Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

**File #:** 2020-0470, **File Type:** Program **Agenda Number:** 44.

**EXECUTIVE MANAGEMENT COMMITTEE**
**AUGUST 20, 2020**

**SUBJECT: VOLUNTARY SEPARATION INCENTIVE PROGRAM**

**ACTION: APPROVE ADDITIONAL OPTIONAL BENEFIT FOR EMPLOYEES**

## RECOMMENDATION

AUTHORIZE the Chief Executive Officer to implement a Voluntary Separation Incentive Program (VSIP) that offers an enhanced additional benefit that provides cash payments of up to $7,500, and an additional two years of retirement service credit, to eligible Non-Contract, AFSCME and Teamsters represented employees who voluntarily agree to separate or retire from Metro within a pre-designated retirement period. Metro Board approval is required in order to provide any additional or enhanced benefit to employees.

## ISSUE

The COVID-19 pandemic has fundamentally disrupted the very fabric of our community. Health concerns, and mandated efforts to stop the spread of the disease including stay-at-home orders, nonessential business closures, and working from home, have led to a substantial decline in Metro's overall ridership and revenue. Current estimates project a $1.8 Billion-dollar loss in revenue, with a slow recovery of ridership levels for the next two fiscal years.

## BACKGROUND

Metro remains committed to the priorities of allocating resources to maintain ample supplies of personal protective equipment, the preservation of jobs, ensuring the safety of our riders, and improve operational efficiency while continuing to adjust our operations and service levels to reflect the on-street reality of less demand for public transit.

Metro's response to the pandemic to date includes a substantial reduction in both bus and rail service, the closure of Bus Division 10, the agency wide reduction of overtime costs, and a hiring freeze. Offering a voluntary separation incentive program will give Metro more flexibility to restructure operations, reduce personnel costs, open career pathways for emerging leaders, and better address diversity goals without the need for involuntary layoffs of our workforce.

## DISCUSSION

Below are the Program Guidelines and the Key Terms of the VSIP Program:

Eligibility

All permanent employees are eligible to participate in the program. This includes employees currently on a medical or administrative leave. Part-time employees would receive a pro rata amount of the lump sum cash benefits offered. There are two components to this program, 1) employees who are not eligible to retire would receive the lump sum cash payment, and 2) employees eligible to retire would receive the lump sum cash payment and 2 years of pension service credit.

Cash Benefits

Employees accepted into the program will receive the following cash benefits:

| Years of Service | Lump Sum Payment |
|---|---|
| One year, but less than Two years | $1,000 |
| Two Years but less than Three years | $2,000 |
| Three Years, but less than Four Years | $3,000 |
| Four Years but less than Five Years | $4,000 |
| Five years, but less than Ten Years | $5,000 |
| Ten or more Years | $7,500 |

Employees may elect to transfer this cash benefit to a 401(k) or 457 deferred compensation plan, within the maximum contribution limits established by law. If paid directly to the employee, the cash benefit will be subject to withholding taxes.

Service Credit

Employees who are vested members of CalPERS and eligible to retire (five or more years working for any CalPERS covered employer), Metro's Non-Contract Employees Retirement Income Plan (includes Teamsters), or the AFSCME Retirement Income Plan, will receive an additional two years of service credit. Employees currently enrolled in the Deferred Retirement Option Plan (D.R.O.P.) are not eligible for additional service credit (as they have already retired from the Retirement Income Plan), but they are eligible to receive the cash incentive.

Additional Program Rules

Employees with less than five years' service with Metro who sign a VSIP separation agreement and receive the cash incentive will be ineligible to reapply to Metro for two (2) fiscal years.

Employees who retire from CalPERS and receive the two years additional service credit benefit will lose the additional two years' service credit if they receive unemployment benefits or apply for reinstatement from retirement. We propose the same conditions will be applied to the Non-Contract and AFSCME Retirement Income Plans.

Employees may take vacation of up to 30 days prior to the effective date of their retirement.

Human Resources Policy 11 states that employees who retire between the ages of 50 and 65 with five or more years of service are eligible for continued enrollment in Metro's medical and dental plans if they immediately retire and were already enrolled in Metro's plan at the time of retirement. Savings will be realized in this area as retirees with less than 25 years of service contribute an additional 4% of plan premium for each year less than 25 years of service.

Enrollment

Interested employees must submit a request for VSIP benefits within a specified period not to exceed 60 days from the date of the announcement of the VSIP. If the VSIP does not attract enough interest to meet Metro's goals in establishing the VSIP, Metro may choose to not implement.

## DETERMINATION OF SAFETY IMPACT

Approval of the additional optional benefit will not have any adverse safety impacts on Metro's employees or patrons.

