THE UNIVERSITY OF NORTH CAROLINA

OFFICE OF THE PRESIDENT

ADMINISTRATIVE MEMORANDUM

SUBJECT **Implementation of the Phased Retirement Policy** **NUMBER** **370**

DATE **May 16, 1997**

At its meeting on March 14, 1997, the Board of Governors adopted the recommendations in the report of the University of North Carolina Committee to Study Early Retirement entitled, "Phased Retirement in the University of North Carolina." Attached is a copy of that report. The goals of the program are to promote renewal of the professoriate in order to ensure institutional vitality and to provide additional flexibility and support for individual faculty members who are nearing retirement. The expected outcomes of implementing this policy include the following:

- Better personnel planning--institutions will be able to anticipate position changes and plan for them at an earlier time than is currently the case;
- Enhanced recruitment and retention--institutions will realize an additional benefit available to tenured faculty members that should help in recruiting and retaining quality faculty members;
- Increased quality of faculty--institutions will be able to fill tenure track faculty positions while retaining the skills and knowledge of experienced faculty on a half-time basis throughout their phased retirement period.

The first recommendation in the report called for the implementation of a phased retirement plan on a trial basis for a period of five years. Details of the phased retirement plan appear in Appendix A of the report. The intent of the Board of Governors is to make this program available to tenured faculty at every institution where tenure exists.

Initiation of this program will require action by each institution. It will also require guidance by the legal staff at General Administration in order to assure that the requirements of the Age Discrimination in Employment Act (ADEA) are met. The legal staff is preparing a set of criteria that must be considered as each institution frames its policies as well as a model consent form. Those documents will be sent to you in the coming months and must be part of each institution's deliberations.

Each institution will also need to consider the following issues as it creates its own policy and procedures within the outlines of the plan approved by the Board of Governors:

1. The report sets a range of not less than one year nor more than five years as the period in which faculty may officially be considered to be in the phased retirement program (p. 9). Each institution must establish the maximum period of time that faculty members will be permitted to spend in phased retirement. In establishing the maximum time period, institutions must be guided primarily by issues of program quality and instructional excellence.

2. The report states that institutions may limit participation in the phased retirement program based on two conditions:

a) "in response to a bona fide finding that financial exigency prohibits enrollment in the program," or

b) in the case "that further enrollment will substantially weaken academic quality or disrupt program sequence."

The report further requires that each institution "make judgments as to such circumstances only with reference to quantifiable budget constraints, external measures of program quality (e.g., accreditation standards), or to established departmental quotas for faculty participation in the phased retirement program"(p. 10). Accordingly, each institution, in framing its policy, should establish in advance departmental and/or institutional limits as to the number or percentage of qualified faculty members who can participate in this program in any given year.

3. A written description of the procedure that the institution will use to ensure that the phased retirement plan is available to tenured faculty members should be an integral part of the policy. The procedure must recognize the legal requirements of the ADEA and of the Older Workers Benefits Protection Act (OWBPA) and must reflect informed consent. Consultation with the legal staff at General Administration is advised.

4. The third recommendation in the report (p.7) encourages each campus to review and improve the amenities, courtesies, and services provided to retired faculty and lists possible perquisites. As a part of formulating the institutional phased retirement policy, such a review should be carried out and the final policy should describe the perquisites available at the institutional level. It is recognized that departments may differ in their abilities to provide perquisites.

The legal staff at General Administration will review materials submitted by each institution to assure that they are in compliance with ADEA. Policies will then be sent to the Board of Governors for approval. In order to expedite the process, institutional materials will need to be submitted in mid-October, 1997. It is the Board's intent that the proposed phased retirement option be available to persons effective February 1998. The program will not be available for faculty consideration until all institutional plans have been approved.

CD Spangler Jr.

