

COUNCIL WORKSHOP ITEM

ITEM: Illinois Municipal Retirement Fund (IMRF) Early Retirement Incentive / 5+5 Program

DATE: February 19, 2003

PREPARED BY: David Van Vooren, Deputy Manager of Finance and Administration
Michael Baker, Assistant to the Village Manager

PURPOSE: Presentation and Discussion of the IMRF Early Retirement Incentive Program

DISCUSSION:

Background

The Illinois Municipal Retirement Fund (IMRF) covers all full-time and part-time personnel working more than 1,000 hours per year who are not categorized as sworn police or fire personnel. The IMRF fund collects money to fund member pensions from three sources: employee contributions, employer contributions, and investment income on fund reserves. The Village (employer) pays its contribution through a percentage rate established by IMRF. For FY2003-04, the Village is budgeting at a rate of 9.25% of total IMRF salaries, or approximately \$815,000, to cover the employer contribution of the existing pension liability for the upcoming fiscal year.

In 1996, IMRF developed an early retirement plan, commonly known as the Early Retirement Incentive (ERI) or 5+5 Program. The ERI or 5+5 Program is named as such because the program allows for early retirement by offering eligible employees the opportunity to purchase up to an additional five years of service credit plus an additional five years of age, hence the name "5+5". To be eligible for retirement under the 5+5 Program, an employee must be 50 years of age and have 20 years of service contributions to the fund. He or she must also pay a member cost component based on the length of service credit purchased. There is a one-year time window within which the employee must retire to receive benefits under the program.

A two-page description of the program provided by IMRF has been attached to this report to better explain the 5+5 in detail. In addition, a representative from IMRF will be in attendance at the Council Workshop to provide additional explanation or answer any questions.

Personnel Eligibility

If the 5+5 program were to be adopted to commence on April 30, 2003 as proposed, 20 Village employees would be eligible to retire with the early retirement incentive. A list of the positions held by those employees that meet the criteria has been attached. The last time that the Village adopted the 5+5 Program, in November 1997, approximately 50% of eligible Village employees took advantage of it.

Since IMRF coverage also extends to the Downers Grove Public Library, with the Village acting as the recognized agent of IMRF, their employees who meet the qualifications would also be eligible to retire and receive the benefits of the program. The Library has 12

employees who would be eligible if the retirement window were to open on April 30, bringing the total number of eligible Village and Library employees to 32. Village staff has met with the Library Director to discuss the possible adoption of the program and its effects on staffing.

5+5 Program Costs

Increases in Employer IMRF Contribution

As stated above, the Village pays the employer contribution of pension liability based on a rate established by IMRF. Employees also contribute a percentage of salary toward payment of the liability. Those employees who are eligible for the 5+5 program and retire during the established 1-year window, thereby receiving added pension benefits as a result of the program, will cause the Village's overall pension liability to increase. This added liability, which would necessitate an increase in employer contributions, represents the direct costs of the program.

IMRF has calculated four separate cost scenarios (see attached) showing the increased contribution to IMRF over a period as short as five years and up to ten years based on varying levels of participation by employees in each or both organizations. For example, as depicted in Scenario 1, which assumes 50% utilization of the program by only the eligible Village employees, the IMRF contribution would increase by \$265,862 per year if amortized over a five-year period. If amortized over a ten-year period, the increase in liability would result in an increased annual contribution of \$143,120 for ten years. These increased liability costs would not affect the Village's IMRF rate until January 1, 2004, at the start of the first calendar year after the close of the one year window.

Sick and Vacation Payouts

A final cost component in offering this program involved the payment of accrued sick and/or vacation leave to all participants. All but one of the Village employees eligible for 5+5 Program were hired prior to December 1993, which means that nearly all qualify to have up to 960 hours of accrued sick time paid out upon separation or retirement. This being said, offering the 5+5 may cause a higher than average occurrence of payouts during the retirement window of 2003-04. State law provides that a portion of the employees' sick and vacation payouts must be used to pay for the member cost component associated with the purchase of additional service credit. In addition, Village policy currently allows employees to apply a portion of their sick and vacation leave accruals to cover health insurance premiums.

