



# Overtime and Your Pension

Public Act 264 changed the way overtime will be used to calculate the value of your pension. Visit [www.michigan.gov/orsstatedb](http://www.michigan.gov/orsstatedb) for more information, including a recorded tutorial with an example walkthrough.

This change does not affect you if you haven't earned any overtime. If you have, it won't have a significant impact on your pension if your overtime earnings have been relatively stable.

## The Pension Formula

$$\begin{array}{ccc}
 \text{FAC} & \times & 1.5\% & \times & \text{YOS} \\
 \text{Final Average Compensation} & & \text{Pension Factor} & & \text{Years Of Service}
 \end{array}$$

**FAC:** The average of your highest three consecutive years of compensation. It could be any time during your career. When ORS determines this, we include base salary, overtime, and any annual leave payouts, if applicable.

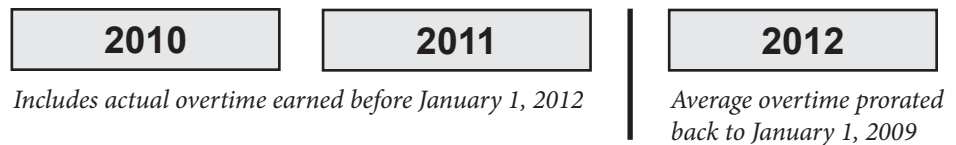
**FAC period:** The dates that your three highest years span; if your FAC period starts on March 13, 2008, it ends on March 13, 2011.

### How overtime is included depends on when your FAC period starts and ends.

STARTS: Before January 1, 2012  
ENDS: Before January 1, 2012

**NO CHANGE.** Actual overtime will be included in your Final Average Compensation as part of your wages when it was earned.

STARTS: Before January 1, 2012  
ENDS: Before January 1, 2015



$$\begin{array}{ccccccc}
 \boxed{2009 \text{ overtime}} & + & \boxed{2010 \text{ overtime}} & + & \boxed{2011 \text{ overtime}} & + & \boxed{2012 \text{ overtime}} & = & \dots
 \end{array}$$

4

STARTS: After January 1, 2012  
ENDS: After January 1, 2015



$$\begin{array}{ccccccc}
 \boxed{2010 \text{ overtime}} & + & \boxed{2011 \text{ overtime}} & + & \boxed{2012 \text{ overtime}} & + & \boxed{2013 \text{ overtime}} & + & \boxed{2014 \text{ overtime}} & + & \boxed{2015 \text{ overtime}} & = & \dots
 \end{array}$$

6

## Example 1

Kevin is retiring. After he terminates employment, ORS determines his highest three consecutive years of earnings, using his base salary, overtime, and annual leave payout. This is Kevin's FAC period.

	2006	2007	2008	2009	2010	2011	2012
<b>Base Salary</b>	49,891	50,390	50,894	51,403	51,917	52,436	52,960
<b>Actual Overtime</b>	14,910	15,059	15,210	15,362	15,515	15,671	4,566
<b>Annual Leave Payout</b>							6,087
<b>Total Compensation</b>	64,801	65,449	66,103	66,764	67,432	68,106	63,613

Because Kevin's last year of compensation, which includes overtime and his annual leave payout, is less than the previous three years, it is not included in the FAC period. Because the FAC period occurs before January 1, 2012, actual overtime is included in his FAC as part of his wages when it was earned.

$$\frac{66,764 + 67,432 + 68,106}{3} = 67,434 \quad \text{Final Average Compensation}$$

## Example 2

Jessica is retiring. After she terminates employment, ORS determines her highest three consecutive years of earnings, using her base salary, overtime, and annual leave payout. This is Jessica's FAC period.

	2006	2007	2008	2009	2010	2011	2012	2013
<b>Base Salary</b>	49,891	50,390	50,390	50,894	50,894	50,894	51,403	51,403
<b>Actual Overtime</b>	2,500	3,000	4,500	4,000	4,500	5,100	5,500	6,000
<b>Annual Leave Payout</b>								5,908
<b>Total Compensation</b>	52,391	53,390	54,890	54,894	55,394	55,994	56,903	63,311

ORS will then check to see if that three year FAC period includes any overtime. If it does, and the FAC period ends in 2012, 2013, or 2014, ORS will prorate her overtime back to 2009 to find the average. If her FAC period ends in 2015 or later, ORS will take the average of the six year period.

	2006	2007	2008	2009	2010	2011	2012	2013
<b>Base salary</b>	49,891	50,390	50,390	50,894	50,894	50,894	51,403	51,403
<b>Actual Overtime</b>	2,500	3,000	4,500	4,000	4,500	5,100	5,500	6,000
<b>Annual Leave Payout</b>								5,908
<b>Total Compensation</b>	55,891	55,890	55,490	57,194	55,894	55,394	55,403	59,811
<b>Averaged Overtime (prorated going back to 2009)</b>							5,020	5,020
<b>Adjusted total compensation</b>						55,394	56,423	62,331

ORS will recalculate her FAC for the same three year period using the actual overtime (if earned before December 31, 2011), and/or the averaged overtime (earned after January 1, 2012). This will determine the FAC that will be used in calculating her pension.

$$\frac{55,394 + 56,423 + 62,331}{3} = 58,049.33 \quad \text{Final Average Compensation}$$