

“Right Sizing” through Early Retirement and Other Methods

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Presentation Panel



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Rightsizing: What We're Facing

“If you find yourself in a hole, the first thing to do is stop digging”

Will Rogers



COVID-19

Uncertain State Budgets

Structural Deficits

Concession Bargaining

Declining Enrollments

Operational Changes

Why Do an Incentive?

- **Achieve** budget, fiscal, or cash flow savings
- **Reduce** the number of top-of-the-salary-schedule employees
- **Lower** overall labor costs
- **Mitigate** potential future layoffs or more adverse options
- **Address** declining enrollment or other needs
- **Reorganize** or restructure departments or divisions
- **Revitalize** workforce for future
- **Achieve** mutual needs of labor and administration

What is the Proper Analysis Model?

Total Compensation Differential between Retiring Employee and Replacement Employee

-

Retirement Health Care Cost

-

Retirement Incentive Cost

-

Current Natural Attrition

-

Future Loss in Natural Attrition

+

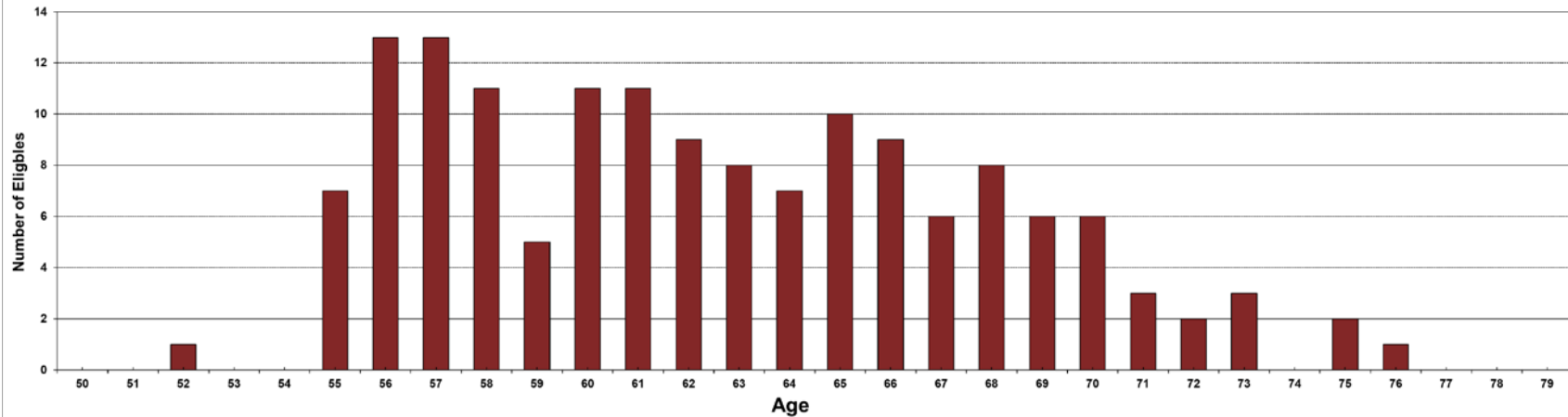
Savings due to Non-Replacements

=

Net Savings (Cost)

