



Inter-Departmental Communication

DATE: December 18, 2002

TO: Evert Asjes, Chair, and Members of the Finance and Audit Committee

FROM: Mark Funkhouser, City Auditor

SUBJECT: Review of the proposed retirement incentive

On November 20, 2002, the Finance and Audit Committee discussed the retirement incentive proposal in Committee Substitute for Ordinance 021393 and asked the City Auditor to review the proposal. On November 25, we presented the committee with a scope statement indicating that the focus of our review would be to identify risks and financial effects associated with the retirement proposal.

Conclusions

The retirement incentive could save money for the city, but the savings are uncertain. Savings from the proposal, which increases benefits for some city employees, depend on the employees who retire and the extent to which those positions are refilled. Refilling positions could reduce or eliminate the savings. Eliminating staff through retirement is not strategic – high priority programs could be adversely affected. Finally, a significant risk associated with the retirement proposal is that other options for addressing the imbalance could be less expensive, less disruptive, or more strategic.

Work Performed

To complete this work, we interviewed city staff and the actuary who consulted with staff in designing the proposal; reviewed documents prepared by the actuary and city staff; and reviewed work done by auditors in other jurisdictions.

Background

The City Council is considering an ordinance that would change the city employees' retirement system. The proposal is intended to provide incentives to city employees to retire and to reduce expenditures as a way of addressing the budget imbalance. The proposal would temporarily change how employees become eligible for retirement and provide additional benefits to about 550 city employees. The City Manager began developing a retirement proposal in July. A timeline showing the development is in Appendix A.

The Office of Management and Budget estimates that the proposal would save about \$8.5 million in general fund and general fund supported programs in the fiscal year 2004. Over the next ten years, the proposal could save \$163 million.

Retirement Proposal Increases Benefits For About 550 Employees

Implementing the retirement proposal increases pension benefits to about 550 city employees who would be eligible to retire under the proposal. The proposal creates a financial incentive for eligible city employees to retire during a two month “window” beginning February 2003. The proposal temporarily changes how employees become eligible for retirement and increases benefits for those who retire under the window.

To determine eligibility, the proposal would add three years of service and three years of age to employees under the age of 65 who have at least ten years of service. For example, the eligibility of an employee who was 53 years old and had 21 years of service would be calculated as if the person were 56 years old and had 24 years of service. In this case, the individual who is not currently eligible to retire, would be eligible to retire if the proposal is implemented.

The proposal would also increase benefits to employees who retire during the window. For retirees 65 years or older, the monthly pension calculation is based on an additional three years of service, and the limit on the maximum benefit is raised from 70 percent of final average compensation to 80 percent.¹ Retirees under the age of 65 also get \$300 per month to help defer health care costs until Medicare benefits commence.

Appendix B includes examples of benefit calculations for several hypothetical cases.

Proposal Requires City to Increase Pension Contributions For Next Ten Years

To pay for the increased benefits under the retirement proposal, the city will increase payroll contributions to the employee retirement system for up to ten years. Implementing the retirement proposal is expected to increase pension payments by \$40.5 million over the next ten years. Currently, the city contributes 6 percent of payroll to the retirement system, if the proposal is implemented, the contribution will have to increase by 2.47 percent of annual payroll for ten years.²

¹ Average final compensation is the monthly average of the two highest years of compensation of the member in the last ten years whether or not such years are consecutive.

² In October 1998, the board of trustees for the retirement system recommended benefit enhancements and indicated their commitment to maintaining a city contribution rate not to exceed 6 percent for the next five years. In September 2002, the board approved a motion to notify the city that the assumed scheduled contribution was expected to be at least 9.5 percent beginning May 1, 2004.

Management Projects Significant Savings

The City Manager projects that implementing the retirement proposal could save \$163 million over the next ten years. The Office of Management and Budget expects that implementing the proposal would result in \$1.2 million in savings in the current fiscal year. The projected savings is affected by a number of assumptions including the portion of eligible employees who retire, the number of positions filled and salaries for those positions, and payroll growth over the next ten years.

