

Memorandum

Human Resources



Date: March 20, 2009
 To: Mayor and Council
 From: Jon O'Connor, Deputy Human Resources Manager (ext. 8423)
 Through: Charlie Meyer, City Manager (ext. 8884)
 Renie Broderick, Human Resources Manager (ext. 8407)
 Subject: **Voluntary Separation Incentive Program**

A draft Retirement/Resignation Incentive Program was provided to Council on February 27th prior to the March 3rd Special Budget Session discussion. Based on feedback from the Council and employees, including SEIU and TSA members, an additional option is being presented for your review that would provide an enhanced incentive to less-tenured employees, addressing the major concern that was raised with regard to the package being focused primarily on retirement.

The only difference between Plan 1 and Plan 2 is that under Plan 2, separating employees would be paid the higher of either 3 months of pay at their base rate OR 1% of their base pay x their years of service. Under this plan, approx. 90% of the employees considering an incentive package would receive a higher payout with a total additional program cost of approx. \$700,000.

Staff is also recommending Council's consideration of not limiting the program to a total of 86 packages as originally proposed. To date, 94 employees have expressed interest in participating in the program should it be approved by Council.

Plan 1: (this is the original plan presented to Council in the February 27th memo)

Eligibility: All regular (benefitted) part time and full time employees not participating in the Public Safety DROP program.* Employees must retire or resign no later than June 30, 2010.

Incentive payment: 1% of base pay for each year of service AND 50% additional payout of accrued sick leave. The incentive payment would be capped at \$50,000.
This plan accounts for length of service and provides a higher benefit for employees with more tenure and more likely to be retiring than resigning.

Other payment: separating employees currently receive up to 50% payout of accrued sick leave and 100% payout of accrued vacation leave under City personnel rules.

Cost: Average incentive payout: \$ 16,000
 Average total payout with accrued leave: \$ 33,000

Approximate total cost for 100 incentive packages: \$1,600,000
 Approximate total program cost including accrued leave: **\$3,300,000**

Plan 2:

Eligibility: All regular (benefitted) part time and full time employees not participating in the Public Safety DROP program.* Employees must retire or resign no later than June 30, 2010.

Incentive payment: 1% of base pay for each year of service **OR** 3 months of base pay (whichever is higher) AND 50% additional payout of accrued sick leave. The incentive payment would be capped at \$50,000.
While this plan accounts for employee tenure, providing a higher payout to employees with 25 or more years of service, it also provides a significantly higher incentive than Plan 1 to employees with less tenure who may be considering resignation.

Other payment: separating employees currently receive up to 50% payout of accrued sick leave and 100% payout of accrued vacation leave under City personnel rules.

Cost:	Average incentive payout:	\$ 23,000
	Average total payout with vacation leave:	\$ 40,000
	Approximate total cost for 100 incentive packages:	\$2,300,000
	Approximate total program cost including vacation leave:	\$4,000,000

***DROP program:** Council had requested staff to research if Public Safety employees had the option under PSPRS to leave the DROP program and thereby become eligible to participate in the City's incentive program. PSPRS does not allow its members to leave the DROP program for any reason once they have enrolled, so this would not be an option.

Attached to this memo is a revised Program Information document to be provided to employees with any adjustments based on the Council's final approval.

The City has been advised by the Arizona State Retirement System that payout of incentives to employees retiring may result in the assessment of additional contribution monies due from the City. This is a result of employees either retiring earlier than would have been the case or having retirement payments calculated on a higher base salary with the incentive included. These potential additional costs to the retirement system are mandated to be paid by the City under A.R.S. 38-749. ASRS can only provide costs after they have received details of the specific employees retiring and the amount of their incentive payment.

2009 Voluntary Separation Incentive Program



What is the Voluntary Separation Incentive Program?

The voluntary separation incentive program is open to all regular (benefitted) full time and part time employees and provides an incentive payment (in addition to the usual payout of accrued leave provided for under current City personnel rules) for those employees retiring or resigning from employment no later than June 30, 2010.

The intent of the program is to assist in downsizing the City workforce and to provide placement opportunities for employees whose positions are targeted for elimination which is an integral part of an overall budget reduction strategy.

While employees may choose any separation date between the time the program is approved by City Council and June 30, 2010, the program will be open for application only thru May 1, 2009 and will not be opened again after that date.

What is the Incentive?

Employees approved for the program will receive the following monetary incentive:

- One percent (1%) of current base pay* per year of verifiable City of Tempe service. (part-time service will be pro-rated) **OR 3 months of pay at base pay – whichever is higher;**
- 100% of accrued medical (sick) leave (*regardless of years of service***);
- The **total incentive payment** is capped at a maximum of **\$50,000**, and shall not be exceeded under any circumstances.

(NOTE: Usual accrued vacation leave payout of 100% and the first 50% payout of accrued sick leave do NOT fall under the cap.)

