KING COUNTY AUDITOR'S OFFICE

JUNE 19, 2020

Pandemic Response: Best Practice Review of Voluntary Separation Programs

This report is the first in a series of savings-focused best practice reviews to be conducted by the Auditor's Office. If the Auditor's Office reviews voluntary separation in the future, we may use information in this document as a starting point for our evaluation.

The economic slowdown from the COVID-19 global pandemic is significantly reducing King County tax revenue. This exacerbates King County's ongoing revenue challenges and will require cost reductions, likely including staffing changes. Potential options for reductions include employee layoffs and furloughs. Another tool to reduce personnel costs—and the magnitude of potential furloughs or layoffs—is offering employees an incentive to voluntarily leave or retire from county employment. King County could save money by not immediately replacing departing employees, eliminating position vacancies, or filling position vacancies at a lower pay range or step (see Exhibit A). In 2018, after six years of pilot programs, King County created a voluntary separation program, which the County has used to respond to revenue shortfalls less significant than the ongoing revenue challenges.

This report provides ideas from other jurisdictions' experiences and human resources and finance experts, which King County policymakers can use to update the current voluntary separation incentive program.

Summary of options for King County

The experiences of other jurisdictions, as well as the ideas of human resources and finance experts, illustrate that there are many factors to consider when creating or amending a voluntary separation program. Based on our review, the following near-term steps are some King County can feasibly take as it considers amending its program:

- Develop a savings target for voluntary separations by fund or department
- Develop a consistent methodology to estimate savings per position to help ensure accurate projections of costs savings from the program
- Establish a timeline considering legal parameters and the need to bargain changes with labor partners
- Investigate the potential to pay vacation leave and/or separation benefits over time instead of as a lump sum

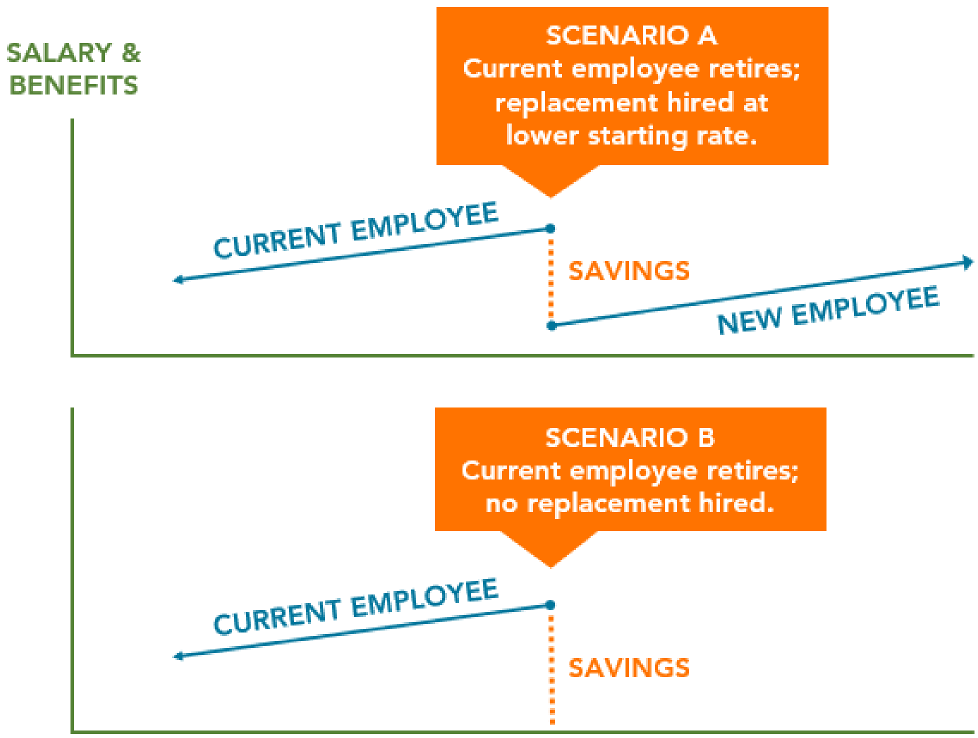
The remainder of this report includes details about King County's current program, more information about the options above, and additional ideas from other jurisdictions and experts.