## FINANCIAL IMPACT

The financial impact of the VSIP is determined by the number of participants who enroll in the program and the number of positions that are eliminated.

Personnel Cost Reductions and Savings

For each of the past three years, an average of 76 Non-Contract, AFSCME and Teamster employees have retired from Metro. There are 2,537 employees eligible for the VSIP program, of which approximately 1,126 are eligible to retire.. If savings are calculated assuming 15% of the participants are retired or separated at the end of the designated retirement period, Metro will incentivize 169 employees to retire through the VSIP. The program will begin returning a significant financial benefit within 30 days after the program is fully implemented and has a projected salary savings of $85,033,341 over the next 5 years. Projected savings scenarios and the cost benefit analysis is shown on Attachment A.

The CEO's directives to Senior Leadership will include a mandate that at least 50% of the positions vacated due to the VSIP will be permanently eliminated. The remaining 50% of the vacated positions will be pooled together and restructured into entry level positions. This restructuring will support Metro's goals of increasing promotional and learning opportunities for mid-level managers and career pathways for its qualified interns and trainees. In addition, when higher salaried long-term positions are replaced with lower salaried entry level positions, Metro achieves additional structural pension cost savings. Retirees hired before January 1, 2013 are "classic" members of CalPERS and do not contribute to any portion of the cost of their pensions, however, any staff hired after 2013 who are new members to CalPERS must contribute a portion of the costs of their pension due to the California pension reform legislation (PEPRA) enacted in 2012.

VSIP Costs

The cost of the VSIP is paid through an increase in Metro's contribution rate for the retirement plans starting two fiscal years after the designated VSIP enrollment period. For the CalPERS plan, interest accrues on the cost commencing with the fiscal year after the end of the designated period. The increased cost is estimated to be between 0.23% and 1.01%, calculated based upon the costs of each individual employee who accepts the additional benefit. The cost to the Retirement Income Plans will be based on an annual actuarial valuation and is expected to be minimal due to the small number of members remaining in the plans.

## IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports strategic plan goal #5: To provide responsive, accountable, and trustworthy guidance within the Metro Organization, Initiatives 5.2: Metro will exercise good public policy judgment and sound fiscal stewardship, and 5.4: Metro will apply prudent commercial business practices to create a more effective agency. By approving this recommendation, Metro will have additional options and flexibility to restructure the workforce as the agency recovers from the effects of the pandemic.

### Workplace Impact

Departments will be required to submit a reorganization plan that anticipates vacancies made by VSIP will remain vacant or be underfilled.

The reorganizational plan will include a toolkit and guidelines to help departments determine how to address their organizational structure. The plan will focus on maximizing the remaining workforce to address the department's mission, goals and workload. The tool and guidelines will assist the department with identifying the duties of the vacated positions and how that work can be best distributed across the department.

To ensure Metro does not lose institutional knowledge when employees retire or separate from the agency, Metro's Talent Development department has created a Transfer of Knowledge Program. The program is designed to facilitate collaboration between the retiring employee and the department through dialogue and information sharing prior to the retiring employee's retirement or separation date. In addition, employees who retire through CalPERS may work up to 960 hours in a fiscal year without jeopardizing their retirement benefits.

## ALTERNATIVES CONSIDERED

The Board may choose not to approve the additional optional benefit; however, this alternative is not recommended as it will not support Metro's goals of increasing promotional and learning opportunities for mid-level managers and career pathways for its qualified interns and trainees.

## NEXT STEPS

Upon Metro's Board approval of the VSIP, staff will present a modified CalPERS contract to the Public Transportation Services Corporation Board of Directors for Approval. The modified contract proposal must be made public for review and comment for at least two weeks prior to its approval. The PTSC Board will then vote to formally approve the amended CalPERS agreement following the two-week review and comment period. Amendments to the Retirement Income Plans will be presented to the respective Plan's Trustees for approval. Once approved, we anticipate the VSIP enrollment period to begin in October 2020.