5+5 Program Benefits/Savings

This program will result in savings to the Village only if the personnel expenses eliminated as a result of the positions left vacant by retirees exceed the costs of the of the increased IMRF contribution. To the extent that the Village is able to eliminate a majority of the positions left vacant by employees who accept the 5+5 program, staff expects that substantial savings in the magnitude of several hundred thousand dollars per year can be achieved. Actual savings, especially in the first year of the program, will depend on several unknown variables, including the number of employees that take advantage of the program, the timing of those employees' actual retirements, and the feasibility of eliminating those vacant positions.

In addition to the potential monetary benefits, the 5+5 Program will afford the Village Manager greater opportunities in his efforts in restructuring the organization to achieve higher levels of productivity, efficiency and effectiveness in service delivery. The program also will allow the Village to generate savings in the area of personnel expenses, which currently consumes over 75% of general fund resources, before undertaking more severe measures

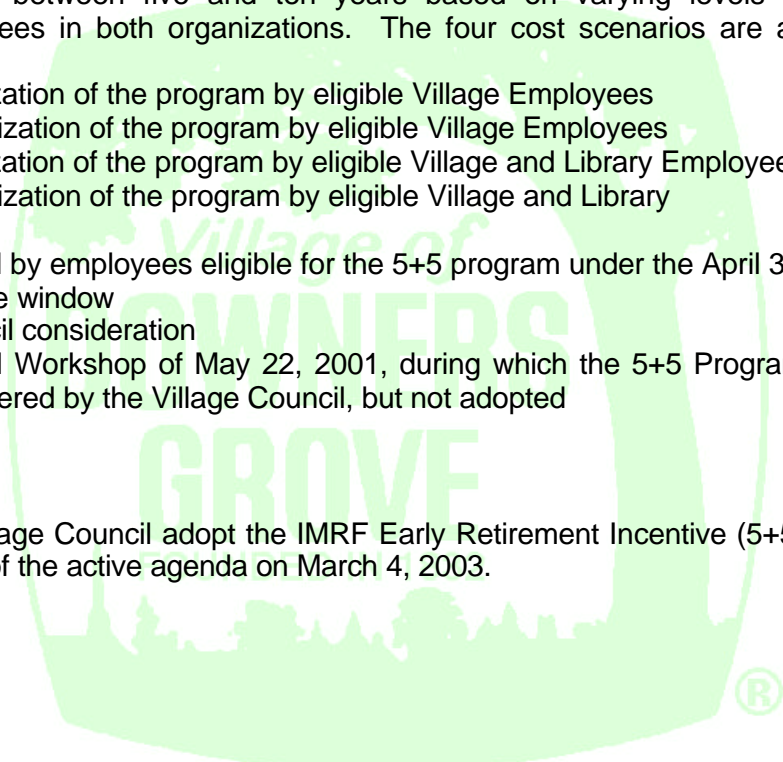
such as furloughs or reductions in force. If the potential savings anticipated from the 5+5 do not materialize, however, the Village Manager may be put in a position where he has no choice but to consider the alternate and more painful means of reducing personnel expenses in areas that span the entire employee population.

ATTACHMENT:

- An overview and explanation of the 5+5 Program from IMRF
- Four separate cost scenarios showing the increased Village/Library contribution to IMRF over a period of between five and ten years based on varying levels of participations by employees in both organizations. The four cost scenarios are as follows:
 - Scenario 1 – 50% utilization of the program by eligible Village Employees
 - Scenario 2 – 100% utilization of the program by eligible Village Employees
 - Scenario 3 – 50% utilization of the program by eligible Village and Library Employees
 - Scenario 4 – 100% utilization of the program by eligible Village and Library Employees
- A list of the positions held by employees eligible for the 5+5 program under the April 30, 2003 – April 30, 2004 time window
- Draft resolution for Council consideration
- Minutes from the Council Workshop of May 22, 2001, during which the 5+5 Program was most recently considered by the Village Council, but not adopted

RECOMMENDATION:

Staff recommends that the Village Council adopt the IMRF Early Retirement Incentive (5+5) Program as proposed as part of the active agenda on March 4, 2003.





IMRF Early Retirement Incentive Program

Introduction

The accompanying report illustrates the potential effects of the IMRF Early Retirement Incentive (ERI) Program on your unit of government. The enclosed report is an **estimate** which illustrates the additional liability (cost) created if your employer offers the ERI program. This cost may be partially offset if the ERI results in payroll and fringe benefit savings. Your employer is in the best position to determine whether or not the ERI will generate any overall savings. Participation in the ERI by any unit of government is voluntary and at the discretion of the governing body.

