



The Select Committee on Pension Policy

Briefing on Furloughs and SB 6157 (2009)

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Office of the State Actuary

"Securing tomorrow's pensions today."

Budget Reduction Strategies May Affect Pensions

- Example
 - Employee furloughs
- SB 6157 (2009) helps mitigate impacts on member benefits
 - Non-SCPP bill



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This Briefing Covers The Basics

- What are furloughs?
- How do they affect retirement?
- What has the Legislature done in this area?
- What might the committee consider?

A Furlough Results In Reduced Compensation

- Examples
 - Reduced work hours
 - Additional days off



Furloughs Reduce Contributions To Systems

- Contributions are a percentage of compensation
 - Furloughs lower total compensation
- Result
 - Fewer contributions than expected
 - Lower benefits
 - Less money to pay for benefits

Furloughs Affect The Benefit Calculation

- Retirement benefits = % x Salary Average x Service Credit
- Furloughs affect retirement benefits
 - Lower salary averages
 - Average salary based on highest paid two to five years prior to retirement
 - Typically the final two to five years of employment
 - Loss of service credit
 - Service credit is based on hours worked per month



Example Of Lower Salary Average

FY08	\$35,000	}				
FY09	\$35,000					
FY10	\$35,000					\$34,865.20
FY11	\$35,000					
FY12	\$35,000					

New Average
\$34,865.20



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Effect On Monthly Benefit

- Assuming a 40-hour furlough in FY10

Calculation							
Plan	%	X	Salary Average	X	Service Credit Years	= Annual Benefits	Monthly Benefits
2	2		\$35,000		25	\$17,500	\$1,458
	2		\$34,865		25	\$17,433	\$1,453



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Senate Bill 6157

- Addresses one possible effect of furloughs
- Calculate average salary as if members were not furloughed
 - After-the-fact adjustment
 - Only triggered at retirement
- Only covers PERS members
- Only covers this biennium



Practical Effects Of Senate Bill 6157

- Member benefits will generally stay the same
 - No additional cost to members
- Cost to system at time when the system is challenged
 - Fiscal note included in meeting materials

How Much Should Member Benefits Be Protected?

- Protect all aspects of benefits?
- Let benefits be affected by budgetary issues?
- SB 6157 takes a middle-of-the-road approach
 - Addresses most likely impact of furloughs on a known group
 - Has limited application



Should All Systems Be Protected?

- Applies to members of PERS Plans 1, 2, and 3
- Possible inconsistency between systems

Should Furloughs Outside The Upcoming Biennium Be Covered?

- At least one local government has authorized furloughs prior to July 1 start date
- Stakeholder correspondence in meeting materials



Should Service Credit Be Protected?

- Full-time employees not likely to lose service credit
- Part-time employees more at risk
- Current law provides ways to avoid or minimize loss

Impacts Of Furloughs Unknown

- Impacts will depend on
 - Number of employees furloughed
 - Amount of reduced hours for each employee
 - When affected employees retire
- No single statewide furlough policy
 - Agencies discretion to meet budget reductions
 - Furloughs are just one way to meet reductions



Other States Are Using Furloughs

- At least 23 states
 - Policies continually changing
- At least 11 states protect employee benefits
 - In six, retirement system absorbs cost
 - Peer states
 - California
 - Oregon
 - In five, employees contribute based on what they would have earned
 - Peer state
 - Iowa
- Other states have proposed furloughs, but have not yet acted

Conclusion

- SB 6157 addresses potential impacts on members
- The bill adds a cost to the system at a time when the system is already challenged
- The bill may create an inconsistency between systems
- The full impacts of furloughs and SB 6157 are unknown at this time

Possible Next Steps

- Take no action
- Revisit when impacts are better known
- Study expanding protections