C. D. Spangler, Jr.

Attachment

PHASED RETIREMENT
IN THE UNIVERSITY OF NORTH CAROLINA

A REPORT OF THE UNIVERSITY OF NORTH CAROLINA COMMITTEE TO STUDY EARLY RETIREMENT

DECEMBER 20, 1996

Members:

Dr. Mike Perry, ASU

Dr. Douglas McMillan, ECU

Dr. Rachel Gragson, ECSU

Dr. Sherman Brooks, FSU

Dr. Pamela Hunter, NCA&T

Dr. Waltz Maynor, NCCU

Dr. Robert Clark, NCSU

Dr. Joseph Sulock, UNC-A

Dr. John Nagle, UNC-C

Dr. James Murphy, UNC-CH

Dr. Joseph Johnson, UNC-G

Dr. Harold Teague, UNC-P

Dr. James Megivern, UNCW

Ms. Nancy Kohlenbrander, WCU

Dr. Arnold Lockett, WSSU

Dr. Peter Petschauer, Faculty Assembly

Mr. David Edwards, General Administration

Ms. Kitty McCollum, General Administration

Dr. Judith Stillion, General Administration

PHASED RETIREMENT
IN THE UNIVERSITY OF NORTH CAROLINA

Executive Summary

In response to President Spangler's call for a study of early retirement for faculty members, a committee representing constituent institutions was appointed in August, 1996. Committee members met over a four month period in sub-committees as well as in full committee sessions. They also read widely between meetings, studied plans from other states, and examined statistics concerning the professoriate and existing retirement benefits in North Carolina. In addition, they had the benefit of consultancy with two authorities on the subject. The committee made the following five recommendations:

1. That the University adopt a comprehensive, phased retirement program and implement it on a five year basis as soon as possible. The essential features of the recommended plan are contained in Appendix A of this report.

2. That the Board of Governors ask the General Assembly to enhance retirement benefits for employees.

3. That the Board of Governors encourage each campus to review and improve the amenities, courtesies, and services provided to retired faculty.

4. That the staff of The University of North Carolina help constituent institutions develop a comprehensive retirement planning process to ensure that all faculty are well informed about their existing benefits package and about retirement-related issues, including choices available and decisions to be made.

5. That the University <u>not</u> establish at this time any major, new retirement incentive program that is designed to encourage early retirement among the faculty. Rather, it should undertake a comprehensive long-range study to identify, monitor, and analyze the experiences of other universities that have used incentives to encourage early retirement.

PHASED RETIREMENT
IN THE UNIVERSITY OF NORTH CAROLINA

Background

In July of 1996, President Spangler addressed the Board of Governors, calling for "an exploration of the advantages and disadvantages, and the desirability, or even the possibility, of creating incentives for early retirement for faculty members." In August, Dr. Roy Carroll, Vice President for Academic Affairs and Senior Vice President, asked the chief academic officers on each campus to appoint one faculty member "who has a particular interest in and is knowledgeable about the benefits system as it currently exists" to serve on a university wide committee to study early retirement. In addition, he named three staff members from General Administration to serve on the committee.

The committee members met in September to receive their charge and organize their work. They reviewed materials, including articles and chapters on early retirement programs, case studies of institutions offering such plans, descriptions of early retirement programs in other states and universities, and statistics showing current ages and aging trends among the faculty in The University of North Carolina. Three sub-committees were appointed: one on phased retirement plans, one on incentive plans, and one to write the report. Sub-committees met in person and/or by e-mail between monthly meetings. In October, the committee heard from Mr. Michael Footer, Principal with William M. Mercer, Incorporated, who has consulted nationally with colleges and universities on the subject of early retirement. Committee members also heard from Mr. Dennis Ducker, Director of the North Carolina Retirement Systems Division. Following this meeting, the sub-committee chairs and other interested committee members met to discuss preliminary recommendations. In November, the full committee met to approve in principle the recommendations of the joint sub-committees as well as the outline and basic content of this report. Committee members read at least three drafts before the final document was submitted to President Spangler. The recommendations in this report represent consensus of all of the representatives on the committee.

