

SB 340 Benchmarking Explanation

You cannot figure your benchmark until you are ready to retire or enter the DROP.

The benchmark is based upon the three years preceding your last three years (not the highest three years). For example, if I am ready to enter DROP with 25 years of service the benchmark would be based on my salary for each year in years 20, 21, and 22.

Year 20 salary was: 50,000

Year 21 salary: 51500

Year 22 salary: 53045

Average those three years: 51515

Multiply by 110%: 56666.5

Multiply by 110%: 62333.15

Multiply by 110%: 68566.47

\$68,566.47 becomes the benchmark.

The members' average annual salary is completely separate from this calculation. Once the AAS is determined, (presently and for all members hired before July 1, 1998, the highest three years) it is then compared to the benchmark.

If the AAS exceeds the benchmark, the employee's contributions are returned to them and the benefit is based on the benchmark.

In the scenario above, if the member regularly works some overtime every year, including years 20-22, the overtime would be accounted for and reflected in the benchmark average. In other words, if you work somewhere that overtime is the norm, it should reflect that in your static measurement of years 20-22.

Hypothetically let's say the members' highest three years were based on their last three years, and they were promoted, and they had an excellent contract negotiated.

Year 23: promotional 15% increase= 61,001.75

Year 23: Contractual 5% increase= 64,051.84

Year 24: Contractual 6% increase= 67,894.95

Year 25: Contractual 6% increase= 71,968.65

Average annual salary of highest(in this case, last) three years: \$67,971.81

Salary Benchmark: \$68,566.47

The AAS is below the salary benchmark and therefore the benchmark has no impact.

As I previously noted, if overtime is the norm in your department, it will be reflected in the benchmark.

Now I do understand that our members and our departments tend to find ways to shake things up. That is why the pension fund will be working on rules to address legitimate situations where unusual increases occur. Multiple promotions, etc, etc.

The object of the provision is to minimize pension spiking. A member who pays into the system for 22 years at \$50,000 or less and then spike their pension benefit up by working large amounts of overtime to get a pension benefit based on a salary of \$70,000 hurts the fund. The contributions paid do not create the actuarial assets to produce the benefit that the member will receive.