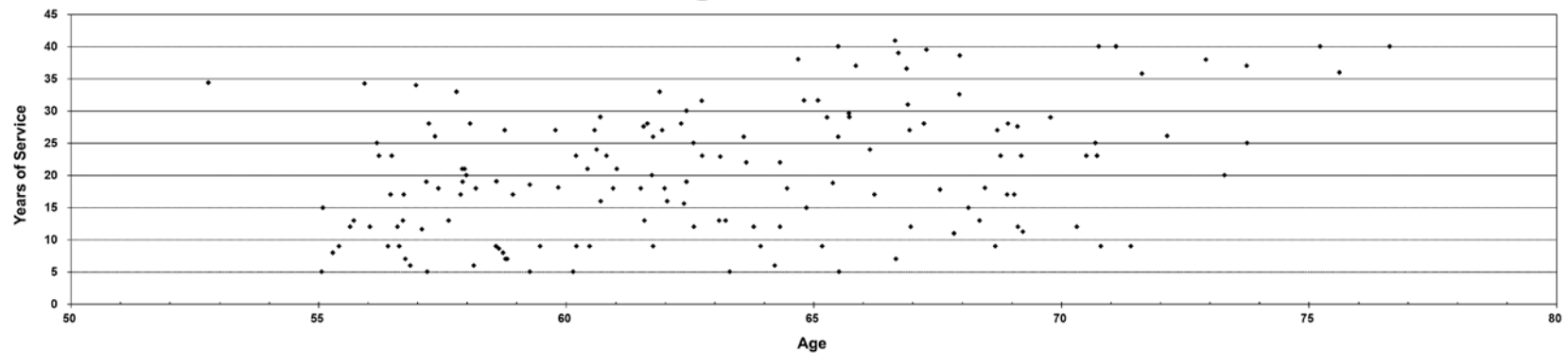
Sample Demographic Study

Age Distribution: Eligible Employees

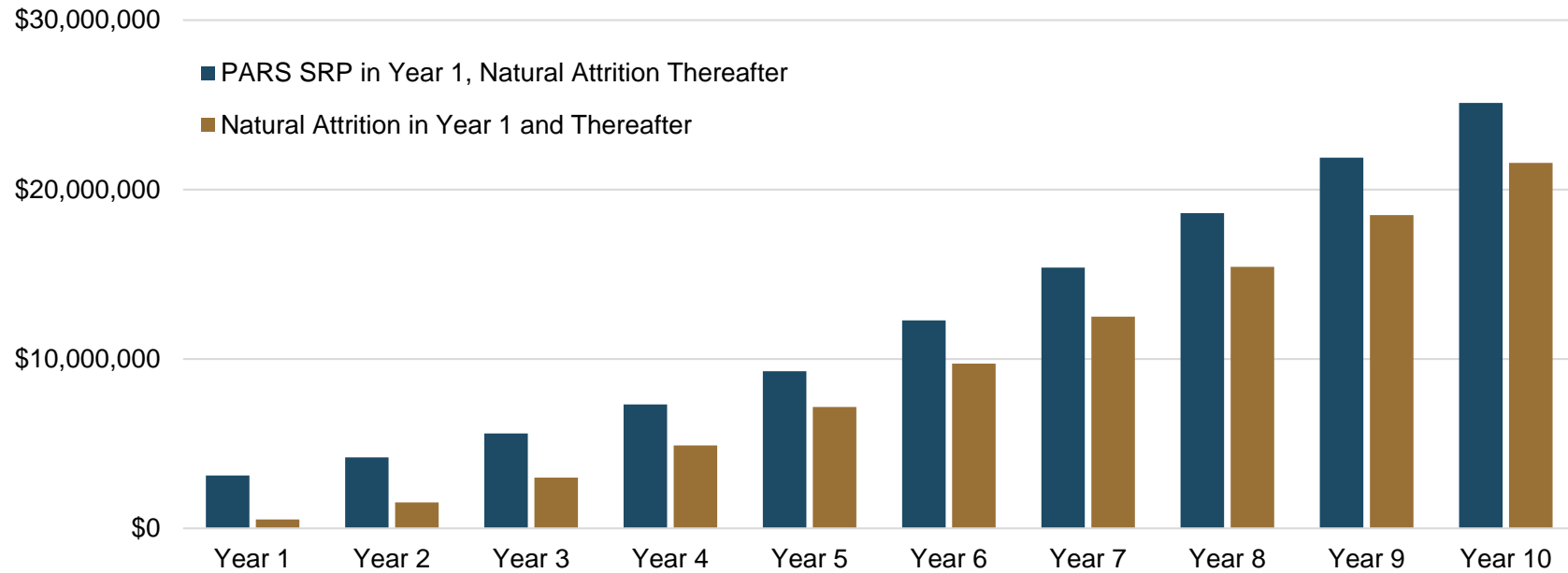


| Age | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | Total |
|------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|-------|
| # Eligible | 0 | 0 | 1 | 0 | 0 | 7 | 13 | 13 | 11 | 5 | 11 | 11 | 9 | 8 | 7 | 10 | 9 | 6 | 8 | 6 | 6 | 3 | 2 | 3 | 0 | 2 | 1 | 0 | 0 | 0 | 152 |

