

# Early Retirement Options

## Overview

This educational presentation explored early retirement options from a high-level perspective.

## Background

Retirement eligibility is a combination of age and service length. For most plans, normal retirement is available at age 65 with 5 years of service, and early retirement (with a reduction in benefits) is available as early as age 55. The reduction can be a full actuarial reduction for each year the member retires before normal retirement, or subsidized, meaning the plan absorbs some or all of the cost.

## Highlights

- ❖ Not everyone who is eligible to retire will do so immediately. Incentives and new options can help encourage them to retire earlier than they might have otherwise.
- ❖ Options and incentives are often discussed together, and can overlap. For comparison:
  - ◇ An incentive, like a cash bonus, can encourage members to utilize options already available to them.
  - ◇ A new option, such as a window for early retirement without penalty, can encourage members to consider retirement.
- ❖ Retirement benefits are a long-term cost. For comparison, an average PERS 2 member who retires at age 65 is expected to receive over \$750,000 in lifetime benefits.
- ❖ Early retirement can create savings in the form of salaries and benefits.
  - ◇ Many factors can reduce the total savings.
- ❖ Early retirement is an unplanned cost to the pension system.
  - ◇ The pension cost will likely outweigh the salary savings.
  - ◇ Cost arises from benefits being paid longer, combined with fewer contributions, and earned interest on those contributions.
- ❖ There may be policy reasons to accept the cost.
  - ◇ SCPP's adopted goals include responding to human resource needs for recruitment and retention.
- ❖ Pension changes are typically long-term.
  - ◇ For example, early retirement is a change to lifetime benefits.

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- ◇ Policymakers may want to consider to what extent long-term changes should be made to manage short, or shorter-term issues.
- ❖ Long-term changes have implications for recruitment and retention, and can work at cross-purposes.
  - ◇ For example, expansion of the retire-rehire program was aimed at retaining experienced employees. Early retirement would be aimed at replacing experienced (and higher-paid) employees with new(er) employees.

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