REGIONAL MUNICIPALITY OF OTTAWA CARLETON — REPORT

MUNICIPALITÉ RÉGIONALE D'OTTAWA CARLETON — RAPPORT

Our File/N/Réf.
Your File/V/Réf. **(22)** 02-96-0102

DATE 24 June 1996

TO/DEST. Co-ordinator
Corporate Services and Economic Development Committee

FROM/EXP. Human Resources Commissioner

SUBJECT/OBJET **EARLY RETIREMENT INCENTIVE PROGRAMS**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee and Council:

1. **Approve the implementation of a Pension Purchase Program to purchase up to a maximum of 3 years of eligible service for employees retiring prior to 31 December 1996 with further extensions as the Chief Administrative Officer may determine appropriate;**

2. **Extend Regional Formula 90 Policy to employees applying to retire and commencing pre-retirement leave prior to December 31, 1996 with further extensions as the Chief Administrative Officer may determine appropriate;**

3. **Defer consideration of a Type 7 Program until OMERS takes a decision regarding funding from pension surplus.**

BACKGROUND

In 1994 and 1995 the RMOC was able to mitigate the negative effects of workforce adjustments on its employees by offering early retirement incentives in the form of the OMERS-funded Type 7 program and extending the Formula 90 Policy to allow employees access to their unused sick leave banks for early retirement. These programs created 119 vacancies as employees exercised their early retirement options.

These were the only departure incentives offered by the RMOC to manage its workforce adjustments until this point.

The OMERS Type 7 program expired on December 31, 1995 for the RMOC. However, OMERS has received approval from the provincial government to offer a new Type 7 program which is entirely funded by the employer. While the new Type 7 is entirely employer funded it does provide employers some flexibility in terms of the options they may offer. Specifically, the new program allows a selection of all or any of the following four options:

i) age 60 and/or over;
ii) 80 factor;
iii) improved reduced early retirement pension; and
iv) early retirement within 15 years of NRA 65.

In addition, the new program allows the employer the flexibility to limit application to:

a) specific business units; and
b) pre-specified monetary or time limits.

Under the new program employers enter into one year renewable agreements with March 31, 1999 being the last date to enter into or renew an agreement.

At the OMERS regional meeting held in Ottawa 20 June 1996, OMERS raised the possibility of funding the Type 7 Program, with the surplus in the pension fund.

DISCUSSION

The RMOC has realized considerable success using only early retirement incentives to create vacancies to accommodate most of the downsizing required by the Corporation to date. Without existing and created vacancies most downsizing would be handled through layoffs with the resulting bumping of affected employees and the disruptive effects that would have on the workforce. Furthermore the RMOC has resisted expensive "buyout" programs recognizing that these frequently only pay large sums of cash unnecessarily to employees who could leave anyway in addition to disrupting the normal attrition of the organization as other employees wait for the next program before they will take their normal retirement.

The recent Corporate Review Report articulated the need for additional workforce reductions before the end of the current fiscal year. While the targets set by the Corporate Review would be achievable within a full year given the normal attrition rate of the Corporation, with less than a full year it is unlikely that they can be met without creating vacancies either through enhanced attrition or by actually laying off employees.

The RMOC is currently using several initiatives to support the workforce adjustment targets including attrition management, redundancy management and the employee substitution program. Given the targets to be met and the time available to meet them, it is appropriate that the RMOC expand the options available to it to create vacancies to accommodate surplus employees and continue our practice of protecting our employees' employment without having to resort to bumping. The Human Resources Department has analyzed several potential options available to the RMOC at this time and their potential value and cost to both the employer and the employees.

The following guidelines were used to determine which options are the most appropriate for the current situation. Any option should:

a) be cost effective in that it provides the greatest benefit to the most employees at the least cost to the Corporation;
b) be administratively easy to use and not require the implementation of new structures;
c) add real value to those employees most vulnerable in today's workforce;
d) recognize our workforce profile in terms of age, years of service and employability;
e) provide takeup consistent with the workforce adjustment targets;
f) meet some employee expectations; and
g) be consistent with our previous actions of facilitating retirement and not offering large cash incentives.

The following three initiatives satisfy the above guidelines and can assist the corporation in meeting its workforce reduction targets:

- employer purchase of eligible service for retiring employees;

- extension of Regional Formula 90; and

- Type 7 option limited to age 60 and over.

<u>Purchase of Prior Eligible Service</u>

It is proposed that the RMOC purchase up to three (3) years of eligible service for retiring employees with qualifying eligible service, thus increasing their pension by up to 6%.

