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# Sick-time payouts spike as Minnesota state employee retirements rise

By MaryJo Webster mwebster@pioneerpress.com Updated: 11/20/2011 09:25:23 PM CST



James McCormick, left, retired as MnSCU chancellor in August. (Pioneer Press file photo: Ginger Pinson)

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State of Minnesota employees can go into retirement with an extra nest egg that's almost unheard of in the private sector.

Some get \$100 or less. A few get more than \$100,000. Most take home \$10,000 to \$30,000.

It all depends on whether an employee has an ironman-like career - rarely, if ever, calling in sick - and what that employee is paid.

Unused sick days paid out at retirement, most often into health care savings accounts, usually cost state government about \$14 million per year. But this year, Minnesota exceeded its annual sick time payout total by June 30. The reason: Thousands of workers took early-retirement incentives designed to trim the workforce and balance the budget.

Although paying out unused sick time is extremely rare in the private sector, it's common at all levels of government around the country. It's been the standard policy in Minnesota for at least 40 years, before state workers were unionized.

Criticism of the practice, though, is mounting nationwide. At least two ranking Minnesota legislators say it needs to be addressed here, too.

Between January 2008 and June 30, the state has paid out \$57 million in unused sick time to about 5,600 people, according to a Pioneer Press analysis of state severance payments. Though the payments make up less than 1 percent of what the state spends

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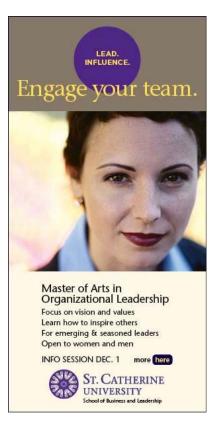
on salaries and benefits, a handful of employees - all from the Minnesota State Colleges and Universities system - got checks topping \$100,000.

State officials and union leaders say paying out unused

sick time as a form of severance is good policy. It discourages sick-day abuse, offsets wages they say are lower than the private sector and serves as a reward for longtime, dedicated employees to help them pay for health care costs in retirement.

"The total money may appear large, but it's a lifeline for people," said Jim Monroe, executive director of the Minnesota Association of Professional Employees.

As Minnesota continues to deal with repeated budget deficits, Republicans in control of the Legislature have targeted state





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employee compensation for possible cuts. Leaders of a joint committee that reviews state employee contracts say they will "take an aggressive stance" in looking at all forms of compensation - including sick-time severance - as contracts come up for approval in the months ahead.

"We need to align public employees closely to the private sector as we move through these tough economic times," said Sen. Mike Parry, R-Waseca, chairman of the Legislative Subcommittee on Employee Relations.

#### AT THE TOP: \$120,000

Jon Quistgaard, who retired last year as president of Bemidji State University and Northwest Technical College, had the biggest payout of any state employee the past four years. His check for 30 years in Bemidji: \$126,500.

Quistgaard, who was making almost \$254,000 when he retired at age 62, didn't return calls for comment.

Two other MnSCU administrators - the former president of Minnesota State University-Moorhead and a vice chancellor for academic and student affairs - also retired with six-figure paychecks for unused sick time.

A salary cap that ties state employee pay to what the governor makes - \$120,303 since 1998 - makes it mathematically impossible for a state worker to get a six-figure payout from unused sick time, said Joel Ludwigson of Minnesota Management & Budget.

MnSCU, though, is exempt from the cap.

Where the top pay for the rest of state workers is \$51.91 an hour, at MnSCU, top administrators are making at least twice that amount. Quistgaard was earning about \$121 per hour when he retired.

Lori Lamb, MnSCU's vice chancellor for human resources, said the payments are part of the overall compensation package.

"In our world, we look at accountability and return on investment," Lamb said. "And the return on investment from these high-level administrators - and everybody on down the line - is really high."

Lamb noted that Quistgaard, after becoming president at Bemidji, also took the reins of Northwest Technical College, which enabled MnSCU to cut several administrator positions and save hundreds of thousands of dollars a year.

Contracts for state employees, including those not in a union, all have "severance pay" clauses. Eligibility varies, but typically the person needs to be at retirement age or have worked for the state for 20 consecutive years. In most cases, the payout for unused sick pay goes into a health care savings account, which is tax-free.

All of the plans set a limit on how much unused sick time can be paid out, and that is multiplied by the person's final pay rate. As a result, the largest checks tend to go to those with high salaries, long careers and few sick days used.

While Quistgaard's check for unused sick time was the most he could receive, it was for about a third of the time he accumulated because of the contract limits on payouts.

