



MEMORANDUM

Date: February 9, 2009

To: Gwyn Hatcher, Director
Human Resources Department

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: Early Retirement Option

Attached please find a financial analysis associated with the early retirement option discussed wherein the County would increase the sick leave payout upon retirement. Based on this financial analysis it does not appear that it would be in the County's financial interest to pursue the option discussed. Hence, such an option is no longer under any active consideration.

CHH/jj

Attachment

c: Martin Willett, Chief Deputy County Administrator
Tom Burke, Finance and Risk Management Director
Thomas House, Budget Manager, Finance and Risk Management



MEMORANDUM

DEPARTMENT OF FINANCE & RISK MANAGEMENT

Date: February 4, 2009

To: C.H. Huckelberry
County Administrator

From: Tom Burke
Finance Director

A handwritten signature in black ink, appearing to read "Tom Burke", written over the printed name and title.

Re: **Possible Personnel Changes to Encourage Retirement**

At your request, Finance and Risk Management has reviewed the potential fiscal impact of temporary changes to the Pima County Personnel Policies regarding payout of annual leave and sick leave upon retirement. Due to the current financial situation facing Pima County and the potential need for a reduction in force, we have reviewed the fiscal impact of possible changes to the Pima County merit rules and personnel policies which may provide an incentive for some employees to retire at the beginning of next fiscal year. The potential changes to the existing policies relate to the payout of accrued sick leave and accrued annual leave.

Under the current rules relating to payouts to employees upon retirement, the County pays employees their accrued annual leave up to a maximum of 240 hours upon any termination after the first six months (Personnel policy 7-123.B.1.a). Each year, an employee may convert excess accrued annual leave into sick leave if the election to do so is made within 30 days prior to the employee's anniversary date (Personnel policy 7-105.H). Pima County currently permits employees to convert accrued sick leave into annual leave if the employee is taking normal, early or disability retirement. Under the current Personnel Policy 7-106.H., an employee can convert unused hours of sick leave into annual leave as follows:

<u>Unused Hours of Sick Leave</u>	<u>Conversion to Annual Leave</u>
0 to 240 hours	- No conversion permitted
241 to 480 hours	- 25% of all hours
481 to 720 hours	- 35% of all hours
721 or more hours	- 50% of all hours

Proposed Policy Changes:

An analysis was made of the impact of changing two of the personnel policies relating to annual leave and sick leave. The impact of the two changes, described below, would be to pay retiring employees the full amount of their accrued annual leave and sick leave. The two changes would call for, first, an amendment to personnel policy 7-105.H. to permit employees to convert excess accrued annual leave into sick leave at anytime, rather than only during the 30 days period to the employee's anniversary date. The second change would be to amend personnel policy 7-106.H. to temporarily permit the conversion of 100 percent of the unused hours of sick leave into annual leave. The increased conversion would be permitted only for employees, who retire during July 2009. The analysis assumes that the positions that would be vacated by retiring employees remain vacant for a period of at least six months. Without that period of

delay, there would be little or no cost savings to the County because, on average, an employee's payout under this proposal would approximate 4 to 6 months of compensation (or between 33 and 50 percent of an employee's annual compensation). Employees retiring into normal retirement, on average would have payout annual leave and sick leave that are approximately 2 to 3 months of compensation (or between 20 to 25 percent) of their annual salary under the current rules. Because payouts to retiring employees would be such a large portion of the compensation normally budgeted during any fiscal year, I would recommend that the incentive program require employees using this incentive program to retire after the current fiscal year ends on June 30, 2009 so that the County is able to budget for the impact of the retirements.

Under the Arizona State Retirement System, there are several ways in which an employee is eligible to have normal retirement. Generally, normal retirement is available to an employee who (1) is 65 years of age, (2) is 62 years of age with at least 10 years of service, or (3) has 80 points in the system (with the total points being a combination of the employee's age and number of years of service). Early retirement options are also available for employees under the State retirement system, but those options have the impact of reducing the retirement benefit available to the employee and are less likely to be taken

Although the Finance and Risk Management Department analysis was based upon summary data for employees who would currently be eligible for normal retirement, the proposed changes to the Personnel Policy would also apply to employees who chose an early retirement option with the State retirement system.

Pima County has approximately 8,700 employees. Our review of data at the end of 2008 indicates that approximately 740 employees are currently eligible for normal retirement either in the Arizona State Retirement System or one of the retirement systems available for law enforcement personnel. The total annual salary for these employees eligible for retirement is \$35.2 million. The total payout for annual leave, unused sick leave, and comp time for these employees is \$7 million under the existing personnel policies. If the proposed changes were implemented, the total payout for these leaves would increase by approximately \$5.8 million dollars and total \$12.8 million.

It is improbable that a large number of individuals would take advantage of any incentive plan. The attached analysis presents the potential payout costs and net savings to Pima County under several scenarios assuming differing percentages of eligible employees electing to retire under this proposal. The net savings, assuming the positions of retiring employees remain vacant for at least six months, would be approximately \$484,000 if 10% of eligible employees retire and as much as \$1.2 million if 25% of eligible employees retire. If the positions remained vacant for an entire year, the savings would be approximately \$2.2 million and \$5.6 million, respectively. The savings would potentially be realized by all the Pima County funds. Based upon the employees currently eligible to retire, it would appear that slightly more than 60% of the savings would be in the General Fund.

**Retirement Incentive Proposal
For July 2009
Analysis of Eligible Employees**

Persons eligible for normal retirement into the ASRS system include employees:

- 65 Years or age or older
- 62 Years of age with 10 years of service
- 80 Points

Number of Employees Eligible	743
Total Annual Salaries of Eligible Employees	\$ 35,235,160

Total Sick Leave Pay out Per the Merit Rules	4,456,146
Total Vacation Pay out per the Merit Rules	2,516,740
Total Comp Pay out	32,008
	<u>\$ 7,004,894</u>

		<u>Increased Payout</u>
Pay out 100% of Sick Leave	9,945,226	5,489,080
Pay out 100% of Vacation	2,799,300	282,559
Pay out Comp	32,008	-
	<u>\$ 12,776,534</u>	<u>\$ 5,771,639</u>

Scenarios Assuming Various Percentages of Employees Opting for Retirement Incentive:

	<u>10%</u> <u>Take the Offer</u>	<u>25%</u> <u>Take the Offer</u>
Number of Employees Retiring	74	186
Estimate of compenstion payouts:		
Pay out 100% of Sick Leave	994,523	2,486,307
Pay out 100% of Vacation	279,930	699,825
Pay out Comp	3,201	8,002
	<u>\$ 1,277,653</u>	<u>\$ 3,194,133</u>

Salary Reduction Impact for full year	3,523,516	8,808,790
Salary Reduction Impact for 6 months	1,761,758	4,404,395
Net savings with 6 month freeze	484,105	1,210,262
Net annual savings if position remained vacant	2,245,863	5,614,657