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Chapter 1 : Early Retirement Incentives | PARS

By mismanaging the early retirement, the employer risks paying the early retirement incentives and getting hit with age discrimination claims. However, some employers have poor management and personnel processes and end up bungling the early retirement incentive offer.

By Roger Wohlner Updated December 13, â€” 5: Common Early Retirement Packages Features Severance pay is often based upon years of service with the company. Sometimes an employer will add some additional years to sweeten the deal and make it more attractive. They may even add some years of service to get the employee to a higher payment level if there is a pension plan involved. Severance pay should also include all accrued vacation and any sick leave pay. Retiree medical coverage, where available, is a benefit that covers employees until they are eligible for Medicare and may offer supplemental coverage past age The number of companies offering this benefit is shrinking all the time as it is very costly. Bridging refers to a retirement benefit that some companies may offer early retirees. This is an income supplement meant to bridge the gap between early retirement and eligibility for Social Security. The benefit amount is often equivalent to what the employee would receive from Social Security at age Additional incentives might include training and outplacement help. A number of years ago a friend called me to discuss an early retirement buyout offer he had received from his employer, a major local corporation. Given his age and the terms of the buyout offer, I strongly encouraged him to take the package. In the end, he declined the offer and stayed with the company. About a year later he was let go and the financial terms of his separation were not nearly as favorable as the initial early retirement package. Almost without exception, in my experience, the initial early retirement package offered by a company is the most lucrative one. Refusing the Offer Losing a job might not seem like a great opportunity, but a generous early retirement package might actually be a great opportunity for you. If you will continue to work and you are able to find a new job quickly the buyout could serve as a nice financial bonus. What to Consider If You Accept This situation might serve as a springboard to start your own business. A client called me a few years ago absolutely giddy that his employer, a major corporation, was asking for volunteers to take a sweetened early retirement package. Between these incentives and the careful planning and investing he had done over the years, this turned out to be a fantastic opportunity to get a jump on his retirement. In analyzing whether to take an early retirement package you should at consider the following factors: What impact will this have on your overall financial plan and goals such as retirement and sending your kids to college? What might you do next? Look for another job? If you will stay in the workforce what are your employment prospects? What are your health insurance options? How good are the incentives being offered? Can you or should you try to negotiate a better package? Are there consulting opportunities with your soon-to-be former employer? The Role of a Financial Advisor If you are presented with an early retirement package you would be wise to consult with a knowledgeable financial advisor. He or she can advise you as to the financial ramifications of the package. This might include the impact on your ability to retire. While the package may include some or all of the incentives discussed above, an advisor can help you assess your overall readiness for retirement. Have you saved enough in your k or other retirement plan? What other retirement resources can you rely upon? Other tax-deferred and taxable resources? A financial advisor can put together a financial plan including retirement projections based on a variety of scenarios and assumptions that factor in the impact of any incentives. Planning is important because, all things being equal, an early retirement puts added stress on your retirement resources. The tax impact of the offer must also be considered. There are potential exceptions to this for k plans and an advisor can help determine if this applies to your situation. How to Minimize Taxes on Severance Pay. The Bottom Line Early retirement packages have long been offered to groups of employees at companies to provide an incentive for them to leave the company as they seek to reduce their headcount. If you are offered a package you should strongly consider it and should engage the services of a financial advisor to help you evaluate the terms of the package and the impact on your retirement. You Can Still Retire. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 2 : Evaluating the Use of Early Retirement Incentives | Government Finance Officers Association

Early retirement incentive plans that deny or reduce benefits to older workers while continuing to make them available to younger workers may encourage premature departure from employment by older workers.

