# Voluntary Separation and Retirement Incentive Program for Washington State Employees

*2025–27 Biennium Guidelines* *July 2025*

The Legislature authorized a Voluntary Separation and Retirement Incentive Program for the 2025–27 biennium in the enacted state operating budget (Section 905, Chapter 424, Laws of 2025). This program gives agencies the option to offer financial incentives to employees to voluntarily separate from state service through retirement or resignation. Participation is open to all agencies, including higher education institutions, but requires prior approval by the Office of Financial Management.

## Overview

The Voluntary Separation and Retirement Incentive (VSRI) 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 staffing costs, as well as facilitate redeployment, reorganization, 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 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. Cost recovery must be completed within two years of the effective date of an agency's approved program. The maximum incentive payment is $25,000.

Agency plans must be submitted to the Office of Financial Management (OFM) for approval prior to implementation.

No downshifting option is provided. The program does not include options for employees to voluntarily reduce hours, move to lower-paid job classes, or take leave without pay.

Consistent with the guidelines set out in the last two biennia, the 2025–27 program is open for any agency, including higher education institutions, to submit a plan for OFM approval. Such plans must demonstrate a purpose consistent with these guidelines.

## Basic provisions and guidelines

**Purpose.** The incentive program is intended to reduce salary costs and full-time equivalent (FTE) usage and to make more effective use of human resources.

**Availability.** The incentive program is available through June 30, 2027. Cost recovery must be accomplished within two years of the effective date of an agency's plan. A plan will commence on the date of OFM approval unless the agency specifies a later commencement date in its plan.

**Management tool.** The incentive program is a management tool, not an employee right or benefit. No employee will 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* incentive, an employee must have been eligible for normal retirement for at least 12 months. (See table below for details.)

An agency that is significantly downsizing may seek an exception to the normal retirement eligibility requirement from the OFM director. If an exception is granted, the agency may be billed by the Department of Retirement Systems (DRS) for the additional cost to the state pension system.

Agencies with represented employees seeking to participate in the program should consult their collective bargaining agreement (CBA) for any language regarding voluntary separation and retirement incentives. If there is no CBA language, please work with your OFM labor negotiator on next steps regarding union notification. However, agencies should understand that these guidelines must be met in order to provide VSRI to represented employees.

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.

**Acceptance.** Acceptance of the offer by the employee is entirely voluntary. Individuals offered an incentive should be given sufficient time from the date of receiving accurate and complete information about the offer to then 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.

**Maximum payment.** The maximum incentive amount that may be offered is $25,000. Each agency must recover the cost of incentive payments through cost savings resulting from the program.

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.

| Plan | Normal Retirement Eligibility | Reference |
|---|---|---|
| **PERS 1** | • Age 60 and 5 years of service<br>• Age 55 and 25 years of service<br>• 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<br>• Age 65 and 5 years of service, including 12 months of service after age 54<br>• 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) |

**Strategic targeting.** Plans submitted by agencies must meet a specifically articulated business purpose. To avoid disruption of government services, agencies should strategically target those who would be offered incentive options and then make those offers at staggered intervals. Agencies should establish internal provisions to ensure the incentives are offered in a fair fashion. Incentive options should not be targeted on the basis of personal factors.

Plans submitted to OFM should address:

- Retention of positions, occupations, and skills that are key to achieving the agency's mission and priorities.
- Retention of adequate levels of skilled, talented workers in needed occupations and locations.
- 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 to whom interested employees can be referred for information. This contact information should be included in plans submitted for review.

**Unemployment compensation.** Employees who accept a separation incentive are not eligible for unemployment compensation. Agencies should obtain the employee's signature indicating that they have been advised of this condition.

**Repayment.** Following a separation or retirement payment, any employee who returns to state service in five or less years (as an employee or contractor[1]) must repay the incentive. An exception or partial exception to this provision may be granted, provided that the agency seeking to hire the former employee has sought and gained approval from the OFM director prior to the hire date. Such exceptions are evaluated on their potential benefit to the state. However, such approvals are infrequent. Employment with a local government jurisdiction or school district, or work as an unpaid volunteer, does not trigger the repayment requirement.

**Retirement after separation.** 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: five years after separation or 12 months after they reach eligibility for normal retirement. This provision does not apply to employees retiring under a higher education retirement plan.

**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 is not considered income for retirement (average final compensation) purposes.

**Deferred compensation.** Incentive payments cannot be rolled into a deferred compensation account.

**Program monitoring.** The program will be monitored by OFM and DRS.

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[1] 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 they perform 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, they are not considered to have returned to work as a contractor for this purpose.

[2] "Retire" means to begin receiving defined benefit payments, not making withdrawals from defined contribution accounts.

**Process.** In the Human Resource Management System (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 and Retirement Incentive Program and has been offered a taxable cash payment as an incentive to resign. The incentive payment should be processed with "*Wage Type 1154 – Vol Separation*."

**Reporting requirements.** Participating agencies must submit a final report to the Legislature and OFM by July 30, 2027, on the outcomes or anticipated outcomes of the incentive program. The agency report should address at a minimum:

- Details of the agency plan, including the 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.

OFM may require more frequent reporting from agencies about the offers made through their approved plans.

**Agency plan submittal.** Agency plans must include the elements described earlier in the 'Strategic Targeting' section and any additional information as required, and submit them to:

Don Chavez
Office of Financial Management
P.O. Box 47500
Olympia, WA 98504-7500
don.chavez@ofm.wa.gov

Seth Miller
Department of Retirement Systems
P.O. Box 48380
Olympia, WA 98504-8380
seth.miller@drs.wa.gov

**Contacts.** Employee questions about the application of these guidelines in their agency should be directed to their agency contact or human resources staff. In addition to these resources, employees may contact the following individuals:

- Agency assistance with plan design and reporting requirements –
  Don Chavez (OFM), 360-688-8489 or don.chavez@ofm.wa.gov
- Agency questions about retirement systems –
  Seth Miller (DRS), 360-664-7304 or seth.miller@drs.wa.gov
- Questions about setting up accounts for insurance payment –
  Rita Homan, Health Care Authority, 360-725-9803 or rita.homan@hca.wa.gov
- Budget questions –
  Scott Hancock (OFM), 360-890-2518 or scott.hancock@ofm.wa.gov

## 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, subject to the maximum payment amount of $25,000:

| 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: Flat incentive per year of service

Employee would receive a separation payment equal to $XX per year of service. For example, if the incentive were $1,000/year of service, 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 (HCA). HCA 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.[3]

## Example 4: Split incentive payment

An 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 HCA. HCA 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 provisions of these guidelines.

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[3] Not all employees may be eligible to continue health insurance. Check first with the Public Employees Benefits Board (see page 4 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 the case of a voluntary separation incentive, extra funds should be returned to the employee.