to sign a letter of resignation effective with the date of retirement. As of the retirement date, the employee is no longer a district employee. Once the school board takes action on the individuals taking advantage of the ERIP, those employees are "locked-in." If the employee later decides not to retire, the district is under no obligation to reemploy that individual. It is the school board's choice whether to allow an individual to withdraw a letter of resignation after the school board has taken action. The school board should assess the costs and benefits and make case-by-case decisions.

Q How do I know if an ERIP is right for my district?

A If the district is considering an ERIP, the very first thing to do is a cost analysis. Many districts have implemented ERIPs thinking that there would be automatic savings. Many are still paying the costs. There are numerous factors to consider when implementing an ERIP. Much more is involved than just the difference between the retiree cost and the replacement cost. Factors such as severance, salary increases, step increases, interest and the type of individuals retiring, can have a significant financial impact. Never implement an ERIP without preparing a detailed cost analysis.

Q The school board had an ERIP analyzed several years ago. Do we need another one now?

A Yes, if the school board is considering an ERIP. The costs and savings for a district will change from year to year, depending on the employees. An ERIP that shows great savings in one year could show great costs the next. This is primarily due to the age and experience of employees. Typically, the older and more experienced a district's staff, the lower the cost. If a lot of senior employees retire in a given year, an ERIP analysis done the following year would most likely show great costs. The same analysis done the year prior to those senior employees retiring would probably show great savings. Any time a district is considering an ERIP, a detailed cost analysis must be done.

Q The unions have presented the school board with an ERIP analysis. Should we rely on their data?

A No. The association's analysis is not always complete. The Ohio Education Association (OEA), for example, includes only their bargaining unit members. Therefore, any administrators that would be eligible are not included. The analysis also may exclude severance pay, interest and step increases. Their analysis typically includes a replacement salary of BA+0, which inflates the ERIP savings. Most districts are not able to replace all their retiring employees at BA+0. Their analysis also includes a "salary growth factor" of a certain percentage, for example 4%. However, both salary increases and step increases need to be considered in order to get a true savings estimate. A 3% salary increase on top of a 5% step increase is much more than an overall 4% growth.

Q Are there alternatives to ERIPs?

A Yes. A district can offer a basic retirement incentive to its certificated or support staff without purchasing service credit through the retirement systems. Incentives vary from flat dollar amounts to increased amounts of severance pay. Incentives are typically higher for certificated employees because the district saves more money on replacement salary. For example, a district could offer a flat amount of $5,000 to any certificated staff members that retire the first year they are eligible – a take-it-or-leave-it option. If an employee with 30 years of service credit retires prior to earning another year of service credit, he or she would receive the incentive. The incentive must be structured so that the district saves money, while at the same time encouraging employees to retire. The costs and benefits of such an incentive should be carefully weighed.

Should your district have any additional questions regarding ERIPs or other retirement incentive options, please contact the Division of Management Services at OSBA.

OSBA

Ohio School Boards Association
8050 N. High St., Suite 100
Columbus, Ohio 43235-6482
(614) 540-4000 • (800) 589-OSBA
fax (614) 540-4100
www.osba-ohio.org

Revised 7/04

Turn on the savings!

$ $ $ $

Answers to frequently asked questions on early retirement incentive plans

Public school districts have the ability to offer early retirement incentive plans (ERIPs) to their certificated and support staff. ERIPs are defined as the purchase of service credit to encourage eligible employees to retire.

Since the inception of ERIPs in 1983, over half of Ohio's 860 public school districts, colleges and universities have adopted the State Teachers Retirement System (STRS) ERIPs.

OSBA's Division of Management Services receives numerous telephone calls each year regarding ERIPs. Here are some of the more frequently asked questions.

Q What are the qualifications for early retirement?

A Participants must be age 50 by the time of retirement or the plan end date. The combined age and service credit with the purchase is: age 50 with 30 years; age 55 with 25 years; and age 60 with five years, and be contributing to the Defined Benefit Plan.

Q Can an STRS participant in an ERIP be rehired by the same employer?

A No. An STRS participant may not continue employment after retirement with the employer granting the retirement incentive credit.

Q Does the school board have to negotiate an ERIP prior to implementation?