The effect of the ERI on any particular unit of government depends on the:

- number of eligible members
- number of members electing to retire under the ERI
- employer's re-staffing plans
- salary and fringe benefit costs for replacement employees.

Because of differing demographics and other local conditions, not all employers will be able to save money under the ERI program.

Data used to produce the report

The attached report was based upon December 31, 2001 data (our most current). The data was adjusted to the extent possible for employees who have already retired, who are expected to retire before the beginning of the ERI window, or who have service with Illinois reciprocal public pension systems. Independent actuaries Gabriel, Roeder, Smith and Company created the software for this report. Your unit of government provided input variables that were selected for this report. If the input variables do not reflect actual practice if/when your employer adopts the program, the results may vary considerably.

Timing of costs

Increased retirement costs due to ERI are reflected in future IMRF employer contribution rates. If your employer adopts the ERI program, the cost of the ERI will be based on actual experience and will be reflected in the *second* calendar year's rate. For example, if your employer adopts ERI in 2002 and one of your employees retires under it, the cost for ERI will begin to be reflected in your 2004 employer rate.

We will charge you employer 7.50% interest every January 1st that your employer has an outstanding ERI balance. In the above example, the first interest charge would be January 1, 2003. This report reflects *estimated* costs of the ERI.

Summary of Provisions

Eligible Members

To be eligible to retire under ERI, a member must be at least age 50 years old and have 20 or more years of IMRF service credit by their date of retirement. The 20 years of service can include service credit earned with another IMRF employer and/or reciprocal service credit. These ERI requirements apply to regular IMRF members, Sheriff's Law Enforcement Personnel (SLEP) members, and Elected County Officials (ECO).

Eligible members include IMRF members who were actively participating in IMRF on the effective date of their employer's ERI program. A member is considered active if he or she is on layoff status with right of re-employment, on IMRF Benefit Protection Leave of Absence, or receiving IMRF disability benefits for less than two years.

Retirement Incentives

Eligible members may purchase up to five years of IMRF service credit. The member's age at retirement will be increased by the amount of service credit purchased. For example, if a 50-year-old member purchases five years (or 60 months) of service credit, his or her age will be increased to age 55 for the purposes of determining IMRF retirement benefits

Note: A regular IMRF member receives the maximum pension after earning 40 years of service credit. Therefore, regular members with less than 35 years of service credit should purchase all five years of ERI service.

Member Cost

For each month of service credit the member purchases, he or she will pay 4.5 percent (6.5 percent for SLEP, 7.5% for ECO) of the member's highest 12 consecutive months of salary within the final rate of earnings period.

For more information on member cost, please refer to the member ERI booklet that can be downloaded at www.imrf.org.

Retirement Dates

The ERI legislation provides flexibility for employers by allowing the governing body to determine when a member retires (terminates employment). Employers are to give a member at least 30 days notice of his or her designated termination date. The member may waive the 30-day notice.

A member may terminate up to one year from the effective date of the employer's ERI program. However, a member must file his or her Notice of Intent to Retire Under ERI (IMRF Form 5.21) with the retirement application (IMRF Form 5.20).

| | | |
|-------------------------------------|-------------------|--|
| Example: | | |
| Board meeting adopting program | December 15, 2002 | Member files Notice of Intent by retirement date* |
| Effective date of ERI program | December 31, 2002 | Last eligible termination date: December 31, 2003# |

* **Best practice:** Encourage the member to file a "Letter of Intent" (IMRF Form 5.21) as soon as your employer adopts the ERI and the member decides to retire under it.

If a member requests to retire on or before June 30, so he or she can receive the following year's Supplemental Benefit Payment ("13th check"), your employer is required by law to allow the member to do so.

Cost estimate

Your IMRF field representative must prepare a cost estimate and you **must** share that cost estimate with your employer's governing body before it adopts ERI.

Also, the cost estimate must be based on the same time period as the ERI being considered by your governing body. If your employer does not know when it will offer the ERI, your IMRF Field Representative can prepare multiple cost estimates each using a different time period.

The ERI resolution has been revised to acknowledge the cost estimate requirement. **The cost estimate must be submitted with the resolution.**

For more information on cost estimates, please refer to the employer ERI booklet that can be downloaded at www.imrf.org.

Future ERI programs

An employer cannot adopt later ERI programs until the cost of the previous ERI is paid in full.