Analysis

A number of significant risks are associated with implementing the retirement proposal. Uncertainties about expected future behavior and costs could reduce or eliminate the savings. Risks to the financial condition of the retirement system are mitigated by existing controls. Implementing a retirement incentive raises a number of concerns about human resources issues in the city. The City Council could request information to directly compare the retirement proposals to other alternatives for addressing the budget imbalance.

Savings Are Uncertain

For the city to realize the anticipated savings, a number of future actions need to take place. Uncertainty about the future means that the expected savings could be reduced or eliminated.

Decisions by staff eligible to retire affect savings. All things being equal, the more employees who retire the greater the budget savings. To calculate the estimated savings over ten years of \$163 million, the Office of Management and Budget assumed 75 percent of those eligible would retire. The Office of Management and Budget also analyzed the effects on savings if fewer than 75 percent retired. Actual savings will depend on how many eligible employees retire.

If too few employees retire under the incentive, the city would not achieve the anticipated budget savings in the coming year. The city would need to look at other options for reducing expenditures or increasing revenues.

Employees choose to retire for a variety of reasons which are out of the control of the employer. Six factors considered key to retirement decisions are: financial ability to stop working; ability to sell their house at a fair price or not needing to sell their house; expectations that laws would change to reduce future benefits; poor health; pressure from family members; and dissatisfaction with the job.³

Rehiring more than the expected number of positions could eliminate the savings. All things being equal, the more positions the city refills, the lower the budget savings. For example, the budget office estimated that the \$163 million savings would be eliminated if most of the savings was used to refill positions vacated by retiring employees.

³ U.S. General Accounting Office, *Army Materiel Command: Factors Influencing Retirement Decisions During 1990 Reduction in Force*, December 1992, p. 2.

The Office of Management and Budget plans to address the risk by controlling hire-back rates through the budget process. If too many positions are rehired, the retirement proposal will have been an expensive short-term budget balancing decision.

Savings are sensitive to assumptions about payroll growth. The Office of Management and Budget estimated savings assuming payroll grows at five percent each year. If this assumption is not met, actual savings will vary. The Office of Management and Budget has not calculated the effects of variations in this assumptions. Some evidence suggests the city may not meet the assumptions for payroll growth rate. For example, the actuary recently valued the employee retirement system under the assumption of 6 percent salary growth and suggested considering increasing the assumed growth rate because recent salary growth had been greater than expected.⁴ For active members of the retirement system, salary increases were 12.1 percent in 2001 and 11.3 percent in 2002.

The Office of Management and Budget should consider reviewing the savings estimates under different assumptions about payroll growth. If warranted, the City Manager may need to establish controls to reduce risks to long term savings.

Controls Protect the Employee Retirement System

The board of trustees monitors the employees' retirement system and reviews annual actuarial valuations which should help protect the financial condition of the system from the effects of the retirement proposal. In addition, the retirement proposal requires the city to fund the incentive over ten years. City Code establishes a board of trustees with authority to oversee the employee retirement system. The board of trustees monitors the financial condition of the system. An actuary annually presents a valuation of the system to determine whether the assets and contributions are sufficient to provide the prescribed benefits.

Retirement Proposal Raises Human Resources Concerns

Implementing the retirement proposal has significant affects on the city's management of human resources in the short and long term. The proposal reduces staff, but the reduction is not strategic. Losing a large number of experienced employees could create a so-called "brain drain." Solving budget imbalances through retirement incentives can create an expectation of future incentives, affecting how employees in the future will make retirement decisions. Finally, granting exceptional benefits to a small group of employees is inequitable, and the costs of those benefits are paid by the city in the future.

Retirement proposal reduces staff, but not in a strategic way. The retirement proposal focuses on reducing the number of city employees but does not allow the city to strategically target which city programs will be affected. As a result, retirements could adversely affect staffing for high priority services and programs.

⁴ *Employees' Retirement System of City of Kansas City, Missouri, Actuarial Valuation and Review as of May 1, 2002*, The Segal Company, September 13, 2002, p. ii.

