

**CITY OF HAMILTON**

**CITY MANAGER'S OFFICE**  
*Human Resources*

<b>TO:</b> Mayor and Members General Issues Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> October 3, 2012	
<b>SUBJECT/REPORT NO:</b> Projected Retirements (HUR12014) (City Wide)	
<b>SUBMITTED BY:</b> Chris Murray City Manager	<b>PREPARED BY:</b> Helen Hale Tomasik x 4155 Diana Belaisis x 4265
<b>SIGNATURE:</b>	

**RECOMMENDATION:**

- (a) That the City not pursue an early retirement incentive program, given the City's pending wave of retirements which enables Senior Management to identify sufficient positions through normal attrition which can be redeployed to sustainable service delivery requirements, emerging service needs or can be deleted;
- (b) That the item on "Early Retirement Packages" be removed from the Outstanding Business Items from the 2012 budget deliberations.

**EXECUTIVE SUMMARY**

At the February 24, 2012 meeting of General Issues Committee (GIC), staff were directed to investigate and present some options with respect to early retirement packages, looking at all eligible positions and to report back to the GIC.

Early Retirement Incentive programs are designed to accelerate the normal attrition process to advance a reduction in headcount as a cost savings strategy, to support organizational change and redeployment, and/or to create opportunities for emerging talent in the workforce. Typically, these programs offer a monetary sum to employees within an identified age and service category. There is a defined window of time in which interested employees need to apply for the incentive, which is followed by a

limited and specific time in which management reviews and determines if they will accept or deny the application of the person and position. Finally, the employee must vacate their position by a certain date. The entire time of the program is generally initiated and completed over a 6 month horizon with the retirements effective within 2 months of the decision. The lump sum payments are variable based on length of service, usually to a maximum of 6 months salary. It is difficult to predict the cost of an Early Retirement Incentive Program as it depends on the salary level of the applicant, whether the applicant is in a position that can be deleted, and whether the individuals eligible for early retirement are ready to retire.

Staff are confident that through normal attrition (both retirement and turnover) that there is sufficient opportunity to identify positions which can be deleted and/or redeployed without the need for an incentive package. There have been an increasing number of retirements over the last four years with 70 in 2009, 93 in 2010 and 116 in 2011.

With respect to retirement predictions, staff identified early in 2012 that 139 employees could retire in 2012, 205 employees in 2013, and 298 employees could retire in 2014. These predictions were based on a review of employees who are most likely to retire because they are 65 years of age, or they have reached the age requirement of 55 years plus have 35 or more years of combined OMERS and credited service. As of September 17<sup>th</sup>, 90 employees have retired in 2012, representing 65% of the 139 eligible employees.

It is important that organizational changes in staff complement are done within the long term context of a workforce management strategy that aligns with the strategic plan and sustainable service delivery. The risk of an unplanned approach is diminished productivity and the potential for adding back deleted positions and/or filling gaps with consultants. The goal of workforce planning is to have a ready workforce that can transition into positions and ensure business continuity.

*Alternatives for Consideration – Refer to p.9*

<b>FINANCIAL / STAFFING / LEGAL IMPLICATIONS</b> (for Recommendation(s) only)
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**Financial:**

It is difficult to predict the cost of an Early Retirement Incentive Program as it depends on the salary level of the applicants, whether the applicants are in positions that can be deleted, and whether the individuals eligible for early retirement with an unreduced pension are indeed 'ready to retire'. A person's decision to retire is very personal and complex. With the abolition of mandatory retirement at age 65, there are multiple factors which employees consider when they think about retirement (whether they have a working spouse, their health, the age of their children, self esteem and personal

identity tied to their work, their passion for their work, their need for additional savings, their lifestyle) with eligibility for an unreduced pension being only one factor.

The following provides a potential costing scenario based on the program that the City of Toronto implemented in 2011:

- If the City offered a retirement incentive of 6 months, and
- 50% of the 42 City employees (who have 35+ years service and could leave with a full pension today) applied to the Retirement Incentive Program, and
- Management agreed that 10 of the positions held by these individuals could be made redundant, and
- the average salary of employees whose applications were accepted was \$60,000
- it is estimated that the Retirement Incentive Program cost would be \$300,000

**Staffing:**

There would be a need for Human Resources staff to design the program, develop information packages and forms. Senior management would be required to review all applications and make decisions on who could be granted the retirement incentive.