Over the past decade some colleges and universities have offered retirement incentive programs to faculty in response to the â€” change in the mandatory retirement age from 65 to 70, when states eliminated mandatory retirement, and in some cases in anticipation of the possible nationwide end of mandatory retirement. Colleges and universities instituted these plans to deal with faculty turnover issues specific to the campus, the state higher education system, or all public employees. Both colleges and universities and faculty members can benefit from retirement incentives programs. Colleges and universities can offer these programs to increase faculty turnover in specific areas for a limited time. Faculty members can accept retirement incentive programs as a means of making up for fewer years of accumulating pension benefits and of making a gradual transition to retirement. Colleges and universities that consider offering retirement incentives face several issues: In this chapter the committee considers these issues, particularly in light of the possible elimination of mandatory retirement. Ending Mandatory Retirement for Tenured Faculty: The Consequences for Higher Education. The National Academies Press. According to our case studies and letters from faculty and administrators, and the literature on retirement incentive programs for faculty, the characteristics of the programs vary: Most plans require a minimum number of years of service for eligibility; that number ranges from 10 to 20 years, usually including time spent on sabbaticals but not leave without pay Covert-McGrath, Most plans are open only to tenured faculty. For plans that limit faculty participation on the basis of age, the ages of eligibility vary: Many programs require faculty to set a specific retirement date. Some programs require faculty to apply 90 days to 1 year before their desired retirement date, but others require as much as 4â€”10 years notice. Most plans cover full health benefits until retirees reach age 65 i. Common additional benefits offered include disability benefits, medical plan membership, tuition benefits for the retiree and his or her dependents, free admission to campus activities, a one-time lump sum payment in addition to severance pay, and preretirement planning assistance. More broadly, retirement incentive programs can be differentiated by whether they offer part-time employment or require full retirement. Two types of programs offer faculty the opportunity to work part time before fully retiring see Chronister and Clevenger, a: In partial retirement programs faculty members draw pension benefits while returning to work part time. In phased retirement programs retirement plan contributions continue during the period of part-time employment, and program participants draw their retirement benefits only after full retirement. For example, a college or university could allow its tenured faculty to work half time at half salary in exchange for an agreement to fully retire at the end of 3 years. Retirees in a partial retirement program can use the income from part-time employment to supplement pension payments that have been reduced by fewer years of pension accumulation and a longer life expectancy. Retirees in a phased retirement program do not draw their pension income and have only part-time earnings during the phased retirement period. Colleges and universities can supplement the part-time income with supplemental annuities or lump-sum payments. In some programs the institution guarantees that participants can continue to work as long as they wish, provided that they notify the administration each year of their intentions to work part time for an additional year. Page 93 Share Cite Suggested Citation: Some programs at colleges and universities with a mandatory retirement age permit faculty to work part time until they reach the mandatory retirement age. By offering a program that includes a fixed retirement date, colleges and universities decrease uncertainty about when faculty intend to retire. Our case studies of institutions with programs that do not limit the number of years of reemployment suggest that partly retired faculty find retirement attractive: Most faculty who work part time choose to retire completely after 2 or 3 years see also Chronister and Clevenger, a. Trial retirement is another alternative to full retirement. Colleges and universities can permit faculty members to return to full-time employment after a trial period of retirement or apply lenient leave-of-absence policies to faculty members who are considering retirement. Like phased and partial retirement programs, trial retirement allows faculty to cut back professional commitments without completely giving up employment. Trial retirees may find they like retirement and choose not to return. One of our case study institutions reported that few faculty who took trial retirement subsequently returned to employment. Full retirement incentive program offer a range of benefits in exchange for an agreement to retire. Most programs include financial benefits, such as lump-sum severance payments or additional credit in a defined benefit pension plan, offered at a flat rate or on the basis of age, salary, length of service, or some combination of these; annual payments from the institutional budget equal to fall preretirement salary or a percentage of it, which can be based on age, salary, or service; and institutional purchases of supplemental annuities. These financial benefits can provide retirees with the additional income needed for a longer period of retirement and make up for earlier than anticipated end of contributions to the regular pension plan. Chronister and Trainer This permits retirees to put off collecting their regular retirement annuity rather than trying to make the accumulation in a defined contribution program last for a longer number of years. Some colleges and universities provide additional benefits as part of retirement incentive programs. In most cases these benefits ceased at age 65, when retirees became eligible for Medicare, or at the mandatory retirement age. For example, a program could provide a faculty member who had always intended to retire at 62 with a financial bonus for doing so. Administrators can compare the cost of incentive payments to the salaries and benefits program that participants would have received had they not retired, but there is no clear way to estimate when participating faculty would have chosen to retire in the absence of an incentive. Our case studies and discussions with benefits and finance administrators suggest that at least some colleges and universities are modifying or cutting back retirement incentive programs that proved more costly or less successful than expected. However, other colleges and universities have found budget-neutral ways to offer retirement incentive programsâ€”for example, by spending funds from an overfunded defined benefit pension plan on financial incentives to retirement. One college commented that "the staffing flexibility feature far outweighed the additional expense" Consortium on Financing Higher Education, Surveys have shown not only that many faculty like the idea of part-time retirement but also that phased and partial retirement programs are the only incentive programs that appeal to faculty who report they are not planning to retire in the near future Carlson, Consequently, plans involving part-time employment may be more likely than other retirement incentives to encourage