Attachment 9

DENNIS C. PROUTY
DIRECTOR
515/281-5279
FAX 281-8451

STATE CAPITOL
DES MOINES, IOWA
50319

STATE OF IOWA
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

TO: Fiscal Committee Members

FROM: Ron Robinson

DATE: October 23, 2001

RE: Early Retirement/Early Out Programs

Early retirement plans or early out programs are incentives for state employees to retire prior to the normal retirement age of 65. Plans are proposed to reduce state budget salary costs, and in the times of budget crises, they are used to reduce the number of layoffs, assuming that if an older worker retires, a younger worker will not be laid off. Savings from early retirement plans are dependent on eligibility requirements, participations rates and rehire rates. The attached proposed "early out" incentive program has been proposed to ASFSCME and the following fiscal impact analysis makes a number of assumptions about eligibility and benefits, and uses historical participation and rehire rates. The Legislative Fiscal Bureau has calculated the fiscal impact for a variety of assumptions and these analyses are available upon request. The Governor has not yet formally proposed an early retirement plan to the Legislature.

The plan provides for the payment of 100.0% of accumulated vacation and sick leave. The leaves are to be paid out over a five-year period as follows, 10.0% FY 2002, 20.0% FY 2003 through FY 2005, and 30.0% FY 2006. The proposal provides retirement incentives for State employees who have attained the age of 55 as of December 31, 2002, who have 20 or more years of Iowa Public Employees Retirement System (IPERS) covered employment by that date. The employment group includes the central executive branch agencies, the DOT, and excludes Regents, Community Based Corrections, the Judicial Branch, the Legislative Branch, and employees covered by the Peace Officer's Retirement, Accident, and Disability System (POR). The pay out of sick pay will not exceed the employee's regular annual salary. The retiree is not eligible for future Iowa Public Employees Retirement System (IPERS) covered employment by the State.

ASSUMPTIONS

1. There are 2354 full-time employees who will be eligible for this Program.

2. The retirement dates for retirees will be spread throughout the second half of FY 2002, so approximately 25.0% of the annual savings will be realized.

3. The average FY 2002 salary and all benefit costs for an eligible employee is $58,581 and is assumed to be the same for all fiscal years.

4. The average FY 2002 salary and all benefit costs for positions that are refilled is $50,320, which includes $40,000 in salary, and is assumed to be the same for all fiscal years.

5. Accumulated vacation pay averages $7,184 for eligible employees.

6. Accumulated sick pay averages $21,590.

7. There will be no significant administrative costs.

8. The mortality of this group of eligible employees is not considered.

9. The participation rate is the average of the past two early retirement programs, 47.0%.

10. The General Fund funds approximately 50.1% of the retirees' salaries.

11. Approximately 46.0% of the positions will be refilled and will not generate a cost savings.

12. Departments will assume the sick leave and vacation buy back costs.

13. The impact on the Workforce Attrition Program is not addressed.

14. The impact of the vacation pay out over five years causes no net change for the General Fund.

FISCAL EFFECT

The average participation rate of the 1988 and 1992 early retirement programs was 47.0%. If this Program achieves the past average participation rate and 46.0% of the positions are refilled (the rate of the 1992 program), there will be a savings of approximately $1.0 million in FY 2002, $5.6 million in each FY 2003 through FY 2005, $2.4 million in FY 2006, and $20.1 million over 5 years for all funding sources. The General Fund share would be approximately $0.5 million in FY 2002, $2.8 million in each FY 2003 through FY 2005, $1.4 million in FY 2006, and $10.3 million over 5 years.

Analyses of the fiscal impact for various possible employee participation and rehire rates are available from the Legislative Fiscal Bureau upon request.

proposed "early out" program
summary of draft information

about the program

- An "early out" incentive program aimed at those who may want to leave state service is being discussed.
- If implemented, it will be a one-time opportunity. There are no plans to make it available in future years.
- The program has been proposed to AFSCME.
- The proposal includes a four-month delay in the negotiated agreement for a salary increase included in the current contract.
- AFSCME membership will be voting this week whether or not to ratify the proposal.
- The intent is to offer the same program to all state employees.
- Legislative approval is required.
- Educational sessions will be scheduled after the program is approved.
- The program would not change IPERS eligibility or benefits.

program benefits

- Provides an alternative to layoffs.
- Provides flexibility for participating employees, including a way for them pay for health insurance.
- Provides an opportunity for departments to achieve part of their spending reduction in FY '02.
- Helps achieve organizational realignment and span of control objectives.

program elements

eligibility

At least 20 years of IPERS covered service and at least age 55 by 12-31-02.

sign up and departure "window"

The entire sign up and departure process will be completed within sixty days after the program is established.

incentive

100% of accrued sick leave bank, up to a maximum of your annual salary.
(This replaces the $2,000 typically paid for sick leave upon retirement.)

payment method

If you participate, you will receive your sick leave incentive as well as your vacation payout in annual installments over the next five years. If you die before all the payments are received, balance becomes part of your estate.

payout use options

- You can use payments in any way you want.
- The money is taxable. However, installments should mitigate the tax impact on you.
- If you participate in the State's Deferred Compensation (457) program, you could direct your first payment, which will be included in your final paycheck, to your 457 account (up to the dollar maximum allowed by law).
- You can enroll in the State's "retiree" health, dental and/or life insurance conversion program and send payments to those carriers each month to cover the premiums.

reemployment restricted

If you leave under this program, you can be reemployed by the state only in a temporary position.

Iowa Department of Personnel
400 East 14th Street Des Moines, IA 50319-0150 PHONE: 515-281-3087 FAX: 515-281-7970
RELAY IOWA: 800-735-2942 info@idop.state.ia.us www.state.ia.us/idop jobline: 515-281-5820