



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 increases
- LEOFF 2 Board has requested coordination



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Committee Activity

- Work session in October
- Public hearing in November
 - Bill draft from last session (HB 2441)
 - Stakeholders expressed concerns around overtime billings
- Committee directed staff to bring a revised bill draft
- Scheduled for public hearing and 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



Key Policy And Cost Implications

- Excess compensation
 - May not result in unexpected costs
 - Can impact intergenerational equity
 - Extreme cases may be perceived as abuse
 - Likely a contractual right for current members
- Billing employers
 - Likely results in a savings to the plan
 - May impact recruitment, retention, and workforce management
 - Change pay practices to avoid billings
- Full analysis in issue paper



Revised Bill Draft

- Changes the excess compensation calculation in HB 2441
 - Keeps the same salary increase trigger
 - Measures the increase differently
- Includes AFC increases of more than 50 percent
 - From the prior period's AFC
 - Due to overtime, bonuses, cash outs, and lump sum payments
- Captures larger increases that create unexpected costs
- Avoids billing where unexpected costs are not created
- Similar impacts to HB 2441
 - Relatively few billings
 - Indeterminate savings
- Bill draft included in materials



Example Excess Compensation Calculations

(Dollars)	Scenario A High, Stable OT	Scenario B Increasing OT
Average OT Prior AFC	\$30,000	\$0
Average OT Current AFC	30,000	25,000
HB 2441		
Total Excess Compensation	25,000	0
Employer Billing	30,000	0
Revised Bill		
Total Excess Compensation	0	12,500
Employer Billing	\$0	\$15,000

Key Assumptions

Average regular earnings: \$45,000 in prior AFC period, \$50,000 in current AFC period.
 PERS 2 members retiring at age 65 with 25 years of service.



LEOFF 2 Board Coordination

- Board requested coordination on any legislation
 - Coordination among staff has occurred
 - Draft bill language provided to the Board
- Board discussed draft bill at their December meeting
 - No formal action
 - Policy question came up about voluntary vs. mandatory overtime



Policy Question: Voluntary Vs. Mandatory Overtime

- Employer perspective
 - Mandatory overtime may stem from events outside their control
 - Should not be charged as excess compensation
- Pension system perspective
 - Both voluntary and mandatory overtime can create unexpected costs
- Who pays for unexpected costs associated with overtime?
 - The employer utilizing overtime
 - All employers and Plan 2 members



Possible Amendments

- Amendment 1
 - Add language clarifying that employers won't be billed more than once for the same excess compensation
 - Some overlap with new excess compensation provision
- Amendment 2
 - Add language excluding LEOFF Plan 2 from the new provision
 - LEOFF 2 Board expressed concerns about insufficient time for review
- Not mutually exclusive



Possible Next Steps

- Take no further action
- Recommend bill as drafted to Legislature
- Recommend the bill with amendments
 - Amendment 1: Clarify no multiple billings
 - Amendment 2: Exclude LEOFF 2
 - Either or both

