



AGENDA SUMMARY EUREKA CITY COUNCIL

TITLE: Early Retirement Incentives and Intent to Adopt CALPERS Retirement Credit Resolution

DEPARTMENT: Human Resources

PREPARED BY: Will Folger, Director of Human Resources

PRESENTED FOR: Action Information only Discussion

RECOMMENDATION

1. Provide Notice of Intent to adopt a Resolution granting two years CalPERS service credit to 4 employees as an early retirement incentive, including disclosure of employer costs to provide this benefit.
2. Adopt Resolution approving two years of contributions toward health insurance as an early retirement incentive for 2 employees.

FISCAL IMPACT

No Fiscal Impact Included in Budget Additional Appropriation

COUNCIL GOALS/STRATEGIC VISION

Financially stable, effectively run city with an engaged public

DISCUSSION

The City of Eureka is facing yet another difficult budget year, with increasing service costs continuing to strain revenues. Numerous approaches have been considered to achieve reductions next fiscal year (2020/2021), including our single largest expense which involves staffing and personnel costs. Accordingly, in preparation for the FY 2020/2021 budget, Departments were directed to attain cost savings in part through an established early retirement incentive program which offers employees either CalPERS service credit or City paid health insurance.

After a critical organizational review which involved a citywide notice to all employees of its intent to offer a retirement incentive, 4 employees have been offered 2 years CalPERS service credit, and 2 have been offered 2 years of contributions toward health insurance. These 6 employees have accepted these offers. The City retains sole discretion to provide these incentives and to make final determinations on a position-by-position basis.

Fiscal Impact/Salary Savings

The calculated total salary/benefit savings from these 6 early retirements is estimated at \$486,670 for FY 2020/2021. The estimate is pro-rated to include position costs up until each employee's stated retirement date during the fiscal year.

Fiscal Impact/Salary Savings (continued)

Of the estimated \$486,670 in total salary/benefit savings for FY 2020/2021 from the 6 early retirement incentives, \$313,563 will be achieved through the CalPERS incentive for 4 employees, and \$173,107 through the health insurance incentive for 2 employees. In addition to salary savings, the City is also realizing savings from the reduced benefit costs for each retired employee, including health insurance, Medicare and long-term CalPERS employer contribution costs, all of which the City would have otherwise had to pay.

The significant salary/benefit savings achieved through these 6 early retirements will enable the City to realize essential City Council priorities in the FY 2020/2021 budget while continuing to operate effectively with less cost.

CalPERS Retirement Incentive (2 years of Service Credit)

The CalPERS early retirement incentive program involves the purchase by the City of 2 years CalPERS service credit for eligible employees. The City has utilized this CalPERS incentive program in previous budget years, and was successful in achieving significant cost savings. To qualify for this CalPERS incentive program, the City is required to:

1. Provide notice of its intent to adopt a Resolution to approve the granting of two (2) years early retirement service credit (*Resolution scheduled for adoption on June 2*); and,
2. Disclose the costs of purchasing the service credits for eligible employees.

The matter before the Council meets these CalPERS requirements. In addition, CalPERS requires that the City leave at least one vacancy in any position in any department or other organizational unit permanently unfilled. The City recognizes this stipulation and is prepared to include such a vacancy through the FY 2020/2021 budget process.

The CalPERS incentive program directly benefits the City through salary savings (and reduced benefit costs) from eliminating positions or back-filling at lower cost. It benefits City employees by providing a slightly higher pension than what they would have received without the incentive. The CalPERS incentive applies only to employees who have reached the minimum retirement age of 50, and have a minimum of five years of full-time covered service.

CalPERS Retirement Incentive (2 years of Service Credit) (continued)

As mentioned, of the estimated \$486,670 in total salary savings for FY 2020/2021 from the 6 early retirement incentives, \$313,563 will be achieved through the CalPERS incentive for 4 employees. These 4 employees are listed below together with their positions/classifications, the latest possible date of retirement as established by the required "window period", and cost savings in FY 2020/2021.