Introduction

In 1978, Congress passed legislation increasing the earliest age for mandatory retirement from 65 to 70. A temporary exemption for higher education was made until July 1, 1982. In 1986, Congress eliminated mandatory retirement at any age and again gave a temporary exemption to higher education until January 1, 1994. Effective January 1, 1994, the 1986 amendments to the federal Age Discrimination in Employment Act of 1967 (ADEA) uncapped the mandatory retirement age for faculty in universities across the country. This reality, coupled with the recognition that excellence in the academy demands that the professoriate retain a balance between experienced professors and recent graduates of doctoral programs, has caused many states to examine the possibility of adding early retirement programs to the benefits available to tenured faculty in institutions of higher education. One report indicated that, by 1995, more than one third of the nation's colleges and universities offered faculty early retirement benefits (Lenkus, 1995). Just one year later, another report estimated that some type of additional retirement incentive was available to faculty in one half of all colleges and universities in the United States (Lewis, 1996).

Nationally, a 1987 study carried out by the Consortium on Financing Higher Education showed that faculty were beginning to retire at slightly older ages across the period from 1982 to 1986 (TIAA-CREF Research Dialogues, 1988). The average retirement age in 36 institutions reporting increased from 64.6 years in 1982, to 65.2 years in 1983, to 65.3 years in 1985, and to age 66 in 1986. It is important to note that this study was carried out prior to the elimination of the mandatory retirement age of 70.

In North Carolina, a total of 7,927 tenured and tenure-track faculty were employed in the University as of June 30, 1995. Table 1 shows the age distribution of the faculty in that year. Of those employed, 271 or 3.4 percent were over 65 years of age. Another 1,771 faculty (22.3 percent) were between the ages of 55 and 64, while 3,120 (39 percent) were between the ages of 45 and 54. Therefore, in 1995, 65 percent of the tenured and tenure track faculty in the University of North Carolina were 45 years old or older, while almost 26 percent were 55 or older. Although the current age profile of faculty in The University of North Carolina indicates a relatively healthy balance between experienced and less experienced faculty, if the trend toward later retirements continues, within the next ten years the University's professoriate is likely to experience a significant shift in age distribution.

TABLE 1

Age Distribution of Tenured and Tenure Track Faculty, 1995

AGE	NUMBER	PERCENT
<30	61	1
30-34	395	5
35-39	939	12
40-44	1370	17
45-49	1566	20
50-54	1554	20
55-59	1089	14
60-64	682	9
65-69	245	3
70+	26	<1
TOTAL	**7927**	

The age distribution of newly hired faculty has also changed. As shown in Table 2 (Page 5), 41 percent of newly hired tenured and tenure-track faculty were aged 34 or younger in 1985. That proportion had dropped to 32 percent by 1995. The mean age of tenured faculty has also increased during the last decade, rising from 45.7 in 1985 to 48.4 in 1995. These changes may have occurred as a result of candidates taking longer to complete the requirements for their terminal degrees. Alternatively, they may be caused by the fact that there are many qualified faculty who pursue post-doctoral training and/or accept multi-year non-tenure track positions because they cannot find tenure-track positions.

The age distribution for retiring tenured and tenure-track faculty between 1985 and 1995 is shown in Table 3 (Page 6). The table shows that there was an increase in the number of faculty who chose to work until age 70 beginning in 1988. While the numbers remain small, and while a drop in the numbers has been experienced in the last two years reported, the overall trend seems to be that more faculty are choosing to work beyond age 65. It is too early to tell what the full effect might be of elimination of the age 70 retirement imperative under the Age Discrimination in Employment Act.

Examining the data from the point of view of those who retire early is also instructive. Table 3 shows a large percentage of retiring faculty in the age classifications of 55 to 59 and 60 to 64, ages traditionally considered to represent early retirement. The percentage of retirees in these age categories ranged from a low of almost 41 percent in 1987 to a high of over 56 percent in 1993. In many cases, retirement of these persons represented a loss to the university of valued knowledge and experience.

Rationale for the Study of Early Retirement.