A ERIPs are a mandatory subject of bargaining as determined by the State Employee Relations Board (SERB) in *SERB v. Youngstown City School District Board of Education*, 93-ULP-01-0095, SERB opinion 95-010. The Youngstown Education Association (YEA) filed an unfair labor practice in response to the district's implementation of an ERIP without first bargaining with YEA. The education association claimed it did not waive its right to bargain, and argued that the decision to implement an ERIP directly affected wages, terms and conditions of employment.

SERB used a three-part balancing test to determine whether ERIPs were a permissive or mandatory subject of bargaining. SERB found:

- the subject is related to hours, terms and conditions of employment;
- negotiating the subject does not directly infringe on any managerial prerogatives set forth in Ohio Revised Code Chapter 4117;
- collective bargaining is the appropriate means to resolve the conflict.

Therefore, the school board must negotiate an ERIP. However, if both the association and board do not reach agreement, the district is under no obligation to implement.

Q Are administrators such as the superintendent and treasurer eligible to participate in an ERIP?

A Yes. Any member of either retirement system has the right to participate in an ERIP if offered by a school district. School boards cannot create one ERIP for teachers and a separate ERIP for administrators, or restrict who can participate. STRS and the School Employees Retirement System (SERS) treat all dues-paying members the same. It is illegal to offer separate ERIPs.

Q Can the school board limit the number of participants?

A Yes, the minimum number of individuals is limited to 5% of the total membership in either retirement system. For example, if there are 100 certificated employees contributing to STRS, the school board must allow at least five eligible employees to participate. The 5% is determined by greatest district seniority.

Q How many years of service credit can the district purchase? Does it have to be the same amount for every participant?

A The district can purchase between one and five years of service credit in whole year increments. Purchased service credit may not exceed the lesser of five years or 1/5 of each employee's total service credit.

Service credit must be purchased uniformly. The district cannot purchase differing amounts of credit for each participant, unless the amount purchased exceeds 1/5 of an employee's total service credit. For example, if an employee has 14 years of service credit at retirement and the school board purchases three years of service credit, the employee would only be eligible for two years of service credit.

Q How long is the ERIP open?

A The minimum length an ERIP can be open is one year. If implemented, a participant can retire any time within that year, provided he or she meets retirement eligibility requirements prior to the plan's expiration date. School boards can negotiate incentives to require employees to retire by a specific date.

Q Does the district have to pay the entire cost of the purchase?

A Yes, the district must pay the entire cost of the service credit purchase. STRS and SERS will not take a member's check. However, the district may pay for a portion of the purchased credit by negotiating to reduce or eliminate severance pay.

Q Are STRS and SERS retirement system regulations the same?

A No. The actuarial tables used to determine the cost are different for each system. In addition, SERS includes the cost of health care, while STRS includes the cost of outside public employment salary to determine cost. Analysis of the two systems needs to be done separately.

Q If the school board offers an ERIP to the members of STRS, does the school board have to offer an ERIP to SERS members?

A No. The retirement systems operate independently of one another. There is no legal requirement that mandates the district to offer an ERIP to both groups.

Q What are window periods?

A A window period is the period of application. The courts have ruled, in *Fincher v. Canton* (1991) 62 Ohio St. 3d 228, that although an ERIP must remain in effect for at least one year, the school board has the right to have a window period. This window period should be a few months prior to the beginning of the ERIP to allow the school board sufficient planning time. Typically, employees wishing to participate have approximately 30 days to submit their letters of intent and ERIP application forms to the administration. Within those 30 days, the employee has the right to withdraw the letter, resubmit and withdraw again. Once the window period closes, no other employees may submit their letters of intent. If the board has a cap on the number of individuals that can participate, the treasurer orders the letters of intent by district seniority. The application forms of the most senior employees are then forwarded to the retirement system.

Window periods are extremely beneficial to districts. Without a window period, employees could retire at any time within the year of the plan, which prohibits cash-flow planning. In addition, because ERIPs are offered in order of district seniority, an employee with greater seniority than other employees could choose to participate after the cap has been met. According to STRS and SERS rules and regulations, that individual would have to be allowed to participate. Therefore, the district would have no real control of the cap or cash flow.

Q If an employee elects to participate in an ERIP and later wants to rescind his or her intention, what does the school board do?

A Once the employee signs the ERIP forms, the district should require the employee