



MEMORANDUM

To: Directors and Fiscal Officers of Departments, Agencies, Boards and Commissions

From: J. Pari Sabety, Director, Office of Budget and Management 

Date: January 7, 2008

Re: Early Retirement Incentive (ERI) Plans

The economic challenges detailed in the December 2007 Monthly Financial Report to Gov. Strickland and Lt. Gov. Fisher have prompted the Governor's Office and the Office of Budget and Management (OBM) to explore cost-containment options for agencies. One option is for agencies to offer their eligible employees an early retirement incentive (ERI).

If an agency has not been contacted by OBM or the Governor's Office and is interested in offering an ERI plan, please contact Anthony Perry at OBM (614-466-6551) to obtain individualized cost-savings estimates.

It is important to note that directors, assistant directors, deputy directors, and any other administration appointees shall not participate in ERI plans offered by any agency. Since people in these positions serve at the pleasure of the governor or a director, there is no need for the administration to buy service credit as an incentive for these individuals to vacate their positions. An early buy-out of individuals in those positions would be an unnecessary and inappropriate use of public moneys.

An ERI plan will be approved only if the plan will result in cost savings and achieve management objectives that the agency could not otherwise achieve.

Early Retirement Incentive (ERI) Plans: Policy and Procedures

Review Process for ERI Plans

All early retirement incentive (ERI) plans proposed by state agencies will be reviewed and approved by OBM. There are two types of ERI plans that can be offered by state agencies: voluntary and mandatory ERI plans. Voluntary plans must include a cost/savings analysis and demonstrate affordability within current appropriations. Mandatory ERI plans must meet the criteria and terms specified in this policy, as well as be affordable within current appropriations.

Following its review, OBM will notify each agency of its decision and, if approved, the Public Employees Retirement System (PERS).¹

Voluntary ERI Plans

Criteria

A voluntary ERI plan may be offered pursuant to PERS's statute (ORC §145.297). A voluntary ERI plan must meet the following criteria before it can be approved by OBM:

1. An agency can demonstrate cost savings (usually within two years of the plan's termination date). The agency should document the projected savings, the time required to realize those savings, and the actions that will be taken to achieve those savings (i.e. the elimination of positions held by the ERI retirants or the filling of the vacated positions at a reduced cost).
2. The ERI plan enables an agency to meet defined management goals.

A voluntary ERI must also be affordable within an agency's current appropriations.

Terms

In offering a voluntary ERI plan, agencies must meet the following terms:

- At least 5% of an employing unit's² employees who are members of the retirement system on the date the plan takes effect must be offered early retirement.
- The offer to buy retirement time cannot exceed the lesser of 3 years³ or an amount of service credit equal to one-fifth of the total service credited to a participant, exclusive of service time purchased under the voluntary ERI.
- The window for accepting early retirement must remain open for 1 year.

Mandatory ERI Plans

Criteria

A mandatory ERI plan is required as specified by PERS's statute (ORC §145.298), but is not required under the statutes of the other retirement systems. A mandatory ERI must be offered if either of the following conditions are met:

1. The state proposes closing an institution or the number of employees laid off at an institution in six months or less equals or exceeds the lesser of fifty or ten percent of the people employed at the institution.

¹ Agencies should be cognizant that many bargaining unit agreements require that the pertinent bargaining units be notified prior to the creation of a mandatory ERI plan. Agencies should also alert the Department of Administrative Services' (DAS) Office of Collective Bargaining (OCB) and Office of Policy Development (within the Human Resources Division) if it intends to offer either a voluntary or mandatory ERI, so they are aware and available to answer any ancillary questions that may arise.

² ORC § 145.297, with respect to state employees, defines an employing unit as any entity of the state, including any department, agency, institution of higher education, board, bureau, commission, council, office, or administrative body, or any part of such entity that is designated by the entity as an employing unit.

³ If an agency can demonstrate further savings, a plan can include an offer to buy up to the lesser of 5 years of retirement or an amount of service credit equal to one-fifth of the total service credited to a participant.

2. The number of employees laid off from a state employing unit in a six-month period equals or exceeds the lesser of 50 or 10% of the people in the employing unit.

A mandatory ERI must also be affordable within an agency's current appropriations.

Terms

In offering a mandatory ERI plan, agencies must meet the following terms:

- All of an employing unit's eligible employees must be offered early retirement.
- The offer to buy retirement time cannot exceed the lesser of 2 years or an amount of service credit equal to one-fifth of the total service credited to a participant, exclusive of service time purchased under the voluntary ERI.
- The window for accepting early retirement must remain open from the time of the layoff or proposed closing is announced until the date of the layoff or closing.

Information to be Provided to OBM

An agency that wishes to offer either a voluntary or mandatory ERI to its employees must provide the following information to OBM:

1. A plan that meets all of the retirement system's requirements for an ERI plan.
2. A narrative description and rationale for the plan, including the management goals that the plan will achieve.
3. Documentation of the affordability of the plan within current appropriations. Agencies can verify the affordability of their plans by reviewing cost estimates generated by PERS or PERS-designed software. The cost of each plan will vary depending on the term of the buy-out, the percentage of employees to be offered the plan, the employing unit to be offered the plan (the whole agency, a specific division, etc.), and the tentative effective date of the plan.
4. Documentation that the plan meets all of the criteria and terms specified above for a voluntary or mandatory plan.
5. Documentation of the projected cost/savings that the plan will provide for the agency.

OBM's Approval of an ERI

OBM's approval for a voluntary or mandatory plan will be based on the adherence of an agency's plan to the criteria and terms stated above.

In addition, for a voluntary plan, OBM's approval letter will require the agency to take all actions outlined in its cost/savings analysis. The letter will require that the agency report back after the plan terminates to confirm that actions outlined in the cost analysis are taken and that projected savings have been achieved (see the "Compliance Review" section below). OBM will confirm that positions identified for elimination have, in fact, been eliminated.

Also, to avoid a conflict of interest, the person at the agency level who approves an ERI plan must exempt themselves from accepting early retirement under the plan.

Compliance Review

An agency should submit a payroll report after the offering of an ERI to demonstrate its compliance with the terms of its OBM-approved ERI proposal. Reports should be submitted 6 months, one year, and two years after the closing of the (typically) one-year long ERI window. The following information should be included:

- Full listing of employee positions at an agency before the offering of an ERI, including the salaries and benefits for each employee.
- Full listing of employee positions at an agency 6 months, one year, and two years after the closing of the ERI window.
- An account of the difference between the agency's payroll costs before and after the offering of the ERI. This should include an explanation of the ERI-related changes.
- An account of any new personnel contracts to ensure that projected payroll savings are realized and not offset by increased contracting.

OBM will review agency payroll reports to ensure that agencies comply with their ERI proposals and projected savings are realized.

If you have any questions, please contact Director J. Pari Sabety, Assistant Director David Ellis, or Anthony Perry (614-466-6551) at OBM.