faculty to retire sooner than they otherwise would have. These options have the potential to benefit the institution by continuing to utilize the talents of senior faculty and permitting the institution to plan Page 95 Share Cite Suggested Citation: They have the potential to benefit faculty by providing mental stimulation, the opportunity to continue to interact with colleagues and students and a financial and psychological transition into full retirement Daniels and Daniels, Phased and partial programs can provide financial benefits for both faculty members and institutions. At one institution faculty in the partial retirement program receive a pension equal to approximately one-half of their preretirement salary in addition to earning 40 percent of their preretirement salary for part-time employment. When this income is supplemented by Social Security and any tax benefits resulting from a lower taxable income, some retirees earn more than they did when fully employed. Some colleges and universities use such savings to hire new faculty at lower salaries. The cost of supporting a partial retiree varies depending on whether the partial retiree needs an office, secretarial services, and other perquisites for part of a year or year round. The savings from a partial retirement may not always be enough to fund hiring a replacement for the retiree. Colleges and universities can offer incentives to full retirement in the form of severance payments, supplemental annuities, or any payment in exchange for an agreement to retire. Some colleges and universities offer additional salary or pension benefits to faculty members who agree to retire in a specified number of years. For example, a faculty member agreeing to retire in 5 years could receive a bonus payment or 5 years of additional service credit in a defined benefit pension plan. The Tax Reform Act complicated financial incentives to full retirement by requiring employees to pay taxes on severance pay or the amount of a supplemental annuity in the year of retirement rather than spreading the payments over the course of retirement as the income is received. Colleges and universities may need to cover part or all of the additional tax cost in order to make full-time early retirement attractive under the new regulations. Two universities calculated this would cost approximately 20 percent of the original bonus figure. One case study uncapped public research university ameliorates tax disincentives by paying a lump-sum incentive in two installments spread over the academic year so as to fall into two tax Page 96 Share Cite Suggested Citation: Some administrators fear that offering a retirement incentive may lead productive faculty to choose early retirement while unproductive faculty or faculty in overstaffed departments do not retire. Faculty who are considering positions elsewhere might accept an offer of a supplemental annuity or lump-sum payment that is too small to make up for lost pension or salary income, while employees actually planning to retire would find such an offer less attractive Patton, In a review of discrimination law related to retirement incentives, McMorrow There are at least four ways that current retirement incentive plans limit participation. First, programs may target specific departments. One university calculated overstaffing in its departments and gave members of the most overstaffed departments priority in participating in a retirement incentive program Chronister and Clevenger, Second, incentives are based on salary. A lump-sum payment based on the mean salary of all faculty offers, in effect, a greater proportion of income to low earners than to high earners. Stanford University offered a program that linked the level of the incentive payment an individual would receive to the median departmental salary "on the assumption that salary level is an indication of quality" Chronister and Kepple, Third, some institutions retain the right to deny participation to individuals or to delay their participation. It exercises this right when unable to find a replacement for the early retiree Chronister and Clevenger, a: One of our case study uncapped public universities retains the right to reject some faculty who apply for its incentive program in order to keep program costs at or below a statutory percentage of its personnel budget. Selection is based on a formula using age for cost-justified reasons , years of service, salary history positive for those receiving lower raises , and an additional optional factor to account for "management needs. The Older Workers Benefit Protection Act made it clearly legal to set a minimum age for participation in retirement incentive programs. It also made it clearly legal to provide "bridge" payments until retirees are eligible for Social Security, effectively limiting an incentive to employees under age One of our case study public universities set a maximum age for participation in Page 97 Share Cite Suggested Citation: The university developed this program in consultation with the state attorney general although in recent legislation Congress did not clarify the legal status of upper age limits for participation. Colleges and universities can avoid offering retirement incentives to faculty more likely to retire anyway by offering plans that provide younger employees with benefits equal to those received by older employees McMorrow, For example, colleges and universities with defined benefit plans can offer retirees over age 60 benefits equal to those they would have received at age 65, rather than making the usual actuarial reduction of their pension income. Such an offer gives nothing extra to employees already aged 65 or older. As noted above, the legal status of offering younger employees benefits that are denied to older employees is less clear. Colleges and universities that offer retirement incentive programs must be careful to ensure that their programs are legal. Courts have rejected plans when they found provisions too complicated for participants to understand, when employers failed to give employees sufficient time to consider the offer, and when employees were pressed into decisions McMorrow, Administrators can change or withdraw retirement incentive programs that are not offered as employee benefit programs. Colleges and universities can distinguish a program from ongoing employee benefit programs by offering it for a limited time period or to a limited number of employees. Colleges and universities have offered retirement incentive programs limited to periods ranging from 1 month to 1 year. For example, one college "established a five month window during which faculty could contract for an immediate or deferred early retirement" in exchange for severance payments based on age at retirement Chronister and Clevenger b: Legal guidelines are unclear for programs not classified as employee benefit plans. Some administrators are concerned that any ongoing retirement incentive program may be classified as an employee benefit and therefore as an expensive liability under ERISA funding requirements. Classification of retirement incentive programs as employment benefits also raises legal questions of discrimination regarding whether colleges and universities have to extend the program to nonfaculty employees. In some cases colleges and universities are considering whether to discontinue programs that they cannot afford either to fund as faculty benefits or to extend. State laws also affect plan design. For example, some states e.