Scattergram: Age vs. Service



Sample Analysis Report



Cumulative Savings due to Non-Replacements

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|-------------------|
| PARS | 3,127,272 | 4,197,026 | 5,602,475 | 7,314,433 | 9,275,707 | 12,278,405 | 15,392,994 | 18,611,045 | 21,880,375 | 25,117,681 |
| Natural Attrition | 526,897 | 1,532,928 | 3,002,191 | 4,897,886 | 7,164,190 | 9,727,172 | 12,503,897 | 15,442,013 | 18,489,653 | 21,578,870 |
| Difference | 2,600,376 | 2,664,098 | 2,600,284 | 2,416,547 | 2,111,517 | 2,551,234 | 2,889,097 | 3,169,032 | 3,390,722 | 3,538,811 |



What Design Options Can Be Analyzed?

Benefit Levels

Retire or Resign

Eligibility Requirements

Implementation Timeline

Employee Groups

Minimum Participation

Payout Options

Funding Options

What Are Other Unique Factors for CCDs?

- **Adjunct Replacement**
- **Faculty Obligation Number**
 - Including the ability to replace Full-time Faculty with Adjunct Faculty for up to one year without impacting the FON if resignations/retirements come within the last 45 “Duty Days”
- **50% Law**
- **Categorical Programs**
- **Timeline**
 - End-of-Year, Mid-Year and combination approaches

Sample Timeline (End-of-Year)

| Timeframe | Actions |
|---------------------------------------|---|
| June - Oct | Complete Analysis |
| Oct - Jan | Board votes to open enrollment window |
| Jan/Feb | Enrollment window opened |
| March/April | Enrollment window closed (after 45-60 days) <i>May limit timeframe for submission of Enrollment Materials/Letters of Resignation to be within the last 45 "Duty Days" in order to retain the ability to replace Full-time Faculty with Adjunct Faculty for up to one year without impacting the FON. This limitation will be different for each district in order to stay within the last 45 "Duty Days" based on each district's own academic calendar.</i> |
| March/April | Post Analysis completed |
| April/May | Board decides to move forward/cancel plan based on Post Analysis |
| June 30 (or end of the Academic Year) | Employees retire/separate from District employment |
| July | District makes 1 st of 5 annual payments to fund the incentive |
| August 1 | Employee benefit payments begin |

Case Study

Coast Community College District Early Retirement Program (“SRP”)



Background for the SRP

- **What was the situation at Coast?**
 - Ongoing financial concerns
 - Rising Cost of Employment
 - 90% + of budget is personnel costs
 - Enrollment
 - Declining Resident Enrollment
 - Demographic changes
 - Reduced international enrollment
 - Federal “atmosphere”
- **What were our goals?**
 - “Right Size” the organization
 - Avoid Layoffs

How did we approach the SRP?

- Hiring Freeze thru June 2021
- SRP – the single best tool [for Coast] toward meaningful cost containment
 - Planned over multiple years & before COVID-19

SRP-1 (Spring 2020)

- 124 enrollees
- Sought 2:1 enrollment relationship: Faculty/Non-Instructional
- Needed for aid in 50% Rule compliance [Didn't **quite achieve that**]

SRP-2 (Conclude Fall 2020)

- Conclude Fall 2020
- On-going budgetary concerns
- Seeking balance in 50% Law
- Focused on Classified Professionals

Post SRP Concerns

- Have we changed behavior with respect to natural attrition?
- Have we exhausted the usefulness of this tool – at least in the immediate term?
- Organizational disruption
 - Ability to fill must-have critical positions.
 - Self-selecting nature of program does not allow targeted reduction.

