COMMONWEALTH of VIRGINIA

Joint Legislative Audit and Review Commission
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MEMORANDUM

TO: Members of the Joint Legislative Audit and Review Commission

FROM: Mark Gribbin; Principal Analyst for Ongoing Oversight and Fiscal Analysis

SUBJECT: Severance benefits for recently laid-off VITA employees

At the July 2015 JLARC meeting, Chairman Watkins asked JLARC staff to determine the cost of severance benefits for the 51 employees who were recently laid-off at the Virginia Information Technologies Agency (VITA). These employees are entitled to severance benefits under the Workforce Transition Act of 1995 (Title 2.2 Chapter 32, § 2.2-3200 et seq.). Severance benefits include severance pay for up to 36 weeks and continued health and life insurance coverage for up to one year. Employees who are over the age of 50 may choose the enhanced retirement option, which allows them to use the cash value of their benefits to purchase age or years of service credit toward retirement.

The Department of Human Resource Management (DHRM) estimates that the severance benefits provided to the laid-off employees could have a cash value of up to $3.2 million. DHRM indicated that 42 of the 51 employees elected the enhanced retirement option. The value of benefits for these employees is estimated at $2.8 million. The remaining nine employees will receive severance pay, health insurance, and life insurance benefits over the next several months. The value of benefits for these employees is estimated to be up to $400,000.

Employees who selected the enhanced retirement option will receive the full $2.8 million value of their benefits. For these employees, the cash value of their benefits is used to purchase retirement credit at a discounted rate. For example, an employee with a $70,000 salary and 28 years of service, who is enrolled in the standard health plan, would be eligible for $61,000 in severance benefits. If the employee chooses the enhanced retirement option, the full $61,000 could be used to purchase

5.8 years of retirement credit. The credit would make them immediately eligible for an unreduced pension benefit.

The actual value of severance benefits for the nine employees who did not select enhanced retirement may end up being lower than $400,000. Severance payments to these employees are offset by any worker's compensation that they may receive, and end if the employee is hired by a state agency or institution. Health and life insurance benefits end if the employee is rehired into a salaried state position. Additionally, if the employee is hired by a private company, they may voluntarily choose to withdraw from the state's insurance programs to enroll in the programs offered by their new employer. The final actual costs of severance benefits for these employees will not be known until all benefits have been paid out, which could take up to a year.

The severance benefits provided to the laid-off VITA employees are at the high end of what is allowed under the Workforce Transition Act because of the group's seniority. Of the 51 employees, 44 had over 18 years of service, and were eligible to receive the maximum 36 weeks of severance pay. The seven other employees in the group had ten or more years of service, and were eligible for 20 to 35 weeks of severance pay. The salaries of the laid-off employees were higher than the state average due to their seniority and the types of positions held. These higher salaries also contributed to more valuable benefits.

Under the Workforce Transition Act, the terminating agency is required to pay all costs associated with employee severance benefits. In this case, Northrop Grumman is required to reimburse VITA for the cost of severance benefits paid to the laid-off employees.

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