VOLUNTARY SEPARATION, RETIREMENT AND DOWNSHIFTING INCENTIVE PROGRAM FOR STATE EMPLOYEES

2009-11 BIENNIUM GUIDELINES

The Legislature reauthorized the Voluntary Separation, Retirement and Downshifting Incentive Program for the 2009-11 Biennium in the state operating budget (Section 912, Chapter 564, Laws of 2009.)

This program gives agencies the option to offer financial incentives to employees to voluntarily separate from state service, either through retirement or resignation. As an alternative to separation, agencies may offer employees financial incentives to voluntarily "downshift." Examples include leave without pay, work hour reduction, or movement to a lower paying position.

GENERAL PARAMETERS

Purpose In an effort to meet a specifically articulated business need, the incentive program aims to reduce salary costs and FTE usage, and to make more effective use of human resources.

Agency Discretion Within certain parameters, agencies have discretion to design targeted incentive options that best meet their business needs. Plans must be submitted to the Office of Financial Management for approval **prior** to implementation. **Participation for employees covered by a collective bargaining agreement also depends on the provisions of that agreement.**

Availability The incentive program is available through June 30, 2011. Payments and cost recovery must be accomplished within two years of commencement of the plan. Plans will commence on the date of OFM approval, unless the agency specifies a later commencement date in the plan submitted to OFM.

Management Tools The incentive program is a management tool, not an employee right. No employee shall have a contractual right to a financial incentive offered through this program.

Eligibility To be minimally eligible for a separation incentive, an employee must have permanent status and three years of service. In addition, for the retirement financial incentive, an employee must have been eligible for normal retirement for at least 12 months. In order to be eligible for a downshifting incentive, an employee must have permanent status.

Maximum Payment The *maximum* incentive amount that may be offered is $30,000. Each agency must recover the cost of the incentive payments through cost savings resulting from the program.

Strategic Targeting

Plans must meet a specifically articulated business purpose. Therefore, agencies must strategically target those who would be offered the incentive options to avoid disruption of government services. Plans should address:

- Retention of adequate levels of skilled, talented workers in needed occupations and locations.
- Retention of positions, occupations, and skills that are key to achieving the agency's mission and priorities.
- Reduction of supervisory levels and overhead positions.
- Difficulty or cost of replacing employees with particular skill requirements or in certain locations.
- Potential disruption due to the overall loss of experienced workers.
- Overall cost of the incentives.
- Incentive options ***shall not*** be targeted on the basis of individual or personal factors.

Agency Contact

Each agency must designate a contact person within that agency, so that employees who are interested in or have questions about the plan can be referred for information. This contact information should be included in plans submitted for review.

Unemployment Compensation

Employees accepting a separation incentive are ineligible for unemployment compensation. Agencies should obtain the employee's signature indicating that he/she has been advised of this condition.

Repayment

Following a separation payment, any employee who returns to state service within five years (as an employee or contractor) must repay the incentive. An exception to this provision may be granted, provided the new agency seeking to hire the former employee has sought and gained approval from the Director of the Office of Financial Management prior to the date of hire. Exceptions granted to this provision may nonetheless require partial repayment of part of the incentive on a pro-rata basis. Such exceptions are evaluated on their potential benefit to the state.

Effect on Retirement System

Separation incentive options cannot propose or require changes to current pension statutes. A separation payment must be a lump sum. It is subject to income tax and social security tax but not considered income for retirement (average final compensation) purposes.

Agencies that wish to pursue tax-advantaged treatment of incentive payments should consult their Assistant Attorney General, and include the resulting advice with their submittal to the Office of Financial Management.

Reporting Requirements

Participating agencies must report to the Office of Financial Management by June 30, 2011 on the outcomes (or anticipated outcomes) of their program. OFM will compile and report this information to the Legislature. The agency report shall address at a minimum:

- The specific business objective the program was intended to achieve, and any success or failure in meeting that outcome.
- The costs of the program, including the financial incentives offered, the savings gained, and the net outcome.
- The number of agency employees eligible to participate.
- The number of agency employees who participated.
- A detailed accounting of the savings achieved by the program.

Contacts

Employee questions concerning the application of these guidelines within an agency should be directed to the agency designee. In addition to contacting your agency designee or Human Resources staff for assistance, you may contact the following individuals:

- Agency assistance with plan design: Kristie Wilson (DOP), 360-664-6408.
- Agency questions about retirement systems: Cathy Cale (DRS), 360-664-7305.
- Agency questions about insurance: Steven Norsen (HCA), 360-412-4201.
- Questions about setting up accounts for insurance payment: Ryan Jory (HCA), 360-923-2865.
- Other questions, including repayment waivers: Jane Sakson (OFM), 360-902-0549.

Guidelines for Voluntary Separation Incentives begin on page 4 of this document.

Guidelines for Downshifting Incentives begin on page 8.