ERI Village Employees--50% utilization

**Actuarial Analysis of The Potential Effect of IMRF's Early Retirement Incentive Program
for 03095 - Village of Downers Grove
Year Window Beginning 04/30/2003**

| Employees Affected By Window* | 50% utilization by Village Employees |
|---|---|
| 1. Presently eligible to retire with full or reduced benefits | |
| a. Number | 9 |
| b. Annual Payroll | \$ 444,289 |
| 2. Number newly eligible to retire | |
| a. Number | 11 |
| b. Annual payroll | \$ 746,752 |
| 3. Across-the-board pay increase since 12/31/2001 | 4.0% |

| IMRF Costs | 11 people utilize program; 5 currently eligible; 6 newly elig. |
|--|---|
| 1. Additional liability created by the window | \$ 1,207,151 |
| 2. First year increase in employer contribution to IMRF based on indicated amortization of liability increase | |
| a. 5 years | \$ 265,862 |
| b. 6 years | \$ 224,892 |
| c. 7 years | \$ 195,643 |
| d. 8 years | \$ 173,728 |
| e. 9 years | \$ 156,712 |
| f. 10 years | \$ 143,120 |

ERI Village Employees

Actuarial Analysis of The Potential Effect of IMRF's Early Retirement Incentive Program for 03095 - Village of Downers Grove

Year Window Beginning 04/30/2003

| Employees Affected By Window* | Village Employees Only |
|---|------------------------|
| 1. Presently eligible to retire with full or reduced benefits | |
| a. Number | 9 |
| b. Annual Payroll | \$ 444,289 |
| 2. Number newly eligible to retire | |
| a. Number | 11 |
| b. Annual payroll | \$ 746,752 |
| 3. Across-the-board pay increase since 12/31/2001 | 4.0% |

| IMRF Costs | |
|--|--------------|
| 1. Additional liability created by the window | \$ 2,199,753 |
| 2. First year increase in employer contribution to IMRF based on indicated amortization of liability increase | |
| a. 5 years | \$ 484,471 |
| b. 6 years | \$ 409,814 |
| c. 7 years | \$ 356,514 |
| d. 8 years | \$ 316,580 |
| e. 9 years | \$ 285,572 |
| f. 10 years | \$ 260,803 |

**Actuarial Analysis of The Potential Effect of IMRF's Early Retirement Incentive Program
for 03095 - Village of Downers Grove
Year Window Beginning 04/30/2003**

| Employees Affected By Window* | | (50% utilization by Village and Library Employees) | |
|---|--|---|---------|
| 1. Presently eligible to retire with full or reduced benefits | | | |
| a. Number | | | 19 |
| b. Annual Payroll | | \$ | 818,678 |
| 2. Number newly eligible to retire | | | |
| a. Number | | | 13 |
| b. Annual payroll | | \$ | 855,399 |
| 3. Across-the-board pay increase since 12/31/2001 | | | 4.0% |

| IMRF Costs | | (50% utilization = 10 already eligible; 7 newly eligible) | |
|---|--|--|------------------|
| 1. Additional liability created by the window | | \$ | 1,670,886 |
| 2. First year increase in employer contribution to IMRF based on indicated amortization of liability increase | | | |
| a. 5 years | | \$ | 367,994 |
| b. 6 years | | \$ | 311,286 |
| c. 7 years | | \$ | 270,800 |
| d. 8 years | | \$ | 240,467 |
| e. 9 years | | \$ | 216,914 |
| f. 10 years | | \$ | 198,100 |

* Persons covered by Elected County Official benefit provisions with this employer were not included in this study.

**Actuarial Analysis of The Potential Effect of IMRF's Early Retirement Incentive Program
for 03095 - Village of Downers Grove
Year Window Beginning 04/30/2003**

| Employees Affected By Window* | | (100% utilization by Village and Library Employees) |
|---|--|---|
| 1. Presently eligible to retire with full or reduced benefits | | |
| a. Number | | 19 |
| b. Annual Payroll | | \$ 818,678 |
| 2. Number newly eligible to retire | | |
| a. Number | | 13 |
| b. Annual payroll | | \$ 855,399 |
| 3. Across-the-board pay increase since 12/31/2001 | | 4.0% |

| IMRF Costs | |
|---|---------------------|
| 1. Additional liability created by the window | \$ 3,135,397 |
| 2. First year increase in employer contribution to IMRF based on indicated amortization of liability increase | |
| a. 5 years | \$ 690,537 |
| b. 6 years | \$ 584,124 |
| c. 7 years | \$ 508,154 |
| d. 8 years | \$ 451,234 |
| e. 9 years | \$ 407,037 |
| f. 10 years | \$ 371,733 |

* Persons covered by Elected County Official benefit provisions with this employer were not included in this study.