Plan Design

- **Employees who were members of STRS**
 - All STRS covered employees who were eligible to retire
 - Offered choice of PARS SRP (70%) and STRS Retirement Incentive (**could not pick both**)
 - Resignation between April 30, 2020 and June 30, 2020
 - PARS materials and resignation form could be submitted between April 1st and April 17th in order to allow Adjunct Faculty replacement for 1 year without impacting the FON
- **Employees who were members of PERS**
 - All PERS covered employees who were eligible to retire with 10 years of District service
 - Offered only PARS SRP (70%)
 - Resignation effective on June 30, 2020
 - PARS materials and resignation form could be submitted between April 1st and April 17th

PARS - Academic 70% of Final Pay Benefit

| SAMPLE BENEFIT ILLUSTRATION | Option | Duration | | Faculty Monthly Benefit | Academic Management Monthly Benefit |
|-----------------------------|----------------|----------------------------------|--------------------|----------------------------|---|
| | Average Age | | | 61.75 | 61.48 |
| | Average Salary | | | \$119,168.37 | \$188,814.81 |
| | Option 1 | Retiree's Life | | \$372.21 | \$589.74 |
| | Option 2* | Retiree's and Beneficiary's Life | | \$315.44 | \$502.61 |
| | Option 3 | Greater of Lifetime or 10 Years | | \$366.54 | \$580.76 |
| | Option 5** | 5 Years | Guaranteed Pay Out | \$1,394.58 | \$2,209.62 |
| | Option 6** | 6 Years | Guaranteed Pay Out | \$1,180.03 | \$1,869.68 |
| | Option 7** | 7 Years | Guaranteed Pay Out | \$1,026.21 | \$1,625.96 |
| | Option 8** | 8 Years | Guaranteed Pay Out | \$911.59 | \$1,444.36 |
| | Option 9** | 9 Years | Guaranteed Pay Out | \$822.50 | \$1,303.20 |
| | Option 10 | 10 Years | Guaranteed Pay Out | \$751.59 | \$1,190.86 |
| | Option 11 | 11 Years | Guaranteed Pay Out | \$695.20 | \$1,101.51 |
| | Option 12 | 12 Years | Guaranteed Pay Out | \$647.49 | \$1,025.91 |
| | Option 13 | 13 Years | Guaranteed Pay Out | \$606.95 | \$961.67 |
| | Option 14 | 14 Years | Guaranteed Pay Out | \$572.25 | \$906.69 |
| | Option 15 | 15 Years | Guaranteed Pay Out | \$542.05 | \$858.84 |

* Option 2 Monthly Benefit is based on a retiree and beneficiary of the same age. ** May be rolled over to an IRA or another Qualified Plan (if under Age 72).

PARS - Classified 70% of Final Pay Benefit

| SAMPLE BENEFIT ILLUSTRATION | Option | Duration | | Classified Non-Management Monthly Benefit | Confidential Monthly Benefit | Classified Management Monthly Benefit |
|-----------------------------|----------------|----------------------------------|--------------------|---|------------------------------|---------------------------------------|
| | Average Age | | | 59.38 | 62.64 | 56.89 |
| | Average Salary | | | \$73,333.30 | \$92,680.50 | \$136,633.10 |
| | Option 1 | Retiree's Life | | \$219.91 | \$295.84 | \$387.55 |
| | Option 2* | Retiree's and Beneficiary's Life | | \$189.43 | \$249.26 | \$337.16 |
| | Option 3 | Greater of Lifetime or 10 Years | | \$217.14 | \$290.78 | \$384.10 |
| | Option 5** | 5 Years | Guaranteed Pay Out | \$858.19 | \$1,084.60 | \$1,598.96 |
| | Option 6** | 6 Years | Guaranteed Pay Out | \$726.16 | \$917.74 | \$1,352.97 |
| | Option 7** | 7 Years | Guaranteed Pay Out | \$631.50 | \$798.11 | \$1,176.60 |
| | Option 8** | 8 Years | Guaranteed Pay Out | \$560.97 | \$708.97 | \$1,045.19 |
| | Option 9** | 9 Years | Guaranteed Pay Out | \$506.15 | \$639.68 | \$943.04 |
| | Option 10 | 10 Years | Guaranteed Pay Out | \$462.51 | \$584.54 | \$861.74 |
| | Option 11 | 11 Years | Guaranteed Pay Out | \$427.81 | \$540.68 | \$797.09 |
| | Option 12 | 12 Years | Guaranteed Pay Out | \$398.45 | \$503.57 | \$742.38 |
| | Option 13 | 13 Years | Guaranteed Pay Out | \$373.50 | \$472.04 | \$695.90 |
| | Option 14 | 14 Years | Guaranteed Pay Out | \$352.15 | \$445.05 | \$656.11 |
| | Option 15 | 15 Years | Guaranteed Pay Out | \$333.56 | \$421.57 | \$621.49 |

