COUNTY OF MILWAUKEE
Inter-Office Communication

Date: October 6, 2003

To: Supervisor Richard D. Nyklewicz, Jr., Chairman, Finance and Audit Committee

From: Jerome J. Heer, Director of Audits

Subject: Retirement Savings

You have asked for a report summarizing our concerns with the $3.99 million projected retirement savings (Org. 1941) contained in the County Executives Recommended 2004 Budget. The proposed savings are based on a number of assumptions about the behavior of the approximately 1,100 employees eligible to retire during 2004. These assumptions include:

- Half of the eligible pre-1982 hires will retire
- 25% of the eligible post-1981 employees will retire
- Combined, approximately 600 employees will retire
- These retirements will occur in the first half of 2004 when the pre-1982 hires reach the maximum 25% retention bonus (4/30/04)
- Most of the retirees will remain on the County payroll through mid-year
- Savings will be realized by delaying the filling of positions or keeping a number of the positions open
- The 600 positions have an average salary of $50,000 for a total annual payroll of $30 million
- The positions will be vacant after July (leaving 5 months of potential savings)
- Approximately 25% of the positions would remain vacant for the remainder of the year (using this assumption, actual savings would be $3.125 million, not $3.99 million)

The savings plan is hedged by recommended budget provisions that dedicate any land sale revenue exceeding $5 million to offset any shortfall in the retirement savings account.

If both the retirement savings *and* excess land sale revenue do not materialize, mid-year corrections will be made via vacancy and turnover reductions, corrective actions and/or personnel/service reductions. Finally, the budget continues the practice of having DAS review and approve the filling of all vacant positions.

The County Board staff overview of the recommended budget highlights a number of concerns with this budget item. These include potential "double counting" of retirement savings (in both operating budgets and Org. 1941) given a 14% Countywide net salary reduction, potential impact of sick leave litigation or plan changes on the timing of retirements, consequences of not achieving the savings, and the challenge of monitoring the savings.

Predicting the behavior of 1,100 potential retirees is problematic in and of itself. This is further complicated by the administration's decision not to proactively poll eligible employers to assess the potential level of retirements or the timing of such retirements (i.e. mid-year or late in the year). We acknowledge, however, that such surveys could be fraught with exposure to litigation if they are not done properly. Our discussion with Corporation Counsel indicates that such a poll could be done in a manner that reduces the likelihood of successful challenge. In the absence of any polling, we believe that DAS has made a reasonable estimate of the number of likely retirements during 2004. However, the timing of any trend in 2004 retirements is as crucial as the actual number of retirements.

When considering the potential achievement of the $3.99 million in retirement savings, it is important to also consider the recommended budget of $7.38 million (org. unit 1939) to provide for the estimated $8 million in sick allowance payments in 2004. Theoretically, any shortfall in the retirement savings from employees not retiring at the expected level could be offset by lower expenditures in the appropriation for sick leave payouts. There is, however, at least one worst-case scenario that must be considered. Under this scenario, a significant number of employees would retire *after* July 1, 2004 (the date that a 2% raise is effective for represented employees). This would result in the combined effect of increased sick leave payments and a reduction in retirement savings because employees would probably remain on the payroll past the end of July 2004 and thus cut into the anticipated savings from vacant positions after July.

In addition to the factors raised by Board Staff, the status of negotiations of the labor contract governing 2004 could also affect the timing of retirements. For example, if represented employees' 2004 raises are reduced or health insurance premiums are increased, more individuals may retire earlier in 2004. It is clear from questions raised by Finance and Audit Committee members in the opening days of its deliberations that the impact of retirements on appropriations and on services is a concern. Yet, the level of knowledge about the potential impact of retirements, as evidenced by departmental administrators' answers to these questions, is not consistent.

Given the impact of this matter on 2004 service levels and fiscal condition, we offer a number of suggestions.

First, the Committee should consider directing the DAS Division of Human Resources to prepare a report that identifies all positions (by low org. unit) that may be vacated during 2004 due to retirement. Ideally, it would be best if positions were identified early on for abolishment, holding vacant or critical fill once they become vacant due to a retirement. The inventory of positions could then be used to track actual retirements and the impact throughout 2004. This would provide the Committee with information about potential areas of service impact. It may also be useful in determining whether there has been any "double counting" in projected retirement savings.

Second, you may want to consider asking DAS-DHR to conduct a general survey of potential retirees about their plans. This would have to be done in consultation with Corporation Counsel to ensure that the effort would not expose the County to litigation.

Third, consideration should be given to enhancing the contingent fund as an additional safeguard to potential underachievement of retirement savings.

Finally, a mechanism should be developed for tracking achievement of the savings on a monthly basis. This will be especially important to monitor the County's fiscal condition in 2004 and could also be valuable in addressing the 2005 budget.

If you have further questions, please call me at extension 5185.

Jerome J. Heer

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cc: Finance and Audit Committee Members
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