

Kentucky Association of School Human Resource Managers Annual Conference



Pension Spiking Update

September 13, 2017

Senate Bill 2

2013 General Assembly

- Applies to members with an effective retirement date of **1/1/2014 - 6/1/2017**.
- Employer pays for spike.
- No change to employee's creditable compensation.
- Employers may still receive invoices due to final audits.

Senate Bill 104

2017 General Assembly

- Applies to members retiring **1/1/2018 and after.**
- Refunds due to reduction in creditable compensation.
- New exemptions.
- Does not apply to Tier 3.

Creditable Compensation



- New law considers creditable compensation earned on or after **7/1/17**.
- Last 5 fiscal years of employment are reviewed.

Creditable Compensation



- An increase in creditable compensation greater than 10% when compared to the prior fiscal year's creditable compensation will not be used when calculating the member's retirement benefit.



Exemptions

Fiscal years prior to 7/1/2017 will be exempt from reduction

An increase caused by:

- Bona fide promotion or career advancement; or
- Lump sum payout from compensatory time at termination only; or
- Lump sum payout for alternate sick leave payments.



Exemptions

Fiscal years prior to 7/1/2017 will be exempt from reduction

- Increases in years where the employee was on leave without pay in the prior fiscal year.
- Increases due to overtime work and pay required by a state or federal grant, grant pass-through or similar program.



Exemptions

Fiscal years prior to 7/1/2017 will be exempt from reduction

Increases due to overtime work and pay required by a federal or state-declared emergency. The employer will have to report and certify any overtime due to a federal or state-declared emergency. KRS will not make this determination.



FAQs

Q: If I work for multiple participating employers, can this cause a pension spike?

A: Yes, unless one of the identified exemptions is applicable.



FAQs

Q: Part of my final compensation was earned with KERS and part with TRS. Will the creditable compensation I contributed to TRS be used to determine if a pension spike exists?

A: No, only creditable compensation from KERS, CERS, and SPRS are considered.

FAQs

Q: What if the spike occurred in years prior to the member's retirement? For example, member has a spike from 2018-19 to 2019-20, those two years are in the final compensation. The member has continued to work for 10 additional years at a lower salary.

A: That is not considered a pension spike.

FAQs

Q: What if trailing wages causes a spike?

A: If trailing wages causes a spike those specific wages would not be used as part of the evaluation to determine if a spike has occurred.



Pension Spiking Determination

Step 1: Evaluate the last five fiscal years

LAST Fiscal Years	Creditable Comp.	Months of Service	Annualized	% Change	Spiking
Fiscal Year 1	\$14,138.00	11	\$15,423.27	0%	NO
Fiscal Year 2	\$15,152.33	12	\$15,152.33	-2%	NO
Fiscal Year 3	\$16,333.25	12	\$16,333.25	8%	NO
Fiscal Year 4	\$18,695.00	12	\$18,695.00	14%	YES
Fiscal Year 5	\$18,750.00	12	\$18,750.00	0%	NO



Pension Spiking Determination

Step 2: Revise creditable compensation

LAST Fiscal Years	Creditable Comp.	Spiking	Revised creditable comp. due to spike	\$ Amount of spike*
Fiscal Year 1	\$14,138.00	NO	\$14,138.00	\$0.00
Fiscal Year 2	\$15,152.33	NO	\$15,152.33	\$0.00
Fiscal Year 3	\$16,333.25	NO	\$16,333.25	\$0.00
Fiscal Year 4	\$18,695.00	YES	\$18,695.00	\$728.42
Fiscal Year 5	\$18,750.00	NO	\$18,750.00	\$0.00

** If there is an exclusion amount due to an allowed exemption, the revised creditable compensation would be increased by the exclusion amount.*



Pension Spiking Determination

Understanding the Calculation

LAST Fiscal Years	Creditable Comp.	Spiking	Revised creditable comp. due to spike	\$ Amount of spike
Fiscal Year 3	\$16,333.25	NO	\$16,333.25	\$0.00
Fiscal Year 4	\$18,695.00	YES	\$17,966.58	\$728.42

Prior fiscal year with no spike → \$16,333.25

Cannot be greater than 10% → X 1.10

Revised creditable comp. → \$17,966.58

Refunds

Due to revised creditable compensation

Employee contributions and interest attributable to the reduction will be refunded to the employer for disbursement to the employee.



Refunds

Due to revised creditable compensation

KRS retains the employer contributions as required by Senate Bill 104.





Form 6487

Request for Member Pension Spiking Exemption Amounts

- **Part 1:** Are increases in creditable compensation attributable to an allowed exemption?
- **Part 2:** Which salaries are related to the exemption?
- **Part 3:** Is this a Bona Fide Promotion or Career Advancement?

Questions?



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