VOLUNTARY SEPARATION, RETIREMENT AND DOWNSHIFTING INCENTIVE PROGRAM FOR WASHINGTON STATE EMPLOYEES

2011–13 BIENNIUM GUIDELINES

The Legislature reauthorized the Voluntary Separation, Retirement and Downshifting Incentive Program for the 2011–13 biennium in the state operating and transportation budgets (Section 905, Chapter 50 Laws of 2011 1st Special Session and Section 609, Chapter 367 Laws of 2011.)

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 legitimate 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, 2013. Payments and cost recovery must be accomplished within two years of commencement of an agency's 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 or benefit. 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. To be eligible for a downshifting incentive, an employee must have permanent status.

Employees who are receiving a pension benefit under a state pension plan administered by the Department of Retirement Systems or a higher education retirement plan are not eligible for the incentive program.

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 who 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 or retirement 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.

Questions concerning the deferral of incentive payments in the Deferred Compensation Program should be directed to the Department of Retirement Systems.

Reporting Requirements

Participating agencies must report to the Legislature and the Office of Financial Management by June 30, 2013, on the outcomes (or anticipated outcomes) of their program. The agency report shall address at a minimum:

- The details of the program, including resulting service delivery changes and agency efficiencies.
- The costs of the incentive per participant, the total cost to the state and the projected or actual net dollar savings.

The program will be monitored by the Office of Financial Management and Department of Retirement Systems. Agency plans must include their agreement to submit interim reports on a quarterly basis, and additional information as required, to:

Kristie Wilson
OFM State Human Resources Office
521 Capitol Way S.
P.O. Box 47500
Olympia, WA 98504-7500

360-664-6408
kristiew@dop.wa.gov

Dave Nelsen
Department of Retirement Systems
Point Plaza Building 3
6835 Capitol Blvd SE, MS: 48380
Tumwater, WA 98504-48380

360-664-7304
DaveN@drs.wa.gov

Please contact the State Human Resources Office at OFM for additional information on reporting formats and the information required in quarterly reports.

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 (OFM), 360-664-6408.
- Agency questions about retirement systems: Dave Nelsen (DRS), 360-664-7304.
- 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 option is available through June 30, 2013. The incentive payment and cost recovery must be accomplished within two years of the commencement of the plan.
- Accepting the offer is entirely voluntary.
- 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 must have been already eligible for normal retirement for at least 12 months.**[1] This provision does not apply to employees retiring under a higher education retirement plan.

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

Plan	Normal Retirement Eligibility	Reference
PERS 1	Age 60 and 5 years of service; Age 55 and 25 years of service; 30 years of service (any age).	RCW 41.40.180
PERS 2	Age 65 and 5 years of service.	RCW 41.40.630 (1)
PERS 3	Age 65 and 10 years of service; Age 65 and 5 years of service, including 12 months of service after age 54; Age 65 and 5 years of service, if the member completed 5 years of service before the Plan 2 to 3 transfer date in RCW 41.40.795.	RCW 41.40.820 (1)
PSERS	Age 65 and 5 years of service.	RCW 41.37.210(1)

- 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.
- Agencies should obtain employee signatures from employees who are accepting separation (not retirement) incentives that they agree to not retire[2] from a state retirement system until the earlier of (1) five years after separation, or (2) 12 months after they reach eligibility for normal retirement. This provision does not apply to employees retiring under a higher education retirement plan.
- Employees who return to state service (as an employee or contractor[3]) within five years or who retire without meeting the conditions above must repay the separation payment unless returning or retiring under a full or partial exception granted in advance by the Director of the Office of Financial Management. If the exception is granted, the OFM Director shall have discretion to waive all or part of the repayment. (Employment with a local government jurisdiction or school district, or work as an unpaid volunteer, however, does not trigger the repayment requirement.)
- 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.
- As agencies structure incentive payment offers, they are encouraged to consult with the OFM State Human Resources Office and Department of Retirement Systems on how they will report the offers in quarterly reports.
- 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 which 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.

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[2] "Retire" means beginning defined benefit payments, not withdrawals from defined contribution accounts.
[3] For this purpose, a former state employee who is employed by an organization that holds a contract with the state of Washington is considered a "contractor" if he or she is performs work on any contract with the state or state agency. If the employee works strictly on contracts that do not involve the state of Washington, he or she is not considered to have returned to work as a contractor for this purpose.

- 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. Individuals offered an incentive will be given sufficient time from the date of receiving accurate and complete information about the offer to make a decision.
- Employees choosing to accept an incentive offer will sign a form indicating that their decision to participate is entirely voluntary and that they fully understand the re-employment and other restrictions.

Sample Formulas for Voluntary Separation Incentives

The following are examples of 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:

Years of Service	Separation Payment
Less than 3	None
3-4	3 weeks pay
5-9	1 month pay
10-14	2 months pay
15-19	3 months pay
20-24	4 months pay
25+	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 by the employee 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.[4]

[4] Not all employees may be eligible to continue health insurance. Please check first with the Public Employees' Benefit Board (PEBB.) Please see page 3 for contact information. Also, employees must be careful to observe PEBB rules and deadlines. Agencies should also be sure to specify what should be done with any extra funds in the account. Normally, in case of a voluntary separation incentive, extra funds should be returned to the employee.

EXAMPLE 4: SPLIT INCENTIVE PAYMENT

Employee could receive a separation payment 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.

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. However, downshifting incentive payments must be made over the course of the downshifting agreements. Advance, lump sum downshifting payments are not permitted under the current 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, 2013. Any incentive payment and cost recovery must be made within two years of the commencement of the plan.
- The cost of the separation 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 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 time period specified in the downshifting agreement, he/she must repay cash incentive payments unless the agency has cancelled the downshifting.
- Agencies must demonstrate that offering the option will not have an adverse impact on the delivery of governmental services to the public.
- Incentive payments 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 which 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) are 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 periodic incentive payments for moving from full time to part time.
- Employee must retain part-time status for minimum of one year.
- Employee must repay incentive amounts (in one lump sum), if he/she opts out of the downshifting program within the time period specified in the agreement.

Example 2: Voluntary Downward Reallocation or Voluntary Demotion

- Provide periodic incentive payments of a percentage of the employee's current 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).
- Employee must repay incentive amounts (in one lump sum) if he/she opts out of the downshifting program within the time period specified in the agreement.

Example 3: Voluntary Leave Without Pay

- Employee would receive two hours pay or two hours of paid leave for each day of leave without pay (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 fewer than 90 hours worked per month.
- Employee must re-pay incentive amounts (in one lump sum) if he/she opts out of LWOP program within the time period specified in the downshifting agreement. Agencies should specify in their downshifting plans whether they will require repayment of the value of paid leave if downshifting agreements are not continued for the period specified. However, agencies should bear in mind that downshifting programs must be cost neutral or result in cost savings.