State managers received average payments of about \$21,000. Faculty at MnSCU's four-year colleges had average payments of about \$27,000, and faculty at two-year colleges averaged \$18,777. Members of the state's two largest unions, AFSCME and MAPE, averaged just \$3,500 and \$7,000, respectively.

"The system isn't broken, so let's not create a solution in search of a problem," said Eliot Seide, executive director of AFSCME Council 5, noting that it's not his union's membership taking home six-figure checks.

## LOWER PAY IN THE PUBLIC SECTOR

The state and unions see the payouts as a way to offset wages, which they say fall below those in the private workforce.

But comparing public- and private-sector jobs for pay equity is difficult, researchers say. Many government jobs - think firefighters, police officers, game wardens, corrections officers - don't have an equivalent in the private sector.

A widely quoted study by a Rutgers University professor found that Minnesota's full-time public employees are underpaid by about 8 percent, when looking at both wages and benefits.

A closer look at the study, though, shows public workers with less than a high school diploma are overpaid by about 20 percent. And public workers with bachelor's degrees or higher are underpaid by 30 to 40 percent.

Lamb, who heads MnSCU's human resources, said the system has pay and benefit packages, particularly for administrators and faculty, that fall well below those at peer institutions elsewhere.

Former Metro State President Wilson Bradshaw, she said, garnered a salary 1.5 times greater when he left in late 2007 to take over as president of Florida Gulf Coast University in Fort Myers, Fla.

"We're struggling with competitiveness, and we're trying to find ways to fight that," Lamb said.

State Sen. Barb Goodwin, DFL-Columbia Heights, said state employee compensation is not out of line with the private sector and that, if anything, pay has gotten worse in recent years because of the lack of base salary increases.

"They have all the same job risks as everybody else," Goodwin said. "There was a time when having a civil-service job meant a job for life, but that's not the case anymore."

#### AN INCENTIVE, BUT A FLAWED ONE

Encouraging state employees to come to work, and not abuse sick leave if they had a "use it or lose it" policy, was likely the reason the payouts were included in civil service contracts predating collective bargaining, said Bill Tschida, former vice chancellor for human resources at MnSCU.

Tschida, who retired two years ago and received more than \$80,000 in unused sick pay after 36 years, said the policy has been in place now for so long that it would be hard to take it away.

"It's a well-thought-out incentive," said Russ Stanton, director of government relations for the Inter Faculty Organization, a union representing faculty at MnSCU's four-year colleges. "It prevents 'sick Mondays' and provides a way faculty members can build up a nest egg for retirement costs."

Most state workers don't get post-retirement health insurance, and they use the unused sick-day payments to cover medical costs until eligible for Medicare at age 65.

Even proponents of the sick leave payout acknowledge the inherent flaw in the system is that employees who need to use their sick time for an illness while they are employed don't get the extra money at retirement.

"It's unfortunate and it's unfair," said Leslie Sandberg, MAPE'S senior communications advisor

David Trooien, an engineer with the Department of Transportation, retired in 2009 after 44 years of service with the state. The Willmar man, who rarely called in sick, said he was "devoted to his career" and didn't think much about the severance pay until the last year or two. For him, the prospect of a \$63,000 payout at retirement wasn't an incentive to come to work.

# Unused sick-time payouts

Totals paid out by the state of Minnesota and Minnes Colleges and Universities for retiring employees' unus by year:
\$10,000,000

MnSCU

State of MN

State of MN

2000,000

2,000,000

2008

2009

2010

\* 2011 is only throu

#### Individuals with highest sick-time payouts

		ars of ervice
Jon Quistgaard	President of Bemidji State University	30
Linda Baer	MnSCU senior vice chancellor for academic and student affair	19 's
Roland Barden	President of Minnesota State University Moorhead	18
James McCormick	MnSCU chancellor	10

Source: MnSCU and Minnesota Office of Management and Budg



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"It was just there as part of the package a state employee gets when they retire," said Trooien, who works part time driving a transit bus. "If it wasn't there, fine. I could've lived without it."

Over the years, there have been numerous proposals or discussions to change the contracts, according to both union and state officials, but none has succeeded.

Tschida said that during his tenure heading MnScU's human resources between 1997 and 2009, there were several talks internally about switching to a traditional severance package, which typically consists of one to two weeks of pay per year of service. They also talked about going to paid time off, or PTO, which combines sick time and vacation.

#### MOVE TOWARD PTO, LIMITED ACCRUAL

An annual Society for Human Resource Management survey of all employers - including governments and nonprofits found 6 percent paid out unused sick time. A closer look reveals the vast majority of those are public employers, said Shawn Fegley, a survey research analyst with the group.