## ATTACHMENTS

Attachment A - VSIP Program Estimated Cost Analysis

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Attachment A

## Estimated CalPERS Contribution and Salary Savings Analysis

| | | At a 5% Participation (56 Employees) | At a 10% Participation (113 Employees) | At a 15% Participation (169 Employees) | At a 20% Participation (225 Employees) | At a 22% Participation (250 Employees) |
|---|---|---|---|---|---|---|
| **FY20 CalPERS Payments** | | **CalPERS Contribution Rate Increase .23%** | **CalPERS Contribution Rate Increase .46%** | **CalPERS Contribution Rate Increase .69%** | **CalPERS Contribution Rate Increase .92%** | **CalPERS Contribution Rate Increase 1.01%** |
| PEPRA | $17,724,556 | | | | | |
| CLASSIC | $21,984,588 | | | | | |
| **ANNUAL TOTAL** | **$39,709,144** | **$91,331** | **$182,662** | **$273,993** | **$365,324** | **$401,062** |
| **5 YEAR TOTAL** | | **$456,655** | **$913,310** | **$1,369,965** | **$1,826,621** | **$2,005,312** |
| **Salary Savings** | | | | | | |
| **ANNUAL TOTAL** | | **$5,744,439** | **$11,536,222** | **$17,280,661** | **$23,025,100** | **$25,644,817** |
| **5 YEAR TOTAL** | | **$28,722,195** | **$57,681,111** | **$86,403,306** | **$115,125,502** | **$128,224,087** |

| 5 YEAR COST BENEFIT ANALYSIS | | | | | |
|---|---|---|---|---|---|
| **5 YEAR TOTAL SALARY SAVINGS** | **$28,722,195** | **$57,681,111** | **$86,403,306** | **$115,125,502** | **$128,224,087** |
| **5 YEAR TOTAL CONTRIBUTION PAYMENTS** | **$456,655** | **$913,310** | **$1,369,965** | **$1,826,621** | **$2,005,312** |
| **5 YEAR TOTAL SAVINGS** | **$28,265,540** | **$56,767,801** | **$85,033,341** | **$113,298,881** | **$126,218,775** |

**This program will begin returning significant financial benefits 30 days after the program is fully implemented**

**Notes:**

*Contribution Rate was calculated based off instructions from CalPers*

*CalPers actual contributions for FY20*

*Salary Savings are assuming that 50% of positions will not be reinstated and the remaining 50% will be underfilled at the entry level for career pathway opportunities*

*Salary Savings include the one-time lump sum*

*Item #44*

# Voluntary Separation Incentive Program (VSIP)

*August 27, 2020*

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# What is VSIP?

> An enhanced benefit for employees in 3 workgroups: Non-contract, AFSCME and Teamsters

- Provide **one-time payment of up to $7,500** to all employees who separate during a defined time period

- Provide **an additional 2 years of service credit** to eligible retirees

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# Benefits

> **Generates a reduction in overall Personnel Costs** by eliminating/underfilling positions

> **Underfilled positions can be redirected to focus on various priorities, changing needs, or strategic objectives**

> Provides Opportunities to **Advance Career Pathways**
- Realize return on investment in workforce development over the past 5 years
- Current practice of Internal hires – 56%
- Limited Entry Level Positions – currently 16% of the workforce

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# Estimated Net Costs and Savings

| Summary of Program Savings Over 5 Years | Participation | | | | |
|---|---|---|---|---|---|
| | 5% | 10% | 15% | 20% | 22% |
| **Cost** | | | | | |
| One Time Incentive Payment | $ 350,000 | $ 706,250 | $ 1,056,250 | $ 1,406,250 | $ 1,562,500 |
| Contribution Rate for Service Credit | $ 456,655 | $ 913,310 | $ 1,369,965 | $ 1,826,621 | $ 2,005,312 |
| **Total** | **$ 806,655** | **$ 1,619,560** | **$ 2,426,215** | **$ 3,232,871** | **$ 3,567,812** |
| | | | | | |
| **Savings** | | | | | |
| Salary of 50% Retirees | $ 23,444,450 | $ 46,888,905 | $ 70,333,350 | $ 93,777,805 | $ 104,662,730 |
| Conversion of Sr to Jr Staff | $ 5,279,685 | $ 10,796,122 | $ 16,075,812 | $ 21,355,493 | $ 23,570,019 |
| Conversion of Classic to PEPRA | $ 348,060 | $ 702,335 | $ 1,050,394 | $ 1,398,454 | $ 1,553,838 |
| **Total** | **$ 29,072,195** | **$ 58,387,361** | **$ 87,459,556** | **$ 116,531,752** | **$ 129,786,587** |
| | | | | | |
| **Net Savings** | **$ 28,265,540** | **$ 56,767,801** | **$ 85,033,341** | **$ 113,298,881** | **$ 126,218,775** |

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# What are our peers doing?

> 46 agencies have submitted applications to CalPERS

> City of Los Angeles

- 2% x years of service x Maximum Annual Salary with cap of $80,000

> City of Ventura

- $10,000 plus .5% x years of service

> City of Santa Monica

- 5 to 10 years of service – $5,000 plus 18 months of medical benefits
- 10+ years of service – $10,000 plus 18 months of medical benefits

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