

Sign-On and Retention Bonus Policy

Contents:

§ 1.	Introduction	1
§ 2.	Employee Eligibility for Sign-on and Retention Bonuses.....	2
§ 3.	General Criteria for Use.....	3
§ 4.	Specific Situations In Which a Sign-On or Retention Bonus Can Be Provided.....	5
§ 5.	Steps to Take to Mitigate Recruitment and Retention Issues.....	9
§ 6.	Payment and Recoupment of Sign-on or Retention Bonus.....	10
§ 7.	Credit for Consecutive Service; Impact of Leave on Consecutive Service Credit.....	13
§ 8.	Agency Responsibilities.....	13
§ 9.	Office of State Human Resources Responsibilities.....	15
§ 10.	Sources of Authority	15
§ 11.	History of This Policy	15

NOTE: This is a pilot policy. It is intended to be an initial effort to develop a policy on a new topic, with the expectation that the policy will return to the Commission in the future for revisions when lessons are learned. OSHR anticipates that this policy would return to the Commission for further analysis no later than the second quarter of 2024.

§ 1. Introduction

State agencies may develop programs to provide bonuses to recruit or retain employees in hard-to-fill occupations. Bonuses awarded under this policy are to aid agencies and other covered employers¹ in recruitment and retention efforts necessary to carry out mission-critical services and initiatives.

A sign-on bonus is a discretionary bonus that serves as a recruitment incentive. This initiative aids in the employment of individuals for critical positions that have labor market shortages which affect the business needs of the agency and impair the delivery of essential services.

A sign-on bonus may be offered either for:

1. A specific job classification
- or
2. An individual position.

¹ References to “agencies” in this document also include commissions, boards, and university or community college systems or institutions when they set the pay of employees who are subject to the State Human Resources Act.

Sign-On and Retention Bonus Policy (cont.)

For details, see “Sign-On Bonus Situation 1” and “Sign-On Bonus Situation 2” below in this policy. In either situation, the sign-on bonus must be as part of a program established to attract qualified candidates in critical positions that have labor market shortages, and it must be common practice to offer a sign-on bonus to a candidate for a position to be competitive in the market.

Retention bonuses are discretionary bonuses that may be granted by an agency when an employee would be likely to leave the agency in the absence of a retention incentive.

Retention bonuses may be offered as a retention incentive:

1. To retain a group of employees in critical positions that have labor market shortages impacting the business needs of the agency and impairing the delivery of essential services.
2. To retain an employee when the agency has offered a sign-on bonus as a recruitment incentive to an individual in a similar, critical position that has labor market shortages which affect the business needs of the agency and impair the delivery of essential services.
3. To retain a team of employees assigned to a special initiative of the agency, state, institution, or system where their combined special skills and understanding of the initiative are critical to its successful completion.

or

4. To retain an employee critical to the agency’s mission.

For details, see “Retention Bonus Situation 1” through “Retention Bonus Situation 4” below in this policy.

§ 2. Employee Eligibility for Sign-on and Retention Bonuses

Sign-on Bonus Eligibility

Only candidates for probationary, permanent, or time-limited positions may be eligible for sign-on or retention bonuses. To be eligible for a sign-on bonus, the candidate must not

Sign-On and Retention Bonus Policy (cont.)

have worked as a probationary, permanent, or time-limited employee in the last 12 months as an employee in North Carolina state government subject to the State Human Resources Act.

Employees eligible for a sign-on bonus must work at least 20 hours per week. Bonuses for eligible employees working in part-time positions will be prorated based on hours worked.

Retention Bonus Eligibility

Only probationary, permanent, or time-limited employees may be eligible for sign-on or retention bonuses. Probationary, permanent, or time-limited employees may be eligible for a retention bonus if:

- The employee has not received in the last 24 months any retention or sign-on bonuses that total more than \$2,500 from any agency for the job classification in which they are working. The limit counts all bonuses awarded over a 24-month period as of the bonus award date, and counts these as if all installments are complete. (This 24-month period can be waived with OSHR approval.)

and

- The employee's overall performance evaluation rating is at least "Meets Expectations," and the employee does not have an active disciplinary action.