King County

Overview of current King County Voluntary Separation Program

The King County Voluntary Separation Program incentivizes retirement-eligible employees to voluntarily leave employment with the County by offering a one-time payment. The voluntary separation program (VSP) was established in 2018 by ordinance after a five-year pilot program demonstrated millions of dollars in savings and avoided reductions in force. The VSP severance payment is equal to 26 weeks of Washington state's Employment Security Department maximum weekly unemployment benefit ($20,540 as of 2020).

EXHIBIT A: Early separations can save costs in several ways.



Source: King County Auditor's Office

County employees must be eligible to use the voluntary separation program, and county agencies must demonstrate expected savings or avoidance of reductions in force to the Office of Performance, Strategy and Budget. In order to be eligible for the program, an employee must have at least five years of county service, must not be a temporary employee, and must be eligible for a state or City of Seattle pension before December 31 of the calendar year in which they apply. Thereafter, the employee may not seek reemployment with the County or apply for subsequent unemployment compensation from the position they are leaving.

The County Executive is only authorized to allow agencies to administer the VSP if

1. the program will enable agencies to avoid a budget shortfall that would result in program cuts or reductions in force, or if the program will result in cost savings
2. agencies will not fill vacated positions, or if vacated positions will be filled at lower wage rates that would result in a net 20 percent annual salary cost savings.

The voluntary separation program has saved money and prevented reductions in force by eliminating vacated positions and replacing positions at lower ranges or steps. The County estimated that voluntary separations due to the VSP pilot resulted in a net savings of $1 million from 2012 to 2013, and an estimated savings of $7.9 million from 2014 to 2016. From 2014 to 2016, the majority of these savings, $6.1 million, were achieved by eliminating positions after employee separations and the remaining $1.8 million was saved by reclassifying positions or hiring replacements at lower steps. The County also estimated VSP provided a biennial net savings of $2.9 million due to voluntary separations in 2018. It is unclear, however, how many employees participating during 2018 would have retired even without program incentives. It is possible that savings could have been realized without the County incurring the cost of the incentive payout.

The County also estimated that the VSP pilot prevented 61 layoffs from 2012 to 2016. Agencies noted additional program benefits, including the ability to better align resources with agency priorities, the opportunity to create critically needed positions, and increased productivity and flexibility. In addition to these benefits, staff from the Department of Human Resources noted that the VSP program can help King County increase racial diversity and gender equity in its workforce, as more senior employees tend to be less diverse compared to their less senior coworkers.

Over 160 employees have applied with their agency to use the King County Voluntary Separation Program since 2018, but requests have declined over time. The VSP pilot was used by 269 employees across 11 agencies from 2012 to 2016, and 86 employees applied to use VSP in 2018. The number of applicants declined to 60 in 2019, and to 17 by June 2020[1].

Before using VSP with their employees, county agencies must receive approval from the Office of Performance, Strategy and Budget (PSB). The number of agencies approved for VSP has declined since 2018, with ten agencies approved by PSB for use of the program in 2018, compared to five in 2019. PSB has approved six agencies to participate in the program as of June 2020.

What steps have other jurisdictions taken?

Many state and local governments (as well as the federal government) have implemented voluntary separation programs. King County is limited in its range of incentive options since the County participates in the Washington State Department of Retirement Systems and cannot directly adjust pension eligibility or payment benefits. The following table summarizes approaches from other jurisdictions that would not require changing the underlying retirement system. The options are not mutually exclusive.

[1] It is important to note on the 17 applicants in 2020, that this is a preliminary number and more employees are likely to apply for the program in 2020.

EXHIBIT B: Other jurisdictions have implemented different approaches to voluntary separation programs.

Alternative Approaches	Description	Potential Benefits	Example Jurisdictions
Voluntary separation for non-retiring employees	Employees with a certain number of service years (e.g., at least two service years) can apply for the program regardless of retirement eligibility.	A larger number of employees eligible to apply for program, potentially increasing savings for the government.	City of Everett, Wash. (2020) Federal Government (ongoing) Kitsap County, Wash. (2010) State of South Carolina (ongoing) State of Washington (ongoing) State of Iowa (2010)
Health care as an incentive	Offering health care coverage in addition to, or as an alternative to lump sum payments.	Potentially strong incentive for employees—90% of Kansas program participants chose health care option over lump sum payment in 2011.	City of Everett, Wash. (2020) State of Kansas (2011)
Spreading payments over multiple years	Paying employees the incentive payment over multiple years. This can also include spreading out the payout of accrued leave.	Costs of program are not borne in a single fiscal year. Potentially beneficial to employees for tax purposes.	State of Iowa (2010)

Source: King County Auditor's Office

What do experts say about designing and implementing a voluntary separation program?

