

**SUBJECT: SICK LEAVE VALUE DISTRIBUTION AT RETIREMENT**

Preamble

For some time, the City has provided employees with a post-retirement benefit in which employees were eligible to receive the value of their accumulated sick leave upon retirement. The City recently sought to identify an effective strategy to increase the flexible use of this benefit while at the same time meeting the associated tax requirements for retirees. After considerable analysis, review of alternative program proposals and discussion with stakeholders by City staff, the City is now taking a major step forward in this effort. This new City policy provides that the City will choose, based upon objective criteria provided by employees, either a highly flexible and portable medical reimbursement plan for those who need it, or, alternatively, a cash distribution for retirees who do not need the medical reimbursement plan.

Introduction: The City of Madison per MGO 3.36(6)(e) has established a policy regarding the accumulation of sick leave and the distribution of value thereof upon retirement (or disability). That policy has been operationalized to varying degrees through agreements with the bargaining units. This Administrative Procedure Memorandum shall serve to establish related provisions applicable to employees in Compensation Groups 17, 18, 43, 44, 19 and 21.

1.0 Purpose: The City of Madison has adopted a Post-Retirement Sick Leave Conversion Medical Reimbursement Plan (hereinafter, "Medical Plan") and a Governmental 401(a) Special Pay Plan (hereinafter, "Retirement Plan") (together called the "Plans") to allow retiring employees in Compensation Groups 17, 18, 43, 44, 19 and 21 to convert accumulated sick leave into a supplemental retirement benefit on a mandatory basis.

2.0 General: The Plans are intended to allow some flexibility in the conversion of the unused accumulated sick leave for eligible employees (see 3.0 below). The City of Madison will apply a formula, set forth in Section 4.0 below, to convert a retiring employee's unused accumulated days of sick leave pay into a dollar value (hereinafter, "Benefit"). The benefit will be paid to the retiring employee through a supplemental benefit plan.

It is the City of Madison's intention that the benefits provided by the plan not be subject to FICA taxes, and provide tax advantages consistent with both federal and State income tax laws. However, the City of Madison makes no warranties or representations regarding the tax treatment of any contribution made or amount received under the Plan. Employees should consult their own tax advisor to determine how to treat the supplemental benefits provided by the Plan.

3.0 Eligibility: The conversion of unused sick leave is automatic and mandatory upon retirement and all retiring employees with unused accumulated sick leave valued at \$2,000 or more on the date of their retirement will participate in the Plan. Any balance of less than \$2,000 will be paid as taxable income.

To "retire" and be eligible for this Plan, an employee must have reached or will reach age fifty-five (55), during the calendar year of retirement, must retire from employment with the City, and be eligible for retirement benefits from the Wisconsin Retirement System.

4.0 Calculation of Benefits: An employee who retires with the City of Madison shall receive a Benefit for the number of days of unused accumulated sick leave held by the retiring employee on his or her date of retirement, based on the following formula:

Total hours of accumulated sick leave x regular hourly rate of pay at time of retirement.

5.0 Payment of Benefits:

- 5.1 Election of Form of Benefit: Within thirty (30) days of receiving written notice of an employee's retirement, the City of Madison shall elect the form in which the retiring employee will receive the benefit. The Benefit can only be paid to the retiring employee in one of the forms set forth in paragraph 5.2 (below). In making the election, the City of Madison will consider several established factors including the retiring employee's access to other health insurance coverage, the value of the retiring employee's unused accumulated sick leave pay, and the ability of the retiring employee to demonstrate the need for coverage. The City of Madison will notify the retiring employee in writing (within the thirty (30) day time period identified above) of the election made by the City of Madison.
- 5.2 Form of Payment: Retiring employees who are eligible to receive a supplemental benefit will be paid the Benefit in one of the following forms, pursuant to the election made in paragraph 5.1 (above):
  - (a) The City of Madison shall make a contribution to the PRIME Trust, or the Medical Plan Trust (selected at the City of Madison's discretion) for the benefit of the employee to pay for health insurance premiums and unreimbursed medical expenses specified under Internal Revenue Code Section 213. This benefit will continue until fully exhausted by the retiree or his/her qualified dependent beneficiaries.
  - (b) The City of Madison shall make a contribution to the Retirement Plan Trust and/or 457(f) qualified deferred compensation plan (selected at the City of Madison's discretion) in the amount of the Benefit, which shall be paid to the retiring employee according to the terms of the selected plan.

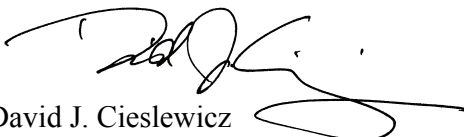
6.0 Plan Administrator:

The City is hereby designated as the Plan Administrator. The Plan Administrator shall have the authority to control and manage the operation and administration of the Plan, including the authority to make and enforce rules or regulations for the efficient administration of the Plan; to interpret the Plan; and to decide all questions concerning the Plan and the eligibility of any person to participate in the Plan. The Plan Administrator shall give reasonable notice of the availability and terms of the Plan to employees and shall keep accurate records of all benefits paid under the Plan.

7.0 Miscellaneous:

- 7.0 All terms expressed herein shall be deemed to include the feminine and neuter genders and all references to the plural shall be deemed to include the singular and visa versa, all as proper construction shall dictate.
- 7.2 This APM does not enlarge or diminish the employment rights of any employee nor does it confer any right upon any employee to be retained in the service of the City.
- 7.3 This Plan shall be constructed and enforced according to the laws of the State of Wisconsin, where the City is located.
- 7.4 This document is descriptive only, and is subject in all regard to the documents establishing the Medical Plan and the Retirement Plan.

Authority: This policy shall be interpreted and maintained by the Human Resource Director in consultation with the City Comptroller and City Attorney.

  
David J. Cieslewicz  
Mayor

APM No. 2-26  
September 12, 2007

Original APM dated 09/29/1999