



# Public Employees Police and Fire Plan

Overtime Salary Analysis

December 12, 2024

# Agenda

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- Impact of Overtime on Pension Plan
- Overtime Salary Analysis

# IMPACT OF OVERTIME ON PENSION PLAN

# Impact of Overtime on Pension Plan

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- The Police and Fire benefit formula for retirements equals:
  - $3.0\% \times \text{Final Average Salary} \times \text{Years of Service}$
  - Final Average Salary is the 60 consecutive month average that produces the highest result
- Because the benefit formula is based on Final Average Salary, a member's benefit may increase dramatically if the member's overtime salary increases in the 60 months prior to retirement.

# Impact of Overtime on Pension Plan

## A real-life example

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- Actual member who retired in 2023.

<u>Salary Earned for Year Ending 12/31</u>	<u>Regular salary</u>	<u>Overtime salary</u>	<u>Total salary</u>
2023	\$ 100,000	\$ 152,000	\$ 252,000
2022	\$ 129,000	\$ 132,000	\$ 261,000
2021	\$ 110,000	\$ 52,000	\$ 162,000
2020	\$ 112,000	\$ 23,000	\$ 135,000
2019	\$ 106,000	\$ 14,000	\$ 120,000
2018	\$ 105,000	\$ 18,000	\$ 123,000
Final average salary	\$ 9,600		\$ 15,800
Service in years	27		27
Monthly benefit	\$ 7,800		\$ 12,800

<b>additional monthly benefit due to overtime salary:</b>	<b>\$ 5,000</b>
<b>present value factor:</b>	<b>161</b>
<b>present value of extra monthly benefit:</b>	<b>\$ 805,000</b>

# Impact of Overtime on Pension Plan

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Final average salary	\$ 9,600		\$ 15,800
Member contributions*	\$ 68,000		\$ 111,900
Employer contributions*	\$ 102,000		\$ 167,800

**additional contributions\* due to overtime salary: \$ 109,700**

*\* Contributions for the same 60-month period as the final average salary; based on current contribution rates.*



# Impact of Overtime on Pension Plan

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- On an individual basis, there is a cost to the Plan:
  - \$695,300 in the real-life example
- Some overtime salary is expected ... how much is considered excessive?
- Is there wide-spread evidence of excessive overtime salary just prior to retirement?

# OVERTIME SALARY ANALYSIS



# Overtime Salary Analysis

## Overtime Data

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- Overtime salary is not reported to GRS for the annual valuation
- PERA started gathering overtime salary data approximately 10 years ago, and provided an overtime salary data file to GRS for the purpose of this analysis

# Overtime Salary Analysis

## A review of the prior five years

Status on July 1:	2024				2023			
	Number with Eligible Salary	Average Eligible Salary*	Average Overtime Salary*	% OT	Number with Eligible Salary	Average Eligible Salary*	Average Overtime Salary*	% OT
- active	11,492	\$ 101,828	\$ 10,575	10.4%	11,232	\$ 95,102	\$ 9,010	9.5%
- new retiree	240	\$ 116,699	\$ 11,684	10.0%	273	\$ 108,810	\$ 9,930	9.1%
- other	954	\$ 44,886	\$ 3,460	7.7%	1,386	\$ 41,099	\$ 2,767	6.7%
total	12,686	\$ 97,827	\$ 10,061	10.3%	12,891	\$ 89,586	\$ 8,358	9.3%

Status on July 1:	2022				2021			
	Number with Eligible Salary	Average Eligible Salary*	Average Overtime Salary*	% OT	Number with Eligible Salary	Average Eligible Salary*	Average Overtime Salary*	% OT
- active	11,189	\$ 90,682	\$ 7,877	8.7%	11,355	\$ 88,854	\$ 6,439	7.2%
- new retiree	278	\$ 100,808	\$ 7,097	7.0%	312	\$ 101,443	\$ 6,581	6.5%
- other	1,372	\$ 42,171	\$ 2,533	6.0%	995	\$ 53,993	\$ 3,349	6.2%
total	12,839	\$ 85,717	\$ 7,289	8.5%	12,662	\$ 86,425	\$ 6,200	7.2%