We reviewed best practices and risks identified by experts on voluntary separation programs, including the Society of Human Resource Managers (SHRM) and Government Finance Officers Association (GFOA). This review highlighted the following steps to consider if the County chooses to replace or amend the existing voluntary separation program:

1. **Establish the purpose of voluntary separation.** For example, is the program meant to maximize cost savings in the short-term? Achieve a certain percentage of projected cost savings? Establishing the purpose will help to determine the eligible pool of participants.

2. **Establish clear eligibility criteria.** Employers can limit who is eligible to apply for VSP. This can be based on a minimum age, years of service, be restricted to certain departments, or any combination of these. Please see Exhibit B, above, for sample eligibility criteria used in other jurisdictions.
3. **Identify optimal severance pay.** The goal of severance pay is to offer enough incentive to encourage participation while minimizing the cost burden to the organization. An example severance pay calculation is to provide two weeks of salary-equivalent pay for each year of service.
4. **Identify other incentive benefits.** Severance pay is not the only benefit the County can provide to incentivize VSP uptake. For example, jurisdictions have also provided health benefit incentives. This could include extending the county health benefits for a set period (see Exhibit B, above).
5. **Consider legal parameters, including collective bargaining.** The Federal Age Discrimination in Employment Act (ADEA) bars employment discrimination by age for employees 40 years of age or older. This law also requires that employees participating in VSP sign a document that waives their rights under ADEA. Any changes to VSP require bargaining with participating labor unions.
6. **Determine timeline.** The timeline for creating or amending a program needs to account for the time required for the collective bargaining process. There are also important considerations for the implementation timeline. By federal law, under the Older Workers Benefit Protection Act, any reduction in force of two or more employees 40 years of age or older requires a 45-day period for employees to consider the terms of the leave. An employee also has seven days from the date of signing the agreement to rescind the decision to participate. After that period, the last working date of the participating employee must be determined. Experts recommend keeping the period between program opt-in and the last day of employment small.
7. **Carefully project costs and benefits of the program.** A comprehensive cost analysis of the program should be structured on an annual basis, including yearly percent increases in costs, and should consider:
    a. external resources for program implementation, e.g., staff time, and attorney fees
    b. replacement personnel costs that may be required in the long-term, including associated recruitment and training costs
    c. cost burden on affected retirement systems
    d. projected program uptake along with associated severance pay and benefits for each participant
    e. cost of accrued leave payouts
    f. potential impact on service delivery with reduced workforce
    g. sensitivity analysis of different levels of VSP adoption and their projected costs and benefits.
8. **Communicate the program to employees clearly and consistently.** Misinformation could create confusion and could have legal implications if the parameters of the program are not understood. It is recommended that VSP communication be centralized to a few staff to avoid inconsistencies. This also ensures that the few centralized staff have the expertise to respond to employee questions about the program.

Conclusion

King County and other jurisdictions around the country have successfully used incentives for employees to voluntarily leave government employment. These programs have saved money and allowed governments to deal with increasing costs and decreasing revenue without having to resort to layoffs or other options. Implementing the steps and ideas outlined in this report have the potential to improve King County's program as the County, yet again, faces a difficult budget environment.

Justin Anderson, Mia Neidhardt, Anu Sidhu, and Kayvon Zadeh conducted this review. Please contact Ben Thompson at 206-477-1035 if you have any questions about the issues discussed in this report.

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KYMBER WALTMUNSON, KING COUNTY AUDITOR

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The King County Auditor's Office was created by charter in 1969 as an independent agency within the legislative branch of county government. The office conducts oversight of county government through independent audits, capital projects oversight, and other studies. The results of this work are presented to the Metropolitan King County Council and are communicated to the King County Executive and the public. The King County Auditor's Office performs its work in accordance with Government Auditing Standards.

INTERIM REPORT

This product is an interim report, as defined in GAGAS 9.17.g, for an audit that complies with Government Auditing Standards.