

# SENATE BILL REPORT

## SB 6742

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As of February 9, 2010

**Title:** An act relating to calculating average final compensation under the public employees' retirement system.

**Brief Description:** Calculating average final compensation under the public employees' retirement system.

**Sponsors:** Senator Pridemore.

**Brief History:**

**Committee Activity:** Ways & Means: 2/08/10.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Erik Sund (786-7454)

**Background:** In the Public Employees' Retirement System (PERS) Plans 1 and 2 benefits are calculated by multiplying a member's years of eligible service multiplied by 2 percent of the members's final average compensation. For members of the PERS Plan 1, final average compensation is the average level of annual pay received from plan-eligible employment over the last two years before the member retires. For members of the PERS Plan 2, final average compensation is calculated in a similar fashion but over the final five years of plan-eligible employment rather than two years.

The PERS Plan 3 is a hybrid plan design in which employer contributions are made to support a defined benefit, and employee contributions are made into individual defined contribution accounts. A Plan 3 member's defined benefit is based upon the number of qualified years of service the member has worked multiplied by 1 percent of the average final compensation. A member's final average compensation in the PERS Plan 3 is computed using the same formula used for members of the PERS Plan 2.

A member whose salary is reduced during the two- or five-year period prior to retirement due to a reduced schedule, leave without pay, or other reasons will receive a smaller retirement allowance due to the lower final average compensation. A member may purchase up to two years of service credit for time spent on leave without pay; however, there are no provisions to purchase an increase of a member's final average compensation in the event that the member works a reduced schedule.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Under Chapter 430, Laws of 2009 (SB 6157) the Department of Retirement Systems (DRS) is directed to include in a PERS member's salary for the purpose of calculating final average compensation any pay that is forgone by the member from July 1, 2009, through June 30, 2011, as a result of reduced work hours, voluntary leave without pay, or temporary furloughs, provided that the reduced compensation is part of the employer's efforts to reduce expenditures.

**Summary of Bill:** The DRS must include in a member's salary for the purpose of calculating final average compensation any pay that is forgone by a PERS member from January 1, 2009, through June 30, 2009, fiscal biennium as a result of reduced work hours, voluntary leave without pay, or temporary furloughs, provided that the reduced compensation is part of the employer's efforts to reduce expenditures. This expands the provisions of Chapter 430, Laws of 2009 by six months.

**Appropriation:** None.

**Fiscal Note:** Requested on January 25, 2010.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** None.

**Persons Testifying:** No one.