The portion of employees who are eligible to retire under the proposal vary by department. For example, no employees are eligible to retire in two departments, while some departments could lose one third of their current employees.

Exhibit 1. Percent of Eligible Employees to Filled FTE Positions (as of 11/30/2002)

Department	Number Eligible	Filled FTE Positions	Percent of Filled FTEs
Aviation	55	457	12%
City Auditor	0	16	0%
City Clerk	1	7	14%
City Planning & Development	12	62	19%
Codes Administration	9	99	9%
Convention & Entertainment Centers	20	156	13%
Environmental Management	12	92	13%
Finance	19	118	16%
Fire (Civilian)	12	49	24%
Health	23	156	15%
Housing & Community Development	7	30	23%
Human Relations	3	22	14%
Human Resources	0	35	0%
Information Technology	12	61	20%
Law	9	26	35%
Municipal Court	10	73	14%
Neighborhood & Community Services	33	207	16%
Office of City Manager	7	44	16%
Office of Mayor and Council	2	20	10%
Parks & Recreation	63	415	15%
Public Works	97	295	33%
Water Services	147	853	17%
Total	553	3,293	17%

Source: Office of Management and Budget.

Once staff have retired, departments may have the opportunity to move staff around and reorganize their operations. The City Manager is encouraging departments to begin succession planning to prepare for retirements.

A large number of experienced employees may leave the city creating a “brain drain.”

Employees eligible to retire have at least ten years of city service and in some cases much more. These experienced employees have a lot of institutional knowledge. Losing this knowledge in a short period of time could disrupt city services and programs.

To address the effects of “brain drain” the City Manager provided departments with lists of eligible employees and encouraged succession planning. In addition, the retirement proposal allows the director of Human Resources to extend the window for up to ten percent of the retirees through July 1, 2003, in order to ensure operations are not jeopardized by simultaneous retirement of many critical employees.

Relying on retirement incentives to address financial difficulties may build in an expectation for future incentives. In the future, employees may come to expect to retire only when additional incentives are offered. The city last offered a retirement incentive in 1993. If employees come to expect retirement windows, they change their retirement decisions and wait for the next enhancement. The current proposal prohibits the city from offering another incentive during the pay-back period, which is expected to be ten years.

The proposal grants exceptional benefits to some employees while the costs of those benefits are paid in the future. Approximately 3,700 current city employees are members of the retirement system and the proposal would offer additional benefits to about 15 percent of those employees. The additional benefits are not available to others. Providing additional benefits to a portion of city employees is inequitable. The additional costs of the benefits are additional annual contributions to the retirement system over the next ten years.

Council Could Request Information to Compare Retirement to Alternatives

The City Manager developed the retirement proposal with the understanding that the City Council prefers the retirement incentive to other options, such as reductions in force, program eliminations or revenue increases. However, in considering the proposal, the City Council could request information that allows for direct comparisons of the retirement proposal with other alternatives for addressing the budget imbalance.

One risk related associated with the retirement proposal is that other options for addressing the budget imbalance could have been less expensive, less disruptive or more strategic. This risk is heightened by the facts that the current City Manager has already announced his retirement (though he is not eligible for the additional benefits) and will be leaving city employment soon, and the budget officer, who participated in some aspects of developing the proposal, is eligible to for the retirement benefits. Ensuring that the City Council has the ability to compare the costs and benefits of the retirement proposal to other options, reduces the risk of implementing a retirement incentive when other options for addressing the budget imbalance would have been more appropriate.