**Legal:**

Organizations who consider incentive programs for the purpose of decreasing head count, typically choose a voluntary exit program as early retirement packages can be viewed as a form of age discrimination under the *Human Rights Code*.

Other considerations which dissuade organizations from pursuing such incentive programs include:

- staff who had planned to retire 'sit tight' waiting for the incentive program to commence
- perception of being an unfair and biased program as often applications from the low performers are accepted while the high performers are denied
- employees who retire before or after the window challenging entitlement to the incentive

**HISTORICAL BACKGROUND** (Chronology of events)

At the February 24, 2012 meeting of General Issues Committee (GIC), staff were directed to investigate and present some options with respect to early retirement packages, looking at all eligible positions and to report back to the GIC.

As part of the City's workforce planning exercise, staff have been looking at retirement trends over the past 3 years and have been projecting potential retirements over the next 3 years (2012 – 2014).

The following Table 1 provides the actual retirements from 2009 to 2012 (up to September 17th) for the City of Hamilton of employees who have a normal retirement age of 65 years (NRA 65). The average age of retirement of NRA 65 employees at the City has ranged from 60 – 61 years over the last 3 years. The average years of service has ranged from just under 26 years to 29.5 years.

**Table 1 – Actual Retirements 2009 – 2012 of NRA 65 Employees**

Measure	Year			
	2009	2010	2011	2012**
Non -Unionized Staff Retirements	9	12	26	16
Union Staff Retirements	61	81	90	74
Total Number of Retirements	70	93	116	90**
City Headcount*	6590	6500	6549	6324
% of Total Workforce who Retired	1.06%	1.43%	1.77%	1.42%
Average Age at Retirement (Years)	60.34	61	61.02	60.7
Average Years of Service	25.75	27.36	29.46	26.9

\* This headcount excludes Fire (NRA 60), Police, HECFI, Library, school crossing guards

\*\* The number of actual retirements as of September 17, 2012

During the 2012 budget presentations, Human Resources highlighted the risk to the corporation related to the wave of employees who will be eligible for retirement over the next 5 years. Over the past year, Human Resources staff has worked with the Senior Pensions Analyst in Financial Services to refine retirement predictions, taking into consideration employee age, years of service and available OMERS data on credited years of service. Staff categorized employees who are NRA 65 into four potential risk categories for retirement as follows:

- C1 - High Employee age is at or above 65 years
- C2 - Medium – High Employee is 55+ years of age and has 35+ years of credited service
- C3 – Medium Employee is 55+ years of age and has 30 – 34 years of credited service
- C4 – Low – Medium Employee is 55+ years of age, has less than 30 years of OMERS credited service, but may have previous service outside of OMERS

The following Table 2 categorizes City of Hamilton employees according to the above (C1 – C4) risk categories for potential retirement estimates for 2012, 2013, and 2014. As Human Resources staff capture the actual retirement data at the end of each year, we will be able to refine these and future retirement predictions. The data in Table 2 shows that over the next 3 years an increasing number of staff at all levels of the organization will become eligible for retirement.

**Table 2 - Projected Estimate of Retirements 2012 – 2014**

Retirement Risk Category	2012		2013		2014	
	Non Union	Union	Non Union	Union	Non Union	Union
High	16	81	19	120	26	176
Medium - High	8	34	16	50	20	76
Medium	34	92	40	95	52	86
Low - Medium	61	317	68	342	70	358
<b>TOTAL</b>	119	524	143	607	168	696

#### POLICY IMPLICATIONS

Not applicable

#### RELEVANT CONSULTATION

Staff consulted with the Senior Pension Analyst in Financial Services, Corporate Services Department on the retirement forecasting model.

Staff also spoke with City of Toronto Human Resources staff regarding their experience with their 2011 Voluntary Separation Program. The City of Toronto anticipated 700 positions to be eliminated through the Voluntary Separation Program. Of the 1,140 eligible employees who applied, one third worked in areas where the programs were legislated and/or cost shared and as such could not be approved. The final number of positions eliminated was 230 at a cost of \$13 million and a projected sustainable savings of \$20 million. In considering the effort to create, communicate and manage the program, the results fell significantly short of the desired objectives related to cost savings.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

Staff reviewed the literature on Early Retirement Incentive Programs and spoke with City of Toronto’s Human Resources Department regarding their experience with their 2011 Voluntary Exit Program. The following chart summarizes the benefits and risks of offering voluntary retirement packages.

