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Fiscal Note

Fiscal Services Division

SF 2062 – Early Retirement (LSB 5589SV.1)
Analyst: Ron Robinson (Phone: 515-281-6256) (ron.robinson@legis.state.ia.us)
Fiscal Note Version – As amended by **H-8033**

Description

Senate File 2062, as amended by **H-8033**, establishes a State Employee Retirement Incentive Program for eligible employees of the Executive Branch of the State and makes the Program optional for the Legislative and Judicial Branches, and the Board of Regents institutions. Elected officials and employees eligible for an enhanced Sick Leave Conversion Program under Code Section 70A.23(4) (Sworn Peace Officers) are excluded from participating in the Program. The Program is to be administered by the Department of Administrative Services (DAS). The Bill permits eligible employees that have completed an application for benefits under the Iowa Public Employees' Retirement System (IPERS) with an intended first month of entitlement no later than July 2010 to separate from service with the State and receive a benefit under the Program. To receive the incentive benefit, an eligible employee must submit an application to participate in the Program by April 15, 2010, be accepted to participate in the Program by the DAS, separate from State employment by June 24, 2010, and acknowledge the employee's ineligibility to return to employment with the State.

The Bill provides two incentives to eligible employees that participate in the Program:

- If the employee has at least 10 years of State employment, $1,000 will be paid to the employee for each year of State employment up to 25 years. The amount is to be paid in five equal installments each year during September beginning in 2010.
- A participant in the Program (or the surviving spouse) will receive a health insurance contribution benefit to pay the premium cost for eligible State group health insurance for five years following termination from State employment. A participant will receive the health insurance contribution benefit only when the participant is no longer eligible for, or exhausts, the available remaining value of sick leave used to pay the State share for the participant's continuation of State group health insurance coverage as provided in Code Section 70A.23(3).

The Bill prohibits Executive Branch agencies, excluding the Board of Regents, from filling vacancies created by employees participating in the Program unless approved by the Department of Management (DOM). In addition, the Bill prohibits early retirement participants under this Program from resuming State employment in any capacity.

This Bill is effective on enactment.

Background

Currently there are approximately 6,600 IPERS employees that are age 55 or older on the Central Payroll System that could qualify to participate. Of those employees, approximately 2,300 are eligible for full retirement benefits by meeting at least one of the following:

- Age and years of service equal at least 88.
- At least age 62 with 20 years of service.
- At least 65 years of age.

The General Assembly has enacted at least three early retirement programs, including:

- Senate File 551 (2nd Extraordinary 2001 Session) had 4,289 eligible participants and 594 chose to participate (13.8%). The Act provided for two early termination programs, a Years of Service (YOS) Program and a Sick Leave Program. The YOS Program was optional at the discretion of the State and provided for the payment to people with at least 10 years of service to receive the lesser of the employee's annual salary or $250 for each quarter year of service. The Sick Leave Program was offered to employees with a total age plus years of service of at least 75. The Program provided for the payment of the lesser of employee's regular annual salary or the value of the employee's unused sick leave.
- House File 2625 (2nd Extraordinary 2002 Session) had 4,564 eligible participants and 148 chose to participate (3.2%). The Act provided for the payment of one-fifth of the value of the employee's accumulated unused sick leave and vacation each year for five years. The sick leave portion was limited to one year's salary. Eligible employees were required to have a combined age and years of service of at least 75.
- House File 2497 (2004 Regular Session) had 5,367 eligible participants and 273 chose to participate (5.1%). The Act provided an incentive to sever employment with the State by paying the employee the lesser of 75.0% of the employee's regular salary or an amount equal to 75.0% of the value of the employee's accumulated sick leave.

Since the second and third programs followed shortly after the first program, it is anticipated the participation rate for the proposed Program will be closer to the first program. It is also anticipated that the potential changes to IPERS legislation and permitting the surviving spouse to continue the health insurance benefit during the term of the Program will increase participation.

For the prior three programs listed above, of the 988 participants on Central Payroll, 397 (40.2%) had been deleted from Central Payroll as of October 31, 2007. It is anticipated the current budget constraints will lower the number of positions that are backfilled.

The Board of Regents institutions continue to offer early termination incentives. Most of the Board of Regents employees are not covered by IPERS. The Board of Regents institutions do not anticipate any participation.

Under current law, qualified employees that terminate are entitled to payment of up to $2,000 of unused sick leave, contribution toward health insurance under the Sick Leave Incentive Plan (SLIP), and payment of unused vacation. Therefore, those expenses are not included in these calculations.

Assumptions

- The participation rate will be approximately 1,000 (15.0%) of the approximately 6,600 identified eligible employees and approximately 450 (45.0%) of the positions will be backfilled over a three-year period.

- Positions that are backfilled will require 80.0% of the current cost of wages and benefits and the costs of the backfilled position will increase 4.5% each year.
- The Legislative and Judicial Branches will participate.
- Health insurance costs will increase 12.0% annually.
- There will be no significant administrative costs.
- The mortality of this group of eligible employees is not considered.
- Departments will assume the sick leave, vacation buy-back, and years of service, costs over the next five years at 20.0% each year.
- For Community-Based Corrections (CBCs) the bank balance for vacation was estimated at 157.6 hours and for sick leave it was estimated at 496.0 hours for each position since that data is not on Central Payroll.
- The current annual average wage and benefit costs for the identified eligible employees is approximately $74,000.

Summary of Impacts

Senate File 2062, as amended by H-8033, is expected to result in FY 2010 savings of $973,000 for all funds, including $439,000 for the General Fund, from salary costs when eligible employees terminate during FY 2010.

Senate File 2062, as amended by H-8033, is also expected to result in future years cost savings as follows:

(dollars in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Total
General Fund	**$ 26.4**	**$ 20.6**	**$ 14.8**	**$ 13.1**	**$ 11.6**	**$ 86.4**
Road Use Tax Fund	**0.8**	**0.6**	**0.5**	**0.4**	**0.3**	**2.6**
Primary Road Fund	**6.3**	**5.0**	**3.6**	**3.1**	**2.6**	**20.5**
Federal Funds	**9.5**	**7.5**	**5.5**	**4.9**	**4.4**	**31.8**
Other Funds	**14.4**	**11.4**	**8.3**	**7.4**	**6.5**	**48.0**
Total	**$ 57.4**	**$ 45.1**	**$ 32.6**	**$ 28.8**	**$ 25.3**	**$ 189.4**

*Totals do not add due to rounding.

Sources

Department of Management
Department of Administrative Services
Iowa Public Employees' Retirement System
Legislative Services Agency

/s/ Holly M. Lyons

February 1, 2010

The fiscal note for this bill was prepared pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.