cc: Mayor Kay Barnes
Members of the City Council
Robert Collins, City Manager

Appendix A: Proposal Development Timeline

Date	Description
July 2002	<p>The Office of Management and Budget (OMB) developed a retirement incentive proposal with a goal of reducing 330 non-fire/non-police employees to save \$20.7 million through fiscal year 2005.</p> <p>The initial proposal assumed the incentive would be offered to employees eligible for normal or optional retirement as of December 1, 2002, and those who would be eligible after adding two years of age and service. Estimated savings would be achieved by freezing the vacated positions for two and a half years and replacing no more than half of the positions after that.</p> <p>Proposed benefit changes:</p> <ul style="list-style-type: none">• adding 4 or 5 year of service• increasing maximum annuity from 70% to 75% of final 2-year average salary• \$750/month health care subsidy till reaching 65 or 66 yrs old <p>Estimated Savings:</p> <ul style="list-style-type: none">• FY03 (3/15-4/30) - \$1.2 million• FY04: \$8.5 – 9.5 million (less \$1 million for position replacement pool)• FY05: (same as FY04) <p>Estimated Cost:</p> <ul style="list-style-type: none">• Retirement contributions increased by 3.25 percentage points of payroll for 15 years.
August 8, 2002	<p>The city manager proposed to the Board of Trustees of Employees' Retirement System (the board) that the Retirement System actuaries calculate the cost of various retirement incentives.</p>
August 13, 2002	<p>OMB discussed the proposal with Segal Company. The actuary recommended:</p> <ul style="list-style-type: none">• analyzing salaries by age groups (50-54, 55-59, and 60+)• offering one program• targeting the incentive to the biggest and best departure group• freezing positions• aiming for a targeted head count
August 23, 2002	<p>Segal Company outlined a fee and engagement proposal for an early retirement study. Segal proposed about 63 hours work with fees between \$13,000-\$15,000 (plus travel costs). Each additional window design would</p>

	cost an additional \$2,000-\$2,500.
August 27, 2002	The city manager requested access to retirement system data in order to conduct cost studies. The city manager pledged to present retirement incentives to the board if the city decides to proceed with offering the incentives. The board unanimously passed a motion to grant the city access to the data.
September 24, 2002	The budget officer approved the Segal Company engagement proposal with additional language that each valuation of a window design would take 10-15 hours.
September 24, 2002	Segal Company presented the Actuarial Valuation Report as of May 1, 2002, to the board. The report assesses the retirement system's financial condition and the adequacy of scheduled city contributions. Segal Company reported that while the plan remains fully funded, the surplus has declined from \$80 million on May 1, 2000, to \$3 million. Segal Company stressed that the board and city must develop a funding strategy to meet all future obligations.
	The board discussed potential ramifications of a retirement incentive, including the appropriate payback period. The board agreed to notify the city that the assumed scheduled city contribution rate for general employees was expected to be at least 9.5% beginning May 1, 2004. (City's current contribution is 6%).
October 7, 2002	Segal Company provided an initial draft report describing the proposed design to OMB. The report identified the primary objective of the retirement incentive as reducing the workforce by about 330 active general employees. An additional objective was to provide a "soft-landing" for longer service employees.
	The report noted that 330 employee retirements would require a 73 percent election rate for the window and that to achieve such a high election rate, the replacement ratio (retirement pay as a percent of current pay) would need to be higher than currently available.
	Eligibility: All active general employee members of the retirement system who would be eligible for normal, optional or early retirement as of December 20, 2002; and any member who would be eligible with two additional years of service. The draft identified 454 members who would be eligible. Most eligible members (414) are under age 65.
	Proposed benefit changes: <ul style="list-style-type: none"> • Pre age 65: add two years of service; remove 70 percent cap; remove early retirement reduction; add an annuity of \$50/month per year of service to age 65. • Age 65 or older: add five years of service; remove the 70 percent cap.
	The rationale for the temporary annuity is to act as a bridge until the retiree is eligible for Medicare. The

consultants note that the proposal would result in employees under 65 with 27 or more years of service receiving higher retirement pay than current pay.

The draft did not estimate cost.

October 17, 2002

Segal Company described two proposed scenarios.

Scenario One:

Expands the pool of members eligible from 454 to 591. Most eligible members (553) are under age 65.

Eligibility: All active general employee members of the retirement system who have five or more years of vesting service and would be eligible for normal, optional or early retirement during the period from December 20, 2002, to March 31, 2003; and any member who would meet the requirements for normal, optional or early retirement with two additional years of service.

