

Department of Retirement Systems  
09 – 11 Biennium Furlough Summary for PERS Employers  
June 29, 2009

Senate Bill (SB) 6157 allows any compensation forgone by a Public Employees' Retirement System (PERS) member, due to a furlough during the 2009-2011 biennium, to be included in the average final compensation calculation of that member's retirement benefit. The qualifying factor is that the furlough must have been an integral part of the employer's efforts to reduce expenditures. Furloughs prior to July 1, 2009 or after June 30, 2011 are not covered by this legislation.

***What is a furlough?***

A furlough is a temporary reduction in work hours and salary. The term would also apply if an individual took a voluntary leave without pay as part of an employer's expenditure reduction efforts.

***Who may be affected?***

Members of PERS Plan 1, 2, and 3 who have all or part of the 2009-2011 biennium in their average final compensation (AFC) time period (24 consecutive months for Plan 1, and 60 consecutive months for Plan 2 or 3).

***How does a furlough impact reporting by employers?***

Employers should report actual hours worked and compensation paid. If DRS determines that the 09-11 biennium could impact a member's AFC period, the employer will be asked to verify the use of furloughs as part of an expenditure reduction effort. Also, the employer will be asked for the amount of compensation foregone by an employee due to the furlough. DRS is not prescribing the documentation employers should keep on the furloughs. This may be done by employer resolution, documentation in an employee's personnel file, or any other method that will allow an employer to respond to future requests.

***How does a furlough affect a member's retirement benefit?***

SB 6157 provides only for lost compensation due to a furlough, it does not grant service credit.

- **Earnings:** In furlough cases, there will be a reduction in earnings reported by the employer. This reduction could be a small amount per month or full months of leave without pay. In applying SB 6157, DRS will confirm the furlough impact on earnings with the employer.
- **Service Credit:** Depending on the retirement plan and the length of the furlough, service credit may be affected as the member will be granted service credit (full or partial) based on the hours of service reported each month. In situations where members of Plans 2 and 3 lose service credit due to a furlough, they have the option of purchasing the time as an authorized leave of absence. Plan 1 has no such provision.
- **Retirement Benefit Calculation:** The AFC period is determined by consecutive service credit months of a member's highest earnings. The member must still have sufficient service credit in the months the furlough took place in order for DRS to include it in the AFC.

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***Example 1 – Slightly Reduced Work Hours – No Service Credit Impact***

Ben's employer determines that its expenditure reduction efforts during the 2009-2011 biennium will include reducing Ben's work hours. Ben is a fulltime employee earning \$3,000 and will be subject to two furlough days per month for six months. Ben's employer should report to DRS each month's actual salary and hours worked by Ben. Ben still will be receiving full retirement service credit as he will continue to work well above the minimum hours needed for full service credit (90 for Plan 2 or 3, 70 hours for Plan 1).

Later in his career when Ben asks DRS for a retirement estimate, DRS will determine if the 2009-2011 biennium might be included in his AFC period. If so, his employer will be asked to verify that the salary and hour reductions qualify as an integral part of an expenditure reduction effort. Once verified, DRS will include the salary forgone by the use of the furlough in calculating his benefit.

***Example 2- Reduction in Work Hours - Resulting in Loss of Service Credit***

Sarah currently works fulltime for a state agency making \$3,500 per month. As part of the agency's reduction efforts during the 2009-2011 biennium, her agency determines Sarah should only work two weeks per month for three months. Sarah's employer should report to DRS each month's actual salary (\$1,750) and hours (80) worked by Sarah.

As a PERS Plan 2 member, Sarah will not be receiving full retirement service credit while she is working 80 hours per month (Plan 2 requires 90 hours to earn full service credit). She would receive ½ of a service credit for each of the three months she was only working 80 hours.

Once Sarah completes her furlough time, she would have five years, or until she retired (whichever comes first) to buy the service she missed and increase those three months to full service credits. If she so requests, her employer will be asked to verify that the hour reductions qualify as an integral part of an expenditure reduction effort, and if Sarah qualifies for an authorized leave of absence service credit purchase.

***Key Points***

- Employers should report normally – hours worked and compensation paid
- Retirement contributions should only be taken on compensation paid
- Members will only be impacted if their AFC period includes the 2009-2011 biennium
- A member does not have to retire during the 2009-2011 biennium to benefit from SB 6157
- Early and mid-career employees are less likely to have furlough in the 2009-2011 biennium impact their AFC period