LEGISLATIVE RESEARCH SERVICES

31st Alaska Legislature
LRS Report 21.048
January 8, 2021

(907) 465-3991
research@akleg.gov

Retirement Incentive Programs

Tim Spengler, Legislative Analyst

You asked for information about retirement incentive programs (RIPs) in Alaska and other states, with the goal of understanding the efficacy and pitfalls of such programs. You were particularly interested in whether any RIPs that have been implemented in Alaska have resulted in long-term savings or other non-financial benefits. You were also interested in the effects on pensions and health benefits if a large proportion of senior employees retire at once.

Retirement incentive programs (RIPs), also called early retirement incentives, have been implemented in various public and private sector entities since the early 1980s.[1] Although programs vary in structure, RIPs are typically implemented as “humane” methods of reducing payroll costs by providing incentives for certain employees to retire early—for example, by allowing these employees an earlier retirement date or greater benefits than they would otherwise be eligible to receive.

Based on our review, state legislatures frequently consider retirement incentive programs in the face of fiscal difficulties. Ideally, early retirement programs provide ways to reduce payroll costs while avoiding layoffs, and also increase promotion opportunities for employees who rise to fill roles vacated by new retirees. Nevertheless, if not implemented carefully, it appears these programs can create more problems than they solve, as expected benefits must be balanced with potential costs, including providing retiree pension and health care, and loss of expertise and experience. We reviewed a selection of studies, reports, and articles on retirement incentive programs in both the public and private sectors.[2] We were also assisted by retirement specialists at the National Conference of State Legislatures (NCSL).

The Alaska Legislature has implemented RIP programs for public employees three times—in 1986, 1989, and 1996. Lawmakers also considered a RIP bill (HB 329) in 2004, which, though unsuccessful, gained some traction in the legislature. We will first look at these efforts in Alaska and list the recent RIP bills considered in the state; then we will give examples of recent RIP endeavors from other

[1] Please note that this is an update of a February 27, 2015, report by our agency—LRS Report *15.214*. Our current report contains content from 15.214, as well as recent RIP information that we identified both in Alaska and across the country.

[2] We note, however, that this is only a sample of available literature on the topic.

jurisdictions; and finally we provide a number of general RIP studies that include fiscal and workplace implications.

State of Alaska Retirement Incentive Programs

Retirement incentive programs for public employees were implemented in Alaska in 1986, when oil prices and state revenues began to drop, and again in 1989 and 1996. Around two thousand people, on average, retired under each program: 2,327 in 1986 program; 1,836 in 1989, and about 1,700 in 1996. A program was also proposed, but not enacted, in 2004. Legislative Audit examined the 1989 and 1996 programs. The audit of the 1996 program, conducted in 2003, can be accessed at *http://legaudit.akleg.gov/docs/audits/special/combined/30001rpt-2003.pdf*.[3]

1986 RIP

The 1986 RIP (ch. 26 SLA 1986) was adopted by the legislature as a method to reduce state spending at a time of decreased state revenues due to low oil prices. The stated purpose was to ameliorate the hardship of layoffs and reduce personal service costs. School districts and municipalities were permitted to participate. For example, the Mat-Su Borough School District adopted the program as a way to mitigate possible teacher lay-offs in the face of reduced state funding to school districts.[4]

Senator Jim Duncan, speaking in support of a second RIP, said that the 1986 program saved the state about $25 million over three years and had also saved school districts, municipalities, and the University of Alaska millions of dollars.[5] Estimating that close to 95 percent of the RIP retirees remained in Alaska, he also cited the indirect benefit of keeping in the Alaska economy compensation dollars which might otherwise have been lost if employees had been laid off.

1989 RIP

Believing the 1986 program to have been a success, the Legislature enacted SB 73 (ch. 89 SLA 1989) to create a second RIP program. Representatives of collective bargaining units, the Division of Retirement and Benefits, the Alaska Association of School Boards, and others all testified in support of the bill.

---

[3] In addition, copies of the two audits conducted on the 1989 RIP program are available as attachments to LRS Report *15.214*.

[4] "Mat-Su School Board Approves Plan to Allow Early Retirement by Teachers," Anchorage Daily News, July 3, 1986.

