



# Final Average Salary Protection

**Initial Consideration  
May 28, 2014**

# Issue

- Members' retirement benefits will be reduced if "temporary salary reductions" after July 1, 2013 occur during their Final Average Salary (FAS) period

# Background

- FAS protection expired July 1<sup>st</sup> of this year
- Furloughs are methods for handling a short-term economic or budget problem
- Furloughs create the potential for a reduction in a member's lifetime pension benefit
- Previously studied by Board

# Legislative History

- 2009: PERS protected 2009-2011
- 2010: State employees protected 2009-2011
- 2011: State employee and local government protected for 2011-2013
- 2013: Extension for 2013-15 did not pass



# FAS Today

- Anecdotal evidence of members still being impacted by these furloughs exists
- Additional research would reveal how far the issue has spread

# Next Steps

1. Do not pursue the issue at this time
2. Provide Comprehensive Report with background on members still affected

# Any Questions?

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May 28th, 2014

## FINAL AVERAGE SALARY PROTECTION

### INITIAL CONSIDERATION

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### ISSUE STATEMENT

Members' retirement benefits will be reduced if "temporary salary reductions" after July 1, 2013 occur during their Final Average Salary (FAS) period.

### OVERVIEW

During the recent economic downturn employers have reduced salaries to help balance their budgets. These reductions include voluntarily or involuntarily unpaid leave (furlough), a temporary reduction in salary, or the loss of previously negotiated raises.

There are 16,805 active members in LEOFF Plan 2 according to the *2011 Actuarial Valuation Report*. FAS protection affects only those members furloughed during their FAS period.

Member's earn a benefit equal to 2 percent, times FAS times years of service (YOS). A salary reduction during a member's FAS period, lowers FAS, thus lowering the benefit. The Legislature adjusted FAS calculations to prevent reduction due to furloughs for 2009-2011 and 2011-2013. That protection ended July 1, 2013. Board staff has since learned that some LEOFF 2 members suffered temporary salary reductions after July 1, 2013.

This report: 1) defines furloughs, why they were enacted, and their impact on employees' pension; 2) reviews the legislative history of recent furlough protections; and 3) reviews the lifetime impacts if the Legislature does not extend these protections for 2013-2015.

### BACKGROUND & POLICY ISSUES

In today's economic environment many local and state governments are facing revenue shortfalls. Budget restrictions have caused discontinuance or restriction of some public service programs and some employee layoffs. Many state and local governments have implemented other ways to decrease costs.

#### Furloughs

Many public employers have used furloughs, i.e. a leave of absence without pay, allowing them to save money without terminating employees, saving employee jobs, and preserving employer investments in the training of the current workforce.

However, a furlough causes a long-term detriment to employees if it falls during the FAS period. It lowers the FAS, thus lowering the member's lifetime pension. Recognizing this, the



Legislature enacted FAS protection to avoid punishing public employees who assisted during the period of economic difficulty by agreeing to furloughs.

Implementing those protections for local government is complicated by the varying use of 'Fiscal Year' versus 'Calendar Year' at different levels of government. The State Legislature budgets on a July 1 to June 30 fiscal year while local governments use a calendar year or annual basis. The Legislature's FAS protections expired at the end of the 2011-13 biennium, June 30, 2013. Extending protection through the 2013-15 biennium is necessary to protect retiree employees' pension benefits.

## **Policy Development**

The LEOFF 2 Board has studied this issue in the 2005, 2009, 2010, and 2013 interims but has not made any legislative recommendations. During the 2013 interim, the Board held hearings on the furlough issue on August 28 (Initial Consideration) and November 20 (Comprehensive Report). The issue was tabled during the November 20 meeting pending discovery of any actual impact on membership due to being subjected to furloughs.

## **Legislative History**

The Legislature has FAS protections enacted by the Legislature are currently limited to past biennia:

### **2009 Session – PERS Provided Protection for 2009-2011**

During the 2009 Legislative Session, the Legislature recognized the potential impacts furloughs to a members pension benefit. SB 6157 allowed adjustment of the pension benefit calculation if the furlough occurred during the member's FAS period. SB 6157 only included the Public Employees' Retirement System (PERS) pension system. Members of the other retirement systems, including LEOFF Plan 2, were not entitled to the adjustment. Seeking the same protection for its members, the Board sent a letter to the Select Committee on Pension Policy (SCPP) to extend protection to LEOFF 2.

### **2010 Session – State Employees Provided Protection for 2009-2011**

State agencies were directed to achieve a \$69.154 million reduction in general fund employee compensation using mandatory and voluntary furloughs, leave without pay, reduced work hours, voluntary retirements and separations, layoffs, and other methods. (SSB 6503 – 2010). The legislation directed that temporary layoffs and reduction in compensation not affect employee seniority, vacation and sick leave accrual, or retirement benefits.

In a December 2010 Special Session I, the Legislature passed HB 3225 which extended FAS protection to employees subjected to "temporary reduction in pay implemented prior to the effective date of this section" However, like the previous bill (SB 6503) this change also only includes members employed by a state agency or institution which excludes most of the LEOFF Plan 2 membership.

### **2011 – State Employee and Local Government Provided Protection for 2011-2013**

The 2011 added protection for local government employees in HB 2070. The final bill report summarized that "Pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a

member employed by either the state or local governments due to reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.”

### **Current Impact of Furloughs on LEOFF Membership**

During the 2013 Interim it was unknown if there were any LEOFF employers/employees that were being subjected to furloughs. As a result, the issue was tabled pending the discovery of any impact from furloughs.

Since that time, there has been anecdotal evidence provided to the Board that at least three different employers are currently using unpaid furloughs which are impacting LEOFF members.