

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**Nassau County
Voluntary Retirement Incentive Program:
Report of Severance Packages and Program Savings**

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OFFICE OF THE COMPTROLLER**

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1.0 Introduction

When the new administration took office in January 2010 it faced many fiscal challenges. Ballooning structural deficits reached beyond \$250 million, the reserve fund had been depleted and borrowing had reached record levels, all due to overspending and overly generous labor contracts. In addition the more financially onerous portions of the labor agreements were deferred until 2012, with no lay-offs in 2011.

In order to deal with these fiscal handicaps, County Executive Edward P. Mangano devised a plan to save labor costs by offering a County financed retirement incentive that would trim the existing work force of higher paid, long term employees. This report analyzes those labor savings and also demonstrates that overly generous labor contracts have dire fiscal consequences.

This report is based upon existing data, through August, 2010 and does not include data for retirements permitted under the New York State Early Retirement Incentive Program (NYSERIP) Part B (Part B). Since election of this option was available through December 29, 2010, this data was not yet available.¹

In June 2010 County Executive Mangano announced the **Nassau County Voluntary Retirement Incentive Plan (VRIP)**. The program presented employees who were eligible to retire early with a third option, their choices included: (1) the Nassau County Incentive Plan, (2) the New York State Early Retirement Incentive Program Part-A Benefit, and (3) the State Part-B Benefit. This review evaluates the early retirement benefits paid, profiles employees who took advantage of the programs, and determines the savings realized by Nassau County (“County”) in offering the programs. It will also attempt to highlight considerations in structuring future early retirement programs.

2.0 Background

During the same period when the New York State Legislature passed the New York State Early Retirement Incentive Program (NYSERIP) in 2010, the Nassau County Legislature passed its own early retirement program in order to further reduce labor costs over the next ten years.² These incentive programs were offered to the six County employee unions as well as Ordinance employees (“ORD”).

Specifically, the incentives were offered to members of the Civil Service Employees Association (“CSEA”), ORD, and other smaller unions (known collectively in this report as (“Other”)), the Sheriff Officers’ Association (“ShOA”), and the three police

¹ Appendix A.

² The County Executive signed the Memorandum of Agreement (“MOA”) with all unions on March 26, 2010; the MOA was approved by the Nassau County Legislature on June 7, 2010.

department unions, to wit: Police Benevolent Association (“PBA”), Detectives’ Association (“DAI”), and the Superior Officers’ Association (“SOA”). The latter three unions shall be known collectively in this report as the “Police Unions”. According to the Office of Legislative Budget Review (“OLBR”), the strategy behind offering these incentives was to “induce older, higher paid employees to retire, replacing 75% of them with lower-costing entry-level workers.”³ The OLBR analysis is reviewed in section 4.0 of this report.

This report focuses on two components jointly: (1) the County Incentive and (2) the NYSERIP State Part-A Incentive. These two programs and Part B were mutually exclusive; meaning any employee who selects one incentive program cannot participate in another.

2.1 Nassau County Voluntary Retirement Incentive Plan (VRIP)

The window for employees to apply for the County VRIP was open from June 22, 2010 to August 2, 2010. Employees that opted-in during this period were granted incentives upon their retirement. In order to opt-in, an employee had to do so no later than 30 days prior to the date of retirement and no earlier than 90 days of notice. Employees who elected to receive the County incentive could not participate in either State plan. To elect the County VRIP, a retiree must be of eligible retirement age, which is at least 50 years old.

The County benefits were calculated by adding each retiring employee’s entitlement to Catastrophic Vacation Pay, Prorated Longevity Pay and Incentive Pay (\$1,500 per year of service). Additionally, employee benefits included paid sick leave up to 100 days (if length of service is less than 10 years) or up to 200 days (if length of service is 10+ years).⁴

The retiring employee could receive a three year payout, or waive this option and instead receive an up front Termination Lump Sum payout.

2.2 New York State Part-A

To qualify for the State Part-A benefit an employee must be “at least 50 years old, have at least 10 years of service and been continuously in active service from February 1, 2010 to July 2, 2010”. Employees who select this option received one additional month of service credit for each year of service “as of their retirement date”. No employee could receive more than three years of additional credit. For CSEA employees, the deadline to opt-in was August 20, 2010. ShOA and ORD employees had until October 2, 2010. Under State Part-A, Sick-Time is calculated at 50% of accrued days if service is less than 16 years, 52% if service is 16 years and an additional 2% per year of service thereafter to a maximum of 80%.⁵

³ Office of Legislative Budget Review “Analysis of the Voluntary Retirement Incentive Program,” Nassau County May 18, 2010, Page 1.