Employees eligible for a retention bonus must work at least 20 hours per week. Bonuses for eligible employees working in part-time positions will be prorated based on hours worked.

§ 3. General Criteria for Use

Must Not Be Based on Productivity

Sign-on and Retention bonuses shall not be tied to meeting specific goals, special levels of productivity, quality and accuracy of work, efficiencies, or attendance.

Flexibility Authorization

OSHR may enter into delegation or decentralization agreements ("flexibility authorizations") for agencies to perform pay actions. N.C.G.S. § 126-3(b)(4). Agencies may

Sign-On and Retention Bonus Policy (cont.)

only approve sign-on and retention bonuses within the flexibility authorization granted to them by OSHR. For requests that are outside their flexibility authorization, agencies must under state law have OSHR's review and approval before completing the proposed pay action. N.C.G.S. § 126-3(b)(6). OSHR will make available a form (Form BON) that each agency can use as a guide to its flexibility authorization on sign-on and retention bonuses. Agencies should establish mechanisms to track and audit their use of flexibility authorizations.

OSBM Approval

Sign-on or retention bonus payouts for groups/teams of 50 or more employees shall require advance approval by the Office of State Budget and Management (OSBM) to confirm funds availability. A copy of the documentation must be sent simultaneously to OSHR.

Documentation

Agencies must generate a job-related justification that supports the bonus. Complete, accurate and compelling documentation is a best practice and is required to demonstrate compliance, legal defensibility, and fiscal responsibility. Therefore, agencies must prepare and keep thorough supporting materials for each bonus decision, including specific details of the process used to determine salary. These supporting materials must be placed in the system of record designated by OSHR. To document the decision-making process, agencies are required to use a worksheet (Form BON) that has been developed by OSHR. Agencies may also supplement Form BON with agency-specific worksheets.

Equity and Other Pay Factors

Agencies must apply the pay factors found in the Pay Administration Policy when making decisions regarding when and how to grant sign-on or retention bonuses to similarly situated employees. Refer to the "similarly-situated employees" definition in the Pay Administration Policy. It is not a requirement to pay existing employees retention bonuses just because a sign-on bonus is offered to candidates.

Mentioning Sign-On Bonuses in a Job Posting

If a sign-on bonus is mentioned in a job posting, agencies must include the following statement, so that potential applicants are aware of the restriction stated in § 2 of this Policy above: "To be eligible for a sign-on bonus, the candidate must not have worked as a

Sign-On and Retention Bonus Policy (cont.)

probationary, permanent, or time-limited employee in the last 12 months as an employee in North Carolina state government subject to the State Human Resources Act.”

§ 4. **Specific Situations In Which a Sign-On or Retention Bonus Can Be Provided**

For an agency to offer a sign-on or retention bonus, certain criteria must be met for each of the situations outlined above. The six situations below are the only situations in which an agency may offer a sign-on or retention bonus. The individual criteria for each of these situations follows:

Sign-On Bonus Situation 1:

Sign-on Bonus for a Specific Job Classification

In this situation, the sign-on bonus provides a recruitment incentive to attract qualified candidates in job classifications critical to the mission of an agency that have labor market shortages impacting the business needs of the agency and impairing the delivery of essential services. To enhance its ability to recruit during labor market shortages, an agency may determine the need to offer competitive sign-on bonuses to candidates hired into positions for a specific job classification within the agency, division, facility, or unit. The sign-on bonus may also be limited to a geographical area.

If the agency has flexibility authorization to provide a sign-on bonus for a job classification, the agency shall notify the Office of State Human Resources (OSHR) within 30 days that it has established a sign-on bonus program and provide supporting documentation. Documentation shall include:

- The proposed duration for the sign-on bonus program.
- Amount of the sign-on bonus and how payment shall be distributed (ex., in 1st paycheck and in 12th paycheck).
- That the sign-on bonus will be set as a flat rate for the job classification and will be consistently applied to all candidates.

Sign-On and Retention Bonus Policy (cont.)

