

# Memorandum

City of Tempe



Date: February 27, 2009  
To: Mayor and Council  
From: Jon O'Connor, Deputy Human Resources Manager (ext. 8423)  
Through: Charlie Meyer, City Manager (ext. 8884)  
Renie Broderick, Human Resources Manager (ext. 8407)  
Subject: **Retirement/Resignation Incentive Program**

Attached is a draft proposal for a Retirement/Resignation Incentive Program that is intended to address the following directives:

- Broaden the pool of potentially eligible employees;
- Provide for a graded incentive based on years of service as one component;
- Provide additional medical leave payout to the maximum accrued as a second component;
- Cap the number of incentives offered at the number of occupied positions targeted for possible elimination (86) and,
- Provide a flexible range of possible separation dates for approved employees but limit the application window.

Human Resources is prepared to initiate an incentive program within a few days of receiving authorization to do so.

In order to assess an approximate cost for this program, data reflecting actual length of service, compensation and medical and vacation leave balances for 554 employees, including those eligible for both full and early retirement and those who have been notified that their positions are targeted for elimination, was used.

While average costs are noted, the spread for the actual incentive payouts to specific employees may range from a few hundred dollars to over \$100,000. One recommendation is to consider capping the incentive payout at \$50,000 – while most employees taking the program would receive significantly less than that amount, a cap would limit the incentive payout to those employees participating who have both extensive length of service and accrued medical leave.

Average per employee 1% incentive cost:	\$ 8,689
Average per employee additional (50%) medical leave cost:	\$ 6,842
Total average incentive:	\$ 15,532
<b>Estimated cost for 86 packages:</b>	<b>\$1,335,744</b>

In addition, per current rules and regulations, separating employees are paid 100% of accrued vacation leave and 50% of medical leave:

Average per employee vacation payout:	\$ 7,505
Average per employee 50% medical leave payout:	\$ 6,842
Total average incentive and leave accrual payout:	\$ 29,879



## **DRAFT PROPOSAL**

### **Retirement/Resignation Incentive Program:**

#### **What is the City of Tempe Retirement/Resignation Incentive Program?**

The City of Tempe Retirement/Resignation Incentive Program is a limited, voluntary option open to all regular full time and part time employees that offers those approved for the program a monetary incentive, equal to one percent (1%) of current base pay\* per year of verifiable City of Tempe service, plus a payout of 100% of accrued medical leave (*regardless of years of service*)\*\* to retire or resign no later than June 30, 2010. Employees will also be paid 100% of their accrued vacation leave on separation as required under current City personnel rules.

The intent of the program is to assist in downsizing the City workforce and/or in placing other employees whose positions are targeted for elimination and as an integral part of an overall budget reduction strategy.

#### **AN EXAMPLE:**

An employee whose base annual salary is \$55,000 (\$26.44/hr) and who has 11.5 years of service and 425 hours of accrued medical leave would receive the following incentive payout:

1% of \$55,000 (\$550) x 11.5	\$ 6,325
100% of medical (425 hrs x \$26.44)	<u>\$11,237</u>
	<b>\$17,562</b>

(\*Base pay is base hourly rate including skill blocks for those Water Utility Department employees under the skill based pay program but excluding any components of pay or additional pay such as temporary detail, max staffing, bi-lingual pay, etc.

\*\*Under current City personnel rules, only employees with at least 10 years of service are eligible for payouts of up to 50% of accrued medical leave depending on whether they are retiring or resigning.)

The program will be limited in the following ways:

- A maximum of only 86 incentive packages will be approved – once that number has been reached, the incentive shall no longer be offered. That number reflects the total occupied positions that are targeted for elimination by 6/30/2010. *The City reserves the right to change or end the incentive program at anytime.*
- Employees wishing to be considered for a retirement or resignation incentive package must submit an application to Human Resources no later than May 1, 2009 that includes an intended retirement/resignation date.
- Employees may apply to retire or resign on any date as long as it is no later than June 30, 2010.
- The incentive payment (1% x years of service and additional 50% medical leave) will be capped at a maximum of \$50,000.

In addition to the monetary incentives, the program also allows for the following:

- Employees approved for the program will not be required to repay the City any monies reimbursed to them through the Tuition Reimbursement Program in the 12 months prior to their retirement or resignation.
- Employees approved for the program will not have to repay the City 2 weeks of vacation if they have utilized sabbatical leave prior to their retirement or resignation date as long as that is no later than 6/30/2010. Sabbatical leave cannot be utilized to run out time.
- Employees approved for retirement through the program and who are eligible under ASRS to have vacation run out qualify towards credited service (began contributing prior to 1/1/1984) shall be permitted to run out any vacation or converted medical leave as long as their retirement date is no later than 6/30/2010.
- Employees retiring under the program by June 30, 2009 will be considered part of OPEB Group 1 for the purposes of retiree health benefits. Those retiring after June 30, 2009 will be considered part of OPEB Group 2.
- Employees who have less than 10 years of service as of June 30, 2009 and who resign or retire after that date and after completing 10 years of service, will be considered part of OPEB Group 3.

#### **Program Eligibility Requirements**

- **The program is open to all full time and part time regular (benefitted) employees.** Public Safety employees in the PSPRS DROP program, or who elect to sign up for the DROP program during the time the incentive program is in place, are not eligible to apply.
- All employees interested in receiving an incentive package must complete an application and submit it to Human Resources no later than May 1, 2009. Each application will be reviewed by the employees Department Manager, Human Resources and the City Manager. Employees will be advised of their status no later than 2 weeks after submittal of their application.
- Employees seeking to retire under the program must meet ASRS retirement eligibility which is defined as:
  - Early retirement (reduced benefit):  
At least age 50 with 5 or more years of credited service
  - Normal retirement:  
Age 62 with 10 or more years of credited service  
Age 65  
Any combination of years of credited service and age totaling 80 points

or PSPRS retirement eligibility of 20 years of credited service.

#### **Application Approval**

Once employees have been advised that their application for the program has been approved, they will have 7 days to confirm their retirement/resignation date and accept the incentive in writing, or withdraw their request.

## **Retirement/Resignation Process**

Only employees retiring who have the option under ASRS or PSPRS rules to run out vacation leave as credited service will be permitted to do so. All other employees must work through their specified retirement/resignation date and will receive a lump sum payout of their incentive and accrued vacation. Employees may elect to contribute payout amounts to their 401K and/or 457 deferred compensation plans only to the maximum allowed employee contribution for the calendar year of their retirement/resignation.

## **Re-employment**

Those resigning through the program will not fall under the lay-off policy and so will not be placed on any lay-off list. Employees who accept an incentive payout for retirement or resignation will not be eligible to be rehired by the City into any regular or temporary position or as a contract worker for three (3) years from the date of their separation, unless under extraordinary circumstances as approved by the City Manager.

## **Further Information**

Employees may contact Human Resources for further information regarding the program.

## **Contact Numbers**

City of Tempe, Human Resources	(480) 350-8278
Arizona State Retirement System	(602) 240-2000
City of Tempe, Payroll	(480) 350-8264
Great West	(480) 921-2885