Response to Questions on the FY 2010
County's Line of Business & Schools Program Review Processes
Fall 2008

Request By: Public

Question: Please discuss the merits of offering early retirement to individuals beyond what the current County policy offers. What are the different forms it could take? What cost savings could be found?

Response: Public and private entities periodically employ early retirement programs as cost-saving measures. Typically, such programs are based on the expectation that older, presumably higher paid employees will be encouraged to retire early, permitting the entity either to not fill the vacancies at all, or replace them with lower-paid employees. The savings that could potentially be achieved by such a program would be offset by an increase in the unfunded liabilities of the defined benefit pension plan. In other words, the earlier an employee retires, the more his/her pension plan's unfunded liability is increased. This is true even when the annuity payments for those employees retiring early are calculated based on the actual (reduced) number of years of service. Such increases in pension plan unfunded liability would be funded by a corresponding increase in the employer contribution rate, which is paid from the County's General Fund.

Thus, the success of such a program would depend upon the degree to which the achieved amount of salary savings exceeded the corresponding increases in the employer contributions to the pension plans.

It should be noted that, from a legal perspective, early retirement programs cannot target specified employees. If such a program were to be initiated, it must apply equitably to all employees.