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September 4, 2015

TO: Agency Directors

FROM: David Schumacher
Director

SUBJECT: **2015-17 VOLUNTARY SEPARATION AND RETIREMENT INCENTIVE PROGRAM GUIDELINES**

The enacted 2015-17 operating and transportation budgets authorized a voluntary separation and retirement incentive program. Because the budgets do not require major personnel reductions during this biennium, non-transportation agencies generally should be able to manage their budgets without use of this program. However, in light of ongoing statutory reorganizations and revision in responsibilities in a number of agencies, the Office of Financial Management (OFM) has adopted the attached guidelines for limited use of the program in the current biennium.

If your agency meets the criteria for participation and wishes to implement a voluntary separation and retirement incentive program, you must submit your plan to OFM for prior approval. After plans are approved, agencies must report quarterly to the Department of Retirement Systems and the State Human Resources Division at OFM, as well as submit a final report to OFM and the Legislature at the end of the biennium.

If you have any questions, please contact the staff listed in the guidelines.

Attachment

VOLUNTARY SEPARATION AND RETIREMENT INCENTIVE PROGRAM FOR WASHINGTON STATE EMPLOYEES

2015-17 BIENNIUM GUIDELINES

Participation is limited to agencies that are implementing recent statutory reorganizations or as authorized in the transportation budget.

The Legislature has authorized a Voluntary Separation and Retirement Incentive Program for the 2015-17 biennium in the state operating budget (Section 905, Chapter 4, Laws of 2015, 3rd Special Session) and the transportation budget (Section 607, Chapter 10, Laws of 2015, 1st Special Session). This program gives agencies the option to offer financial incentives to employees to voluntarily separate from state service, either through retirement or resignation.

Changes from Previous Years

These guidelines are similar to those from 2013-15. Please note that participation in the program is limited to:

- agencies that have experienced significant, statutorily directed reorganization or change in primary mission and body of work between calendar years 2011 and 2015, or
- agencies specifically authorized in Section 607, Chapter 10, Laws of 2015, 1st Special Session (transportation budget).

Exceptions to program participation guidelines may be made by the Director of the Office of Financial Management to reflect urgent or unanticipated business or budget requirements.

Additional key points:

- No downshifting option was included in the budget bills, and is not provided in the guidelines.
- Cost recovery must be completed by June 30, 2017.
- The maximum incentive payment is $25,000.
- Plans will not be approved unless all agency reporting requirements for 2013-15 have been completed.

General Parameters

Purpose. To meet a specifically articulated legitimate business need, the incentive program aims to reduce salary costs and number of FTEs, 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 (OFM) 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, 2017. Payments and cost recovery also must be accomplished by June 30, 2017. Plans will commence on the date of OFM approval, unless the agency specifies a later commencement date in the plan submitted to OFM.

Note that participation in the program is limited to agencies that have experienced significant, statutorily directed reorganization or change in primary mission and body of work between calendar years 2011 and 2015, or agencies specifically authorized by Section 607, Chapter 10, Laws of 2015, 1st Special Session (transportation budget).

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. (See table below for details.)

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.

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)

Process. In HRMS, use the separation action reason Voluntary – Incentive Pay (53) or Retirement – Incentive Pay (52) to separate an employee who is eligible to participate in a voluntary separation incentive program and has been offered a taxable cash payment as incentive to resign. The incentive payment should be processed with wage type 1154 – Voluntary Separation.

Maximum payment. The maximum incentive amount that may be offered is $25,000. 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. Incentive options should not be targeted on the basis of individual or personal factors. 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.

Agency contact. Each agency must designate a contact person in that agency so 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 in five or fewer years (as an employee or contractor) must repay the incentive. An exception or partial exception to this provision may be granted, provided the new agency seeking to hire the former employee has sought and gained approval from the OFM Director prior to the date of hire. Such exceptions are evaluated on their potential benefit to the state, and approvals are infrequent.

Effect on retirement. 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 (DRS).

Reporting requirements. Participating agencies must submit a final report to the Legislature and OFM by **June 30, 2017** (transportation agencies) or **July 30, 2017** (all other agencies) on the outcomes (or anticipated outcomes) of the incentive program. The report should address at a minimum:

- details of the program, including resulting service delivery changes and agency efficiencies.
- 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 OFM and DRS. 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 Division
128 - 10th Avenue SW, MS 47500
P.O. Box 47500
Olympia, WA 98501-7500
360-407-4139
kristie.wilson@ofm.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 Division at OFM for additional information on reporting formats and the information required in quarterly reports.

Agency plans for 2015-17 will not be approved until the agency has fulfilled reporting requirements for 2013-15.

Contacts. Employee questions about the application of these guidelines in 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:

- Assistance with plan design: Kristie Wilson (OFM), 360-407-4139
- Questions about retirement systems: Dave Nelsen (DRS), 360-664-7304
- Questions about setting up accounts for insurance payment: Rita Homan (Health Care Authority), 360-725-9803
- Other questions, including repayment waivers: Jane Sakson (OFM), 360-902-0549

Voluntary Separation And Retirement Incentive Program

Program Concept and Goals

The Voluntary Separation and Retirement 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 number of FTEs, 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, including those to the state pension system.

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 and Retirement Incentive Program is a management tool, not an employee right. No employee will have a contractual right to a financial incentive offered through this program. The voluntary separation option is available through June 30, 2017. The incentive payment and cost recovery must be accomplished in the current biennium.
- Acceptance of 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.)

  An agency that is in a situation of significant downsizing may seek an exception to the normal retirement eligibility requirement from the OFM Director. If an exception is granted, the agency will be billed by the Department of Retirement Systems for the additional cost to the state pension system.
- 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 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.

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[1] The definition of "normal" retirement varies by pension plan. For additional information, see table on page 2 or contact the Department of Retirement Systems.

[2] "Retire" means beginning defined benefit payments, not withdrawals from defined contribution accounts.

- 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 OFM Director. If the exception is granted, the OFM Director will 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, does not trigger the repayment requirement.)

- The maximum separation payment allowable is $25,000 and 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.

- As agencies structure incentive payment offers, they are encouraged to consult with the OFM State Human Resources Division and the 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 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 should not be targeted on the basis of individual or personal factors.

- 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 should 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 re-employment and other restrictions.

[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/she 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/she is not considered to have returned to work as a contractor for this purpose.

Sample Formulas for Voluntary Separation Incentives

The following are examples of possible incentive formulas for the Voluntary Separation and Retirement 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
Fewer 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 were $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]

Example 4: Split Incentive Payment

Employee could receive a separation payment of up to $25,000. The employee could elect to split the incentive payment, receiving a portion of the incentive as a cash payment and depositing the remainder in 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.

[4] Not all employees may be eligible to continue health insurance. 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.