STATECIVILSERVICE

JOB AIDS AND RESOURCES

FAQs – Retirement Incentive

Q. Who is eligible for the Retirement Incentive?

A. The rule applies ONLY to those employees who fall under regular retirement eligibility, and includes those enrolled in the Optional Retirement Plan (ORP) or Deferred Retirement Option Plan (DROP). This rule does not apply for actuarially reduced early retirement, disability retirement, and rehired retirees.

Q. What is the maximum incentive payment an agency may grant an employee under this rule?

A. An employee may receive up to 50% of the savings realized by the agency as result of that employee's retirement in that fiscal year. The savings is based on salary savings only (excludes related benefits).

Q. If an employee receives an annual leave termination payment, how will this factor into the retirement incentive lump sum payment?

A. All hours paid as an annual leave termination payment must be deducted from the retirement incentive lump sum payment before the retirement incentive is paid to the employee.

Q. How do you calculate the maximum amount that can be paid to an employee? (50% of the savings realized by an agency)

- Example A — In this example, assume the employee is paid at a rate of $20.00/hr, Works 40hrs/wk ($41,600/yr), and shall be paid for 300 hours of annual (terminal) leave. The employee opts to retire effective September 20, 2009, and receives only the first seven (7) paychecks for fiscal year 09/10 and not the remaining nineteen (19) paychecks

  Step 1: 19 pay periods X 80 hours = 1,520 hours of potential salary savings

  Step 2: 1520 hours – 300 hours=1,220 hours of potential salary savings

  Step 3: 1220 X $20.00/hr pay rate=$24,400 potential savings to the agency

  Step 4: $24,400 potential savings X 50% = $12,200 max employee share of savings

- Example B — In this example, assume the employee is paid at a rate of $20.00/hr, works 40hrs/wk ($41,600/yr), and shall be paid for 100 hours of annual (terminal) leave. The employee opts to retire effective September 20, 2009, and receives only the first seven (7) paychecks for fiscal year 09/10 and not the remaining nineteen (19) paychecks.

  Step 1: 19 pay periods X 80 hours = 1,520 hours of potential salary savings

  Step 2: 1520 hours – 100 hours=1,420 hours of potential salary savings

  Step 3: 1420 X $20.00/hr pay rate=$28,400 potential savings to the agency

  Step 4: $28,400 potential savings X 50% = $14,200 max employee share of savings.

Q. How does an agency select individuals for the retirement incentive plan?

A. An agency must use this rule uniformly. However, they may request to limit the group of employees for rational business reasons. For example, an agency might wish to exclude employees at or above the manager level because it has less flexibility to redistribute work at those levels.

Q. Does the agency have to pay 50% of the savings realized by the employee's retirement?
A. No, the agency is allowed to pay up to 50% that is saved. However, the agency can always pay a lesser percentage or a flat rate, as long as the flat rate does not exceed 50% of the savings for any employee.

Q. How would the retirement incentive be paid to an employee?
A. Payment is made as a one-time, lump sum payment after the employee's separation.

Q. Should an agency withhold retirement contributions on the lump sum payment?
A. Not for employees participating in LASERS. The lump sum payment will not have any impact on service credit and therefore should not have retirement contributions taken out. For employees participating in other retirement systems, please check with a representative in the appropriate system.

Q. Will the lump sum payment count towards an employee's final average compensation?
A. No, it is not considered retirement eligible wages for employees participating in LASERS.

Q. Is the Retirement Incentive eligible for rollover?
A. Generally, the lump sum payments can be rolled over into accounts processed within a single payroll system (such as deferred compensation) up to the allowable limits.

Q. Will taxes be taken out of the lump sum payment?
A. Yes, the lump sum payment is subject to federal and state income taxation.

Q. Will the retiree have the option of converting the lump sum payment to retirement credit?
A. No.

Q. Will an employee who participates in the retirement incentive plan be eligible to work as a rehired retiree?
A. Yes, subject to the rules as designated by the appropriate retirement systems (see *NOTE below).

Q. Would the agency be required to abolished or leave vacant the position of an employee who retires under the retirement incentive rule?
A. No. This rule is not governed by legislation and does not fall under the same guidelines as any early retirement provision.

NOTE:** We strongly recommend that agencies exercise caution in re-hiring an employee who has received a retirement incentive payment within the same budget unit until it can be clearly demonstrated that the projected saving have been realized. ***Questionable payments made under this rule will be reported to the Legislative Auditor.

****NOTE:** Agencies which are granted Civil Service authority to use the Retirement Incentive Plan as a layoff avoidance measure are recommended to execute a signed agreement between the agency and the participating employee outlining the terms of agreement. See **Job Aids and Resources: Retirement Incentive Terms of Agreement**.