Proposed benefit changes

- Pre age 65: adds two years of service; adds a temporary annuity to age 65 of \$50 per month per year of service; 70 percent cap is increased to 80 percent; removes early retirement reduction.
- Age 65 or older: adds five years of service; 70 percent cap is increased to 80 percent.

Estimated Cost:

- Retirement contributions increased by 2.8 percentage points of payroll for 15 years.

Scenario Two

Expands the pool of eligible members from 591 in scenario one to 619. (All of the increase is in the under age 65 group).

Eligibility: All active general employee members of the retirement system who have five or more years of vesting service and would be eligible for normal, optional or early retirement during the period from December 20, 2002, to March 31, 2003; and any member under age 65 who would be eligible with three added years of service or any member 65 or older who would be eligible with two added years of service.

Proposed Benefits:

- Pre age 65: adds three years of service; adds a temporary annuity to age 65 of \$25 per month per year of service; increases cap from 70 to 80 percent; removes early retirement reduction
 - Age 65 or older: adds five years of service; increases cap from 70 to 80 percent.
-

Estimated Cost:

- Retirement contributions increased by 2.28 percentage points of payroll for 15 years.

October 22, 2002

The city manager told the board that the city was exploring options to reduce payroll, including offering retirement incentives to about 300 active employees to help achieve savings of around \$8.5 million in the next fiscal year. He said that he expected any incentive program would add service, remove early retirement penalties and provide an extra temporary annuity until age 65. He said he would seek the board's support regarding funding arrangements for the incremental cost prior to introducing an ordinance.

OMB reviewed Segal Company's preliminary analysis and determined that some of the scenarios would achieve city budget goals if the cost could be funded over 10 years.

October 23, 2002

Segal Company described three proposed scenarios.

The first two scenarios are the same as described in the October 17th memo.

Scenario Three: eligibility requirements are the same as scenario one.

Proposed benefit changes:

- Pre age 65: adds five years of service; adds a temporary annuity to age 65 of \$300 per month; increases cap from 70 to 80 percent; removes early retirement reduction.
- Age 65 or older: adds five years of service; increases cap from 70 to 80 percent.

Estimated Cost:

Retirement contributions increased by 2.12 percentage points of payroll for 15 years.

November 8, 2002

Segal Company described proposed scenarios four and five.

Scenario Four: Changes eligibility requirements to take out early retirement, although it adds three years of service. Pool of eligible members is 478 (with 440 under age 65).

Eligibility: All active general employee members of the retirement system who have five or more years of vesting service and would be eligible for normal or optional retirement during the period from December 20, 2002, to March 31, 2003; and any member under age 65 who would be eligible with three added years of service.

Proposed benefit changes:

- Pre age 65: adds five years of service; adds a temporary annuity to age 65 of \$700 per month; increases cap from 70 to 80 percent.
- Age 65 or older: adds five years of service; increases cap from 70 to 80 percent.

Estimated Cost:

- Retirement contributions increased by 2.08 percentage points of payroll for 15 years.

Scenario Five: Increases the number of years vesting service necessary to be eligible, removes those eligible for early retirement, but adds three years of service and three years of age. Pool of eligible members is 588 (with 559 under age 65).

Eligibility: All active general employee members of the retirement system who have ten or more years of vesting service and would be eligible for normal or optional retirement during the period from December 20, 2002, to March 31, 2003; and any member who would meet the requirements with three additional years of service and three years of age.

Proposed benefit changes:

- Pre age 65: adds three years of service plus a temporary annuity to age 65 of \$300 per month; increases cap from 70 to 80 percent.
- Age 65 or older: Adds three years of service, increases cap from 70 to 80 percent.

Estimated Cost:

- Retirement contributions increased by 1.55 percentage points of payroll for 15 years.

November 14, 2002

Segal Company provided the cost statement of proposed changes for scenario five.

OMB analyzed the additional contributions to the retirement system that would be required to pay for scenarios 4 and 5 under different amortization periods (5, 10, 15 years). OMB concluded that scenario 5 would require increasing city contributions by 2.47 percentage points of payroll if the amortization period is 10 years.