To be eligible for this program, an employee must be age 55 or older and have prior eligible service which can be purchased. Approximately 10% of the RMOC workforce is age 55 or older and many of these employees have prior eligible service which can be purchased to increase their pension benefit. The purchase of eligible service converts this service into credited service. Each year of service purchased increases the employee's pension by 2%. For an employee with pensionable earnings of $36,000, this would mean an increase in their annual pension of $720 for each year purchased or $2,160 for a three-year purchase.

While the purchase of eligible service provides a significant benefit to retiring employees, the additional 6% of pension may still result in pension income insufficient to the employees needs. Therefore, we do not anticipate that many employees will access this option. However, it is likely that employees who currently have access to non-reduced pensions would find this option of particular benefit. We currently have 59 employees with access to non-reduced pensions and we estimate that 30 will avail themselves of this option.

Extension of Regional Formula 90 Policy

The existing Regional Formula 90 Policy provides for the utilization of an employee's sick leave bank, in the form of pre-retirement leave, for all days beyond the maximum 130 days normally available for cashout. This provision is available to all employees who commenced their employment with the RMOC prior to 1979, who have maintained sick leave banks, and who are at least age 55 and have age plus RMOC years of service totalling at least 90.

This benefit in its present configuration is believed to be having a counterproductive impact on the Region's workforce adjustment objectives. Employees who are within a couple of years of Formula 90 are not taking their retirement as early as they could because they would then be sacrificing their pre-retirement leave which they believe is owed to them. In addition, while these employees continue to work they also increase the final value of the benefit through the accumulation of additional sick leave days. By opening this benefit up to all eligible retiring employees the Region would remove a disincentive to early retirement for some long service employees thus creating more vacancies, decrease the long term liability to the Region for unused sick leave as these eligible employees would cease accumulating these days, and, decrease permanently the number of employees eligible to accumulate unused sick leave credits.

As this option is available on its own or in conjunction with other options, we project usage of this option could be up to 70 employees.

Type 7 Employer Funded - Age 60 Option

This option will allow employees age 60 or older to retire with an unreduced pension regardless of their years of service. Normally employees require a combination of years of service and age totalling at least 90 to retire without a reduction to their pension. The normal reduction is 5% for each year short of the threshold. This option eliminates that reduction.

A total of 149 employees are eligible for this option although historical data would indicate that only about 20% or 30 employees will exercise this option. The reason for projecting such a small uptake is that most employees in this group are low wage earners with few years of service to their credit. Typically employees who wait and leave at age 65 (our normal retirement age) have an average of only 22 years service and a retiring pension of approximately $12,000 - $13,000 annually.

To implement this option the RMOC must pass a bylaw and make application through OMERS to enter into a one year renewable agreement.

As OMERS is currently considering funding support for the Type 7 Program, it is proposed that we defer consideration of Type 7 until OMERS funding has been decided.

Conditions

- The early retirement incentive programs are voluntary.
- Employees on the surplus list who apply for this early retirement incentive program will retire from the Region and will not be terminated and, therefore, will not be granted severance provisions.
- Employees can access their full sick bank as a separate option or in combination with the eligible service purchase option.
- Employees participating in the program will be given an opportunity to use their sick leave banks as pre-retirement leave up provided they commence pre-retirement leave prior to December 31, 1996.

Timing

Communication of the program should be immediate.

It is proposed that the early retirement options be made available initially to employees through to December 31, 1996. Extensions to the program would be as recommended by the Human Resources Commissioner and approved by the CAO. Eligible employees will be provided with estimated pension information and will be given an opportunity to participate in group pension planning sessions. Individual meetings will also be arranged with members of the Benefits Branch for those employees who so desire.

FINANCIAL CONSIDERATIONS

Early Retirement Programs	Projected Uptake	Estimated Cost
Purchase of Eligible Service (max 3 years)	30	$ 660,000
Full Access to Sick Leave Banks	70	*
Employer-Funded Age 60 Type 7	30	$1,770,000

* this is not an additional cost but employees could gain access to pre-retirement leave at an earlier date than would otherwise apply

These amounts will be funded through the Vested Employee Benefit Reserve Fund. In addition to the above-noted costs, pension planning sessions and related materials would cost an estimated $10,000, to be funded from the corporate training budget.

CONCLUSION

The implementation of the above early retirement proposals would assist the Region in meeting its workforce adjustment target at minimal cost to the Region and provide maximum benefit to employees. These proposals in concert with other workforce adjustment programs endorse the Region's commitment to the use of voluntary departure measures where possible.

Approved by
Joyce M. Potter

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