

## **CITY OF NAPERVILLE MEMORANDUM**

**DATE:** November 11, 2017

**TO:** Doug Krieger, City Manager

**FROM:** Jim Sheehan, Human Resources Director

**SUBJECT:** **Early Retirement Incentive (ERI)**

---

**PURPOSE:**

The purpose of this memorandum is to provide information to the City Council on an Early Retirement Incentive (“ERI”) programs as requested at the October 30<sup>th</sup> Budget Workshop.

**BACKGROUND:**

The goal of an ERI program is typically to reduce payroll expenses, either through the elimination of the position after retirement or through the cost savings realized by re-filling the position with a lower paid employee. When positions are eliminated, the cost savings as well as the impact on service levels are obviously more significant.

**DISCUSSION:**

ERIs can be been offered in a variety of ways.

**IMRF**

The Illinois Municipal Retirement Fund (“IMRF”), which applies to all City employees except sworn public safety, offers an ERI program which a participating municipality can offer to its member-employees who meet certain criteria. To be eligible to retire under the ERI program, the IMRF member must be at least 50 years old and have 20 or more years of IMRF service credit. Under this program, the municipality selects a one year period during which eligible employees can elect to “purchase” additional IMRF service credit up to five years, which will result in a larger pension at retirement. The employee is required to pay his or her own 4.5% of the cost of the additional service credit. The City must then contribute an additional lump sum payment for each employee. This City contribution is actuarially determined and approximates the current employer portion of IMRF contributions.

The cost of the IMRF ERI program to the City depends on the:

- number of eligible members
- number of members electing to retire under the ERI
- the City’s re-staffing plans (replace or leave vacant)

- salary and benefit costs for replacement employees.

In December of 2016 we requested IMRF to perform a cost analysis for an ERI program for the City. The information provided to IMRF was for retirement eligibility through December 2017. Based on these dates, the City had 165 employees eligible to participate in the ERI program. The additional potential liability for the City was calculated to be \$23,590,832. Amortized over a 10-year payment period with a 7.5% interest rate, the final cost would have been \$33,824,873. This equated to approximately \$205,000 per employee. Based upon this recent analysis, we would project an IMRF ERI program for 2018 to be similar in cost. Although it is highly unlikely that all eligible employees would participate in the ERI program, the costs for the program are potentially very high. Additionally, such a broad-based program would severely limit the City's ability to target the incentive to operations where turnover could be better managed and absorbed. For these reasons, staff would not recommend implementing the IMRF ERI program.

#### *Recent ERI Efforts within Union Contracts*

Although the City has not offered the IMRF incentive previously, the City has offered its own ERI Programs more recently as part of the negotiated agreements with Public Works Field Supervisors and Equipment Operators. The ERI offered retirement eligible employees in these bargaining units the opportunity to receive up to 12 months of medical insurance premiums. In each agreement, a maximum number of participants was included and the number of months covered was dependent upon the actual retirement date (e.g., if a participant retired 6 months after the contract date, the retiree would receive 6 months of medical premium coverage). Four employees (2 in each bargaining unit) participated in the ERI. In these instances, the positions were refilled and the City benefitted financially from the cost differential between the salary of the retiring and new employees. The recently completed Equipment Operator agreement has a similar provision, however it is too soon to know if anyone will participate.

#### *Voluntary Separation Incentive (2009)*

In 2009, the City offered a Voluntary Separation Incentive (VSI) to all employees, including sworn public safety, prior to implementing a reduction in force. The goal was to identify anyone who was already planning on leaving prior to identifying the list of positions to be included in the reduction in force. The offer was 4 weeks of salary and 4 weeks of health care (medical and dental) continuation. Twelve employees participated in the VSI program.

### **CONCLUSION:**

The effectiveness of an ERI program is dependent upon the retirees that choose to participate, whether their positions are backfilled and, if replaced, the salary and

benefits for the employee that replaces the retiree. A general ERI program open to all employees decreases the control that organization will have in managing the impacts, financial, service level and loss of expertise/job knowledge.

As noted with the Public Works programs, the ability to limit the number of eligible retirees and the application of the ERI program to a targeted portion of the population can improve the transition for the City and retiree(s) and allow management to better plan the reallocation of work assignments and projects.

As the City Council continues to discuss the budget, it is important to clearly define our goal, what are we trying to achieve. This goal should then guide the discussion on what actions the organization should take.