* Option 2 Monthly Benefit is based on a retiree and beneficiary of the same age. ** May be rolled over to an IRA or another Qualified Plan (if under Age 72).

District Retirement Incentive Enrollments and Projected Fiscal Impact

| Employee Group | # of Eligible Employees | PARS SRP Enrollments | CalSTRS Early Retirement Enrollments | Total Early Retirement Enrollments | % of Eligible Employees |
|---------------------------|-------------------------|----------------------|--------------------------------------|------------------------------------|-------------------------|
| Faculty | 172 | 25 | 18 | 43 | 25.00% |
| PT Faculty | 168 | NA | 7 | 7 | 4.17% |
| Academic Management | 24 | 6 | 3 | 9 | 37.50% |
| Classified Non-Management | 262 | 58 | NA | 58 | 14.22% |
| Confidential | 1 | 1 | NA | 1 | 100.00% |
| Classified Management | 24 | 5 | NA | 5 | 20.83% |
| Totals | 651 | 95 | 28 | 123 | 18.89% |

- Based on the fiscal analysis of the 123 employees enrolled in the *PARS Supplementary Retirement Plan* and the *CalSTRS Retirement Incentive Plan*, the District is projecting an overall savings of approximately \$2.6 million in the first year and \$11.6 million cumulative over five years. This savings projection is net of all PARS and CalSTRS costs and conservative assumptions for replacement/non-replacement of positions.

Second Window

- Offered to just Classified Non-Management
 - Eligible to retire under PERS with 10 years of District service
 - Resignation on either December 30, 2020 or January 31, 2021
 - PARS materials and resignation form must be submitted by October 23, 2020
 - Offered only PARS SRP (65%) – **not the 70%**
- Attempting to achieve the original 2-1 goal of non-faculty/faculty over the 2 windows
- Concern – offering 2 windows in 2 years will change behavior of employees
- Consideration of extending hiring freeze

Case Study

Butte-Glenn Community College District Early Retirement Program



Remembering 2009

- Gov. Schwarzenegger was in 6th year
- State was addressing a \$40B shortfall
- Declining state tax revenues
- Sliding housing and automotive markets
- High unemployment
- Financial market crisis
- CCs apportionments cut by \$680 million
- Reduce enrollments by 250,000 students, workload reductions continue for 4 years
- No COLA and No Growth funding
- Enrollment fees increased from \$20 to \$26
- Categorical programs reduced by 16%-32% after partial federal backfill from ARRA



Situation at Butte College

- Rodgers honored Alumni of the Year
- Received restoration funding in PY
- Balanced budget in 2009-10
- Strong reserves (approximately 32%)
- Backfill categorical programs
- One-time funds for SM/IE
- Exceeded the FON by 19 FTE
- \$1.2 million cut to part-time budget
- Budget not compliant with 50% Law
- Possibility of mid-year cuts
- Hiring freeze for all regular positions with few exceptions for critical positions