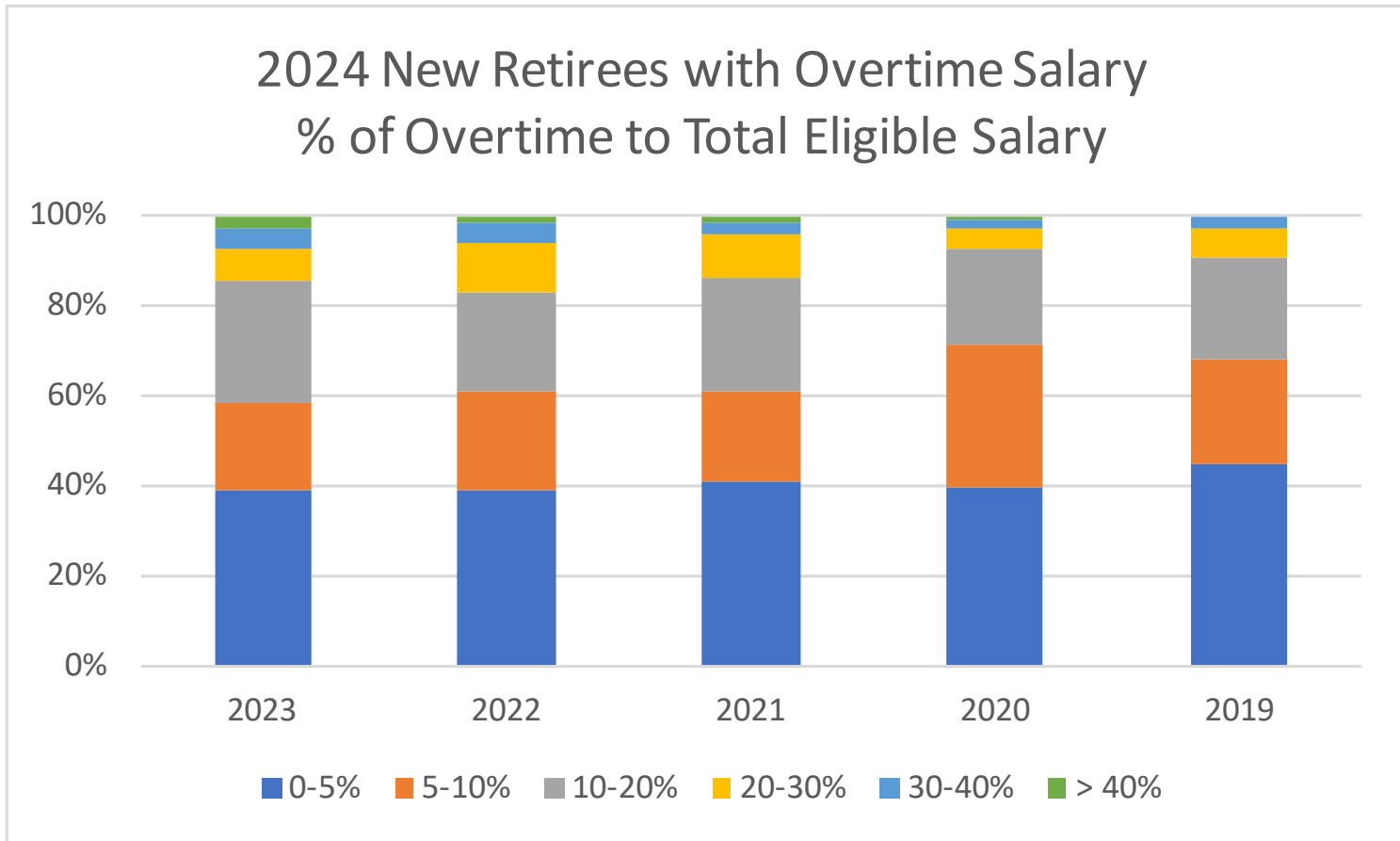
Status on July 1:	2020			
	Number with Eligible Salary	Average Eligible Salary*	Average Overtime Salary*	% OT
- active	11,615	\$ 84,800	\$ 6,271	7.4%
- new retiree	175	\$ 95,022	\$ 6,431	6.8%
- other	797	\$ 39,414	\$ 2,242	5.7%
total	12,587	\$ 82,068	\$ 6,018	7.3%