- Data demonstrating that (1) turnover rates are significantly higher than acceptable, (2) retention rates are significantly lower than acceptable, (3) vacancy rates are significantly higher than acceptable, or any combination of these three. (This evaluation may be based on historic rates or on the agency's ability to meet its functions with that rate of turnover, retention, or vacancies.)
- Data demonstrating that sign-on bonuses are recognized as a common practice to be competitive in the market for the candidates being recruited for a specific classification.
- Steps are being taken to mitigate the recruitment or retention challenges.

Sign-On Bonus Situation 2:

Sign-on Bonus for an Individual Position

In this situation, the sign-on bonus provides a recruitment incentive to attract qualified candidates in a position (typically the employee in the position will serve as the only individual in a role or is one of two within an agency) that is critical to the mission of an agency in which the market is very competitive. An agency's inability to attract and hire a strong candidate would impact the business needs of the agency and impair the delivery of essential services.

Agency documentation shall include:

- amount of the sign-on bonus and how payment will be distributed to new hire;
- justification demonstrating that sign-on bonuses are recognized as a common practice to be competitive in the market for the position being recruited; and
- steps are being taken to mitigate the recruitment or retention challenges.

Retention Bonus Situation 1:

Retention Bonus for Positions in a Specific Job Classification

In this situation, the retention bonus provides a method of retaining a group of employees in a critical classification, or in specific critical positions within a classification, with

Sign-On and Retention Bonus Policy (cont.)

labor market shortages impacting the business needs of the agency and impairing the delivery of essential services.

- To provide this retention bonus, the agency may be, but is not required to be, actively offering a parallel sign-on bonus to employees in the same job classification within the agency, or a specific division or unit.
- The retention bonus may also be limited to a geographical area.
- The same limitations apply, and the same documentation must be generated, as is listed above under Sign-On Bonus Situation 1.
- The agency shall notify OSHR in writing of the program with supporting documentation within the same 30-day time frame as the notification under Sign-On Bonus Situation 1.
- Matching retention bonuses shall not exceed the amount established for the related classifications listed in the sign-on bonuses program without OSHR's review and approval.
- To provide this retention bonus, the agency must document any other steps that are being taken to mitigate the recruitment or retention challenges.

Retention Bonus Situation 2:

Retention Bonus in Parallel with a Sign-On Bonus for an Individual

In this situation, the retention bonus is provided to retain an employee when the agency has offered a sign-on bonus as a recruitment incentive to an individual in a similar, critical position within the same work unit that has labor market shortages which affect the business needs of the agency and impair the delivery of essential services.

- The agency must be offering a sign-on bonus to the candidate selected for an individual position in order to provide a retention bonus to an employee in the same role within the agency.

Sign-On and Retention Bonus Policy (cont.)

- A matching retention bonus shall not exceed the amount approved for the new employee receiving the sign-on bonus without review and approval by OSHR.
- Steps are being taken to mitigate the recruitment or retention challenges.

Retention Bonus Situation 3:

Retention Bonus Tied to a Special Initiative

In this situation, the retention bonus is provided to retain a team of employees assigned to a special initiative of the agency, state, institution, or system where their combined special skills and understanding of the initiative are critical to its successful completion. A “special initiative” is a defined project with specific goals, an expected beginning and end, and dedicated staff who spend a substantial amount of their time on that project. The following criteria must be satisfied:

- the employees must have specialized skills critical to the initiative’s successful completion,
- the special initiative must have a defined completion or end date (although that date may change over time),
- the agency is or would not be able to recruit another individual to replicate the demonstrated skills of employee(s) considered to be subject matter experts within the specialized team without impacting the timely completion of the project, and
- steps are being taken to mitigate the recruitment or retention challenges.

In addition:

- The agency shall notify OSHR in writing of any retention bonus program that includes a team of 50 or more employees, even if the agency has flexibility authorization for that program. (This is in addition to the approval by OSBM required under page 4 of this policy above. The documentation sent to OSBM seeking approval must be sent simultaneously to OSHR.)

Sign-On and Retention Bonus Policy (cont.)

Retention Bonus Situation 4:

Retention Bonus for an Individual

In this situation, the retention bonus is provided to retain an employee when they are likely to leave the agency to work for another agency or employer. The following criteria must be met for that specific employee:

- there is a competitive labor market for the skillset,
- the employee has skills critical to the mission of the agency that would be difficult to timely replace, and
- steps are being taken to mitigate the recruitment or retention challenges.