"The quality of the University depends ultimately on the quality of its faculty." This statement, endorsed by the University of North Carolina Board of Governors in its report entitled Tenure and Teaching in the University of North Carolina-1993, underlines the importance of the faculty in creating and sustaining an excellent system of higher education. The University's report, Long Range Planning, 1994-99, also stresses the role of the faculty in sustaining academic excellence and includes a strategy directed toward recruiting and retaining outstanding and committed faculty. In addition to recruiting and retaining excellent faculty, institutions must continuously strive to maintain a balance between experienced faculty, who can offer mature judgment and act as mentors to new faculty and students, and novice faculty, who often bring high energy, a sense of excitement and new skills and understandings to the classroom and to their scholarship. Moreover, matching student instructional demands and the educational needs of North Carolina for the next century requires that the University have sufficient flexibility in staffing to accommodate fluctuating enrollments and updating of curricula in various disciplines and changing delivery systems.

TABLE 2

Age Distribution of New Hired Tenured and Tenure Track Faculty

From the Fall 1985 - 1995 PDF

	1985		1986		1987		1988		1989		1990		1991		1992		1993		1994		1995	
AGE	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
<30	27	9	43	11	22	7	27	7	42	9	30	7	11	4	22	5	25	7	25	7	30	8
30-34	102	32	101	27	81	26	100	27	116	24	118	29	69	23	93	23	83	22	104	27	90	24
35-39	74	24	105	28	83	26	96	26	116	24	88	22	73	24	113	27	102	27	83	22	100	26
40-44	53	17	67	18	60	19	75	20	93	20	92	23	61	20	92	22	87	23	79	21	73	19
45-49	29	9	36	10	37	12	39	11	61	13	38	9	46	15	47	11	33	9	50	13	43	11
50-54	21	7	19	5	23	7	23	6	29	6	19	5	20	7	27	7	28	7	21	6	29	8
55-59	6	2	5	1	7	2	8	2	16	3	14	4	14	5	13	3	14	4	13	3	14	4
60-64	3	1	2	1	3	1	2	1	2	<1	3	1	4	1	5	1	4	1	4	1	2	1
65-69	.	.	.	.	.	.	.	.	.	.	1	<1	1	<1	1	<1	.	.	1	<1	.	.
70+	.	.	1	<1	.	.	.	.	.	.		.	.	.	.		.	.	.	.	.	.
TOTAL	315		379		316		370		475		403		299		413		376		380		381	

TABLE 3

Age Distribution of Retiring Tenured and Tenure Track Faculty

From the Fall 1985 - 1995 PDF

	1985		1986		1987		1988		1989		1990		1991		1992		1993		1994		1995	
AGE	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
35-39	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1	1	.	.	.	.
40-44	.	.	.	.	.	.	.	.	1	1	.	.	.	.	.	.	.	.	.	.	.	.
45-49	2	2	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1	1	.	.
50-54	2	2	5	4	3	4	4	4	5	4	4	4	1	1	4	3	.	.	4	4	10	6
55-59	20	18	19	15	10	12	8	8	10	8	12	13	7	5	18	14	14	13	13	12	21	13
60-64	41	37	43	34	24	29	50	47	40	33	33	36	52	35	42	32	49	44	50	44	57	35
65-69	47	42	61	48	45	54	33	31	54	45	32	35	62	42	45	34	29	26	38	34	66	41
70+	.	.	.	.	1	1	11	10	10	8	10	11	26	18	24	18	19	17	7	6	9	6
TOTAL	112		128		83		106		120		91		148		133		112		113		163	

A study entitled, Comprehensive Plan for Higher Education Enrollment, adopted by the Board of Governors in November, 1996, projects that regular session fall head-count enrollments in the 16 constituent institutions of The University of North Carolina will increase from 153,649 in 1995 to 186,714 in 2005, a growth of nearly 22 percent. Constituent institutions, facing an influx of students during the next decade, would be well served to have in place a tool to aid them in anticipating turnover among their faculty while simultaneously finding ways to retain part-time the skills of outstanding faculty who are eligible to retire.