\* Salary for prior calendar year; may be a partial year for new retirees



# Overtime Salary Analysis

## A review of 2024 retiree experience



# Overtime Salary Analysis

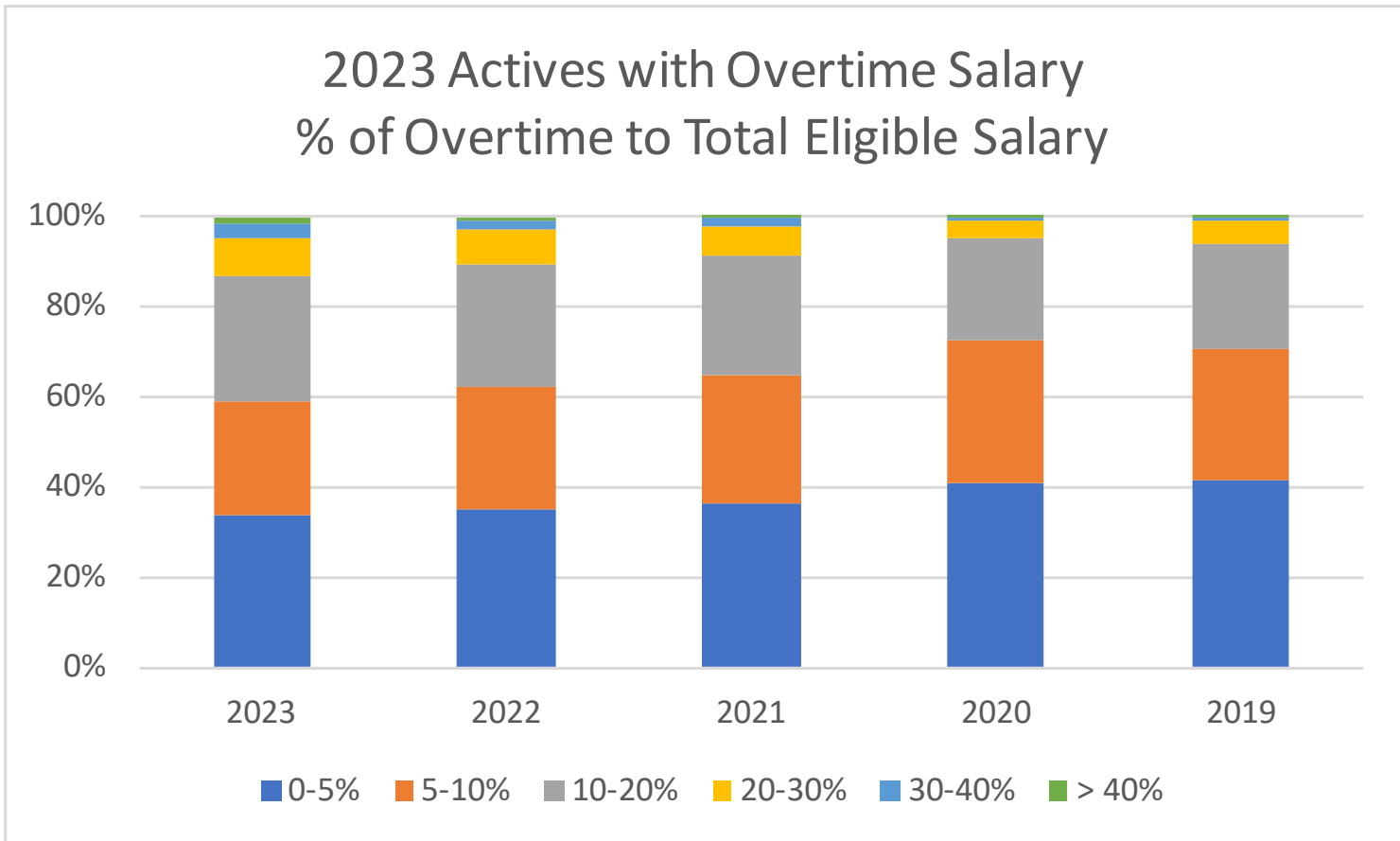
## A review of 2024 retiree experience

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- There were approximately 240 retirements from July 1, 2023 to June 30, 2024.
- 191 members (80%) earned overtime salary in 2023 and 201 members (84%) earned overtime salary in 2019
  - Portion earning overtime salary decreased with time
- 14 members (6% of all 2024 retirees) had at least 30% overtime salary in 2023 compared to 5 (2%) in 2019
  - Portion earning 30% or more overtime salary increased with time
  - Number of retirees earning 30% or more overtime salary is small