This retention bonus option also provides agencies with a mechanism to retain an employee critical to an agency's mission during a period of transition, such as a closure or relocation of an employee's office, facility, activity, or organization, who would be likely to leave before the transition is complete.

§ 5. **Steps to Take to Mitigate Recruitment and Retention Issues**

Whenever a bonus is provided under this Policy, agencies should have a plan, included in Form BON, to address any broader recruitment or retention issues for the job classification or position.

Examples of other recruitment and retention strategies include: increasing efforts to reduce vacancies to offset heavier workloads on employees; moving the employee's salary towards midpoint, if appropriate; offering workplace flexibility to be competitive with the market; addressing any pay equity issues; supporting inclusion; conducting informal "stay" interviews to understand the employees' career interests and goals; developing career paths so employees can see opportunities for growth within the agency; and increasing training opportunities. Some of these steps take time to implement, but each can help to mitigate recruitment or retention problems.

Sign-On and Retention Bonus Policy (cont.)

§ 6. Payment and Recoupment of Sign-on or Retention Bonus

Amount

The amount of a sign-on or retention bonus shall be determined based on labor market data and pay factors, which include funding availability.

Payment of Bonuses

A bonus of \$2,500 or less may be paid in one installment or in multiple installments.

A bonus over \$2,500 must be paid in at least two installments. An agency can choose the number of multiple defined payments (monthly, quarterly, etc.).

- The minimum amount of time over which the first and the last installments are paid shall not be less than 90 days.
- No more than two-thirds of the total bonus may be paid in the first installment.
- The maximum amount of time for the last installment shall be no longer than 18 months following the first installment. Periods of LWOP do not count toward those 18 months.

Period of Consecutive Service

- For a bonus paid in one installment, the "period of consecutive service" under this policy is between 3 months and 18 months, at the agency's discretion.
- For a bonus paid in multiple installments, the "period of consecutive service" under this policy is the total period of time between the first installment and the last installment.

Eligibility for the Final Installment

An employee in an active pay status is eligible for the final sign-on or retention bonus installment if the employee remains employed in the same agency and in the same occupational area for the defined period of consecutive service.

Notwithstanding the above, an employee is not eligible for the final sign-on or retention bonus installment if:

Sign-On and Retention Bonus Policy (cont.)

- the employee's overall performance rating at any time is not at a minimum of "Meets Expectations" or the employee has documented disciplinary actions for misconduct or performance;
- the employee subsequently transfers to another agency before the completion of the defined period of consecutive service; or
- the employee's employment terminates before the defined period of consecutive service.

Availability of Funds

The approval of all personnel actions, including any bonus action, is subject to the availability of funds. No action can be implemented that would exceed the funds available. Any written salary commitment shall include a statement of notification that the salary is subject to the availability of funds. Communications about salary are subject to retraction if there is an administrative error or the salary has not been approved by the proper authority.

Employees Are Not Required to Accept a Sign-On Bonus or Retention Bonus

If a sign-on or retention bonus is offered to an applicant or employee, the applicant or employee is free to decline it. Sign-on or retention bonuses are not mandatory, and it is not a condition of employment for someone to accept a sign-on or retention bonus.

Repayment

Before an employee may receive a sign-on or retention bonus, that employee must execute an agreement under which the employee must repay the bonus, in whole or part, if they terminate employment with the agency or transfer to another agency, either voluntarily or involuntarily, before the completion of the agency's defined period of consecutive service. For a bonus paid in one installment, the period of consecutive service starts when the installment is made and is between 3 months and 18 months, at the agency's discretion. For a bonus paid in multiple installments, the period of consecutive service is the total period of time between the first installment and the last installment.

Employees are free to not sign this agreement and not receive a sign-on or retention bonus, but the employee must sign the repayment agreement to receive the bonus.

Sign-On and Retention Bonus Policy (cont.)