[5] House Committee on Health, Education and Social Services Minutes, April 13, 1989, accessed through *Infobases* at *http://www.akleg.gov/basis/folio.asp.*

In contrast to the 1986 program, the 1989 program required that savings be demonstrated for each individual participating in the program. That is, for an employee to participate in the program, the savings in salary and benefits projected over a three-year period between the RIP retiree and the replacement had to exceed the State's employer costs. For example, savings through the elimination of a position could be included, but those garnered from reclassification or temporary vacancies could not. Amending legislation (chapter 18, SLA 1990) allowed employers to calculate savings over a five-year period rather than three.

The first audit of the 1989 program (02-4394-91), completed in 1990, pertained primarily to the administration of the program, with the aim of understanding the reason for delays in issuing the first checks to new retirees under the program. The report highlighted the need to train additional temporary staff to process a substantial increase in retiring employees, which is generally reflected in personnel costs associated with administering a RIP.

The second audit of the 1989 program (02-4404-91), completed in 1991, focused on savings realized and costs incurred by the 65 participating employers—the State of Alaska, the University of Alaska, 35 school districts, 21 political subdivisions, and seven others. Legislative Audit estimated the net statewide savings to be about $22.9 million and concluded that the program achieved its intent. Nevertheless, the audit discusses some concerns raised in the implementation of this RIP, including the loss of experience ("brain drain").

The audit estimated that the State of Alaska saved about $6 million under the 1989 program, the University of Alaska saved about $4.3 million, and the Anchorage School District saved about $2.7 million. Most employers realized some savings, with seven exceptions, all of which had limited numbers of participating employees. The report concluded that "savings were generated mostly by the incremental difference in the salary and benefit costs between the typically higher paid RIP participant and their lower paid replacement rather than realized from an extensive elimination of positions left vacant." The University accrued the highest average savings per participant, as tenured professors retiring under the RIP typically had salary and benefit costs of more than $90,000, and were often replaced with instructors or assistant professors whose salaries and benefits were half of that figure.

Significantly, in the end, the audit notes that the overall budget impact was uncertain because, in many cases, savings realized from the RIP program were expended elsewhere. "Skepticism of the program is not so much attributable to an absence of any real savings, but rather exists because the current budget review process does not adequately track and reflect economies generated. Only if there are major lay-offs and budget cutbacks, do savings generated by RIP become readily apparent in state agencies' budget requests." The auditors surmised that more stable fiscal conditions and the effects of previous RIP may have reduced the need for eliminating positions under the 1989 RIP, noting that the 1986 RIP "was implemented at a time when both the fiscal situation and prospects at all levels of government were more problematic."

The audit, while acknowledging drawbacks such as brain drain and loss of experience, also noted some non-financial benefits to the RIP program, including managerial flexibility and avoidance of layoffs.

The RIP was designed in part to mitigate the social hardship of layoffs. The legislature deemed having people in the community receiving retirement payments rather than unemployment checks to be sound public policy. Given these additional program aims, the 1989 RIP cannot be judged strictly on a cost-benefit basis.

1996 RIP

In 1996, the Legislature authorized a third RIP for state and local government employees (ch. 4 SLA 1996), and another for school district employees (ch. 65 SLA 1996). The largest number of retirees came from the University of Alaska system, followed by the Departments of Corrections, Health and Social Services, and Transportation and Public Facilities.[6]

The audit of the 1996 program, completed in 2003, determined that two entities using the program—the University of Alaska (UA) and the Information Technology Group in the Department of Administration—overstated their savings due to the erroneous inclusion of vacancies and exclusion of rehires. The UA savings—reported to be $17.8 million—were significantly overstated, as approximately 140 RIP participants were ultimately rehired. The audit also noted a few deviations from the rules of the program, including the following:

- A term employee working on a capital project was allowed to retire. This position would have terminated at the end of the project. Applying this methodology, the employee did not qualify for retirement. There was a $30,000 net cost to the State, not a savings.
- A position was "deleted" in one department and used to justify a RIP retirement. However, the position was merely transferred to another department.
- A position was downgraded and a low step within the salary range was selected in order to show a RIP savings. However, the replacement came in at a much higher step. UA recognized the error, but determined that it was too late to correct it.[7]

---

[6] Jeanine Pohl Smith, "Hundreds decide on early-outs," *Juneau Empire*, January 24, 1998, viewable *here*.

[7] A Special Report on the Office of the Governor, Office of Management and Budget, 1996 Retirement Incentive Program Final Summary Schedules, for the Department of Administration, Information Technology Group, and the University of Alaska, January 15, 2001, Division of Legislative Audit, *http://legaudit.akleg.gov/docs/audits/special/combined/30001rpt-2003.pdf*.