# Overtime Salary Analysis

A review of 2024 experience for all actives as of July 1, 2023



# Overtime Salary Analysis

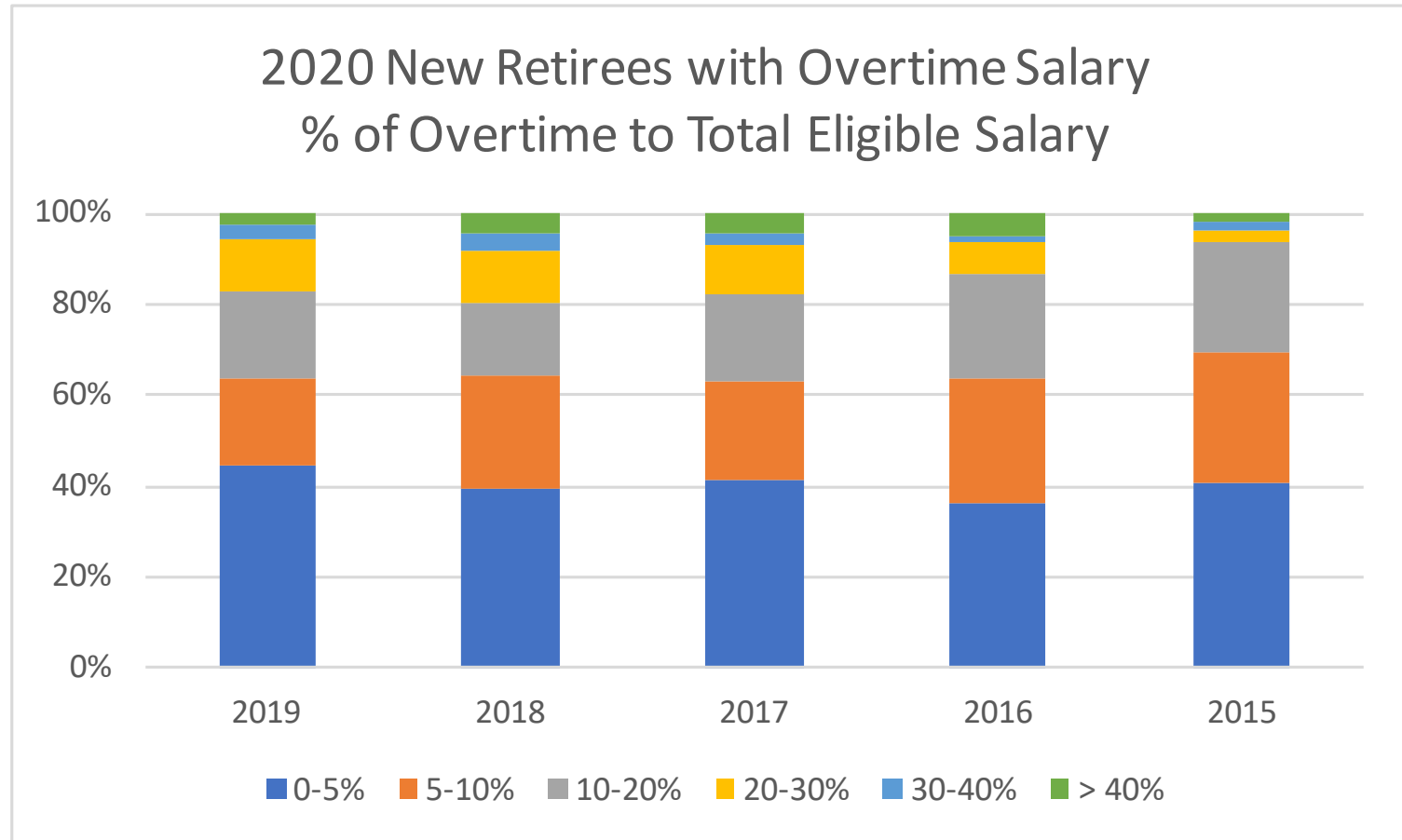
A review of 2024 experience for all actives as of July 1, 2023

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- 87% of 2023 active members earned overtime salary in 2023
  - compared to 80% of those that retired
- 4% (140) of 2023 active members earned at least 30% overtime salary in 2023
  - compared to 6% (14) of those that retired
- In summary:
  - The majority of all members earned at least some overtime salary
  - Few members earned 30% or more overtime salary