⁴ “Letter to Employees” Office of the County Executive, Nassau County, June 11, 2010.

⁵ Ibid.

In addition to the specific incentives outlined above, restrictions on the maximum allowable payout for termination pay were lifted under the County *VRIP* to encourage more employees to take early retirement. These restrictions were reinstated after the opt-in period for each respective plan expired.

Specifically, the following CSEA and ShOA caps were lifted:

- Maximum 90 vacation days;
- Catastrophic Vacation Pay (accrued time above cap limits which can only be used in limited situations); and
- The Three-Pay Option.

The following PBA, DAI, and SOA cap was lifted in addition to the Termination Pay Divisor being reduced:

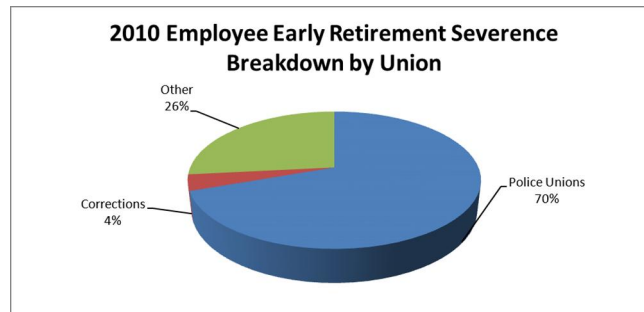
- Maximum of two times the final year service salary.

3.0 Severance Payout Review

A review of the payout to employees who opted for the early retirement incentive under VRIP and NYSERIP indicates that Nassau County paid or will pay out \$57.5 million in retirement pay to the 446 employees who chose to take the early retirement program, depending on whether they selected a three year payout or a lump sum payment.

The severance payments received by the Police Unions, who were excluded from the State early retirement and could only choose the County Incentive⁶, totaled \$40 million, representing 70% of the total severance payouts. Employees from the Corrections Department received \$2.2 million or 4% of the total benefits. All other County employees (County and State Part-A) received \$15.3 million or 26% of all incentives paid (Figure 1).

Figure 1



In breaking down the severance payments by union (see Figure 2); of the 446 employees who opted for early retirement, 286 or 64% will be receiving payouts of less than \$100,000.00. Conversely, 160 or 36% received severance payouts in excess of \$100,000.00.

⁶ Police and Firefighters were excluded from the State incentive through State legislation.

- For the Police Unions, 115 retirees received severance payouts of over \$100,000. Twenty-nine (29) of these individuals received payouts between \$100,000 and \$300,000, eighty-three (83) received between \$300,000 and \$500,000, one (1) received in excess of \$500,000, and two (2) received in excess of \$600,000.
- In the Corrections Department, of the 36 employees who have opted for early retirement only five received benefits in excess of \$100,000 and none received any benefits in excess of \$200,000.
- For the remaining 295 employees only two (2) retirees received a severance payout of more than \$200,000; and 38 retirees received severance payouts greater than \$100,000 but less than \$200,000.

Figure 2: Number of Retirees by Incentive Severance Amounts

Union	Greater than \$500K	\$400-\$500K	\$300-\$400K	\$200-300K	\$100-200K	Less Than \$100K	Tot.
Police	3	25	58	26	3	-	115
Corrections	-	-	-	-	5	31	36
Other	-	-	-	2	38	255	295
Total	3	25	58	28	46	286	446

The median severance package for the Police Unions’ was \$337,949 for its retiring employees. This figure is compared with the median for Corrections Department and all other employees of \$53,968 and \$44,995 respectively (Figure 3).

Figure 3: Median Severance by Union for All Retirees

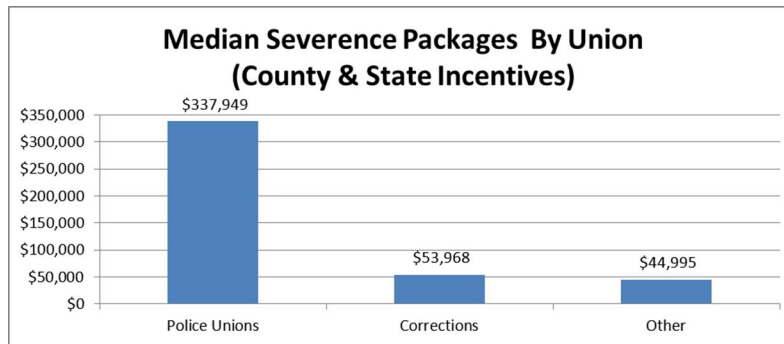


Figure 4 breaks out the severance payments by category. Sick-time was the largest payout category which represents 39% of the total payout of \$57.5 million.

