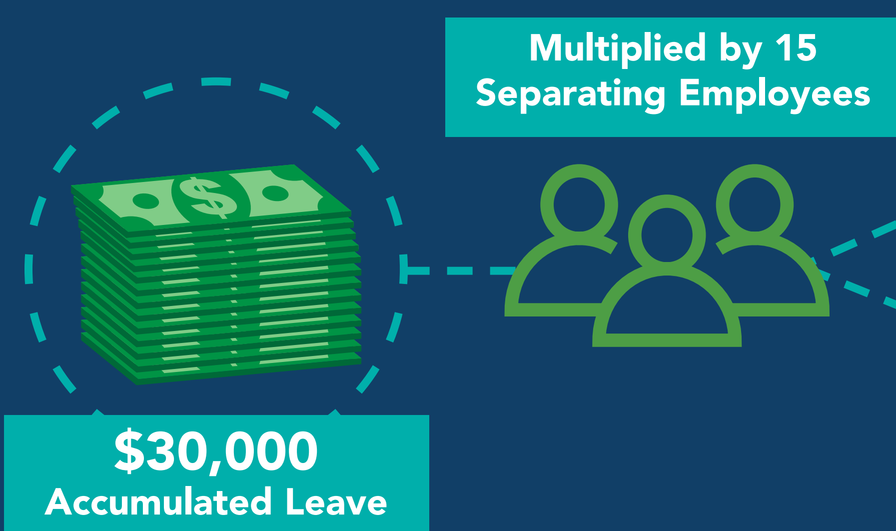
Maximizing the benefit of **Voluntary Separations**

Our experience shows that well-crafted voluntary separation incentives can be highly successful in limiting the expense and difficulty that accompany involuntary reductions in force (RIFs)—*often by simply using accumulated leave payouts differently.*

Save on Taxes While Limiting Unemployment Claims

MidAmerica's Special Pay Plan (SPP) and Health Reimbursement Arrangement (HRA) are considered qualified plans by the Internal Revenue Service (IRS). Unlike traditional cash payouts of accumulated leave or separation incentives, contributions to qualified plans are permanently exempt from employer payroll tax and employee FICA withholding. What's more, contributions and earnings are either tax-deferred—meaning employees won't pay state or federal income taxes until funds are withdrawn—or in the case of the HRA, completely tax-free.

Depending on agency and employee group participation in Social Security, these solutions can generate up to 7.65% of instant tax savings. What's more, these savings significantly incentivize voluntary separations, limiting the need for involuntary reductions in force and the short and long-term costs that come with payment of unemployment claims. Below is an example of employer savings and the actual benefit amount the employee would take home if accumulated leave was paid through an HRA or Special Pay Plan versus a cash payout.



Cash Payout

- **Employer pays $34,425 in FICA taxes for all 15 employees combined.**
- **Individual employee pays $2,295 in FICA taxes.**
- **Individual employee pays state and federal income taxes on the gross amount of accumulated leave cashed out.**

HRA/SPP

- **Employer pays $0 in FICA taxes for all 15 employees combined.**
- **Individual employee pays $0 in FICA taxes.**
- **Pre-tax contributions to a qualified plan allow an individual employee to reduce their tax liability significantly.**

Two Plans to Help Your Employees Transition

Both the Special Pay Plan and the HRA maximize savings for employer and employee, and can provide a compelling incentive to help employees feel confident in their choice to transition from your agency. Best of all, separation payouts can be split into both plans, creating a versatile benefit encompassing both dedicated healthcare funds and funds that can be used for any purpose.

HRA

- Used to pay for health care expenses (including insurance premiums) for employee, spouse, and tax dependents
- Funded by accumulated leave payouts and/or voluntary separation incentives, with permanent savings on both employer payroll and employee FICA taxes
- Fully portable and immediately accessible—employees can use HRA funds for life
- Invested for potential growth—employees have access to a wide range of options, including fixed and variable investments
- Triple tax-free—contributions, earnings and reimbursements are never subject to federal or state income tax

Special Pay Plan

- Used for any purpose
- Funded by accumulated leave payouts and/or voluntary separation incentives, with permanent savings on both employer payroll and employee FICA taxes
- Full portable and immediately accessible for employees age 55 or greater (age 50 for public safety employees)
- Invested for potential growth—employees have access to a wide range of options, including fixed and variable investments
- Tax-deferred—contributions and earnings grow tax-deferred until they are withdrawn

Need help with your COVID-19 budget challenges?

With more than 25 years of public sector experience, MidAmerica has the expertise to help you navigate the unprecedented financial challenges of the present moment and come out stronger than ever before. It's our duty and our privilege to take care of you, just as you take care of our communities.

Contact us today.
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