

Pension Spiking



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- Calculation Examples
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What is Pension Spiking?

- For each employee retiring on or after 1/1/2014, that began participating prior to 1/1/2014, KRS will determine if a “spike” in annual compensation of greater than 10% occurred over the prior year for each of the employee’s last five fiscal years of employment.
- Last Participating Employer will be responsible for the actuarial cost IF the spike was not due to a “bona fide promotion or career advancement”
- Calculation does NOT include lump sum payments for Compensatory Leave paid upon termination of employment



What is Pension Spiking?

- Calculation DOES include lump sum payments for Compensatory Leave paid before termination of employment (Block 50 payments)
- Calculation DOES include any payment for overtime
- Calculation DOES include Lump Sum Bonuses or Severance Pay
- Be certain if you are a Reporting Official to use correct payment reason for payments made at termination



How is Spiking Cost Calculated?

- KRS will determine the maximum monthly benefit the employee will receive (e.g. Basic option) with the “spike” and compare that to the monthly benefit the employee would have received if fiscal year compensation had only grown less than 10% over the prior year;
- Once the difference in monthly benefits is determined KRS multiplies the difference in the monthly benefits by a lifetime income factor to determine the total value of the additional payout in today’s dollars. This is the employer’s cost for spiking.



How is Spiking Cost Calculated?

- The larger the spike in compensation, the larger the cost to the employer. The younger the employee when retiring, the larger the cost (due to a longer projected payout).
- Different factors are also used for non-hazardous and hazardous duty retiring employees.



Non-Hazardous Example # 1

Employee (age 50, 27 years of service, retiring 8/1/2014) is earning \$50,000 right before the 5 year period but gets a 20% raise to \$60,000 and earns that amount for the remaining 5 fiscal years. One year, FY 2010-11 will have a “spike” (20% more in FY 2010-2011).



Non-Hazardous Example # 1

Last 5 Fiscal Years Compensation		
Fiscal Year	Months of Service	Creditable Comp
2014-15	1	\$5,000.00
2013-14	12	\$60,000.00
2012-13	12	\$60,000.00
2011-12	12	\$60,000.00
2010-11	12	\$60,000.00 (SPIKE)
2009-10	12	\$50,000.00



Non-Hazardous Example # 1

Benefit Calculation	Final Compensation	Benefit Factor	Total Years of Service	Monthly Benefit
Actual Monthly Benefit	\$60,000.00	2.0%	27	\$2,700.00
Revised Benefit*	\$58,775.51	2.0%	27	\$2,664.90
Difference in Monthly Lifetime Benefits:				\$55.10

*10 % limit on compensation in “spike” year

\$55.10 (additional monthly benefit) X 141.223122 (Lifetime Income Factor) = **\$7,781.39 cost to employer**



Non-Hazardous Example # 2

Employee (age 50, 27 years of service, retiring 8/1/2014) is earning \$50,000 right before the 5 year period but gets a 100% raise to \$100,000 and earns that amount for the remaining 5 fiscal years. One year, FY 10-11 will have a “spike” (100% more in FY 2010-2011).



Non-Hazardous Example # 2

Last 5 Fiscal Years Compensation		
Fiscal Year	Months of Service	Creditable Comp
2014-15	1	\$8,333.33
2013-14	12	\$100,000.00
2012-13	12	\$100,000.00
2011-12	12	\$100,000.00
2010-11	12	\$100,000.00 (SPIKE)
2009-10	12	\$50,000.00



Non-Hazardous Example # 2

Benefit Calculation	Final Compensation	Benefit Factor	Total Years of Service	Monthly Benefit
Actual Monthly Benefit	\$100,000.00	2.0%	27	\$4,500.00
Revised Benefit*	\$88,979.59	2.0%	27	\$4,004.08
Difference in Monthly Lifetime Benefits:				\$495.92

*10 % limit on compensation in “spike” year

\$495.92 (additional monthly benefit) X 141.223122 (Lifetime Income Factor) = **\$70,035.37 cost to employer**