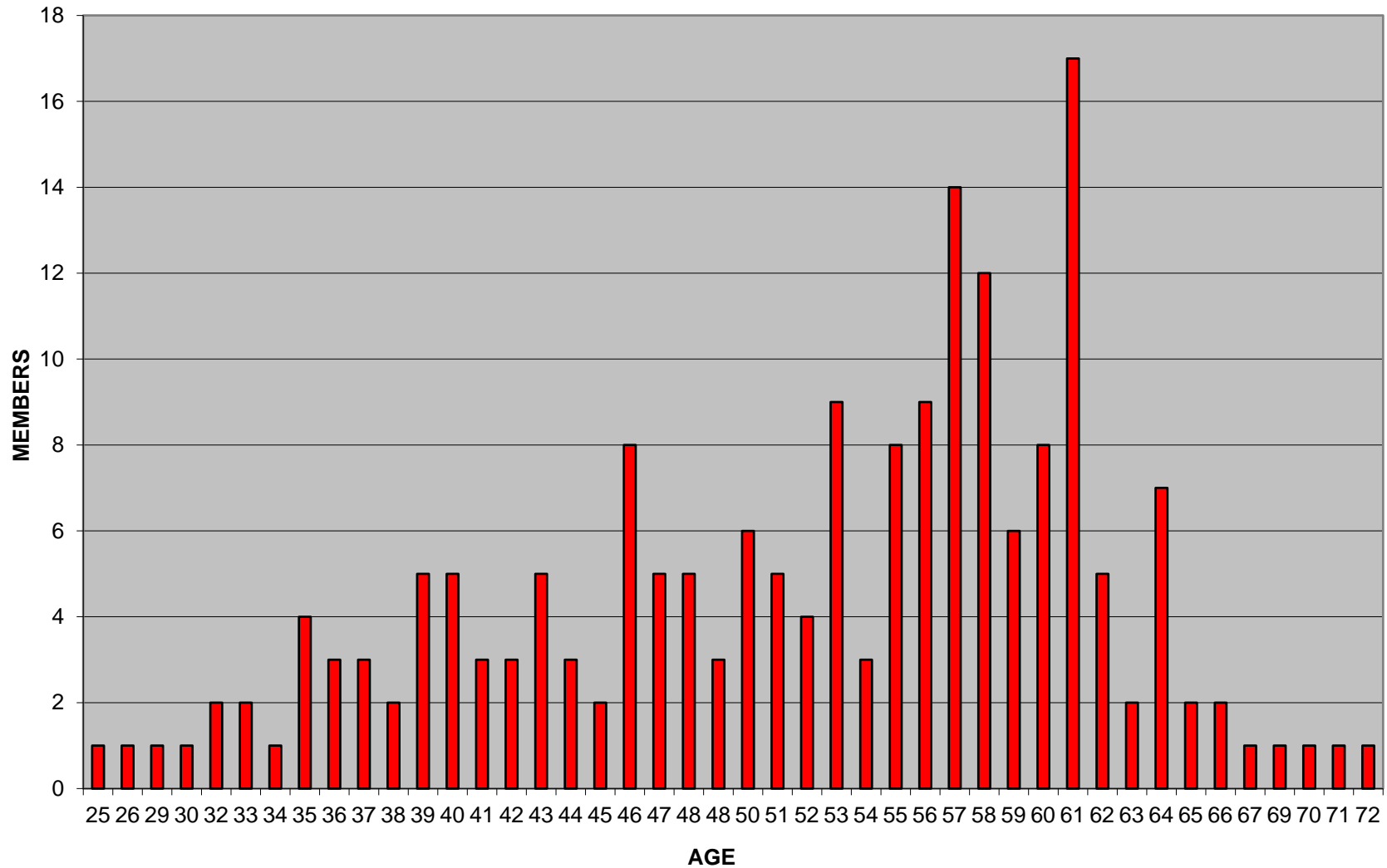
Butte Early Retirement Program

- Why?
 - Flexibility to address future cuts
 - Minimize layoffs
 - Use one-time funds to reduce ongoing expenditures
 - Create more vacancies
 - Reorganize behind vacancies