From the perspective of faculty members, early retirement options can aid in making appropriate retirement decisions in a timely manner, while providing them with an opportunity to make the transition to retirement with support. One survey of faculty over age 45 in the State of Oregon's higher education system found that the three most important conditions for a positive attitude toward early retirement were "adequacy of income, continuation of health insurance, and an option for part-time professional service at the institution." (TIAA-CREF Research Dialogues, 1992). Another study found support for the position that professional people tend to continue to work part-time after retirement. It noted that although 33 percent of all career jobs end by age 55 and 50 percent of all career jobs end by age 60, fewer than one in nine workers has fully retired by age 60 (Doeringer, 1990). Having the option during the last years of one's career to retain professional identification with an institution that one has served for many years while simultaneously decreasing the hours devoted to work may prove to be an important fringe benefit for both recruiting and retaining well-qualified faculty. Such a system would also increase the University's fiscal and academic flexibility by making tenured faculty positions available while, at the same time, permitting it to continue to profit from the experience of seasoned professors on a part-time basis.

Types of Early Retirement Programs

There are two distinguishable types of early retirement programs currently in use in universities across the nation. The first type, known as phased retirement or "bridging" programs, assures faculty of continuing part-time employment for a designated period following retirement. The second type of early retirement program offers an incentive or bonus package to faculty members to encourage them to retire at a date earlier than they might originally have intended. The latter programs are grouped under the heading of early retirement incentive programs. Some kinds of incentives that have been offered by institutions and organizations to retiring employees include employer provided supplements to a pension plan; lump sum payments given during a defined window of opportunity; additional years and/or service in an existing retirement program in order to qualify the employee for retirement at an earlier date; and continuation of retirement contributions and/or benefits following retirement for a defined period of time. The two types of programs are not mutually exclusive; some universities offer their tenured faculty a combination of phased retirement and retirement incentive programs.

The University of North Carolina Committee to Study Early Retirement examined both types of programs in as much detail as possible within the prescribed four month time frame. The recommendations of the committee make up the remainder of this report.

Recommendations

The study committee makes the following recommendations:

1. That the University adopt a comprehensive, phased retirement program and implement it on a five year basis as soon as possible. The essential features of the recommended plan are contained in Appendix A. (Note: early implementation of this program is recommended to avoid a situation in which faculty postpone making decisions concerning retirement in anticipation of the availability of this extra alternative of phased employment. Such a situation would introduce a wave in election to the program that could create a greater problem for management of faculty resources and for a true evaluation of the program during its first five years).

2. That the Board of Governors ask the General Assembly to enhance retirement benefits for employees. While reviewing materials for this report, committee members were distressed to discover that the current retirement benefits paid into the state system are not competitive with those in other states. For example, the current formula multiplier for the TSERS system is 1.75 percent, a rate that would have been considered below the median in 1994, according to a study conducted by the State of Wisconsin in that year. In addition, the final average salary in North Carolina is computed over a four year period. Sixty-seven percent of the 85 plans reviewed in the Wisconsin study used two or three year periods as the base for computing the final average salary. Increasing the percentage in the multiplier formula and/or decreasing the number of years currently used to compute final average salary would result in increased retirement benefits, permitting more faculty to enter retirement in a timely fashion. Employer contributions in the optional retirement plan also lag behind other states (See Appendix B). Employer contributions range from a high of 15 percent in the District of Columbia to a low of 4 percent in some Oklahoma institutions. North Carolina's rate of 6.66 percent places us below 43 of the 60 institutions or systems reporting employer contributions to optional retirement plans. This is at approximately the 28th percentile.

3. That the Board of Governors encourage each campus to review and improve the amenities, courtesies, and services provided to retired faculty. Such perquisites might include departmental privileges including office space and computer access, parking permits, access

to recreational/athletic opportunities, faculty listings in catalogs, identification cards recognizing retirement status, etc. This would enable retiring faculty to retain their identification with and commitment to their institutions.

