



## Select Committee on Pension Policy

### Excess Compensation (SCPP Bill Draft)

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### What Is The Issue?

- Employers are billed for the additional pension costs of excess compensation
- Some policy makers may question if current billings are sufficient
- May seek increased billings



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## Committee Activity

- Work session in October
  - Initial policy briefing
  - HB 2441
- Executive Committee scheduled public hearing
  - HB 2441 updated for 2013 Session
- Possible action today



## What Is Excess Compensation?

- Payments above "regular" earnings used to calculate pensions
  - Cash outs, lump sums, overtime and bonuses
  - Exceeding statutory thresholds
- Can create unexpected costs for the system
- Employers are billed for extra costs of excess compensation



## Policy/Cost Implications Of Excess Compensation

- Can impact intergenerational equity by passing on costs
- Current members likely have contractual rights to include in benefit calculations
- Billing employers may impact recruitment, retention, and workforce management
  - Change pay practices to avoid billings
- Billing employers likely results in a savings to the plan
  - Cost sharing shift
  - Reduction in liability
- Full analysis in issue paper



## SCPP Bill Draft

- Same as HB 2441
  - Passed House and SWM in 2012
- Expands definition of excess compensation
  - Includes increases in AFC exceeding 50 percent of "regular" earnings
  - Targets overtime, bonuses, cash outs, and lump sums
- Likely expand billings for a small percentage of calculations
  - AFC increases exceeding 50 percent appear infrequent
  - Even a few large increases may be perceived as abuse
- Indeterminate savings
- Bill draft included in materials



## SCPP Bill Draft: Cost Impact Example

- Plan 2 member who retires at age 65 with 25 years of service
- Total compensation of \$400,000 over AFC period
  - \$250,000 regular salary
  - \$150,000 bonuses
- Bonuses may not trigger a billing under current provisions
- Would trigger a billing under proposed bill
  - Excess compensation=\$25,000
  - Increase in annual benefit=\$2,500
  - Cost to the pension system over member's lifetime=\$30,000
- Employer is billed for the lifetime cost to the pension system



## Possible Next Steps

- Take no further action
- Recommend the bill to Legislature
- Direct staff to develop other options
  - December meeting or next interim