The repayment shall be based on the following formula:

$$\frac{\text{Amount of Sign On or Retention Bonus Received}}{\text{Period of Consecutive Service, in Months}} = \text{Prorated Monthly Amount}$$

$$\text{Prorated Monthly Amount} \times (\text{Period of Consecutive Service} - \text{Months Worked}) = \text{Amount Due}$$

For example, if the employee received a \$5,000 sign-on bonus, to be paid in a first installment of \$3,000 following sign-on and a second installment of \$2,000 twelve months later, but the employee leaves after six months, the repayment would be calculated as follows:

$$\frac{\$3,000 \text{ Sign On Bonus Received}}{12 \text{ Month Period of Consecutive Service}} = \$250 \text{ Prorated Monthly Amount}$$

$$\$250 \times (12 \text{ months} - 6 \text{ months}) = \$1,500 \text{ Amount Due}$$

The amount due shall be deducted in full from the final paycheck to the employee from the agency that provided the bonus. If the amount deducted exceeds the final paycheck, the remaining balance shall be paid in full to the agency within 60 days from the last date of employment.

Employees may not be disciplined for failing to stay with an agency for the full period of consecutive service. Similarly, although an employee may have an amount to repay if the employee received a sign-on or retention bonus, but did not stay with the agency for the full period of consecutive service, the State's only remedy is to recover those funds from the employee, not seek to discipline the employee.

Notwithstanding any other provision of this Policy, an employee does not need to repay any amount of a bonus if the employee's transfer or termination of employment was due to:

- Death or severe illness requiring hospitalization of the employee or the employee's parent, spouse, sibling, or child;
- Separation because employee was unable to perform all the position's essential duties because of a medical condition or the vagueness of a medical prognosis; or
- A reduction in force.

Sign-On and Retention Bonus Policy (cont.)

Impact of Anti-Pension-Spiking Laws

When implementing any bonus program or granting an individual bonus, agencies should consider the potential impact of fiscal commitments to comply with the anti-pension-spiking laws, as first enacted by 2014 House Bill 1195 and amended thereafter. In some situations for well-compensated employees, bonuses may result in a need for the agency, at the time the employee retires, to pay an additional employer contribution into the Teachers' and State Employees' Retirement System.

§ 7. **Credit for Consecutive Service; Impact of Leave on Consecutive Service Credit**

One month of credit toward the defined period of consecutive service is granted for each month that the employee is in pay status for one-half or more of the scheduled workdays and holidays in the pay period.

Time on military leave or workers' compensation leave applies to the period of consecutive service, with the final installment being paid when the employee returns to work.

If an employee is on leave without pay, all periods of time for the consecutive service calculation, and all agreements under which the employee must repay the bonus, will be paused for the time while the employee is on leave without pay. (For example, if an employee receives a retention bonus that is to be paid in two installments 18 months apart, and then the employee goes on leave without pay for two months, the second installment would be paid 20 months after the first installment.)

§ 8. **Agency Responsibilities**

Prior to approving any sign-on or retention bonus, agencies shall:

- (1) Establish written procedures for review and approval of bonuses within their agency. HR directors shall be final approval for sign-on and retention bonuses. Any delegation of authority must be clearly documented within the agency's program.
- (2) Document how an employee or group of employees meets the criteria for the bonus.

Sign-On and Retention Bonus Policy (cont.)

- (3) Create and retain signed agreements with the employee that defines eligibility, method of payment, and criteria for repayment.
- (4) Submit for review to and approval by the Office of State Human Resources any sign-on or retention bonus that exceeds their flexibility authorization.
- (5) Fund bonuses from receipts or state appropriated funds.
- (6) Receive advance approval from OSBM confirming funds availability for sign-on or retention bonus payouts for groups/teams of **50** or more employees. (See page 4 of this policy above.)

During and after the process for the sign-on or retention bonus, agencies shall:

- (7) Timely complete electronic forms related to this policy and enter documented actions into the state's system of record to ensure consistency across agencies and the ability to track agency and statewide metrics.
 - (8) Ensure that repayments are made as required under Section 6 of this Policy.
 - (9) Maintain and report quarterly to OSHR in an electronic format, and upon request:
 - a) The total amount of the bonus, award date, number of installments, repayment period, and type of all sign-on and retention bonuses granted during the quarter;
 - b) How many employees, if any, left during the quarter before the end of their periods of consecutive service;
 - c) For each employee who left before the end of the periods of consecutive service, any amounts that the former employee must repay under Section 6 of this policy, but which has not yet been repaid; and
 - d) The base line data related to vacancy rates, turnover, retention, recruitment issues, or market conditions for those receiving sign-on or retention bonuses during the quarter.
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Sign-On and Retention Bonus Policy (cont.)