(*Base pay is base hourly rate annualized - including skill blocks for those Water Utility Department employees under the skill based pay program - but excluding any other components of pay or additional pay such as temporary detail, max staffing, bi-lingual pay, etc.)

(**Under current City personnel rules, only employees with at least 10 years of service are eligible for payouts of up to 50% of accrued medical leave depending on whether they are retiring or resigning.)

Who qualifies for an incentive package?

- **The program is open to all full time and part time regular (benefitted) employees.** Public Safety employees in the PSPRS DROP program, or who elect to sign up for the DROP program during the time the incentive program is in place, are not eligible to apply. NOTE: PSPRS regulations do not allow DROP participants to rescind their participation in that program.
- Employees wishing to be considered for a voluntary separation incentive package must submit an application that includes an intended retirement or resignation date to Human Resources no later than **May 1, 2009**
- Employees may apply to retire or resign on any date after the program is approved as long as it is **no later than June 30, 2010.**

- Employees seeking to retire under the program must meet **ASRS** retirement eligibility which is defined as:
 - Early retirement (reduced benefit):
At least age 50 with 5 or more years of credited service
 - Normal retirement:
Age 62 with 10 or more years of credited service
Age 65
Any combination of years of credited service and age totaling 80 points or **PSPRS** retirement eligibility of 20 years of credited service.
- Employees who have already retired from City service but have been rehired will only be permitted to count post-retirement service time for purposes of calculating the incentive payout.

Is anything else included or allowed?

- Employees will receive 100% payout of accrued vacation leave as is current policy and 100% payout of any accrued compensatory time as required by law. These payouts, and the initial 50% payout of medical leave are NOT included in the incentive cap of \$50,000.
- Employees approved for the program will not be required to repay the City any monies reimbursed to them through the Tuition Reimbursement Program in the 12 months prior to their retirement or resignation.
- Employees approved for the program will not have to repay the City 2 weeks of vacation if they have utilized sabbatical leave prior to their retirement or resignation date as long as that is no later than 6/30/2010. Sabbatical leave cannot be utilized to run out time.
- Employees approved for retirement through the program and who are eligible under ASRS or PSPRS to have vacation run out qualify towards credited service shall be permitted to run out any vacation or converted medical leave as long as their retirement date is no later than 6/30/2010.
- Retiring employees will receive a retirement bonus check and plaque as is current policy.
- *Employees retiring under the program by June 30, 2009 will be considered part of OPEB Group 1 for the purposes of retiree health benefits. Those retiring after June 30, 2009 will be considered part of OPEB Group 2.*
- *Employees who have less than 10 years of service as of June 30, 2009 and who resign or retire after that date and after completing 10 years of service, will be considered part of OPEB Group 3.*
(NOTE: Changes to retiree health plans are still proposed and are pending final Council approval)

What happens after the application is submitted?

Human Resources will contact employees within two (2) weeks of their application being submitted and reviewed. A Memorandum of Understanding including details of the incentive payout and other payouts (e.g. vacation) will be provided to the employee for their review. Employees will then have 7 days to confirm their retirement/resignation date and accept the voluntary separation incentive in writing by signing the MOU, or withdraw their request. Once the employee accepts and signs the MOU, the decision to retire/resign is irrevocable.

How will the Incentive be paid?

- **Run out of time:** Only employees retiring who have the option under ASRS or PSPRS rules to run out vacation leave as credited service will be permitted to do so – and only accrued vacation and up to 50% of accrued medical leave may be used for run out. Employees running out time from their last day of work through to their actual retirement date will not be eligible for additional leave accruals or any type or holiday pay. The incentive payment and any remaining leave balances will be paid in a lump sum included in the employees last paycheck.
- Employees not eligible for the run out option must work through their specified retirement/resignation date and will receive a lump sum payout of their incentive payment and any other leave balances.
- Employees may elect to contribute payout amounts to their 401K and/or 457 deferred compensation plans only to the maximum allowed employee contribution for the calendar year of their retirement/resignation.

Re-employment with the City of Tempe

Those retiring or resigning through the program will not fall under the lay-off policy and so will not be placed on any lay-off list. Employees who accept an incentive payout for retirement or resignation will not be eligible to be rehired by the City into any regular or temporary position or as a contract worker for three (3) years from the date of their separation, unless under extraordinary circumstances as approved by the City Manager.

NOTE: All separations under this program will be considered voluntary and as such will not be eligible for unemployment benefits.

Is Further Information Available?

Employees may contact Human Resources for further information regarding the program. It is strongly recommended that employees considering the incentive option schedule an appointment with HR Benefits staff to review their specific situation. General information sessions will not be held.

Contact Numbers

City of Tempe, Human Resources	(480) 350-8278
Arizona State Retirement System	(602) 240-2000
Public Safety Retirement System	(602) 255-5575
City of Tempe, Payroll	(480) 350-8264
Great West	(480) 921-2885

The City reserves the right to change or end the voluntary separation incentive program at any time.