OMB analyzed the budgetary impact of scenario 5 including hire-back ratios needed to reach savings of \$8.5 million when different percentages (75%, 60%, 47%) of eligible employees accept the incentive, and the estimated savings when hire-back ratio is 10% but different percentages (75%, 60%, 47%) of eligible employees accepting the incentive

OMB calculated net potential payroll savings of \$163 million assuming that 75 percent of eligible employees retire and the city fills 10 percent of positions funded by the general fund, 50 percent of positions funded by enterprise funds, and 100 percent of positions funded by other funds.

Fact sheet (undated) describes scenario 5 and estimates the cost of incremental pension contributions to be paid over ten years to be \$41 million and the net savings to be \$163 million over ten years. Attachments (dated 11/14/02) show the number eligible employees by fund; number of eligible employees by department; and calculations for cost savings.

November 14, 2002

The city manager drafted a memo to the Mayor and City Council recommending scenario five as the least costly option studied.

November 15, 2002

The city manager told the board that he had presented the city council with a proposal on November 14, 2002, to adopt a retirement incentive window program for the system. The proposed package was the least expensive of five scenarios the Segal Company developed, and would enable the city to achieve general fund payroll and related savings of \$8.5 million in the upcoming fiscal year. About 588 members would be eligible to retire under the program during a three month window. The estimated cost of the incentive would be \$36 million (present value) if 75 percent of those eligible elect to participate. The cost would be paid to the system over a 10 year period, beginning May 1, 2003, as a supplemental contribution of 2.47% of remaining covered payroll.

Staff explained specific provisions of the program, including eligibility, incentives, and benefits, and distributed information about the proposal's expected financial impact on the city. Staff noted savings would diminish if more of the vacated positions were filled.

The board discussed the proposal, reviewed funding of the liability associated with the proposal, and discussed the city's plans to restore base funding to a level approximating the normal cost of the plan. The city manager indicated that present plans called for the base contribution rate to increase to 7% of covered pay in January 2004, and to rise to increments thereafter to 9.5% in July 2005. A board member expressed reservations about the degree of dedication that future administrations might have. The board supported the proposed retirement incentive window program, with one member opposed.

Appendix B: Benefit calculations for hypothetical employees.

We created four hypothetical employees to illustrate the differences in annual retirement benefits under current retirement system and under the proposed incentive. We assumed that employees would convert leave to years of service unless they were at the maximum percent. Historically, most employees choose to have leave paid out rather than converted to service. We also assumed that employees were at or near the top of their salary range.

Employee 1 – Married. Eligible for early retirement under current system.

Monthly Final Average Compensation	Years Service	Age	Leave Hours
\$3,850	21	57	258
	Annual Benefit	Percent of Final Average Compensation	
Under Current System	\$13,565	29.4%	
Under Proposed Incentive	\$28,253	61.2%	
After Age 65	\$24,653	53.4%	

Employee 2 – Unmarried. Not eligible for early retirement under current system.

Monthly Final Average Compensation	Years Service	Age	Leave Hours
\$4,651	22	54	930
	Annual Benefit	Percent of Final Average Compensation	
Under Current System	n/a		
Under Proposed Incentive	\$37,492	67.2%	
After Age 65	\$33,892	60.7%	

Employee 3 – Married. Eligible for retirement without penalty under current system.

Monthly Final Average Compensation	Years Service	Age	Leave Hours
\$3,041	29	51	634
	Annual Benefit	Percent of Final Average Compensation	
Under Current System	\$23,748	65.1%	
Under Proposed Incentive	\$29,537	80.9%	
After Age 65	\$25,937	71.1%	

Employee 4 – Married. Eligible for retirement without penalty under current system.

Monthly Final Average Compensation	Years Service	Age	Leave Hours
\$12,122	36	63	1843
	Annual Benefit	Percent of Final Average Compensation	
Under Current System	\$104,225	71.6%*	
Under Proposed Incentive	\$122,371	84.1%**	
After Age 65	\$118,771	81.6%	

* Assuming the employee would take leave payout when achieving the maximum benefit.

