

EXPLANATION OF SB1609, PENSION REFORM

First, some terminology which will apply to the DROP, the COLA and the employee contribution rate.

EE is the abbreviation for the employee contribution rate.

ERE is the abbreviation for the employer contribution rate.

Actuarial assumed earnings rate is the rate of return on the earnings of PSPRS from July 1st to June 30th of any given year.

Actuarial smoothed or average annual rate of return means the average of the actual annual rate of return (or loss) over the seven years prior to the current year.

EXAMPLE: year one 7%, year two 3% loss, year three 5% loss, year four 12%, year five 10%, year six 2%, year seven 9% for a total gain of 32%. Now divide that by seven which gives you the smoothed earnings rate of about 4.55%. Each year, one year will fall off of the calculation and the most recent years earnings or losses will be added to the calculation.

Actuarial funded level or just funded status is the percentage of the funds liabilities which are funded based on those same seven years of gains and losses on June 30th of each year.

Fund is our pension fund the Public Safety Personnel Retirement System or PSPRS.

Excess earnings Account is currently where half of the fund's earnings over 9% go to pay the current COLA.

Credited Service is time on the job plus purchased time from the military, Rural/Metro or another public pension plan.

COLA:

For 2011 the retirees will receive the normal 4% of the average monthly pension. Beginning July1, 2011 no new moneys will flow into the excess earnings account. This means that for 2012 the retirees will receive only some fractional amount of the full 4%. I'm sorry but I cannot yet tell you what that amount will be. At that point the excess earnings account will be closed and no more COLA will be paid under the current structure.

Beginning July1, 2013 the new COLA formula will be in place. It is as follows.

If the funded level of the fund is at less than 60%, there will be no COLA. The current level is 67.7%

For any COLA to be paid two thresholds must be met. First the actuarial funded status must be at least 60% and the fund must have earned a minimum of 10.5% the previous year. At that point a sliding scale of permanent benefit is implemented and will be paid out of the main fund. The scale is as follows:

60% to 64.9% funded will result in an increase of UP TO 2%.

65% to 69.9% will result in an increase of UP TO 2.5%

70% to 74.9% will result in an increase of UP TO 3%

75% to 79.9% will result in an increase of UP TO 3.5%

80% and above will result in an increase of UP TO 4%

The term UP TO is used to explain that those returns may not be enough to fund the full eligible percentage. In that case the actual earnings would be divided amongst the retirees.

Example: in 2016 the Fund is 60% funded and earns 11%, so the retirees would be eligible for 0.5% of the earnings of the Fund. Now, let's say that half of one percent equals 20 million dollars but the one percent that they are eligible for actually cost 40 million dollars. In this case the retirees would have received a half percent raise instead of the full 2%.

In addition the legislature now has the authority to order the Fund to give you an ad-hoc raise outside of the new formula.

For members hired after January 1, 2012 with the exception of LODD widows and LOD disability pensions a member will have to be fifty five and retired for at least a year to receive the COLA.

EMPLOYEE CONTRIBUTION RATE:

Today the EE is fixed at 7.65% and has been that way for many years. That will change on July1, 2011 and will rise with the following schedule.

July1, 2011 8.65%, July1, 2012 9.55%, July1, 2013 10.35%, July1, 2014 11.05% and July 1, 2016 11.65% or one-third of the total reached by combining the EE with the ERE, whichever is lower. So, no more than 11.65% nor less than 7.65%.

As the Fund reaches a higher level of funding both the EE and the ERE will come down in future years.

The same rate applies to current and future hires.

DROP:

For current members with more than 20 years of credited service as of January 1, 2012, no changes to the current DROP.

For current members with less than 20 years of credited service as of January 1, 2012, you will still have a DROP program with two changes. First you will be required to continue to make regular employee contributions as outlined above. Second, the rate of interest earned on your DROP account will be the actuarial smoothed rate of return but no less than 2% nor more than the assumed earnings rate of the Fund which will be 8% at the time that this bill goes into effect.

There will be no DROP for those hired on or after January 1, 2012.

SERVICE PURCHASE:

Any active or future member will be able to buy back time. The three changes are; you must have at least ten years as an active member of the Fund. You cannot use the same years to have two separate pensions. **EXAMPLE:** You have 20 years of military service and you are collecting a military pension or are simply eligible to collect that pension you may not buy those years in PSPRS. Last, you may now buy up to sixty months of service or other pension time rather than the current forty-eight months.

PENSION FORFEITURE:

Upon conviction or plea to class 5 or higher felony which occurred as a part of your job you will lose all or part of your pension as follows:

Future hires will lose their entire pension. For current actives you will lose that portion of your pension for the period of time that begins when you commit the crime going forward.

EXAMPLE: You have 20 years on the job. Tomorrow, you steal the Morphine out of the drug box. A year from now you are convicted of theft of a controlled substance. You will lose 2% of your pension. The new hire who commits the same crime at 21 years will lose their entire pension.

There are mechanisms within the bill to still provide a pension to the spouse and children as long as the spouse was not a participant in the crime or had knowledge of it.

STUDY COMMITTEE:

The legislature created a summer study committee to look at the following issues and report back to the legislature. Unfortunately they refused to include either employers or employees in this important group.

The items to be looked at include; defined contribution system, disability retirements and the possibility of abolishing local boards.

LEGISLATIVE INTENT:

The legislature inserted significant intent language which we believe was inserted to make a political statement and to insert statements to help bolster their position when they are sued over diminishing the member's benefits.

EMERGENCY CLAUSE:

The bill had an emergency clause attached which would have caused serious problems for members who were trying to buy enough time to qualify for the current DROP. Due to every single Democrat being a No vote as well as a few brave Republicans such as Jim and Jerry Weiers, Terry Proud and Mr. Gowan, the Speaker failed to get the necessary 40 Yes votes to invoke the emergency.

NEW HIRES:

For new hires, hired after January 1, 2012 their benefit structure will be different from current active members as follows:

Normal retirement: Member will have to work 25 years, will not be able collect a pension check until age 52.5 years old.

COLA: will not be eligible to collect the COLA until they are age 55 and retired for at least 12 months as of July1 of that year. Exceptions to that are in the cases of an LODD widow or a line of duty disability the pensioner will not be able to collect a COLA until 24 months after beginning to receive their pension, regardless of age.

DROP: No one hired after January 1, 2012 will be eligible for the DROP.

These are pretty drastic cuts for future hires. The PFFA will of course work to improve their pension situation over time, where opportunities present themselves.