Chapter 3 : Should You Accept an Early Retirement Offer? | Investopedia

HR ADVISOR SEPTEMBER/OCTOBER 14 IMPLEMENTING EARLY RETIREMENT INCENTIVE PROGRAMS: A STEP-BY-STEP GUIDE work at least 4, hours per week, exclusive of overtime.1 If you have a "plant closing" or.

Voluntary Early Retirement Authority VERA Voluntary Early Retirement Authority VERA allows agencies that are undergoing substantial restructuring, reduction in force, reshaping, downsizing, transfer of function, or reorganization to temporarily lower the age and service requirements in order to increase the number of employees who are eligible for retirement. VERA may be based on occupational series or grade; skills, knowledge, or other factors related to a position; organizational, geographical, nonpersonal and objective factors; or a combination of these factors. The authority encourages more voluntary separations and helps the agency complete the needed organizational change with minimal disruption to the work force. By offering these short term opportunities, an agency can make it possible for employees to receive an immediate annuity years before they would otherwise be eligible. The approval from OPM will stipulate a period of time during which the option will remain available. Each agency using VERA must determine and publicize the maximum number of local VERA approvals and the anticipated number of opportunity periods windows required. Positions may be targeted by occupational series or grade; skills, knowledge, or other factors related to the position; organizational, geographical, nonpersonal and objective factors; or any combination of these factors.? In the event that approved nonpersonal factors other than service computation date are used to determine eligibility, these factors must be included in the announcement.? You may apply for a VERA if you are eligible and your position is in the targeted group of positions. When an agency has received VERA approval from OPM, an employee who meets the general eligibility requirements may be eligible to retire early. Impact on Annuity with Early Retirement Employees considering an early retirement must consult with their human resources office and follow agency procedures to receive an annuity estimate and obtain advice specific to their personal situation. CSRS Annuity Commencing date of annuity - If the employee retires on the 1st, 2nd, or 3rd day of a month, annuity begins the following day. Otherwise, annuity begins the first day of the month following retirement. Calculation of annuity - Annuity is calculated based on the average high-3 salary and years and months of creditable service. Unused sick leave can be used for additional service credit. Calculation of annuity - FERS Basic Annuity is calculated based on the average high-3 salary and years and months of creditable service. There is no annuity reduction in FERS for employees who retire on an early voluntary retirement under age No reduction will be applied to the FERS component of the annuity. MRA is age 55 to 57, depending on date of birth. The annuity supplement is payable until eligibility for Social Security begins at age 62, subject to an earnings limitation. Employees retiring in conjunction with a VERA or Voluntary Separation Incentive Payment VSIP authority must have been covered under the FEHB Program 1 for the last 5 years of their Federal civilian service in order to continue such coverage in retirement, or 2 if less than 5 years, for all service since the employee was eligible for these benefits unless these requirements are waived. OPM will grant pre-approved waivers to employees who have been: Coverage as an annuitant is identical to coverage as an employee, but premiums are not paid on a pre-tax basis. Federal Employees Group Life Insurance can be continued through the retirement system provided the employee has carried the coverage for at least five years prior to retirement. Value and cost depend on elections made at retirement. Discretionary Authority As with any incentive, when approved by OPM, this authority is used at the discretion of the agency. Each agency must develop a VERA plan to explain why the authority is needed, how it will be implemented, and which employees will be eligible. Employees who take voluntary early retirement are not subject to any restrictions regarding their annuity, should they subsequently accept non-Federal employment. Employees covered under FERS who qualify for the annuity supplement could have the supplement reduced or discontinued due to an earnings limitation. If an annuitant i. If the reemployed annuitant works full time for at least one year, the annuitant may apply for a supplemental annuity. If the reemployed annuitant works full time for at least five years, the annuitant may then choose either a supplemental annuity or a re-computed annuity.