**IMRF Early Retirement
Incentive Program**

| Position | Cost Center | Total Compensation (Salary and Benefits) | Accumulated Sick Leave Payout * | Accumulated Vacation Leave Payout | Total Potential Payout |
|--|--------------------|---|--|--|-------------------------------|
| General Fund Employees | | | | | |
| Admin Tech II (Part-time) | 121 | | | | |
| Building Maint. Worker II | 142 | | | | |
| Admin Secretary II | 211 | | | | |
| General Account Clerk | 261 | | | | |
| Accts Receivable Clerk | 261 | | | | |
| Accounting Manager | 261 | | | | |
| Director of Public Works | 311 | | | | |
| PSRT | 333 | | | | |
| Maintenance Worker II | 343 | | | | |
| Director of Planning Svcs | 411 | | | | |
| Community Support Mgr | 633 | | | | |
| VOC Manager | 681 | | | | |
| Director of Soc/Hlth Svcs | 821 | | | | |
| Subtotal, General Fund | | \$ 1,029,691 | \$ 299,175 | \$ 48,308 | \$ 347,483 |
| Parking Fund Employees | | | | | |
| CSO I | 665 | | | | |
| Subtotal, Parking Fund | | \$ 50,236 | \$ 1,520 | \$ 2,651 | \$ 4,170 |
| Water Fund Employees | | | | | |
| Manager II - Water | 391 | | | | |
| Water Supply Specialist | 391 | | | | |
| Maintenance Worker I | 391 | | | | |
| Maintenance Worker II | 391 | | | | |
| Maintenance Worker I | 391 | | | | |
| AMR Manager | 393 | | | | |
| Subtotal, Water Fund | | \$ 535,371 | \$ 145,422 | \$ 24,567 | \$ 169,989 |
| Total, All Funds, (excluding Library) | | \$ 1,615,298 | \$ 446,117 | \$ 75,525 | \$ 521,642 |

RESOLUTION NO. _____

**A RESOLUTION ADOPTING AN EARLY
RETIREMENT INCENTIVE PROGRAM FOR
EMPLOYEES OF THE VILLAGE OF DOWNERS GROVE
IN THE ILLINOIS MUNICIPAL RETIREMENT FUND**

WHEREAS, Section 7-141.1 of the Illinois Pension Code provides that a participating employer may elect to adopt an early retirement incentive program offered by the Illinois Municipal Retirement Fund by adopting a resolution or ordinance; and

WHEREAS, The goal of adopting an early retirement program is to realize a substantial savings in personnel costs by offering early retirement incentives to employees who have accumulated many years of service credit; and

WHEREAS, Implementation of the early retirement program will provide a budgeting tool to aid in controlling payroll costs; and

WHEREAS, The Village Council of the Village of Downers Grove has determined that the adoption of an early retirement incentive program is in the best interests of the Village of Downers Grove.

THEREFORE BE IT RESOLVED by the Village Council of the Village of Downers Grove that:

(1) The Village of Downers Grove does hereby adopt the Illinois Municipal Retirement Fund early retirement incentive program as provided in Section 7-141.1 of the Illinois Pension Code. The early retirement incentive program shall take effect on April 30, 2003.

(2) In order to help achieve a true cost savings, a person who retires under the early retirement incentive program shall lose those incentives if he or she later accepts employment with any IMRF employer in a position for which participation in IMRF is required or is elected by the employee.

(3) In order to utilize an early retirement incentive as a budgeting tool, the Village of Downers Grove will use its best efforts either to limit the number of employees who replace the employees who retire under the early retirement program or to limit the salaries paid to the employees who replace the employees who retire under the early retirement program.

(4) The effective date of each employee's retirement under this early retirement program shall be set by the Village of Downers Grove and shall be no earlier than the effective date of the program and no later than one year after that effective date; except that the employee may require that the retirement date set by the employer be no later than the June 30 next occurring after the effective date of the program and no earlier than the date upon which the employee qualifies for retirement.

(5) To be eligible for the early retirement incentive under this Section, the employee must have attained age 50 and have at least 20 years of creditable service by his or her retirement date.

