



MEMORANDUM

TO: Mayor and Council Members

FROM: Joya Hayes, Human Resources & Civil Service Director

DATE: September 25, 2020

SUBJECT: **Response to Budget Rider Regarding Financial Products Related to Payouts for Accrued Leave**

The purpose of this memorandum is to provide an update to a budget rider request from the Fiscal Year 2021 budget adoption process, which directed the City Manager to investigate and evaluate potential cost savings for the City of Austin, its employees, and its retirees that could be realized through the adoption of financial products related to payouts for accrued leave.

Currently, City employees hired after 1986 receive up to 240 hours of accrued vacation leave paid out when they separate from the City. For these employees, sick leave is not compensable upon separation but can be used to purchase retirement time. Employees hired before 1986 receive the aforementioned vacation payout plus up to 720 hours of their accrued sick leave paid out upon separation.

The Human Resources Department, the Controller's Office, and the Labor Relations Office researched accumulated sick and vacation pay solutions. These types of programs allow employees to convert earned sick and vacation pay from a taxable cash distribution to an employer contribution resulting in tax savings on both sides. The employee would have the choice of having the money deposited in a medical expenses account or a fixed interest-bearing account. City savings would be recognized based on FICA taxes not being paid for the vacation payout.

Based on the research, these departments had the following concerns:

- Administrative costs for employees were high
- Employees would not have an opportunity to opt-out, these solutions are typically mandatory for the entire workforce

The Human Resources Department requested that vendors present to the Benefits Advisory Committee made up of 38 members across the City and includes AFCSME and the Union Presidents from Police, Fire and EMS. The following is feedback from the committee:

- The plan requirement is that all employees are part of the plan and could not be offered as an optional service.
- Fees for the medical account were high.
 - \$1.50 per month for a debit card.
 - \$5.50 per month administrative fee.
 - \$4.00 per transaction distribution fee.
- The interest-bearing account is fixed at 1% - employees could be better served financially by investing this money in other options with better returns.

Savings opportunities already provided to employees and retirees

Employees and retirees are currently offered the option of a Consumer Driven Health Plan (CDHP), which was introduced in 2015. Employees enrolled in the CDHP participate in a Health Savings Account (HSA). An HSA is a tax-advantaged medical savings account available to employees enrolled in a CDHP, which is a high-deductible health plan. HSAs are established through a bank in the employee's name. The funds contributed to an account are not subject to federal income tax at the time of deposit. The employee owns the HSA, and unspent funds roll over year to year.

Annually the City contributes \$500 for Employee Only and \$1,000 for Employees covering dependents into the employee’s HSA. Employees also have the ability through payroll deduction to contribute to this account. These dollars are meant to offset deductibles and coinsurance.

Retirees are enrolled in a Health Reimbursement Account (HRA). The City holds the Health Reimbursement Account on behalf of the retiree. The City funds the HRA based on years of service. Retirees that have worked for the City 20 or more years receive \$500 for Retiree Only and \$1000 for Retirees covering dependents. This account does not roll over; however, the City could research further the feasibility of converting the current HRA into a rollover plan.

Below is the table of accumulated leave payouts for City employees:

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

	Work-week	Non-Sworn Employees (1)	Sworn Police (2)	Sworn Fire (3)	Sworn EMS (4)
Vacation	0-40	240	240	240	240
	42	N/A	N/A	N/A	240
	48	N/A	N/A	N/A	240
	53	N/A	N/A	360	N/A
Exception vacation (5)	0-40	160	160	176	160
	42	160	N/A	N/A	160
	48	160	N/A	N/A	160
	53	N/A	N/A	264	N/A
Sick leave	0-40	720	900	720	1080
	42	N/A	N/A	N/A	1080
	48	N/A	N/A	N/A	1080
	53	N/A	N/A	1,080	N/A
Compensatory time (6)		120	120	120	120

Based on the research by the Human Resources Department, the Controller's Office, the Labor Relations Office and the Benefits Advisory Committee, staff does not recommend that the City participate in these financial products due to the high administrative costs and the inability to make the programs optional.

Cc: Spencer Cronk, City Manager
Nuria Rivera-Vandermyde, Deputy City Manager