City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 12, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #17 RETIREMENT INCENTIVE OPTIONS FOR RETIREMENT ELIGIBLE EMPLOYEES

This memo is a response to a request from Councilmen Smedberg and Krupicka that City Council be provided information on why retirement incentive options for retirement eligible employees were not included in the City Manager's FY 2011 Proposed Operating Budget. During the FY 2010 budget process serious consideration was given to the possibility of offering incentives to retirement eligible employees in an effort to have them end their employment. Attached to this memo is Budget Memo #83 from the FY 2010 budget process which outlines the findings staff used in making their decision to not include incentive options in that budget. Below are five major reasons explaining why a retirement incentive option again was not included in the City Manager's FY 2011 Proposed Budget.

1. Any payment made to employees in an effort to incentivize retirement must also be made to employees who are already planning on retiring. We estimated last year that any incentive for early retirement would have to range from $15,000-$20,000.[1] At the time of our FY 2010 budget deliberations there were 100 employees eligible to retire.[2] Had the City offered a $15,000 incentive last year for retirement eligible employees and all those eligible took the incentive, the cost to the City would have been $1.5 million. We now know that the City experienced 69 retirements in CY 2009. If an incentive program would have been in place last year, 45 of these 69 employees would have been eligible for a pay out at a cost of $675,000.[3] The take away from this example is that the City would have spent $0.7 million on incentives to employees who were already planning on retiring.

---

[1] A payment of much less than $15,000 was not considered sufficient; some health care options may cost retirees as much as $1,000 per month or $12,000 per year. Any payment over $20,000 would not only be difficult to justify to the public but the total cost of such payments would require vacant positions to be held open for longer periods of time.

[2] The 100 employees eligible for retirement only includes full-time civilian General Salary employees. This number does not include any sworn public safety employees because their positions are located in departments that require minimum staffing levels and we would have recommended that they should be exempt from inclusion in any early retirement program. Part-time employees are also not included because they are not included in the VRS system.

[3] 24 of the retirements were employees who occupied sworn public safety positions. For the purposes of this example and in accordance with the information in the footnote above it is assumed that they are exempt from any early retirement incentive program.

2. Early retirement programs can also produce unintended consequences depending on which employees retire. An early retirement program would need to be open to all employees eligible for retirement to ensure the program does not provide an illegally discriminatory benefit to only certain employees (whether this benefit was real or perceived). Due to this requirement, there is a possibility that the City would lose highly valuable employees who have the resources and experience to take an early retirement incentive and transfer their skills to a job outside the City to another organization. These employees who may occupy important positions that would have to be backfilled, thus negating most savings.

3. There is potential to begin a pattern of regularly offering retirement incentive programs and creating an expectation for such an offering. This can result in employees holding off their otherwise planned retirement because they are simply waiting for the City to provide incentives to leave. Under such circumstances the City would still pay out incentives to employees who were planning on retiring from the organization. For example, an employee who planned to retire in FY 2010 may stay until FY 2011 when an incentive program started resulting in the City having to incur the cost of the incentive and a deferment of vacancy savings.

4. Severance payments are a tool with a narrower and more strategic focus which aligns better with the City's current strategy related to budget reductions. In the FY 2010 Approved Budget the City eliminated 119 positions, of which 29 were filled. In FY 2011, the City Manager has proposed for elimination 67 positions which includes 17 position currently occupied by City employees. These reductions have been strategically targeted and the Human Resources Department continues to seek alternative placements for employees impacted by the FY 2011 proposed reductions. For those employees who are not able to be placed, the City's Reduction in Force (RIF) policy does authorize severance pay to be paid to employees upon separation from City service. Additional details on the City's RIF policy can be found starting on page 23-19 of the FY 2011 Proposed Budget.

5. An early retirement program is most useful and effective when an organization is conducting large scale reductions in force, which has not been the case in Alexandria. If the City needed to broaden its strategy and reduce its workforce by larger numbers then an early retirement program with incentives would better fit this objective.

As noted in Budget Memo #83 City staff will continue to monitor fiscal conditions if and when we need to consider large scale, massive layoffs, offering incentives to those eligible to retire could be an option worth pursuing.

Attachment 1 - Budget Memo #83 from the FY 2010 budget process

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 8, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #83 : INCENTIVE OPTIONS FOR RETIREMENT ELIGIBLE EMPLOYEES

This memo is in response to a request from Councilman Wilson that City Council be provided information on the possible incentive options that could be provided to retirement eligible employees. Incentive options for this category of employee were discussed by staff leading up to the budget proposal, but no options were included in the FY 2010 proposed budget.

We gave serious consideration to incentives to retire during the budget deliberation process, but did not propose any options in the FY 2010 budget. The City of Roanoke recently offered a retirement incentive worth the value of one year's health care payments, estimated to average $5,500 (paid in cash) or $200 per year of service up to 30 years ($6,000). The program opened in January 2009 and closed March 16, 2009. The Roanoke City Retirement Administration staff indicated that the employees had to be eligible to retire and designate a retirement date between July 1, 2009 and December 2009. The Department Head could modify the date if there was a business reason, such as too many other employees going out the same day.[1] The goal of the Roanoke program was to identify positions that might be left vacant for many months for salary savings or possibly be eliminated. There were 240 employees who were eligible to retire and 46 signed up, which is about 19%. This is only slightly above the number of employees who normally would have retired in this given period. Thus the pay out will be between $220,000 - $240,000 in incentives and it appears that the City did not realize a significant number of additional new retirees or savings above those to be expected without the program.

There are other potential hurdles in attempting to coordinate the City of Alexandria Supplemental Retirement Plan with the more rigid Virginia Retirement System (VRS) for City employees who are not included in the Police and Fire pension plan. One example is that an employee's work history may result in them having a greater number of years of service in VRS than in the City Supplemental Plan. Many City employees have purchased prior eligible service through VRS

---

[1] Staggering retirement dates becomes critical particularly for public safety departments or other departments with minimal staffing requirements. If employees within these departments choose to retire the City would pay out incentives to retire, and then possibly have to incur overtime costs because of a lack of available staffwhile new employees are being recruited and trained. The overtime cost becomes an issue if retirements occurred all at once or within close succession of each other. Under this scenario, the City may actually pay more for the program then it would realize in savings.

thus increasing their total years of service. There is no provision for purchasing prior service in the City's Supplemental Retirement Plan. Thus, while an employee may have a sufficient number of years of service for full VRS retirement, they may not have enough years of service for full retirement under the City's Supplemental Retirement Plan. These differences, and others, would make offering retirement incentives more complex, than if the City administered its own Retirement system (as does the City of Roanoke). Roanoke general employees, fire and police are in a City of Roanoke plan but not in the VRS plan.

After researching offering incentives for employees to retire, we believe that given the current economic environment a monetary incentive to retirement eligible employees would have to exceed $15,000 per employee to be effective in incentivizing such employees to retire. Also, we felt that the relatively low volume of employees who would be affected by the current Reduction in Force process did not warrant the need for such a retirement incentive option. While detailed discussions regarding the merits of offering this type of option took place, we did not develop a detailed budget cost or savings calculation on this option because the net savings, if any, would be de minimus. However, if indeed the City's fiscal condition continues to worsen in future years and we would have to consider significantly more layoffs, offering incentives to those eligible to retire could possibly realize savings.