Hazardous Example # 1

Employee (age 48, 25 years of service, retiring 8/1/2014) is earning \$50,000 right before his last 3 years of employment but works enough overtime to increase his compensation by 50% to \$75,000 and earns that amount for the remaining 3 fiscal years. One year, FY 2012-2013 will have a “spike” (50% more in FY 2012-2013)

***For hazardous duty employees, if the spike is in the last 5 years but not in the high 3, there will be no pension spiking



Hazardous Example # 1

Last 5 Fiscal Years Compensation		
Fiscal Year	Months of Service	Creditable Comp
2014-15	1	\$6,250.00
2013-14	12	\$75,000.00
2012-13	12	\$75,000.00 (SPIKE)
2011-12	12	\$50,000.00
2010-11	12	\$50,000.00
2009-10	12	\$50,000.00



Hazardous Example # 1

Benefit Calculation	Final Compensation	Benefit Factor	Total Years of Service	Monthly Benefit
Actual Monthly Benefit	\$75,000.00	2.5%	27	\$3,906.25
Revised Benefit*	\$65,400.00	2.5%	25	\$3,406.25
Difference in Monthly Lifetime Benefits:				\$500.00

*10 % limit on compensation in “spike” year

\$500.00 (additional monthly benefit) X 140.852172 (Lifetime Income Factor) = **\$70,426.09 cost to employer**



Hazardous Example # 2

Employee (age 48, 25 years of service, retiring 8/1/2014) is earning \$50,000 right before his last 3 years of employment but works enough overtime to increase his compensation by 100% to \$100,000 and earns that amount for the remaining 3 fiscal years. One year, FY 2012-2013 will have a “spike” (100% more in FY 2012-2013).

***For hazardous duty employees, if the spike is in the last 5 years but not in the high 3, there will be no pension spiking



Hazardous Example # 2

Last 5 Fiscal Years Compensation		
Fiscal Year	Months of Service	Creditable Comp
2014-15	1	\$8,333.33
2013-14	12	\$100,000.00
2012-13	12	\$100,000.00 (SPIKE)
2011-12	12	\$50,000.00
2010-11	12	\$50,000.00
2009-10	12	\$50,000.00



Hazardous Example # 2

Benefit Calculation	Final Compensation	Benefit Factor	Total Years of Service	Monthly Benefit
Actual Monthly Benefit	\$100,000.00	2.5%	27	\$5,208.33
Revised Benefit*	\$78,400.00	2.5%	25	\$4,083.33
Difference in Monthly Lifetime Benefits:				\$1125.00

*10 % limit on compensation in “spike” year

\$1125.00 (additional monthly benefit) X 140.852172 (Lifetime Income Factor) = **\$158,458.69 cost to employer**



Pre-Determination

- Must happen prior to increasing the employee's salary OR prior to hiring a new employee
- Complete the Form 6480 (*Employer Request for Pre-Determination of Bona Fide Promotion or Career Advancement*) - can be found on KRS website or Employer Self Service
- Employee waiver (Form 6486) needed to release information. Also on website and ESS



Post-Determination

- Occurs after all wages reported after retirement
- Last Employer will receive a notice
- Complete Form 6481 (*Employer Request for Post-Determination of Bona Fide Promotion or Career Advancement*) within allotted time given on notice; if not received or if reason is not bona fide, an invoice is sent. Form available on KRS website or ESS
- Lump sum payment OR incremental payments may be made interest- free via check or money order within 12 months



Post-Determination

- Notices will be mailed for each employee who has triggered Pension Spiking
- First notices will be sent late June 2014



105 KAR 1:140

- Outlines the steps of the pension spiking determination
- <http://www.lrc.state.ky.us/kar/105/001/140.htm>



Legal Notice

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This presentation is not intended as a substitute for applicable Federal or state law, nor will its interpretation prevail should a conflict arise between its contents and applicable Federal or state law.



Thank You

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Reporting, Compliance,
and Education
888-696-8810

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