Agenda Item Summary

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Agenda Item Title
An Overview Presentation of the Illinois Municipal Retirement Fund (IMRF) Early Retirement Incentive (ERI) Program

Overview
A brief overview of the IMRF ERI program is being presented. No action is requested at this time. On October 26, 2020, a Special Meeting of the Village Board is scheduled for a full review of the ERI and direction will be requested at that time.

Anticipated Future Actions/Commitments
A Special Meeting of the Village Board is scheduled for October 26, 2020 at which time a discussion of the ERI program is scheduled. The timing of this discussion is tied to the consideration of the Recommended FY21 Budget. The Budget does not at this time consider the financial impact of an ERI program.

Report
The Illinois Municipal Retirement Fund (IMRF) was created in 1939 by the Illinois General Assembly and began operating in 1941 with 5 original employers. Today IMRF serves almost 3,000 employers.

The State requires all municipal employees, excluding sworn police and firefighters, who work more than 1,000 hours per year to participate in IMRF and contribute 4.5% of their salary.

IMRF retirement benefits are paid under a defined benefit plan with fixed member contributions. That is to say, both member contributions and the benefits to be paid are established by state law. The difference between the cost of legislated retirement benefits and member contributions must be paid from either investment earnings or from employer contributions.

Each year, IMRF contracts with an independent actuarial firm which calculates the Village's contribution rate using actuarial assumptions determined by IMRF. This rate, expressed as a percent of participating payroll, determines the employer's contribution. In 2020, the Village's contribution is 8.81% of the employee's salary.

Employees who began working for an IMRF covered employer prior to January 1, 2011 are vested in the pension after eight years of participation and classified Tier 1. Anyone who began working for an IMRF covered employer after January 1, 2011 is vested in the pension after ten years of participation and classified Tier 2. Covered employees have disability, pension and death benefits under IMRF.

To begin receiving an IMRF pension, employees must be at least 55 years old with 8 years of service credit or be 62 years old and have 10 years of service, depending on the employee classification of Tier 1 or Tier 2.

The defined benefit formula is based on age, average salary, and the number of years of service credit. An employee's pension may also be reduced for retirement prior to age 60 or 67 for Tier 1 or 2 respectively.

IMRF's Early Retirement Incentive (ERI) is an employer option that allows eligible employees 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, and as a result the employee can retire "early" which may result in salary & benefit savings to the employer. The employer's share of the ERI cost may be paid over a ten year period via a higher annual employer contribution rate.

The ERI program requires Village Board authorization. Subject to Village Board concurrence, the Board could adopt the necessary action as part of an October Village Board meeting with a November 1, 2020 effective date. This would allow for employees at least age 50 and with at least 20 years of service credit between November 1, 2020 and October 31, 2021 (or such other established one year timeframe) to opt to retire early AND these same employees would be eligible to purchase prior services credit (e.g. for eligible military service) or subject to Village Board approval for work covered by another state public pension program (by forfeiting that pension). The 20 years of service credit includes pensionable service with another IMRF employer or with another governmental pension plan within the State of Illinois that participates with IMRF for reciprocal service credit.

Staff has received an actuarial analysis from IMRF of the ERI for the Village for a one year window as described above effective November 1st. The analysis from IMRF identifies eligible employees and estimates the additional liability (cost) created to the Village if the Village Board authorized the ERI program. These costs can be partially offset if the ERI results in payroll and benefit savings. Participation in the ERI by any unit of government is voluntary and at the discretion of the governing body.

The analysis by IMRF of the Village's workforce shows 45 Village employees are projected to be eligible. Additionally, 11 employees of the Oak Park Public Library would be eligible. The Library is not independent of the Village for purposes of IMRF and any action in regards to IMRF will extend to the Library.

The approximate average annual salary of the ERI eligible Village employees is $80,000 with an average annual Village cost for health care of $14,000 plus $7,000 pension (varies each year) which totals an average estimated savings of $101,000 per employee who opts to retire early. The average estimated cost increase to the Village for the early retirement pension is $261,000 per employee to be paid back over ten years, including interest. Therefore, the Village can generally estimate a minimum of 2.5 years of the position (or a similar salaried position) being left vacant would be required for the Village to achieve payroll savings which would be the purpose of the ERI.

While it is not possible to guarantee which Village employees would elect to participate in the ERI, a chart is attached to provide a review of the employees whose positions could be held vacant for a minimum of four years, which reduction in services, and positions which would need to be filled through either internal promotion or a competitive recruitment. Exempt v. non-exempt refers to eligibility for overtime and indicates salaried versus hourly staff positions in the attached chart.

In considering the merits to the Village of offering an ERI program effective November 1, 2020, the following should be considered:

1. The ERI creates a pension financial liability for the Village which can only be offset through reduction in Villages services and reduction in total Village employees.
2. Service reductions depend on which employees elect to retire early. The Village cannot compel employees to provide in advance a decision on whether or not they will elect to retire early, if the Village offers an ERI.
3. In a best case scenario, total Village savings from reduced services, salary and benefits is estimated to be $1.1 million over five years (based upon the analysis in the chart that 20 of 45 positions would result in a multi-year position vacancy).
4. For positions that are replaced following a retirement, there are training considerations and learning curves that will impact organizational efficiencies.
5. For positions that are eliminated following a retirement, service reductions will be necessary as existing staffing are working at full capacity. It is not realistic to anticipate that when a position is not replaced that work can simply be reallocated to others employees. Organizations that approach an ERI program in this fashion experience subsequent staff burnout and high turnover.
6. Careful consideration must be given to work responsibilities and the impact of collective bargaining agreements.
7. Despite the limited fiscal benefits, an ERI program would necessitate creative work in the organization to re-envision services and the staffing requirements to deliver such services. This factor could contribute to long term efficiencies in operations.

It is recommended that if established by Village Board action, the ERI program include a provision for employees to file a “Notice of Intent to Retire Under Employer’s IMRF Early Retirement Incentive” which is a form provided by IMRF.