§ 9. Office of State Human Resources Responsibilities

The Office of State Human Resources shall:

- (1) Set the flexibility authorization for agencies.
- (2) Monitor the quarterly reports set out above, and when necessary, audit participating agencies' adherence to the Sign-on and Retention Bonus policy.
- (3) Review any retention and sign-on bonus request that exceeds an agency's flexibility authorization.
- (4) Review information entered into OSHR's system of record, monitor that information, and periodically report to agencies and other stakeholders de-identified summaries of that information, in order to ensure appropriate application across agencies and provide statewide metrics.
- (5) Analyze data submitted from participating agencies on the number and type of sign-on or retention bonuses granted during the first six months of the effective date of this policy, then annually review the prior fiscal year, the base line data related to vacancy rates, turnover, retention, recruitment issues, or market conditions for those receiving retention bonuses to assess trends and impact of retention bonuses within state government.
- (6) Assist agencies with developing plans for administering a sign-on and retention bonus program.

§ 10. Sources of Authority

This policy is issued under any and all of the following sources of law:

- N.C.G.S. § 126-4(2), (4), (5), and (10)

§ 11. History of This Policy

Date	Version
September 1, 2008	New Policy outlining provisions for implementing a sign-on bonus when such funding is approved by the General Assembly.

Sign-On and Retention Bonus Policy (cont.)

December 1, 2016	Revision due to a more defined method in identifying appropriate factors used in determining usage justification within the organization. A more current eligibility description, tracking process for payments and adjusted payout period that matches marketplace. Funding determinant transfer from General Assembly to Office of the State Budget & Management.
April 14, 2022 (effective 06-01-2022)	Added capability for retention bonuses. Adjustments to methods by which agencies can show the need for the bonus.
September 1, 2022	Added text providing that when a bonus is paid in installments, no more than two-thirds of the total bonus may be paid in the first installment. Clarified text about repayment. Clarified that bonuses are not mandatory and not a condition of employment. Added details to reporting.
December 8, 2022 (effective 02-15-2023)	Modified the first retention bonus situation to allow retention bonuses to be provided to a classification without a parallel sign-on bonus. Also modified policy to have the 24-month limitation on bonuses not apply if the retention bonus was less than \$2,500. Added requirement for agencies to report to OSHR, in an electronic format, the dates of bonuses and the repayment periods that the agencies set.
April 20, 2023	<ul style="list-style-type: none"> • On page 2, removed “during a period in which the agency is offering a sign-on bonus as a recruitment incentive to attract qualified candidates” from the description of the first type of retention bonus. This change was made to be consistent with the change made to Retention Bonus Situation 1 in the December 2022 SHRC meeting, which made it optional under Retention Bonus Situation 1 for the agency to be offering a parallel sign-on bonus. • To go along with the existing language reading "A bonus over \$2,500 must be paid in at least two installments," a new sentence

Sign-On and Retention Bonus Policy (cont.)

	<p>was added to read, "Bonuses of \$2,500 or less may be paid in one installment." See page 10.</p> <ul style="list-style-type: none"> • Added language to the first bullet in Section 6 to clarify the 90-day minimum between installments is between all installments, not each installment. • Added language to identify what the period of consecutive service is for a bonus paid in one installment. This would be "between 3 months and 18 months, at the agency's discretion." • Added an additional sentence in Section 6 to clearly define that, for a bonus paid in multiple installments, the "period of consecutive service" is the total period of time between the first and last installment.
<p>August 7, 2023 (effective August 15, 2023)</p>	<ul style="list-style-type: none"> • Clarified the text on employees who are not eligible for a bonus because they already are an employee in North Carolina state government subject to the State Human Resources Act. Both instances of this language, in sections 2 and 3 of the Policy, now use exactly the same language.