Businesses are even moving away from sick leave, instead offering PTO, Fegley said. This gives employees a set number of days each year to use for illness or vacation. About 17 percent of companies in the survey offer a PTO plan that pays out unused time when the person leaves.

Paying for unused vacation time is more common among all employers, but typically with year-to-year restrictions on accrual. Such limits, and even "use it or lose it" policies, help companies keep a tab on spending.

"It really is a problem for employers when they have a balance that just keeps growing and growing and they have no control over whether it's going to be used," said Carl Crosby Lehmann, an attorney in the employment-law practice group at Gray Plant Mooty in Minneapolis.

Public employers, though, are having a harder time ridding themselves of these payout policies because 32 percent of their workers are in unions, said Charles Craver, a labor law professor at George Washington University.

"The thing politicians need to realize is that they're blaming the unions unfairly," Craver said. "They need to go to the bargaining table and say they don't have the money."

Frank Shafroth, director of the Center for State and Local Leadership at George Mason University, said credit-rating agencies have started giving more scrutiny to sick time and vacation time liabilities - along with pension and retirement health care liabilities - when giving a city or state its credit rating.

As of June 30, Minnesota's liability for unused sick and vacation time for current employees was about \$439 million, including about \$133 million for MnSCU workers. In recent years, those figures have been getting larger because of an aging workforce. State officials say the budget has money set aside to cover those costs, although not all of it gets paid out at one time.

Pension liability is the hot topic for state governments around the country right now. Shafroth said the unused sick and vacation time liabilities are a secondary issue.

"Particularly in the last five years, more and more (state and local) governments have said there's going to be a limit on accrued sick time." Shafroth said.

Ohio legislators passed a law that would have taken away collective-bargaining rights and significantly curtailed the payouts, but voters overturned the law this month.

New Jersey's governor is trying to ban the practice, saying municipalities in his state face liabilities of more than \$825 million for unused sick and vacation time.

A Colorado lawmaker wants to propose similar restrictions there, saying it could save the state \$367 million.

A few years ago, the Minnesota state auditor criticized school districts for padding superintendent contracts with generous severance packages and payouts for sick and vacation time.

As a result, most superintendent contracts have been rewritten, but big payouts still happen. Earlier this year, Farmington Superintendent Brad Meeks left with just over \$46,000 for unused sick time after about eight years on the job. The Lakeville superintendent, Gary Amoroso, got about \$91,000 for unused sick leave after 10 years on the job.

# CONTRACT DEADLINES NEAR

When the Minnesota Legislature convenes in January, state employee compensation will probably get some attention.

The two largest unions, AFSCME and MAPE, are in contract negotiations with the state, and the contracts will need legislative approval.

Sen. Parry's joint committee will get to review the contract first, though, and he and his co-chairman, Rep. Steve Drazkowski, R-Mazeppa, say they want public employee compensation to conform to the private sector.

Specifically, he pointed to the zero-percent premiums for a single-person health care plan. He said they also will look at payouts for unused sick time.

"We haven't talked in depth about it," Drazkowski said. "As we look at these things as a whole, I think we'll be bringing proposals forward to bring forward private-sector practices."

MaryJo Webster can be reached at 651-228-5507.

## SICK-TIME PAYOUTS

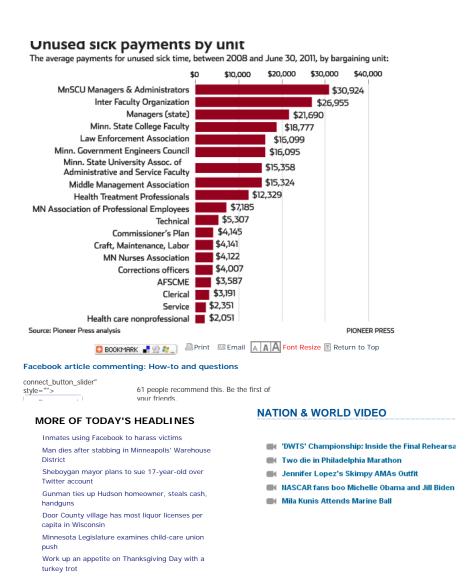
Who is eligible: Varies by contract, but most require the worker be retirement age or have worked for the state for 20 consecutive years.

What it is: Full-time state employees typically get about 10 sick days a year. When the employee retires, a portion of what's unused over the years is paid out.

**How they are paid:** Three contracts pay 35 percent of all unused sick days. The dollar amount is based on the worker's final pay rate. Other contracts pay 40 to 50 percent of unused sick days, but only up to 112 to 125 days. Several also pay 12.5 percent of unused days above that cap.

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