Salary/Benefit Savings (2020/2021)

CalPERS Service Credit

Name	Position	Department Name	Total
ZIEGLER, GRETCHEN	ZOO DIRECTOR	Community Services	\$88,673
GOODALE, JOHN	POLICE OFFICER	Police	\$109,317
VELASCO SR, JUAN	SENIOR UTILITY WORKER	Public Works	\$62,764
RODEN, GINA	ACCOUNTING TECHNICIAN	Finance	\$52,809
<u>Subtotal:</u>			<u>\$313,563</u>

Disclosure of Cost to Purchase Service Credits

CalPERS requires the City to disclose the cost of purchasing service credits through their early retirement incentive program. There is no cost for the service credits until FY 2022/23 when the CalPERS employer contribution rate will be adjusted to reflect a one-time cost of \$209,185 amortized over 20 years (\$10,409 per year). This cost calculation was conducted utilizing procedures provided by CalPERS incorporating each classification's retirement formula, pay rates, employee age, survivor allowances, and other technical cost factors.

CalPERS "window period" for Retirement

Pursuant to the service credit purchase program, CalPERS requires the establishment of a "window period" of between 90 and 180 days, during which time all employees receiving this incentive must retire. At the next City Council meeting on June 2, the Council is scheduled to formally adopt the designated "window period" by Resolution. City staff is recommending a 90 day window period for this particular designation, which will allow retirements to occur through August 31, 2020.

City Paid Health Insurance Incentive (2 years)

As mentioned, the City has offered continued payment of 80% of an employee's health insurance premium (current employee tier) for 2 years as an incentive for employees to retire early. 2 employees have been offered this cost saving incentive. The City has approved such incentives in past budget years as a salary savings measure, and it is recommended that the one employee be approved for the incentive this year.

This incentive will directly benefit the City through salary savings and reduced benefit costs. This estimate is pro-rated based on the employee's retirement date. The total salary savings for FY 2020/2021 is estimated at \$173,107, as shown below.

Salary Savings from Health Insurance Incentive (FY 2020/2021)

Name	Position	Department Name	Adjusted Total
HARPHAM, RONALD B	POLICE OFFICER (SR. DECECTIVE)	Police	\$98,509
ADAMS, JOHN C	FACILITIES SUPERINTENDENT	Community Services	<u>74,598</u>
		Subtotal	<u>173,107</u>

Cost of Purchasing Health Insurance

The City has agreed to pay 80% of the employee’s health insurance premium for two (2) years from date of retirement. The total estimated cost for this early retirement incentive is \$55,805 over 2 years (average \$27,902 per year). This cost assumes an annual insurance premium increase of 3% for the second year. The “Adjusted Total” savings shown in the above chart takes these costs into account for the coming Fiscal Year. The retiree may elect to add dependents to their coverage as the health plan may allow, but any increased costs in this regard shall be paid 100% by the retiree. It is the retiree’s responsibility to insure continuing compliance with all eligibility requirements established by the health insurance provider.

RECOMMENDATION

Through this public hearing, the City Council has met the CalPERS requirement to provide a notice of its intent to adopt the necessary CalPERS Resolution granting two (2) years CalPERS service credit as an early retirement incentive to 4 employees. That Resolution is scheduled for adoption at Council’s next meeting on June 2, 2020. Council has also met the requirement to disclose the costs of purchasing the service credits, amortized over 20 years beginning in FY 2022/2023, to attain significant cost savings in FY 2020/2021.

In addition, it is recommended that Council adopt the attached Resolution approving two (2) years of health insurance (City pays 80% of premium for 2 years) as an early retirement incentive to one 2 employees. The City retains sole discretion to provide early retirement incentives and to make final determinations on a position-by-position basis.

REVIEWED AND APPROVED BY:

City Attorney

City Clerk/Information Technology

Community Services

Development Services

Finance

Fire

Human Resources

Police

Public Works