4. That the UNC General Administration staff help constituent institutions develop a comprehensive retirement planning process to ensure that all faculty are well informed about their existing benefits package and about retirement-related issues, including choices available and decisions to be made. This would help faculty make more successful transitions from employment to retirement.

5. That the University <u>not</u> establish at this time any major, new retirement incentive program that is designed to encourage early retirement among the faculty. Rather, it should undertake a comprehensive long-range study to identify, monitor, and analyze the experiences of other universities that have used incentives to encourage early retirement. Although such a study will take time, results will be of considerable value in the future if the average age of the faculty in the UNC institutions continues to increase, if the elimination of mandatory retirement by application of the ADEA results in delayed retirements, and/or if student enrollments decline substantially, making a reduction in workforce desirable.

Appendix A

Proposed Phased Retirement Program for The University of North Carolina

Goals of the Recommended Phased Retirement Program

The two major goals of the University of North Carolina Early Retirement Plan are:

1) To promote renewal of the professoriate in order to ensure institutional vitality and

2) To provide additional flexibility and support for individual faculty members who are approaching retirement.

Achievement of these two primary goals will a) facilitate reallocation of institutional resources; b) improve the ability of institutions to anticipate faculty attrition; c) permit end-of-career faculty to decrease their working hours while simultaneously maintaining their professional commitment to students and the institutions; and d) provide an added benefit for recruiting and retaining outstanding faculty members.

Characteristics of the Recommended Phased Retirement Program

1. The program will be made available to all tenured faculty members aged 60 and above who have at least 5 years of contributory participation in the State Retirement System (TSERS) or in an Optional Retirement Program (ORP), and to those aged 50 and above who have a minimum of 20 years of contributory participation in TSERS or ORP. In both cases, individuals must have at least 5 years of full-time service at their current institution. The program is not intended to be available to faculty occupying full-time administrative or staff positions unless and until they vacate the full-time administrative position. The decision to enter the program, once made, is irreversible.

2. Upon entering the phased retirement program, faculty members relinquish tenure. In return, they can contract for half-time employment over a period of not less than 1 year nor more than 5 years, as established by each constituent institution.

3. Faculty members who enter the phased retirement program retain their professorial rank and the full range of responsibilities, rights, and benefits associated with it (except for the status of tenure) throughout the phased retirement period. Subject to institutional and University policies, these may include, but are not limited to, roles in tenure review and promotion, committee memberships, and such perquisites as use of library and computing facilities. The exact nature of these responsibilities, rights, and benefits will vary among departments and among institutions. In

return for these considerations, faculty in the phased retirement program are expected to maintain high levels of professional commitment to the university.

4. The phased retirement program permits faculty to work half-time for half-time compensation based on their final year of full-time service. Half-time work may take the form of full-time duties one semester per year or part-time duties two semesters per year, as determined by mutual agreement. In both instances, remuneration will be paid over a 12 month period.

5. Services to be performed under the phased retirement plan will be negotiated between individual faculty members and the appropriate supervisors and/or personnel committee(s). In deriving the appropriate half-time work plan, the complete range of faculty activities (including teaching, research and creative activities, service, advising, writing of grants, publications, etc.) should be considered. Half-time responsibilities may vary by institution and among departments in the same institution.

6. The negotiated agreement to participate in the program must be stated in writing and co-signed by the faculty member, the head of the employing department or division, and other appropriate supervisors, including the chief academic officer. The agreement must be executed not later than 6 months prior to commencement of phased retirement duties. The agreement may be terminated at any time upon the mutual agreement of the parties allowing immediate full retirement from the university.

7. Faculty entering the plan will be subject to performance review. They will also be eligible for salary increments and merit pay based on annual evaluations. Faculty will continue to be subject to <u>The Code</u> of The University of North Carolina.