<b>Benefits</b>	<b>Risks</b>
<ul style="list-style-type: none"> <li>• Program reduces headcount</li> <li>• Program is a quick fix strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Too many people or not enough people apply to the voluntary program</li> <li>• Incumbents occupying positions which can be deleted or released may not be ready or willing to vacate their position</li> <li>• Unpredictable talent loss - over time the impact of interdependencies, loss of business knowledge and skills become known and often positions need to be reinstated which diminishes cost reduction sustainability</li> <li>• Short term decision may impact the organization’s ability to progress the strategic plan</li> <li>• Pressure to meet a certain quota to reach a financial target may lead to decisions which are not sustainable</li> <li>• Potential for subjective decisions – elimination of person versus elimination of position</li> </ul>
<ul style="list-style-type: none"> <li>• Less traumatic to employees as the program is voluntary</li> </ul>	<ul style="list-style-type: none"> <li>• Not all who apply will be accepted based on criteria that position needs to be deleted</li> <li>• People may not have enough time to properly consider retirement within the compressed program timelines</li> <li>• Perception of inequity if employees applications not accepted due to the nature of the position they fill which may adversely impact employee morale. Employees in externally funded positions may not be eligible</li> </ul>

<b>Benefits</b>	<b>Risks</b>
	<p>for program as agreement with funder would require that employee must be replaced.</p> <ul style="list-style-type: none"> <li>• Encourages the most creative, risk taking and high performing employees to leave as they have positive employment prospects elsewhere</li> <li>• Effort is required to focus on the “survivors” who are left behind to keep the services going - ripple effect of further turnover as working conditions change.</li> </ul>
<ul style="list-style-type: none"> <li>• Cost savings in reduced headcount</li> </ul>	<ul style="list-style-type: none"> <li>• Some deleted positions are not sustainable as over time people are rehired if skills and knowledge are still required, if position impact was not fully assessed, or if those left behind are unable to cope with increased demands as the service or program was not discontinued</li> <li>• Savings are limited to a 3 year horizon if position(s) are filled with employees who are lower on the salary scale</li> <li>• Lump sum payments are a direct cost.</li> <li>• No cost saving in benefits as most will be eligible for retirement benefits.</li> </ul>
<ul style="list-style-type: none"> <li>• Opportunity for movement and promotions of up and coming talent within the organization</li> </ul>	<ul style="list-style-type: none"> <li>• High performers may leave an adverse impact on productivity especially if replacement is not “ready”</li> <li>• Inability to innovate if struggling to meet standards/ keep operations going</li> </ul>

It is important that organizational changes in staff complement are done within the long term context of a workforce management strategy that aligns with the strategic plan and sustainable service delivery. The risk of an unplanned approach is diminished productivity and the potential for adding back deleted positions and/or filling gaps with consultants. The goal of workforce planning is to have a ready workforce that can transition into positions and ensure business continuity.

Private and public sector companies (e.g. IBM, post secondary institutions such as McGill and University of Toronto) have shifted from providing direct lump sum incentives to designing succession management programs to transition people into retirement. More programs are being developed which involve reducing hours and shifting responsibilities for defined periods of time once a retirement date has been confirmed. Incentives such as continued pension payments at 100% while hours are reduced, being rehired for guaranteed (agreed upon) number of hours over a defined period of time on specific projects, and lump sum payments if retirement dates are declared in advance. These types of programs enable a planned workforce management approach ensuring knowledge, skills and business priorities are attended to.

We have attempted to identify the risk of the City's "greying wave" to inform our workforce planning decisions. A better understanding of our workforce demographics related to age and retirement eligibility will assist us with our workforce management plan which includes succession planning, leadership and management development and attraction and retention strategies, all of which are outlined in the most recent Strategic Plan. Consistent with our current strategic plan, we are developing programs and focusing resources to ensure we have a ready workforce which minimizes the risk to the Corporation. Although the results may not be as immediate as a voluntary exit package, the benefits of controlling the pace of change with a planned approach will ensure sustainability and foster a culture which is able to attract and retain the talent required to ensure business continuity.

**ALTERNATIVES FOR CONSIDERATION:**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

The City could consider a Voluntary Separation Program similar to the one implemented by the City of Toronto in 2011. The benefit of this program was that it did not target an age demographic in the workforce. The risks of such program are outlined in the Benefits/Risks chart in the Analysis/Recommendation section of this report.

**CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)**

The recommendation of this report is directly aligned with the Leadership and Governance strategic priority, and specifically the objective to build organizational capacity to ensure the City has a skilled workforce that is capable and enabled to deliver its business objectives.