pension terminating at death (See question #6).

Your Non-Duty Disability Pension is reduced by the amount of any disability benefits you receive.

### **12. Are Benefits Paid If I Die In The Line of Duty Before I Retire?**

If your death is a result of your performance of duty as assigned in the Police or Fire Department for the City of Sault Ste. Marie, benefits may be payable to your spouse, surviving children who are under age 18, and/or certain other dependents, if that person (people) received payments under the Worker's Disability Compensation Act of 1969. A spouse's benefit terminates upon their death, and the children's benefits terminate upon attainment of age 18, their marriage, or death, whichever occurs first. Please refer to Act 345 of 1937, 38.556, Sec 6, (1) (a) – (c) for more information.

### **13. Suppose I Die, But Not In The Line of Duty?**

If you have at least 20 years of credited service and you die while employed by the City of Sault Ste. Marie Police or Fire Department, under the Police and Fire Pension, your spouse or other eligible beneficiary of record at the time of your death (see questions 5 and 6) will be paid a Survivor Pension for the remainder of their life. The amount is computed as if you had retired the day preceding your death with a Service Pension and Elected Option I.

Instead of automatically providing for your spouse, you may, at any time after completing the minimum years of credited service, elect Option I and name a beneficiary who is dependent upon you for at least 50% of your beneficiary's support. Upon your death, while employed by the

City as a Police and Fire Pension participant, your beneficiary would receive a Survivor Pension computed as if you had retired the day preceding your death. Your election and naming of a beneficiary may be changed by you at any time prior to your death or retirement.

If you have less than 20 years of credited service and your death is not duty related the total amount of your contributions together with credited interest will be payable to the person or persons designated by you. You are encouraged to review life insurance options to protect your dependents prior to 20 years of service are achieved. Additional coverage may be obtained through your employer, see Clerk's Office/Human Resources for more information.

**14. Who Pays For Retirement System Benefits?**

Both you and the City of Sault Ste. Marie taxpayers contribute toward the cost of Retirement System benefits. Your contribution is based on your bargaining unit's current contract. The City of Sault Ste. Marie contributes actuarially determined amounts required to maintain the Retirement System in sound condition as required by Act 345 and the constitution of the State of Michigan. These contributions are significantly higher than the amounts contributed by members.

**15. Does the Retirement System Pay Interest On My Contributions?**

The Retirement System pays interest at the rate of 2% annually on your contributions. The interest does not increase the size of your benefit. However, if you receive a refund of your contributions or if your contributions are paid to your beneficiary in the event of your death, you or your beneficiary would receive the credited interest as well as the contributions.

**16. Do I Have To Pay Income Tax On My Pension?**

As of 2012, certain amounts of retirement benefits are subject to income tax by the State of Michigan. *Consult your tax advisor for more information.*

Since you contributed to the Retirement System, any of your previously taxed contributions are excluded from income tax. The amount that is excludable from each benefit payment depends on the amount of your contributions and the number of expected benefit payments. Excluding previously taxed contributions, your benefits are fully taxable. The City discontinued making post-tax contributions as of 06/30/2007 **based on a change in tax law**. The number of expected benefit payments is based on your age at retirement and is illustrated as follows:

Age	Number of Payments
55 and under	300
56-60	260
61-65	240
66-70	170
71 and over	120

### **17. Suppose My Spouse and I Divorce Before I Retire; Are My Benefits Affected?**

If your accrued retirement benefits are included as a marital asset in a divorce property settlement, the courts can allocate the marital portion of your pension among the involved parties under an Eligible Domestic Relations Order (EDRO) or Qualified Domestic Relations Order (QDRO). An actuarial report may be required to determine such an allocation. The cost for this report is the responsibility of the prospective retiree and is not an eligible cost to the Police and Fire Pension System. Prior to finalization, the pension board will have the EDRO reviewed by its legal counsel, so a draft version of the document must be submitted to the City Finance Director to ensure it is legally enforceable. Confidentiality is maintained in all matters of pension administration.

The ex-spouse of the employee may start to collect on the pension as soon as the employee would first be eligible for a pension, not when the employee actually retires. *See Human Resources and update applicable forms anytime you have a change in marital status.*

### **18. Who Administers the Retirement System?**

The Retirement System is administered by a 5 member Police and Fire Pension Board, made up as follows:

- The City Treasurer – By virtue of office
- A Firefighter – Elected by members of the Fire Department
- A Police Officer – Elected by members of the Police Department
- Two Citizens – Appointed by the City Commission

### **19. Who Invests the Assets of the Retirement System?**

The Retirement Board invests the assets of the Retirement System in the name of the Retirement System. Investments are made in accordance with the provisions of Michigan Law. The assets of the Retirement System are entirely separate from the funds of the City – they must be held and used for the exclusive benefit of Firefighters or Police Officers and their beneficiaries.

### **20. Who Do I Contact For An Estimate of My Retirement Payments?**

Contact the City's Payroll Coordinator or Finance Director in the Finance Department of City Hall for an estimate of your retirement payments.

### **21. What do I do when I am ready to retire?**

Contact your Police and Fire Board representative and submit a written letter of intent to retire to that representative. Provide **at minimum 30 days' notice to the Board** prior to expectation of benefits payments. Without sufficient advance notice, there will be a delay in receipt of monthly payments. These payments are sent around the first of each month.

**22. How do I make sure the City has the correct beneficiary and other information?**

It is recommended that you adjust your beneficiary information with the City Clerk's /Human Resources Office any time that you have a change in family status, possibly due to a birth, death, marriage, or divorce. It would be beneficial to double check this information periodically during employment. Other information to update as needed might include your home address, email and phone number, even after retirement, to ensure pay stubs, tax information and other notices are received.