# Overtime Salary Analysis

## A review of 2020 experience



# Overtime Salary Analysis

## A review of 2020 retiree experience

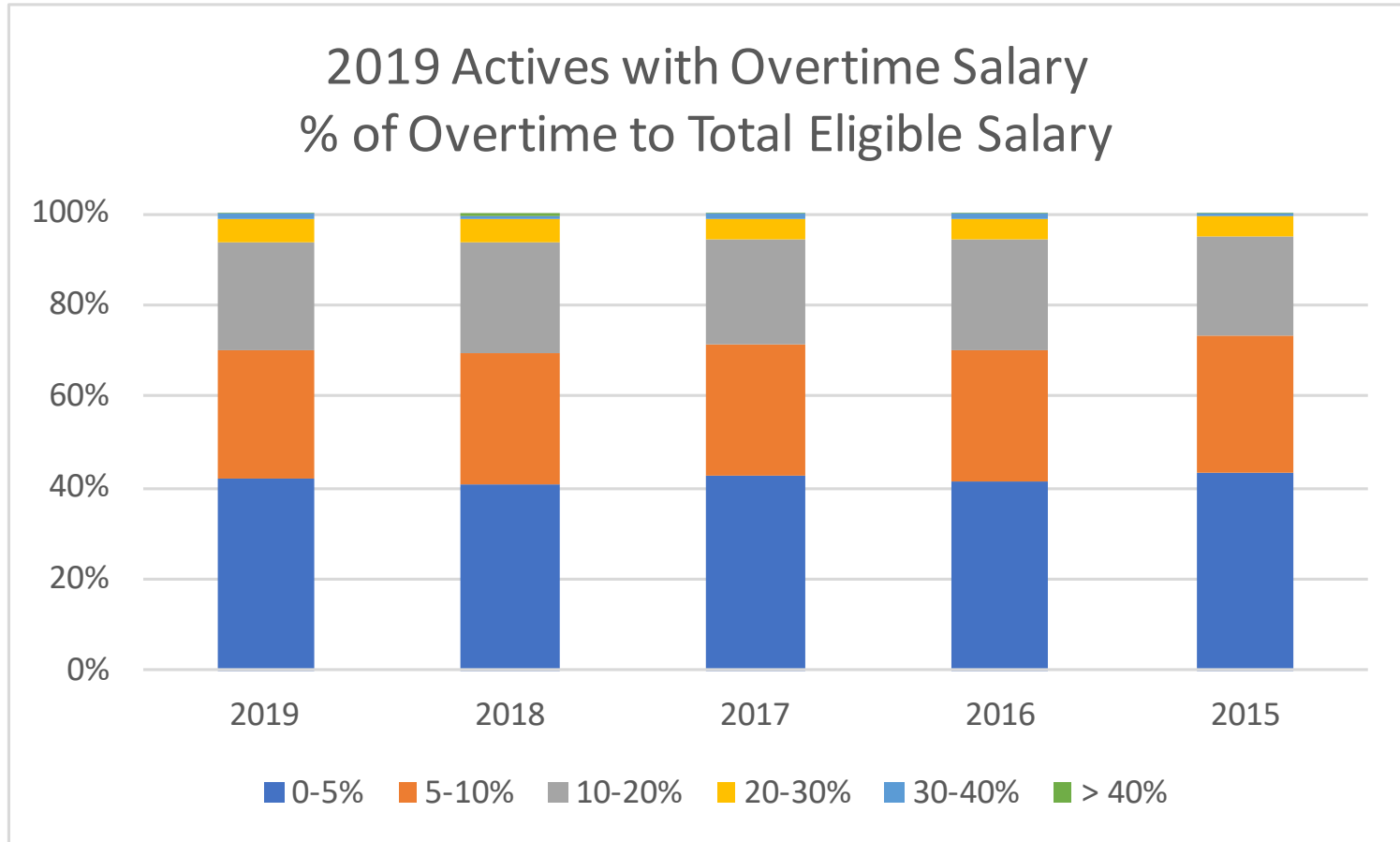
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- There were approximately 175 retirements from July 1, 2019 to June 30, 2020.
- 130 members (74%) earned overtime salary in 2019 and 145 members (83%) earned overtime salary in 2015
  - Portion earning overtime salary decreased with time
- 7 members (4% of all 2020 retirees) earned 30% or more of overtime salary in 2019 compared to 5 (3%) in 2015
  - Portion with 30% or more in overtime salary increased with time
  - Number of retirees earning 30% or more in overtime salary is small