(6) The Village Clerk shall promptly file a certified copy of this resolution with the Board of Trustees of the Illinois Municipal Retirement Fund.

Mayor

Passed:

Published:

Attest: _____
Village Clerk

Commissioner Schnell asked whether other communities have permits for the containers. Dr. Goodman said he didn't know the specifics. He suggested that the American Lung Association might have that information.

The Mayor asked that staff research the issue further.

- 7. Audit Proposals.** The Manager asked Finance Director Marty Lyons to address this item.

Marty Lyons, Director of Financial Services, reported on the RFP for audit services. He said the Village bids out every four years for audit services, and this year was especially important as there are many non-routine items anticipated over the next four years. There was a 2-3% difference in the bids received. Regarding the analysis, he said they used weighted analytical tools to look at several areas including cost. They recommend Miller Cooper & Company, a medium-sized firm in governmental accounting. They received the staff's highest ranking in time plan and low cost.

Commissioner Zabloudil asked for an overview of the GASB.

Mr. Lyons said the Government Accounting Standards Board (GASB) has decided that government accounting needs to be on more of a business-like basis of reporting. Now they work on a fund accounting system, which is not seen in private sector accounting. The goal is to slowly move the municipalities to a business-like format. The Village is in Phase 2 due to its population under 100,000.

In response to Commissioner Zabloudil, Mr. Lyons said he will provide reference information to the Council.

The Mayor said he was familiar with four of the other firms. He would also like to know reference experience for Miller Cooper. He said he was concerned that companies working with Phase I cities may not have enough time for Phase 2 Villages. Mr. Lyons asked if they wanted a word format or table format. Commissioner Zabloudil said he would like to see it in table format.

- 8. IMRF Early Retirement Program.** Mr. Lyons said this report was initiated by Manager McCurdy, as he wanted to look at ways to help reorganization in the Village. This is one of the tools used for reorganization. It is a 5+5 program covering non-bargaining or non-sworn employees who are full time or working over 1,000 hours annually. The report lists the advantages to the employees and the benefits to the Village.

Commissioner McConnell said she is not sure there is enough advantage to the Village. There are other ways to accomplish reorganization.

The Mayor said this was initiated by the outgoing Village Manager, and now there is an Acting Village Manager. The new Village Manager will be brought in soon and he thought that Village Manager may want to be part of the decision. The Mayor said he did not see much of a cost savings. He said the new Manager may want to see how he wants to restructure the entire organization. This may be premature at this time.

Mr. Lyons said that this can be a cost-savings measure for the first year. He did not want to give the impression that this is a cost-saving measure, but is a management tool.

Commissioner Sisul asked about the relationship of this proposal to those made in the high schools. Mr. Lyons said they are very similar. In some communities they are listed as cost savings. He said that IMRF recommends replacing staff at 80% of current costs, while he estimated it at 90%. The Village's pay plan created an impossibility at hiring people at 80%. It must be looked at by each entity separately. Some communities may be able to do things that others cannot. It is not always possible to hire people at the bottom rung of a pay scale, and in recent times, it has been very difficult to hire even at the top end. He said he does not have a good answer as to how other communities can justify this.

Commissioner Sisul said that District 99 has had a rather extensive use of the 5+5 Plan. He said Mr. Lyons may want to talk to them about it, and review it with District 58 as well. Mr. Lyons said that schools have a more demographic ebb and flow as well.

Commissioner Sisul said that there are some senior people at the Village who are at a high level. They would have to be replaced with someone with experience and education. He said if they can draw a line of distinction between the school experience and the Village it might help them understand this better. Mr. Lyons said he would contact the schools.

Commissioner Zabloudil said staff did a good job on the analysis. They may have to reduce the permanent staff to accomplish this.

Mr. Lyons also said he would look into what effect unionization has on this issue.

Robin Tryloff, 1217 Parkway, asked about the incoming Village Manager and where the Village is in the process. The Mayor responded that they hired a search firm, and their representative is interviewing the Council members to determine what qualities they are seeking in a Village Manager. The search firm will then establish a profile of the individual. In the meantime, they have advertised the position and are looking at the cutoff date for resume the week after July 4. They hope to get about 20-25 candidates. Ms. Tryloff said that earlier in the meeting, a male pronoun was used repeatedly to reference the new Manager, and she asked for assurance that there had not been a predetermination made that the individual will be male. The Mayor said no one has predetermined that.