

FISCAL IMPACT OF THE 1994 EARLY RETIREMENT INCENTIVE PROGRAM

In Brief

The early retirement incentive program (ERIP) was enacted by the State legislature and approved by the Governor in 1994 as a way to reduce payroll costs for State and county governments and increase upward mobility for their employees. The program provided bonuses for qualifying employees who retired by December 31, 1994. This issue profile estimates the fiscal impact of the ERIP on the City and County of Honolulu.

Results

A total of 554 City employees (about 5.6 percent of the City's work force) accepted the early retirement offer. Our analysis of the City's participation in the early retirement program indicates that the long-term costs of the program far exceed the savings. We estimate that the costs of the program to the City will exceed \$24.3 million through FY 2002, or \$56,000 per employee who retired because of the ERIP, while saving only about \$11.9 million. Consequently, the outcome of the program results in a net cost to the City of about \$12.4 million, or nearly \$29,000 per ERIP-induced retiree.

Objective

This issue profile sought to determine the fiscal impact to the City resulting from its participation in the early retirement incentive program.

Scope

The cost and savings to the City and County of Honolulu for participating in the early retirement incentive program were estimated for fiscal years 1995 through 2002. The fiscal impacts to the City for participating in the ERIP included agencies from both the executive and legislative branches of the City, but excluded the Board of Water Supply. That is because the Board of Water Supply, as a semi-autonomous entity, is not included in the City's executive and legislative budgets.

Methodology

We interviewed officials from the State of Hawaii Employees' Retirement System and the City's Department of Personnel. We also examined a University of Hawaii retirement program study and related program guidance.

To calculate the City's costs and savings for implementing the retirement incentive program, we developed a database using a random sample of records of City employees who retired under the ERIP. We analyzed the data to determine retiree demographics and to calculate the savings and costs to the City for participating in the ERIP. We also obtained cost data from State Employees' Retirement System officials.