

OVERVIEW

Study of Separation Incentives Provided to Public Employees Under Act 253 of the 2000 Legislature

Report No. 04-04, March 2004

Summary

Act 253 of the 2000 Legislature was intended to tame an unduly cumbersome civil service system. Existing civil service workforce reduction laws were unwieldy and burdensome to administer. Act 253, Part V, the separation incentives law, was created to provide the state with the necessary tools to restructure government. The law authorizes the state executive branch to offer voluntary severance or special retirement incentive benefits to state employees who voluntarily separate from service when their positions are identified for abolishment or when they are directly affected by a reduction-in-force (RIF) or workforce restructuring plan. The law also extends to other jurisdictions (the counties, the Judiciary, Hawaii Health Systems Corporation, Office of Hawaiian Affairs, and the Legislature) the option of providing special retirement incentive benefits to their respective employees under a RIF or workforce restructuring plan.

Voluntary severance is a one-time lump sum cash bonus calculated at 5 percent of the employee's base salary for every year of service worked, up to ten years, and should not exceed 50 percent of the employee's annual base salary. Special retirement incentive is a benefit offered to employees who meet certain age and years of service requirements.

We found that the Departments of Human Resources Development and Budget and Finance failed to properly implement and administer the separation incentives law, resulting in the inconsistent implementation of separation incentives programs in state government. We also found that the Department of Human Resources Development is not monitoring the "no reemployment" provision of Act 253, which allows reemployment breaches to occur. In one example, an employee was overpaid \$7,000 in special incentive retirement benefits.

We found that the Hawaii Health Systems Corporation has implemented a separation incentives program that violates the separation incentives law. The corporation allows employees to decide if they want to participate in the separation incentives program and then abolishes their position. This voluntary, employee-driven program contradicts the intent of the separation incentives law and does not comply with its requirements.

The corporation also offers its employees an unauthorized cash buyout that has cost the State approximately \$275,000.

We found that the separation incentives law has done little to reduce the overall size and cost of government. To date, only two jurisdictions have participated in the separation incentives program, which has resulted in a total of 88 positions



being abolished government-wide. The number of participants is insignificant relative to the approximate 38,000 employees in the executive branch and other jurisdictions. While these position abolishments have saved the State about \$2 million annually, this amount represents a fraction of the State's budget for executive branch salaries of approximately \$2 billion per year. Unless the administration or the Legislature directs or encourages more widespread use of the separation incentives program, low participation will persist and the program will remain underutilized.

Recommendations and Response

We recommended that the Departments of Human Resources Development and Budget and Finance collaborate with all government jurisdictions to ensure that proper guidelines are developed to implement the separation incentives program; ensure that employees who elect to participate in the program do not reemploy with any public jurisdictions without first forfeiting the benefits they received under Act 253; and properly monitor workforce restructuring activities of the agencies participating in the program and ensure that abolished positions are removed from appropriate budget and personnel files. We also recommended that the departments collaborate with all government jurisdictions to determine whether workforce restructuring plans are being properly implemented by the agencies; determine the overall effectiveness of the plans after implementation; and ensure that unjustified payments of special incentive retirement benefits are recovered from employees who reemploy with the State. Finally, we recommended that the Department of Human Resources Development ensure that its reports to the Legislature include a description of how the new workforce structures will more efficiently serve the needs of agencies' clients and of appropriate criteria to measure the new workforce structures' effectiveness.

The Department of Human Resources Development disagreed with both of our findings. The Department of Budget and Finance believes that it and the Department of Human Resources Development are making good faith efforts to implement and administer the separation incentives program and offered specific responses to budgetary issues. The Employees' Retirement System did not disagree with our findings but did note that it has since recovered the \$7,000 special retirement overpayment.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830