Creative Incentives to Drive **Attrition and Retention**

Our experience shows that well-crafted incentives can be highly successful in encouraging voluntary separations and driving retention of key personnel. The expense and difficulty that accompany layoffs and hiring can often be avoided by *simply using existing accumulated leave and incentive 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 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and earnings are either tax-deferred—meaning employees won't pay state or federal income taxes until funds are withdrawn—or in the case of the HRA, completely tax-free.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 the district and employee group participation in Social Security, these solutions can generate up to 7.65% of instant tax savings. Both voluntary separations and retention can be incentivized based on plan design and the district's needs. This limits the loss of qualified personnel while avoiding involuntary reductions in force—including the short and long-term costs that come with unemployment claims. Below is an example of employer savings and the actual benefit amount the employee would take home if attrition and retention incentives were paid through an HRA or Special Pay Plan versus a cash payout.

$30,000
Attrition or Retention Incentive

Multiplied by 15 Employees

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 incentive amount.**

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 Provide for Your Employees

Both the Special Pay Plan and the HRA maximize savings for employer and employee, and can provide a compelling incentive to encourage attrition or retention. Best of all, incentive payouts can be split into both plans, creating a versatile benefit encompassing both dedicated health care 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 attrition or retention incentives with permanent savings on both employer payroll and employee FICA taxes
- Fully portable and accessible in accordance with your objectives—immediately for separating employees, upon retirement for retained staff
- 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.
accountmanagement@myMidAmerica.com

MidAmerica

777 South Harbour Island Blvd. Suite 390, Tampa, FL 33602 | (800) 430-7999 | www.myMidAmerica.com