Early Retirement Incentives

Governments occasionally offer early retirement incentives to employees as a strategy to reduce payroll costs or stimulate short-term turnover among staff. These incentives are temporary, usually offered during a window that covers a specific period of time. They might increase the economic value of the standard retirement benefit or be a one-time payment that doesn’t affect an ongoing defined benefit or defined contribution retirement benefit, or they can provide other financial incentives to facilitate retirement before an employee’s otherwise planned retirement.

Robert Biles, chief financial officer for the Utah Transit Authority, argues that these incentives have their uses.

Melanie Purcell, finance director for the Town of Pecos City, Texas, argues against the use of early retirement incentives.
Early retirement incentives are too problematic to be a useful tool for most state and local governments. The full costs are easily underestimated, and the projected savings can be lower than projected and below what is necessary to make the program work to the organization’s advantage. There are many issues that can keep an early retirement incentive strategy from accomplishing what the government intends.

A cost-benefits analysis can easily miss some of the direct and indirect impacts of the strategy—for example, the cost of hiring and training new workers, or of accrued leave cash-outs. Governments may also experience increased long-term costs to the retirement system because employees who accept the early retirement incentive begin drawing their retirement benefits earlier than funding strategies identified. These additional costs can make an early retirement incentive strategy much more expensive overall than expected.

Early retirement incentives often assume savings based on replacing long-term, highly compensated staff with new, lower-paid staff or contracted services. This can be a positive development in the short term, but newly hired staff tend to get raises more often than longer-term employees, so the cost savings do not last. New staff often require better pay and/or benefits than expected because of unanticipated market factors.

There’s also the issue of complexity. Early retirement incentives require careful cost-benefits analysis, budgetary analysis, legal analysis, and actuarial

**POINT**

**It's Too Risky**

*By Melanie Purcell*

In the past, expensive features weighed down many early retirement incentive plans. Proponents of these early retirement incentives inadequately explained to government officials the long-term costs of granting incentives such as additional service years, higher multiplier percentages, or other long-term benefits. Based upon these past experiences, GFOA issued its advisory on the use of early retirement incentives, which recommends that governments not use them. Today, however, almost every finance professional understands the long-term costs of these kinds of incentives and knows the importance of engaging an actuary to fully understand these long-term financial costs.

But governments can design and implement cost-effective early retirement incentives. Here is an example from my time in the City of Tacoma, Washington.

In 2011, because of the long-lasting decline in revenues brought about by the 2008 Great Recession, Tacoma needed to reduce its employee headcount by approximately 60 positions. City officials’ first thought was to take the normal, well-worn reduction-in-force (RIF) pathway. But another possibility beckoned. In the short time available, we designed a cost-effective early retirement incentive offering a one-time $12,000 benefit (the amount needed to cover an employee’s cost of health insurance for a 12-month period). Using

**COUNTERPOINT**

**Incentives Have a Place in the Finance Officer’s Toolbox**

*By Robert Biles*

In an effort to reduce costs and maintain a competitive edge, many cities have used early retirement incentives to offset the risks and uncertainties associated with reducing the size of the workforce. When designed and implemented effectively, early retirement incentives can be a valuable tool in the finance officer’s toolbox. However, it is important to carefully consider the potential risks and liabilities associated with these incentives.

Early retirement incentives should be carefully evaluated to ensure that they are a cost-effective solution to the financial challenges faced by the city. This requires a thorough analysis of the costs and benefits of the incentive, including the potential long-term financial impacts. It is also important to consider the legal implications of offering early retirement incentives, including the implications for pension obligations and other long-term benefits.

In conclusion, early retirement incentives can be a useful tool for cities looking to reduce costs and maintain a competitive edge. However, it is important to carefully consider the potential risks and liabilities associated with these incentives, and to ensure that they are designed and implemented in a way that is consistent with the city’s financial goals and objectives.
Early retirement incentives can be a cost-reduction strategy for local governments. In this edition of Point/Counterpoint, we’ve heard from members on both the pro and con sides. Now it’s your turn. What do you think? Are you pro-incentive use? Or are you opposed? What consequences have you seen? Contribute to our digital debate by commenting at gfoa.org/gfr/debate.

**POINT | Melanie Purcell**

Analysis to determine their impacts. The effort of implementing them is extensive and must be strictly consistent, despite political pressures. Analysis of early retirement incentives often focuses on the short-term savings and not the long-term impact to the organization, such as changes in service delivery after employees retire and the organization loses significant institutional knowledge. Disruption to services during the transition can be greater than expected, depending on the positions being vacated. These disruptions may also not be immediately visible but instead result in dissatisfaction among customers and employees over a longer timeline.

Participation in early retirement incentive offerings might be lower or higher than expected. Either way, the government might not see the expected cost savings, might have to pay more in incentives than anticipated, and/or might experience more of an impact on services than planned for.

For these reasons, GFOA’s *The Use of Early Retirement Incentives* advisory recommends never using early retirement incentives—it’s just too risky. (GFOA created a list of common risks associated with early retirement incentives. Both are available at gfoa.org.)

**Robert Biles** has been the chief financial officer of Utah Transit Authority since September 2012. His primary duties include accounting, budget preparation and monitoring, investments, bond issuance, supply chain and procurement administration, real estate and transit-oriented development, and fares policy and collections.

**Tell Us Your Side**

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**COUNTERPOINT | Robert Biles**

A fixed upfront early retirement incentives cost meant that full payback for positions varied from three to six months.

Heading into the early retirement incentives, we asked several questions:

- Would we lose too much knowledge if too many employees in one department left?
- Would staff members who were close to retirement accept this incentive and retire early?
- Did we accurately anticipate all of the long-term costs?

We ended up with favorable answers for all of them, proving that it is possible to design an early retirement incentive that accomplishes its stated goals.

In the final count, 63 employees enrolled in the early retirement incentive. These added vacancies made it possible for almost every employee on the RIF list to find a new position. Furthermore, the city was able to make a positive impact on 120 employees and their families while also minding the bank.

An early retirement incentive is a special tool meant to be used in special circumstances like those we are now facing. Should you have it in your toolbox? Yes! 

**Melanie Purcell** has served local governments for over 26 years and is currently the finance director for the Town of Pecos City, TX. She is also a reviewer for GFOA’s Budget Presentation Awards and a member of the GFOA Committee on Retirement and Benefit Administration and CPFO Council.