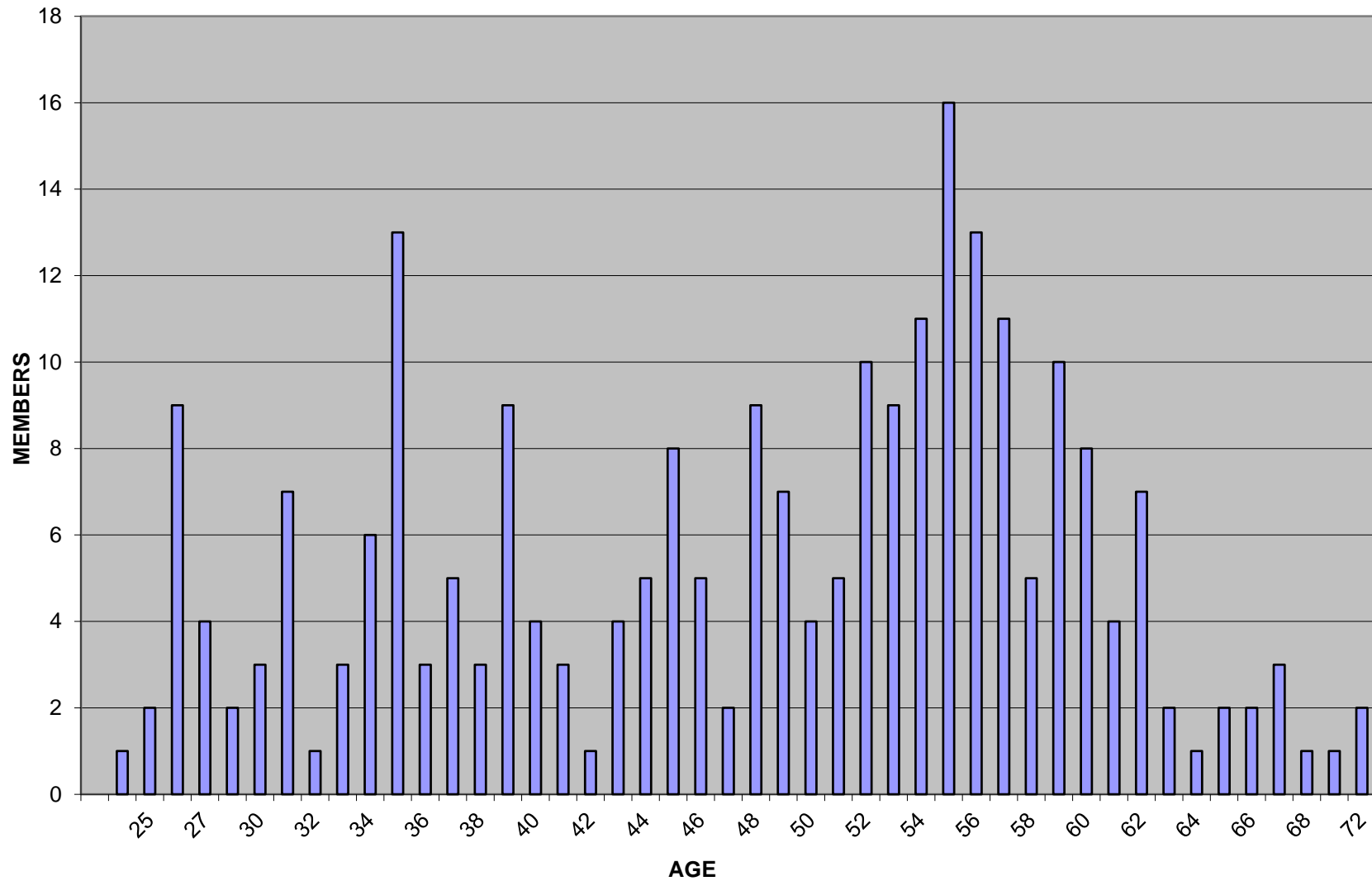
Timing – Was Butte Ready for This?

BCEA MEMBERS BY AGE



Timing – Was Butte Ready for This?