8. The institution may limit participation in the phased retirement program in response to a bona fide finding that financial exigency prohibits enrollment in the program or that further enrollment will substantially weaken academic quality or disrupt program sequence. An institution should make judgments as to such circumstances only with reference to quantifiable budget constraints, external measures of program quality (e.g., accreditation standards), or to established departmental quotas for faculty participation in the phased retirement program.

9. This program will be in place for a five year period. Within the provisions in (1) above, faculty may indicate their intent to enroll in the program at any time during the five year period. Eligible faculty who begin participation during this five year period will be allowed to continue and complete their phased retirement program even if the program ends. (Note: If this program is

reinstated after the five year period, consideration must be given to establishing a window of time after eligibility for service retirement during which faculty must elect to participate in phased retirement. The Committee considered the establishment of such a window but left this matter unresolved. While it is not necessary to define such a window during the initial five year period, if this program is reinstated, such a delineation would expedite planning for faculty revitalization).

10. Review and evaluation of the needs, costs, and benefits of the program will be conducted so that at the end of the five year period, change, continuation, or cancellation of the program can be recommended. Annual reports of participation and impact will be prepared by institutions to aid in evaluating this program.

<u>Advantages of the Recommended Phased Retirement Program</u>

1. The program offers an additional benefit to tenured faculty members (See examples in Attachment 1 for modeling of retirement projections for a participant in TSERS) and will, therefore, help in recruiting and retaining quality faculty members.
2. The program facilitates institutional planning by identifying faculty positions that will become available at an earlier time and with less uncertainty than anticipated without this plan.
3. The program permits institutions to fill tenured faculty positions with new personnel while retaining the skills and knowledge of experienced faculty on a half-time basis throughout their phased retirement period.
4. The program encourages tenured faculty to continue their affiliation with their institution while decreasing their workload and thereby providing them an easier transition into retirement.

<u>Costs of the Recommended Phased Retirement Program</u>

Because of time constraints, a detailed actuarial analysis is beyond the scope of this committee. However, the committee believes that this plan will be cost neutral for the following reasons:

1. Tenured faculty who choose to take advantage of this plan are already eligible for retirement under the current state system and the optional retirement plans. Therefore, the cost to the state retirement system would be no more under this plan than would be true if the same faculty simply took the full retirement that they have earned.

2. Current state law permits persons who participate in the state retirement system to earn up to half of their final salaries after retirement.

3. Persons at the end of their career generally are making higher salaries than those in the earlier years. Thus, institutions would recoup half of a high salary. Supplementing this money with some funds from part-time faculty positions would enable most institutions to hire beginning faculty members in tenure-track positions vacated by retiring faculty members. Thus, the institution would have the services of a junior-level full-time tenure track faculty member and an experienced part-time faculty member for approximately the same amount of money that it now costs to retain a senior faculty member in his/her full-time position and hire less experienced part-time instructors.

MODELING OF RETIREMENT PROJECTIONS

ASSUMPTION 1

Faculty Status:	Actively Working Full-Time	
Annual Base Rate:	$64,000	Average Salary for Full Professor in Academic Affairs
Monthly Base Rate:	$5,333.33	
Federal Tax Schedule:	B2	
State Tax Schedule:	B2	
Monthly Earnings:	$5,333.33	
Federal Tax:	$725.04	
State Tax:	$306.46	
State Retirement:	$320.00	
FICA-O:	$330.67	
FICA-M:	$77.33	
MONTHLY NET PAY:	$3,573.83	
ANNUAL NET PAY:	$42,885.96	