VOLUNTARY SEPARATION AND RETIREMENT INCENTIVE PROGRAM

PROGRAM CONCEPT AND GOALS

The Voluntary Separation Incentive Program gives agencies the option to offer employees a financial incentive to voluntarily separate from state service through either retirement or resignation.

The program aims to reduce salary costs and FTE usage, as well as to facilitate redeployment, re-organization, and other efforts to make more effective use of human resources.

This is *not* an early retirement program. It is not to be used to target employees on the basis of individual or personal factors.

Each agency has the discretion to design an incentive formula and process that best meets its business needs and objectives, provided that the program is consistent with the basic provisions outlined below.

Incentive plans must be cost neutral or result in cost savings.

Plans must be submitted to OFM for approval prior to implementation. *The name and contact number of your agency designee must be identified on your plan when submitted for approval.*

BASIC PROVISIONS

- The Voluntary Separation Incentive Program is a management tool, not an employee right. No employee shall have a contractual right to a financial incentive offered through this program. Voluntary separation options are available through June 30, 2011. The cost recovery must be accomplished within two years of the commencement of the plan.
- Accepting the offer is entirely voluntary.
- Employees who accept a separation incentive option will be ineligible for unemployment compensation. Agencies should obtain the employee's signature indicating that he/she has been advised of this condition.
- To be minimally eligible, an employee must have permanent status and three years of service. **In addition, to be eligible for a financial incentive to retire, an employee who is a member of a state retirement system must have been already eligible for normal retirement for at least 12 months.**[1]
- Employees who return to state service (as an employee or contractor) within five years must repay the separation payment unless returning under a full or partial exception granted to the hiring agency by the Director of the Office of Financial Management prior to the date of hire. If the exception is granted, the OFM Director shall have discretion to waive all or part of the separation payment. (Employment with a local government jurisdiction or school district, however, does not trigger the repayment requirement.)

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[1] The definition of "normal" retirement varies by pension plan. For additional information, see the below references, or contact the Department of Retirement Systems.

PERS 1 - RCW 41.40.180
PERS 2 - RCW 41.40.630(1)
PERS 3 - RCW 41.40.820(1)
PSERS - RCW 41.37.210(1)

- The maximum separation payment allowable is $30,000. The cost of the separation payment must be recovered through expenditure savings that are achieved through the program.
- Programs cannot propose modifications or require changes to current pension statutes.
- A separation payment will be a lump sum, which will be subject to income tax and social security tax but will not be considered income for retirement (average final compensation) purposes.
- A separation incentive can be offered subsequent to receipt of a downshifting incentive, provided the combination of the incentives does not exceed the $30,000 maximum.
- Agencies must strategically target those who would be offered the incentive options to avoid disruption of government services. The options may be made available to all or any part of the agency. Targeting considerations include:
    - Retention of adequate levels of skilled, talented workers in needed occupations and locations.
    - Retention of positions, occupations, and skills that are key to achieving the agency's mission and priorities.
    - Reduction of supervisory levels and overhead positions.
    - Difficulty or cost of replacing employees with particular skill requirements or in certain locations.
    - Potential disruption due to the overall loss of experienced workers.
    - Overall cost of the incentives.
- Incentive options shall not be targeted on the basis of individual or personal factors.
- The earlier in the biennium that an incentive offer is accepted, the more cost savings an agency can potentially realize during the biennial budget period. Therefore, offering higher levels of incentives earlier in the biennium to motivate earlier separation may be a consideration.
- To avoid disruption, agencies may want to offer the incentives at staggered intervals.
- Agencies should establish internal provisions to ensure the incentives are offered in a fair fashion. Incentives should not be targeted on the basis of individual or personal factors.
- Individuals offered a voluntary retirement incentive will be given sufficient time to make a decision from the date of receiving accurate and complete information about the offer.
- Employees choosing to accept a voluntary separation incentive offer will sign a form indicating that their decision to participate is <u>entirely</u> voluntary and that they fully understand the re-employment and other restrictions.

SAMPLE FORMULAS FOR VOLUNTARY SEPARATION INCENTIVES

The following are examples of some possible incentive formulas for the Voluntary Separation Incentive Program. Within certain parameters, each agency has the discretion to design whatever formulas best meet its business needs, provided that the plan is consistent with these guidelines and is approved by OFM.

Example 1: Incentive Based On Years of Service

Employee would receive a "separation payment" according to a formula such as the following:

[Note: Modeled after the federal government's program]

Years of Service	Separation Payment
Less than 3 years	None
3-4 years	3 weeks pay
5-9 years	1 month pay
10-14 years	2 months pay
15-19 years	3 months pay
20-24 years	4 months pay
25 plus years	5 months pay

Example 2: Incentive Based Solely on Years of Service

Employee would receive a "separation payment" equal to $XX per year of service (YOS). For example, if the incentive was $1,000/YOS, an employee with 20 years would receive $20,000.