Figure 4: Breakdown of Severance for All Retirees, by Category (rounded)

Category	Police	Corrections	Other	Total	%
Sick Time	\$15,530,687	\$ 1,080,886	\$ 5,891,381	\$22,502,953	39%
Vacation	\$4,503,970	\$ 520,433	\$ 4,142,226	\$9,166,630	16%
Termination	\$8,993,300	\$ -	\$ -	\$8,993,300	16%
Incentive	\$5,223,000	\$ 342,000	\$ 3,363,000	\$8,928,000	16%
Other	\$4,543,309	\$ 199,022	\$ 1,679,973 ⁷	\$6,422,304	11%
Longevity	\$1,184,800	\$ 35,500	\$ 225,465	\$1,445,765	3%
Total	\$39,979,066	\$ 2,177,841	\$ 15,302,045	\$ 57,458,951	

4.0 Comparison of Projected vs. Actual Savings of Incentive Plan

In May 2010, OLBR conducted a study of the potential savings that could result from the County offering the “incentive payment” and the removal of the payout caps previously imposed on Police Unions’ retirees. OLBR forecasted that the County would payout slightly over \$18.2 million in direct costs related to the incentive.⁸ Additionally, the County would pay the retirees earned benefits of \$43.4 at an accelerated rate.

OLBR forecasted that with the elimination of 25% of the newly vacant positions the County would save \$37.5 million over ten years. However after debt service was deducted, Nassau County would receive a net benefit of almost \$26 million by 2021 (Figure 5).

Figure 5: OLBR Incentive Program Projected Costs and Savings

Union	Acc. Term. Costs	Gross Savings	Total Savings
Police	\$5,978,771	\$13,658,847	\$ 7,680,076
Other	\$3,700,777	\$14,463,265	\$10,762,488
ShOA	\$1,786,082	\$ 9,329,335	\$ 7,543,253
Total	\$11,465,630	\$37,451,447	\$25,985,817

The savings under the OLBR study were projected to be the highest in 2011 of approximately \$17.4 million. During years 2012 to 2015 these savings were projected to continue, but on a decreasing scale, as new employees begin to “catch-up.” The County would begin to see losses resulting from incentive related debt service of approximately \$2.4-\$2.7 million a year beginning in 2016 through 2021. The net projected savings by OLBR were approximately \$26 million.

⁷ See Appendix A, note 7.

⁸ Office of Legislative Budget Review “Analysis of the Voluntary Retirement Incentive Program,” Nassau County May 18th, 2010.

The Comptroller’s Office compared the actual numbers of retirees with those projected by OLBR (Figure 6) and savings (Figure 7). This illustrates how the OLBR’s projections related to the actual figures recorded by the Comptroller’s Office.

Figure 6: 2010 Retiree Headcount by Union, Projected vs. Actual

Union	OLBR Estimate	Actual	Difference
Police	75	115	53%
Corrections	66	36	-45%
Other	160	295	84%
Total	301	446	48%

The total OLBR VRIP bonding requirement was estimated at \$61.6 million; however, the actual was less at \$57.5 million. Originally, OLBR anticipated that only \$3 million would be incurred as a result of the police cap removal. However, the cost was actually over \$11 million (Figure 7).

Figure 7: 2010 Retiree Payment by Category, Projected vs. Actual

VRIP Components	OLBR Estimate	Actual	Difference
Cap Removal (PD)	\$ 3,081,437	\$11,221,172	264%
Incentive	\$ 15,156,703	\$ 8,928,000	-41%
Term. Payout Costs	\$ 43,355,418	\$37,309,779	-14%
Total	\$ 61,593,558	\$57,458,951	-7%

Figure 8 demonstrates that the actual costs by union have a similar variance. The estimates for both the Corrections department and other union employees were both lower than expected and the Police Unions received more than expected.