** Assuming the employee would convert a portion of leave to achieve maximum.

Appendix C: Copies of summary documents from the budget office.

Summary Three - A				
Retirement Incentive Program -- Eligible as of 03/31/03				
By Adding Three Years of Age and Three Years of Service				
<u>Estimated Eligible for Retirement Incentive Program</u>				
General Fund	225			
GF Supported	87			
Total - General Fund Supported	312			
Enterprise Funds	202			
Other Funds	39			
Grand Total	553			
	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
Salary and Benefits	\$ 20,629,937	\$ 12,055,023	\$ 2,422,886	\$ 35,107,846
Vacation and Sick Leave Payouts	\$ 5,970,524	\$ 3,345,298	\$ 545,051	\$ 9,860,873
<u>75 Percent Scenario</u>	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
GF Supported Salary & Benefits (75%)	\$ 15,472,453	\$ 9,041,267	\$ 1,817,164	\$ 26,330,885
Less: Increased Contribution Rate (2.47%)	(1,894,011)	(1,106,758)	(222,442)	(3,223,211)
Less: Cost of hire-backs (32.5%; 50%; 50%)	(5,028,547)	(4,520,634)	(908,582)	(10,457,763)
Estimated Savings (payouts excluded)	\$ 8,549,895	\$ 3,413,876	\$ 686,140	\$ 12,649,911
Payouts at 75%	(4,477,893)	(2,508,974)	(408,788)	(7,395,655)
Number of Retirees	234	152	29	415
Number of Positions @ \$35,000 to be Restored	144	129	26	299
<u>60 Percent Scenario</u>	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
GF Supported Salary & Benefits (60%)	\$ 12,377,962	\$ 7,233,014	\$ 1,453,731	\$ 21,064,708
Less: Increased Contribution Rate (2.47%)	(1,515,209)	(885,406)	(177,954)	(2,578,569)
Less: Cost of hire-backs (19%; 50%; 50%)	(2,351,813)	(3,616,507)	(726,866)	(6,695,186)
Estimated Savings (payouts excluded)	\$ 8,510,941	\$ 2,731,101	\$ 548,912	\$ 11,790,953
Payouts at 60%	(3,582,315)	(2,007,179)	(327,030)	(5,916,524)
Number of Retirees	187	121	23	332
Number of Positions @ \$35,000 to be Restored	67	103	21	191
<u>47 Percent Scenario</u>	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
GF Supported Salary & Benefits (47%)	\$ 9,696,071	\$ 5,665,861	\$ 1,138,756	\$ 16,500,688
Less: Increased Contribution Rate (2.47%)	(1,186,977)	(693,605)	(139,405)	(2,019,986)
Less: Cost of hire-backs (0.0%; 50%; 50%)	-	(2,832,930)	(569,378)	(3,402,309)
Estimated Savings (payouts excluded)	\$ 8,509,094	\$ 2,139,325	\$ 429,974	\$ 11,078,393
Payouts at 47%	(2,806,146)	(1,572,290)	(256,174)	(4,634,610)
Number of Retirees	147	95	18	260
Number of Positions @ \$35,000 to be Restored	-	81	16	97
Final Scenario 11-08-02 scenario 5 with City Pay Information.xls: Summary Three - Dollars by Fund				
			11/14/2002 9:11 AM	

Summary Three - B
Retirement Incentive Program -- Eligible as of 03/31/03
By Adding Three Years of Age and Three Years of Service

Estimated Eligible for Retirement Incentive Program

General Fund	225
GF Supported	87
Total - General Fund Supported	312
Enterprise Funds	202
Other Funds	39
Grand Total	553

	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
Salary and Benefits	\$ 20,629,937	\$ 12,055,023	\$ 2,422,886	\$ 35,107,846
Vacation and Sick Leave Payouts	\$ 5,970,524	\$ 3,345,298	\$ 545,051	\$ 9,860,873