We also found other, less formal reports of the effects of the RIP in news articles from the time. For example, a *Juneau Empire* article expressed widespread concerns about the effects of a RIP on a small school district, citing school officials admitting that "statewide use of retirement incentives had shrunk the pool of teachers looking for work" and districts had a hard time filling positions of retirees.[8] The University of Alaska Board of Regents, in deciding to continue the program for a third year in 1998, believed they had no comparable tool to balance their budget, despite criticism that the program had hurt the university in the short term with the loss of senior faculty who brought in sizeable grants.[9]

2004 Proposal

In 2004, then-Representative Lesil McGuire introduced House Bill 329, which would have created a fourth retirement incentive program. The sponsor statement for the bill cited the success of previous RIPs, including estimates that the 1996 RIP would realize a total net savings of $41 million through FY 2003.[10] The bill passed two House committees—State Affairs and Labor and Commerce—but died in House Finance. More information on HB 329 is available in LRS Report *15.214*.

RIP Efforts in Alaska, 2015-Present

We identified four bills considered since 2015 pertaining to RIP. None of these efforts were successful, nor did they gain significant support. Three substantively identical measures were introduced aimed at members of the defined benefit plans of the Teachers' Retirement System and the Public Employees' Retirement System. The bills can be accessed through the following links:

- 2015, *House Bill 211*;
- 2017, *House Bill 11*; and
- 2019, *Senate Bill 102*.

Additionally, in 2016, Representative Shelley Hughes introduced *HB 368*, which included retirement incentives.

[8] Ed Schoenfeld, "How many is too many to retire at once? – Behind the News," *Juneau Empire*, November 29, 1998, viewable *here*.

[9] Elizabeth Manning, "Regents OK Early Retiring," *Anchorage Daily News*, June 20, 1998, viewable *here*.

[10] Sponsor Statement for HB 329, *http://www.akrepublicans.org/mcguire/23/spst/mcgu_hb329.php*.

Recent RIP Efforts in other Jurisdictions

Below are links to recent examples of RIP programs (including cost-benefit analysis/guidelines).[11]

- *California (2018)*
- *Massachusetts (2016)*
- *Minnesota (2011)*
- *New Jersey (2019)*
- *Washington (2019)*

Below are links to fiscal notes/impact projections for select RIP programs recently considered in other states.

- *New York (2020)*
- *New York (2020)*
- *Wyoming (2017)*
- *Pennsylvania (2020)*

Details of RIP programs for Alabama, California, and New York, and a private sector plan by the Version Wireless Corporation are included in our 2015 report.

General RIP Studies, Including Fiscal and Workplace Implications, Public and Private Sectors

Below we provide examples of studies regarding RIP programs, in general.

- 2014 journal article from the National Center for Biotechnology Information on teacher early retirement incentives and student achievement is viewable *here.*
- University of California Irvine academic study from 2015 on teacher responses to early retirement incentives and the effect on student performance is available *here.*
- 2019 paper from the National Bureau of Economic Research on the role of eligibility and financial incentives in retirement choices for public employees can be accessed *here* (see information on "early out" provisions).

[11] This list is not comprehensive. There have been numerous attempts to implement RIP programs across the country that have unsuccessful. Please see NCSL's database *here* to review such efforts (click on "Early Retirement Incentives.")

- 2018 working paper from the National Center for Analysis of Longitudinal Data in Education Research on teacher pension plan incentives, retirement decisions, and workforce quality can be viewed *here.*
- Regarding the cost of teacher turnover from the Learning Policy Institute is available *here.*
- 2009 research from the Naval Postgraduate School analyzing the efficacy of early retirement incentives in the private sector can be viewed *here.*
- 2016 academic paper from University of California Berkeley on retirement incentives and the labor supply, generally: *here.*
- Government Finance Officers Association study that encourages state and local governments to avoid RIPs can be accessed at *here*.
- A brief 2020 point-counterpoint exploration of early retirement incentives by *Government Finance Review* can be viewed *here.*
- There are a number of attendant legal issues with RIPs, including possible age discrimination claims. For an example, a 2014 Equal Employment Opportunity Commission discrimination suit against an Arizona school district can be viewed *here*.[12]

We hope this is helpful. If you have questions or need additional information, please let us know.

[12] You may wish to query Legislative Legal for a memo to analyze potential issues regarding RIP legislation.