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Florida High School Athletic Association

Board of Directors Meeting – Agenda Item

Site: Gainesville, FL

Date: September 28, 2009

Check One: Action: X Discussion/Information:

Topic (brief descriptive statement):

Change in Employee Benefit Policy #5 – Paid Time Off (PTO)

Detailed Information (background, observations, etc.):

A proposed change in policy will provide a 401a Plan (tax shelter) for the purpose of paying accumulated PTO benefits and also proposes a change in the vesting schedule for employees. See attached information for full discussion.

Recommendation(s):

Approval of the Policy as presented

Rationale:

See attached

Alternative(s) to Recommendation(s):

No change in policy; or consider other variations of the proposed changes in vesting and capping of PTO benefits

Data Source:

FHSAA Employee Benefit Policies

Impact (to be completed by FHSAA staff):

Saves \$21,608 in current budget year by lowering the liability for compensated absences; potential on-going savings; gives better vesting schedule to employees; removes the need to grandfather certain employees benefits which results in equal benefits for all employees; replaces the “use it or loose it” policy on PTO with payment into a 401a Plan – encouraging employees to save PTO.

Linda D. Robertson
Name of Individual Submitting Item

Linda D. Robertson
Signature

**Proposed Changes to FHSAA Employee Policy Handbook
Board of Directors Meeting – September 28, 2009**

EMPLOYEE HANDBOOK SECTION: EMPLOYEE BENEFITS

5. Paid Time Off (PTO)

D. Limit on Carryover of Accrued Leave and 401A Plan Provisions

~~The carryover of accrued PTO On October 31, 2009 and at the end of the year each fiscal year following October 31, 2009, will be limited to 960 leave balances in excess of 480 hours will be paid into a 401A Plan for the employee in accordance with the vesting schedule in section E.~~

~~E. Grandfathered Leave Balances~~

~~Special provisions apply to those grandfathered in at the date of policy change June 30, 2005. A special carryover limit may apply. any hours earned over this special limit will be dropped at the end of each year June 30th.~~

EF. Accrued Leave Payouts

Leave balances will be paid according to the schedule below:

3 years	20% <u>25%</u>
4 years	40% <u>50%</u>
5 years	60% <u>75%</u>
6 years	80% <u>100%</u>
7 years	100%

~~1. Payable annually into a 401A Plan when balances exceed 480-hours at the end of the fiscal year.~~

~~2.1. Payable upon termination or retirement into a 401A Plan.~~

~~a2. Must be in good standing with the Association.~~

~~b3. Administrative staff must give a minimum of 30 days written notice.~~

~~c4. Support staff must give a minimum of two weeks written notice.~~

~~d5. Executive Director will be fully vested from the date of hire for the purpose of accrued leave payouts.~~

~~e6. Accrued leave cannot be taken, unless express permission is given by the Executive Director, during the notice period.~~

Recommended Changes:

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| <ol style="list-style-type: none"> 1. Improve the vesting schedule for employees 2. Establish a 401A Employer Contribution Plan for Terminal Pay (saves 15.3% in FICA; 7.65% for FHSAA; 7.65% for employee) 3. Replace the 960 hour annual cap with 480 hour cap annually with the stipulation that no unused time is lost, instead amounts in excess of the 480 hour cap will be paid into the 401A. 4. Item #3 removes the need for grandfathering since leave balances will not be lost and treats all employees equally. |
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Discussion of Proposed Changes:

- Using the 401A as the vehicle for all PTO terminal payments saves both the employer and the employee a combined 15.3% in FICA taxes.
- The FHSAA will pay out smaller balances at current pay levels, rather than having to accumulate the days until the employee reaches retirement and pay at a higher daily rate.
- By paying annually, the employer absolves themselves of a large terminal pay liability and for the liability of maintaining an investment account for this purpose.
- Currently the FHSAA provides long term disability plan; which takes affect after 12 weeks absence (or 60 days): Capping the PTO at 480 hours is equivalent to 60 days. The new cap, in combination with the LTD plan (provided to employees at no cost) should adequately protect individuals in the event of long-term illness.
- Paying the amount in excess of 480 hours each year will start a second retirement savings fund for the employee.

How the Proposed 401A Plan Works

- Employer only contributions
- Not subject to FICA tax (saves 15.3% in taxes; 7.65% for employer and 7.65% for employee)
- Not taxed by IRS until withdrawn by the employee
- May only withdraw after employment ends unless age 60+
- After employment ends, may withdraw without IRS penalty if age 59 ½; otherwise may be subject to additional 10% income tax
- ~~Once funds are deposited, they become the property of the employee and are no longer managed by the employer~~
- Employees can direct their own investment portfolio – The Harford Insurance Plan is the product and investment manager will be assigned from Cornerstone Financial Group in Gainesville.
 - Low maintenance fees: \$0 if investment is \$40,000+; \$10 per year if \$20,000-\$40,000; \$20 per year if less than \$20,000. Fees will be paid by employees (deducted from their individual accounts).
 - Loan fees: \$50 application fee; \$50 per year maintenance – no interest
 - No other fees

Estimated Savings & Impact of improving vesting schedule

- Estimated savings for 2009-10 is \$21,608. Liability for Compensated Absences will be decreased by \$304,081 at a cost of only \$282,473 (difference is FICA savings). Current liability for compensated absences is designated in fund balance as \$413,225. If this policy is adopted and amounts over 480 hours are paid into the 401a plan, it will reduce our liability to \$101,387.
- If this plan had been in place during 2008-09, FHSAA would have saved \$9,988 in FICA taxes.
- Estimated cost for improved vesting schedule will have a nominal impact and will be offset by the overall savings in FICA tax. If we apply the new vesting schedule and assume all employees resigned today, FHSAA would pay out an additional \$5,270 to the employees, but the total cost of the payouts would decrease by \$29,768 in FICA taxes, for a net savings of \$24,498.