<u>75 Percent Scenario</u>	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
GF Supported Salary & Benefits (75%)	\$ 15,472,453	\$ 9,041,267	\$ 1,817,164	\$ 26,330,885
Less: Increased Contribution Rate (2.47%)	(1,894,011)	(1,106,758)	(222,442)	(3,223,211)
Less: Cost of hire-backs (10%; 50%; 50%)	(1,547,245)	(4,520,634)	(908,582)	(6,976,461)
Estimated Savings (payouts excluded)	\$ 12,031,197	\$ 3,413,876	\$ 686,140	\$ 16,131,213
Payouts at 75%	(4,477,893)	(2,508,974)	(408,788)	(7,395,655)
Number of Retirees	234	152	29	415
Number of Positions to be Restored	23	76	15	114

<u>60 Percent Scenario</u>	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
GF Supported Salary & Benefits (60%)	\$ 12,377,962	\$ 7,233,014	\$ 1,453,731	\$ 21,064,708
Less: Increased Contribution Rate (2.47%)	(1,515,209)	(885,406)	(177,954)	(2,578,569)
Less: Cost of hire-backs (10%; 50%; 50%)	(1,237,796)	(3,616,507)	(726,866)	(5,581,169)
Estimated Savings (payouts excluded)	\$ 9,624,957	\$ 2,731,101	\$ 548,912	\$ 12,904,970
Payouts at 60%	(3,582,315)	(2,007,179)	(327,030)	(5,916,524)
Number of Retirees	187	121	23	332
Number of Positions to be Restored	19	61	12	91

<u>47 Percent Scenario</u>	<u>GF Supported</u>	<u>Enterprise</u>	<u>All Other</u>	<u>Total</u>
GF Supported Salary & Benefits (47%)	\$ 9,696,071	\$ 5,665,861	\$ 1,138,756	\$ 16,500,688
Less: Increased Contribution Rate (2.47%)	(1,186,977)	(693,605)	(139,405)	(2,019,986)
Less: Cost of hire-backs (0.0%; 50%; 50%)	-	(2,832,930)	(569,378)	(3,402,309)
Estimated Savings (payouts excluded)	\$ 8,509,094	\$ 2,139,325	\$ 429,974	\$ 11,078,393
Payouts at 47%	(2,806,146)	(1,572,290)	(256,174)	(4,634,610)
Number of Retirees	147	95	18	260
Number of Positions to be Restored	15	47	9	71

Final Scenario 11-08-02 scenario 5 with City Pay Information.xls: Summary Three - Dollars by Fund

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Ten Year Budgetary Impact
Retirement Incentive 3 + 3

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Ten Year Total
Annual Payroll before Retirement Incentive	\$146,816,820	\$154,157,661	\$161,865,544	\$169,958,821	\$178,456,762	\$187,379,600	\$196,748,580	\$206,586,009	\$216,915,310	\$227,761,075	\$1,846,646,184
Annual Payroll after Retirement Incentive	130,803,257	137,133,420	143,990,091	151,189,595	158,749,075	166,686,529	175,020,855	183,771,898	192,960,493	202,608,518	\$1,642,713,731
Gross Potential Salary Retirement	16,213,563	17,024,241	17,875,453	18,769,226	19,707,687	20,693,072	21,727,725	22,814,111	23,954,817	25,152,558	\$203,932,453
Less: Required Pension Increase	3,223,211	3,384,371	3,553,590	3,731,269	3,917,833	4,113,724	4,319,410	4,535,381	4,762,150	5,000,257	\$40,541,196
Net Potential Payroll Savings with Retirement											\$163,391,257

Assumptions:

Actuarial Payroll before Retirement continues to grow at 5% per annum.

75% of Eligible Employees exercise retirement options.

Actuarial Payroll after Retirement is achieved with only actuarial hireback assumptions (10% GF, 50% enterprise, 100% fee/grant/charge-out positions)

Note: additional employees hired back above actuarial projections will narrow citywide savings over term of repayment.

Fewer than 75% exercise retirement option will narrow citywide savings and decrease required pension contributions over term of repayment.