Example 3: Health Care Premium Payment as Incentive

The incentive payment would be deposited into an account at the Health Care Authority. The Health Care Authority will credit the monthly premium cost for health care coverage against that account. The monthly premium will be determined by the health care plan selected, the number of individuals covered, and current insurance rates. Any increase in premium rates will be reflected in the monthly charge. The length of coverage would be determined by the cost of the monthly premiums.[2]

Example 4: Split Incentive Payment

Employee could receive a separation of up to $30,000. The employee could elect to split the incentive payment, receiving a portion of the incentive as a cash payment with the remainder deposited into an account at the Health Care Authority. The Health Care Authority would credit the cost of the employee's health care premium against that account. The number of months of coverage would depend upon the amount deposited, and the cost of the health care premiums for the plan selected by the employee.

These scenarios are provided as examples only. Agencies are encouraged to explore alternate formulas and processes designed to meet their business needs, provided the incentives are consistent with the basic provisions of the guidelines.

[2] Not all employees may be eligible to continue health insurance. Please check first with the Public Employees Benefits Board (PEBB). See page 3 for contact information. Also, employees must be careful to observe existing PEBB rules and deadlines. Agencies should also be sure to specify what should be done with any extra funds in the account. Normally, in the case of a voluntary separation incentive, they should be returned to the employee. Agencies should also consult with HCA on questions concerning the provisions of the federal COBRA premium reduction subsidy.

DOWNSHIFTING INCENTIVE PROGRAM

PROGRAM CONCEPT AND GOALS

Agencies may offer employees a financial incentive to voluntarily shift into an employment situation of fewer hours and/or a lesser salary on either a temporary or permanent basis.

Each agency has the discretion to design a Downshifting Incentive Program that best meets its business needs and objectives, provided that the program is consistent with the program goals and basic provisions outlined in these guidelines.

Plans must be approved by OFM prior to implementation.

BASIC PROVISIONS AND REQUIREMENTS

- The Downshifting Incentive Program is a management tool, not an employee right. No employee shall have a contractual right to a financial incentive offered through this program.
- Downshifting incentive options may be offered through June 30, 2011. Any incentive payment and cost recovery must be made within two years of the commencement of the plan.
- The cost of the incentive payment must be recovered through salary expenditure savings.
- Accepting a downshifting incentive offer is completely voluntary.
- To be eligible, an employee must have permanent status.
- To be eligible for a cash downshifting incentive, the downshifting agreement must be for a minimum of one year.
- If the employee returns to his/her previous employment situation (or a comparable situation) within the time period specified in the downshifting agreement, he/she must repay the incentive payment.
- Agencies must demonstrate that offering the option will not have an adverse impact on the delivery of government services to the public.
- Incentive payments that take the form of a lump sum will be subject to income tax and social security tax but will not be considered income for retirement (average final compensation) purposes.
- The incentive options may be made available to all or any part of the agency, but must be strategically targeted with the following considerations:
    - Retention of adequate levels of skilled, talented workers in needed occupations and locations.
    - Retention of positions, occupations, and skills that are key to achieving the agency's mission and priorities.
    - Reduction of supervisory levels and overhead positions.
    - Difficulty or cost of replacing employees with particular skill requirements.
    - Difficulty or cost of replacing employees in certain geographic or organizational locations.

- Potential disruption due to the overall loss of experienced workers.
- Overall cost of the Downshifting Incentive Program.
- Incentive options shall not be targeted on the basis of individual or personal factors.

- Agencies shall establish internal provisions to ensure the incentives are offered in a fair fashion.
- Examples of options for which a downshifting incentive could be given include (but are not limited to): voluntary move from full-time to part-time; voluntary leave without pay; and voluntary downward reallocation or voluntary demotion.

EXAMPLES OF POSSIBLE DOWNSHIFTING OPTIONS

Example 1: Voluntary Move from Full-time to Part-time

- Employee would receive a lump sum payment of a percentage of annual salary in a lump sum for moving from full-time to part-time.
- Employee must retain part-time status for minimum of one year.

Example 2: Voluntary Downward Reallocation or Voluntary Demotion

Provide a lump sum of a percentage of the employee's current annual salary as an incentive for a voluntary downward reallocation (position reallocated to a job class of lower pay), or a voluntary demotion (move to a different position in a job class of lower pay).

Example 3: Voluntary Leave Without Pay (LWOP)

- Employee would receive two hours pay for each day of LWOP, *provided that* the employee takes a minimum of four days of LWOP per month for a minimum of one year.
- Employee would continue to receive 100 percent retirement service credits, provided he/she works a minimum of 90 hours per month, and full insurance benefits. Partial retirement service credits may be awarded for less than 90 hours worked per month.
- Employee must re-pay incentive amount (in one lump sum), if he/she opts out of LWOP program within the time period specified in the downshifting agreement.