# Overtime Salary Analysis

A review of 2020 experience for all actives as of July 1, 2019



# Overtime Salary Analysis

A review of 2020 experience for all actives as of July 1, 2019

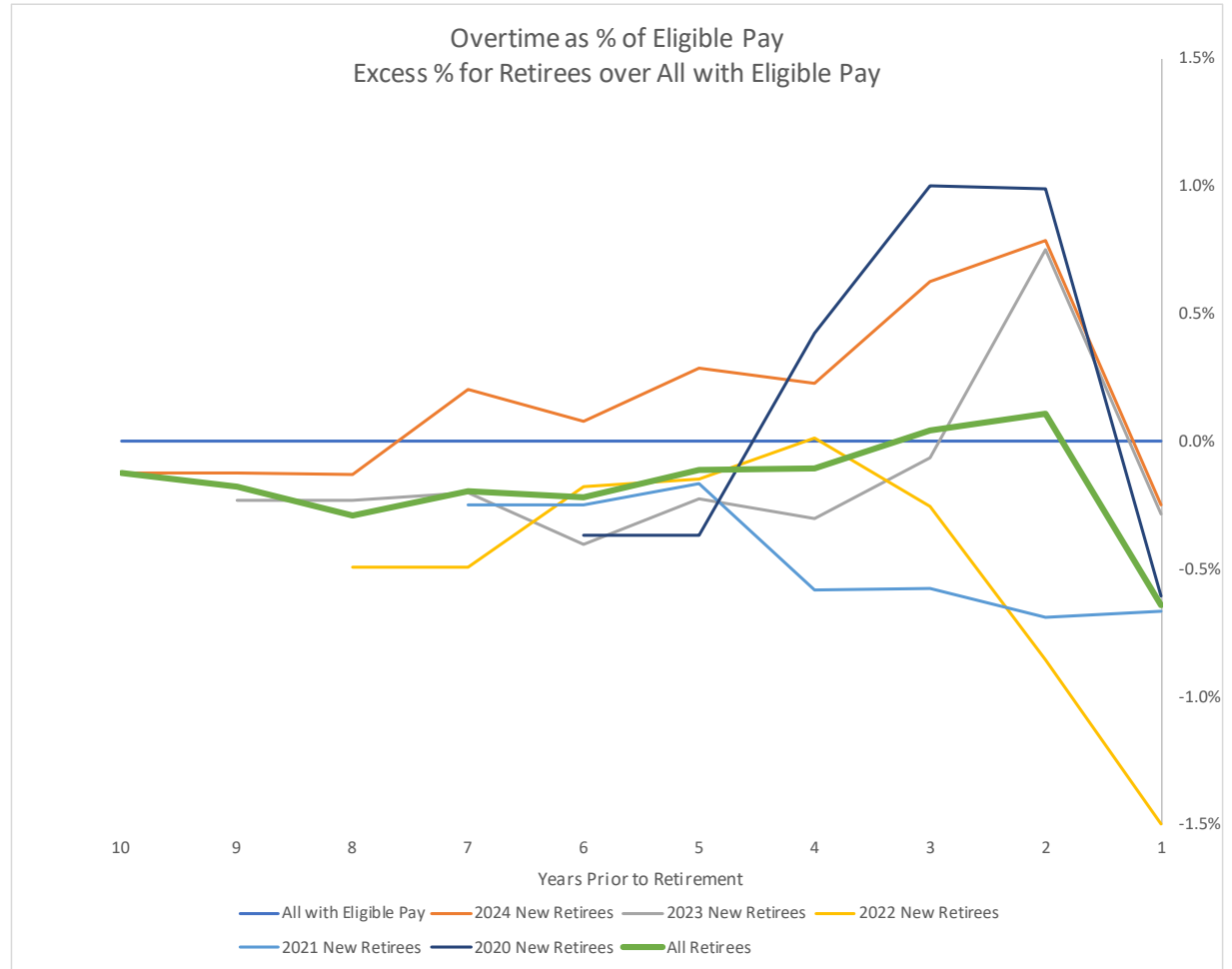
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- 87% of 2019 active members earned overtime salary in 2019
  - compared to 74% of those that retired
- 1% (7) of 2019 active members earned 30% or more in overtime salary in 2019
  - compared to 4% (5) of those that retired
- In summary:
  - The majority of all members earned at least some overtime salary
  - Few members earned 30% or more in overtime salary

# Overtime Salary Analysis

## A review of 2021-2024 Retirees

- 2024 retirees worked more overtime than all actives, but still not a significant amount.
- Year prior to retirement may reflect partial earnings.



# Disclaimers

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- The analysis in this report is based upon overtime data provided by PERA staff and is highly dependent on the completeness of this data. We did not audit this data.
- If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.