CSEA MEMBERS BY AGE



Eligibility Requirements

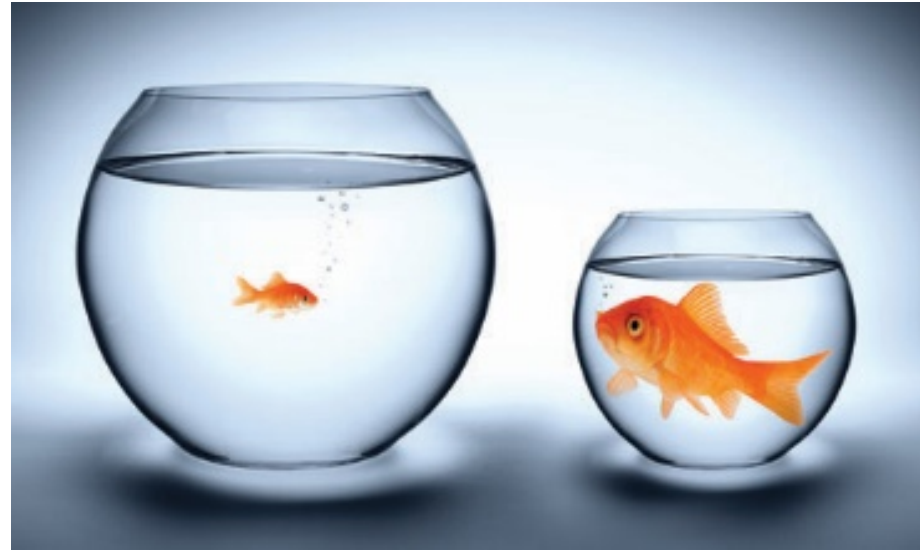
- All current regular full-time employees
- At least 55 years of age
- Have at least ten (10) years of full-time service with the District as of October 15, 2009
- Unpaid leaves do not count towards years of service.
- District must receive at least 15 eligible participation forms
- Participation forms must be completed and returned to Human Resources no later than 5:00 p.m., Thursday, October 15, 2009.

Incentive Details

- Eligible participants will receive \$1,500 for each complete full-time year of service
- Up to a maximum of \$40,000 (less required state and federal withholdings)
- Pre-tax deferrals of early retirement incentive payouts may be available through payroll deductions to 403b and 457 tax shelter annuities
- Retirement date will require a Vice President's approval and must fall between December 31, 2009 and June 30, 2010.
- The incentive is not creditable towards PERS or STRS defined benefit.
- Employees may choose from the following payout options:
 - **Plan A:** Lump sum payout in December, 2009.
 - **Plan B:** Lump sum payout at the end of the month in which the retirement date falls.
 - **Plan C:** Pay out in two equal installments: In December, 2009 and at the end of the month in which the retirement date falls.
 - **Plan D:** Lump sum payout in the month following the retirement date.
- Election to participate is irrevocable once accepted by the President.

What Size is the Right Size?

Rightsize ['rīt, sīz]
VERB
rightsizing (present participle)



- To convert (something) to an appropriate or optimum size.
- To reduce the size of (a company or organization) by eliminating staff positions, specifically when business conditions necessitate such a reduction.

Rightsizing, Downsizing, Reorganization

- Rightsizing is the **process of a corporation reorganizing or restructuring their business by cost-cutting, reduction of workforce, or reorganizing upper-level management.**
- The term downsizing has virtually the same meaning. Business leaders often use 'rightsizing' because it sounds less alarming.
- Know the open recruitment requirements versus a reclassification



Layoff Lessons Learned

- Advise to consult with PERS, STRS or Financial Advisor
- Eliminate the position, not the person
- Know the members' seniority rights
- Communicate in person when possible
- Provide employment services
- Show compassion



Layoff Lessons Learned (continued)

- Minimize layoffs (avoid the 39 month rehire list)
- Plan for extended timelines for future recruitments
- Units never forget a layoff notice



Balanced Budgets = Budget Stability

- Take action early
- Address potential fiscal issues
- Hang in there!



Other Cost-Cutting **Methods**

Other Labor Cost-Cutting

- **Layoffs**
 - Immediate reduction to budget; youngest, recently trained & lowest paid typically get cut; politically unpopular
- **Furloughs**
 - Reduces labor costs for short, set amount of time; usually required to continue to pay benefits/percentage of pay
- **Position Elimination/Temp Assignment Termination**
 - Vacancies, through attrition
- **Reorganization, Reassignment**
- **Hiring freezes**
- **Step and column freezes**
- **Suspension of certain contract provisions**
- **Salary schedule reductions**

Questions?

Thank you for participating!

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