Figure 8: 2010 Bonding Requirements by Union, Projected vs. Actual (millions)

Union	OLBR Projected	Actual	Difference
Police	\$31.5	\$ 40.0	27%
Corrections	\$ 9.3	\$ 2.2	-76%
Other	\$20.8	\$15.3	-26%
Total	\$61.6	\$57.5	-7%

Overall, the Comptroller’s Office projects that Nassau County will realize savings of \$28 million over ten years from this program. As illustrated in the limited reconstruction of the OLBR study in Figure 9, the County will obtain savings from the fourth quarter of 2010 up to year-end 2015. Starting in 2016 the County will begin to incur more debt service than savings as salaries and benefits from the new employees begin to increase. These debt payments are expected to last up until 2021.⁹

Figure 9: Limited Reconstruction of OLBR Study¹⁰

	OLBR	August Estimate
2010	\$ 6,747,046	\$ 7,279,138
2011	\$ 17,369,506	\$ 18,739,317
2012	\$ 10,739,673	\$ 11,586,636
2013	\$ 7,543,929	\$ 8,138,866
2014	\$ 5,467,855	\$ 5,899,066
2015	\$ 4,867,358	\$ 5,251,212
2016	\$ (2,368,322)	\$ (2,555,095)
2017	\$ (2,639,564)	\$ (2,847,728)
2018	\$ (2,692,465)	\$ (2,904,801)
2019	\$ (2,610,160)	\$ (2,816,005)
2020	\$ (2,527,856)	\$ (2,727,210)
2021	\$ (2,445,552)	\$ (2,638,416)
Gross Savings	\$ 37,451,448	\$ 40,404,982
Acc. Accru. Term. Costs	\$ (11,465,630)	\$ (12,369,844)
Net Savings	\$ 25,985,818	\$ 28,035,138

⁹ Office of Legislative Budget Review “Analysis of the Voluntary Retirement Incentive Program,” Nassau County May 18th, 2010.

¹⁰ This limited reconstruction by the Comptroller’s Office was done in proportion to the original OLBR study; the data used in this report has since been shared with OLBR in efforts to create a more thorough reconstruction.

5.0 Conclusions and Considerations

5.1 Conclusions

- 1) The early retirement incentive plan offered by the County Executive was a success and will result in about \$28 million in net savings over 10 years.
- 2) The Police Unions received a disproportionate share of the early retirement incentive payout. Of the three employee classes who took early retirement, the Police Unions yield the lowest savings; primarily due to their higher salaries and benefit packages relative to the “Other” category.
- 3) Sick time redemption and accrued vacation time accounted for \$31.7 million or fifty-five percent (55%) of the total payout
 - 39% of the total payouts of \$57.5 million was for the redemption of unused sick-time
 - 16% of the of the total payouts of \$57.5 million was for the redemption of unused vacation time
 - The average sick time redemption per police department retiree was \$135,000, with three police employees receiving over \$200,000 for unused sick-time. The average for all other employees was \$21,000.
 - The average vacation time redemption per police was \$39,000. The average for all other employees was \$14,000.

5.2 Considerations

We recommend the following considerations for future similar early retirement programs and labor negotiations:

- 1) Sick time and Vacation time should be used or lost at the end of each calendar year similar to private industry or limits placed on the gross amount that may be banked or saved.
- 2) Granting early retirement incentives should be carefully analyzed and targeted in the future.

Appendix A
Notes to Data used in Study:

1. The estimates do NOT include State Part-B incentives or Nassau Community College employees.
2. The files used to make these estimates were created in or updated as of August 2010 as a result they are not the final amounts.
3. Longevity payments are not included in the total for State Part-A. The longevity payments listed for both the Police and County incentives is the amount the employee received for 2010. These amounts are increased for each year of service. Under the County Incentive an employee is eligible to receive pro-rated longevity if they have not reached their longevity date during the year. Under State Part-A an employee is only eligible for longevity payments if they pass their longevity date prior to leaving the County.
4. Amounts do not include any deferred payments. Ex. CSEA salary increase from 4/1/10, Police deferred overtime, etc. These are due when the employee leaves County service. These amounts could not be estimated based upon the information in the files used for this Study. The calculations include deferred lag bank payments.
5. The base salaries used in the calculations for some of the employees were adjusted to reflect deferred raises however not all of them reflect the higher wages so the total impact of the wage increase is not included. If an additional 3.65% is added to the total (including Police), the total severance would increase by approximately \$2,097,000.
6. The Police Union data used for this report was as reported by “Chiefs”, the Police Department time & leave system and IT.
7. The data includes termination pay in the amount of \$174,490 that was reported to the Comptroller’s Office by “Chiefs,” the Police Department time & leave system, which was allocated to four CSEA employees from the police department. After the review, this amount was found to be reported in error. The actual amount should be \$0, as CSEA employees in the Police Department are not entitled to Termination Pay. In Figure 4 this amount was reported under the category “Other.”