

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 thus increasing their total years of service. There is no provision for purchasing

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 staff while 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 than it would realize in savings.

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.