Chapter 4 : Proposed Retirement Incentive Nys Employees News From The New York State And

May 18, Most of the bills enhance pension benefits other costly bills would average salary of justices and judges in the New York State Unified who are enrolled in the program allowing for early retirement at age 55 with 25 years of service on S, Provides temporary retirement incentive to membersnbspNY S, Engross, Relates to allowable service credit for participants in the.

It is not to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure. Governments occasionally offer early retirement incentives ERIs 1 to employees as a strategy to reduce payroll costs or stimulate short-term turnover among staff. ERIs are temporary, offered during a window that usually covers a period of months. They increase the economic value of the standard retirement benefit. Historically, ERIs rarely have succeeded, since costs are often greater than initially anticipated by the government offering the incentive, and savings are lower than projected. Governments should also develop an implementation plan. Governments should be explicit in setting documented goals for the ERI. Goals can be financial in nature, such as realizing permanent efficiencies in staffing or achieving budgetary objectives. ERIs can also be designed to achieve human resource goals, such as creating vacancies that allow for additional promotion opportunities and allowing management to bring in new staff. Any ERI goals should not conflict with other retirement plan goals e. An explicit statement of goals is needed to judge the ultimate success of the initiative and to develop performance measures. Further, having a statement of goals promotes transparency. Inappropriate goals such as rewarding a select group of staff should be explicitly rejected. Potential conflicts of interest among decision-makers who design an ERI should be monitored closely, since any self-dealing is costly and could harm the long-term credibility of the government entity. It should take into account direct and indirect impacts, such as the impact on the government for providing retiree health care and additional contractor costs. In addition, it should take into account the effect upon both the plan sponsor and the pension fund if the pension fund is a separate organization. Most financially-driven ERIs project financial benefits based on payroll savings related to staff departures. However, any such savings should be discounted, because a hiring freeze also creates payroll savings owing to the normal rate of staff departures. Financially-driven ERIs may also obtain savings by replacing highly compensated staff with lower-paid staff. Analysis of such ERIs must take into account the fact that newly hired staff tend to experience faster salary increases than other employees. If early retirement incentives are offered, they should be offered very infrequently and without a predictable schedule to avoid the expectation that another ERI will be offered. Such an expectation would distort normal employee retirement patterns. The incremental costs of an ERI should be amortized over a short-term payback period, such as three to five years. This payback period should match the period in which the savings are realized. To calculate the incremental costs of an ERI, governments should conduct an actuarial analysis that discloses the present value of the liabilities associated with an ERI. Governments that have over-funded pension plans should avoid allocating any actuarial surplus to finance the incremental costs of the ERI. In order to develop accurate budgetary estimates for the ERI, it is necessary to estimate the incremental cost of the ERI, which will vary according to the level of employee participation. Any budgetary analysis should project multiple scenarios for employee participation levels. A budgetary analysis should be comprehensive. Because a collective bargaining agreement may affect potential ERI costs and benefits, it should be reviewed prior to developing budgetary estimates. If implementing an ERI, at a minimum, governments should take into account the following points: A communication plan is desirable to help employees understand the ERI in the context of overall retirement planning; It may be necessary to gain input from collective bargaining units; Governments should consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained; The duration of the window should take into account the ability of retirement staff to manage retirement application workloads, among other factors; and Performance measures should be used to ensure ERI goals are met. For financially-driven ERIs, governments should track and report direct and indirect costs and benefits to determine if goals are met, such as for vacancies and contract costs.

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Chapter 5 : Nys Early Retirement Incentive For Benefit Sweetener Scorecard CBCNY

IMRF's Early Retirement Incentive (ERI) is an employer option that allows eligible members to purchase up to five years of service credit at retirement. For each month and/or year of service credit a member purchases, the member's retirement age is increased accordingly.