

## Select Committee on Pension Policy



### Furloughs

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### Issue

- Recent legislation temporarily mitigates the impact of furloughs on the pension benefits of some members
  - Non-SCPP bills
  - SCPP briefed in 2009 and 2010
- LEOFF 2 Board wrote the SCPP asking that the SCPP consider expanding the mitigation provisions to other members and systems



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## Today's Presentation

- Background
- Policy questions
- Next steps

## Furloughs Can Impact Member Pensions

- Pensions are calculated  
(Percentage multiplier) X (years of service) X (average salary)
- A reduction in any category reduces benefits
  - Percentage multiplier can't be reduced from furloughs
  - Reduction in service credit is possible, but not likely
    - For example, the ten shutdown days in last year's furloughs bill would not cause a full-time employee to lose service credit
  - Salary average is most likely to be affected



## Members Have Several Ways To Mitigate The Impact Of Furloughs

- Working longer before retirement
- Purchasing additional service credit at retirement or “air time”
- Salary average adjustment established in recent legislation



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## Salary Average Adjustment

- If a retiree's salary average is reduced by furloughs, DRS will adjust it to include compensation the retiree *would have* earned
  - Retiree does not actually receive compensation for the furloughed time
  - Applies to furloughs taken during the 2009-11 Biennium



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### Who Does Salary Average Adjustment Apply To?

- State and local members of PERS
- State members of TRS, PSERS, LEOFF, and WSPRS
- Members most likely to receive adjustment are within six years of retirement
  - Adjustment only applies to furloughs taken during the 2009-11 Biennium
  - Salary average is calculated based on highest two or five years, depending on plan
  - Salary average is typically highest in the last few years of service
- As of August 2010, DRS reports 98 out of 5,556 retirees have requested adjustment



### Example Of Impact Of Furloughs On PERS 1 Retiree

- Assuming 30 years of service and Average Final Compensation of \$65,000 per year before furloughs

Furlough Days 2009-11 Biennium	Monthly Benefit Before Furloughs	Monthly Benefit After Furloughs	Reduction In Monthly Benefit
2	\$3,250	\$3,238	\$13
10	\$3,250	\$3,188	\$63
20	\$3,250	\$3,125	\$125



## Lawsuits And Grievances Have Been Filed To Stop Furloughs

- Outcomes may affect
  - Total amount of employees furloughed
  - Categories of personnel subject to furlough
- Three recent Public Employment Relations Commission (PERC) decisions invalidated furloughs and awarded employees back pay
  - Decisions only applied to employees of certain bargaining units
  - See Appendix C of issue paper for more information on these cases
- Adds to uncertainty for the ultimate impact of furloughs on members and systems



## What Types Of Reductions Are Covered?

- Compensation reductions due to reduced work hours
- Can be mandatory or voluntary
- Must be certified by the employer as part of the employer's cost-reduction efforts



## Examples Of Cost-Reductions

- Covered
  - Unpaid leave (hours or full days)
  - Temporary layoffs
- Not covered
  - Across-the-board cuts
  - Forgone raises or step increases
  - Forgone COLAs
  - Voluntary phased retirement
  - Lost in-service days (for teachers)



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## How Can The Salary Average Adjustment Impact The System?

- Costs absorbed by the system (i.e. passed to all members and employers)
- Salary adjustments are made after the member retires
- No contributions are collected (employer or employee) for the furloughed time
- Direct costs are not paid by the employee who receives the benefit



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## Estimated 25-Year Costs

- Fiscal note for the first of the two recent furloughs bills indicates the 25-year cost for the salary average adjustment could range as follows (rounded to nearest million)

Total Employer Low Estimate	\$47 Million
Total Employer High Estimate	\$185 Million
Total Employee Low Estimate	\$18 Million
Total Employee High Estimate	\$72 Million

- Fiscal note for the second furloughs bill estimates that it will not add to the cost of the first bill



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## Should Employee Pensions Be Shielded From Reductions Due To Cost-reduction Efforts?

- If so, then
  - Which employees should be covered?
  - Which impacts should employee benefits be shielded from?
  - How long should mitigation provisions be in effect?
  - Who should pay for the cost of the salary adjustment provisions?



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### Should Salary Average Adjustment Apply To Other Furloughs?

- Some furloughs have taken place prior to the effective date of the salary average adjustment
- Furloughs may continue after the salary average adjustment expires

### Should Salary Average Adjustment Apply To Other Members?

- Salary average adjustment does not apply to all plans or to both state and local members some plans
- Not all members are experiencing furloughs and many are expressly exempt from state-mandated furloughs
  - Full data would require polling each city, county, and district
  - Thus far, staff has not found evidence of any system other than PERS experiencing furloughs
    - See Appendix A of issue paper for more details on research



## Should Salary Average Adjustment Apply To Other Cost-Reduction Measures?

- For example
  - Across-the-board cuts
  - Forgone raises or step increases
  - Forgone COLAs
  - Voluntary phased retirement
  - Lost in-service days (for teachers)

## Other States

- Three states (CO, IA, OH) allow members to buy back the furloughed time
- One state (CA) will not allow furloughs to impact salary average, service credit, or other benefits
- Legal action is pending in multiple states
  - Decisions have been mixed and appeals are pending
  - Sample assertions in the cases
    - Unilateral action by the state or county did not allow bargaining
    - Specific groups are exempt from furloughs
      - Statute
      - Contract
  - See Appendix C of the issue paper for additional information



## Next Steps

- Nothing at this time - this option may be appropriate if policy makers feel
  - The issue has already been addressed by the Legislature and the current mitigation provisions should be allowed to expire
  - Additional time would allow the situation to develop more fully
- Direct staff to study or prepare options - this option may be appropriate if members feel the current provisions are not adequate or not applied consistently
  - Sample options include
    - Expanding the salary average adjustment to members and systems not currently covered
    - Extending the salary average adjustment beyond the current biennium
    - Addressing the impacts from other types of cost-reduction efforts