ASSUMPTION 2

Faculty Status:	Active Halftime	Active Halftime	Active Halftime	Active Halftime	Active Halftime	Active Halftime	Active Halftime	Active Halftime
Annual Base Rate:	$32,000	$32,000	$32,000	$32,000	$32,000	$32,000	$32,000	$32,000
Monthly Base Rate:	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67
Federal Tax Schedule:	B2	B2	B2	B2	B2	B2	B2	B2
State Tax Schedule:	B2	B2	B2	B2	B2	B2	B2	B2
Employee Age:	65	65	60	60	60	60	50	50
Spouse Age:	65	65	60	60	60	60	50	50
State Retirement Credit:	30	30	25	25	5	5	20	20
State Retirement Option:	Maximum	Option 2	Maximum	Option 2	Maximum	Option 2	Maximum	Option 2
Monthly Earnings:	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67	$2,666.67
Federal Tax:	$256.00	$256.00	$256.00	$256.00	$256.00	$256.00	$256.00	$256.00
State Tax:	$134.07	$134.07	$134.07	$134.07	$134.07	$134.07	$134.07	$134.07
State Retirement:	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FICA-O:	$165.33	$165.33	$165.33	$165.33	$165.33	$165.33	$165.33	$165.33
FICA-M:	$38.67	$38.67	$38.67	$38.67	$38.67	$38.67	$38.67	$38.67
MONTHLY NET PAY:	$2,072.60	$2,072.60	$2,072.60	$2,072.60	$2,072.60	$2,072.60	$2,072.60	$2,072.60
*State Retirement Mo. Benefit:	$2,606.29	$2,129.60	$2,171.91	$1,845.69	$369.22	$313.77	$868.76	$786.14
Fed Tax on State Retirement:	$247.00	$175.00	$181.79	$132.85	$0.00	$0.00	$0.00	$0.00
**State Tax on State Retirement:	$114.00	$72.00	$75.00	$52.50	$0.00	$0.00	$0.00	$0.00
MONTHLY TAKEHOME:	$4,317.89	$3,955.20	$3,987.72	$3,732.94	$2,441.82	$2,386.37	$2,941.36	$2,858.74
ANNUAL TAKEHOME:	$51,814.68	$47,462.40	$47,852.64	$44,795.28	$29,301.84	$28,636.44	$35,296.32	$34,304.88

ASSUMPTION 3

Faculty Status:	Retired	Retired	Retired	Retired	Retired	Retired	Retired	Retired
Federal Tax Schedule:	B2	B2	B2	B2	B2	B2	B2	B2
State Tax Schedule:	B2	B2	B2	B2	B2	B2	B2	B2
Employee Age:	65	65	60	60	60	60	50	50
Spouse Age:	65	65	60	60	60	60	50	50
State Retirement Credit:	30	30	25	25	5	5	20	20
State Retirement Option:	Maximum	Option 2	Maximum	Option 2	Maximum	Option 2	Maximum	Option 2
*State Retirement Mo. Benefit:	$2,606.29	$2,129.60	$2,171.91	$1,845.69	$369.22	$313.77	$868.76	$786.14
***Social Security	$1,213.00	$1,213.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Federal Tax on State Retirement:	$247.00	$175.00	$181.79	$132.85	$0.00	$0.00	$0.00	$0.00
**State Tax on State Retirement:	$114.00	$72.00	$75.00	$52.50	$0.00	$0.00	$0.00	$0.00
MONTHLY BENEFITS:	$3,458.29	$3,095.60	$1,915.12	$1,660.34	$369.22	$313.77	$868.76	$786.14
ANNUAL BENEFITS:	$41,499.48	$37,147.20	$22,981.44	$19,924.08	$4,430.64	$3,765.24	$10,425.12	$9,433.68

ASSUMPTION 4

Faculty Status:	Retired	Retired
Federal Tax Schedule:	B2	B2
State Tax Schedule:	B2	B2
Employee Age:	62	62
Spouse Age:	62	62
State Retirement Credit:	25	25
State Retirement Option:	Maximum	Option 2
*State Retirement Mo. Benefit:	$2,171.91	$1,817.67
***Social Security:	$970.00	$970.00
Federal Tax on State Retirement:	$181.79	$132.85
**State Tax on State Retirement:	$75.00	$50.00
MONTHLY BENEFITS:	$2,885.12	$2,604.82
ANNUAL BENEFITS:	$34,621.44	$31,257.84

*The State Retirement Benefit assumes an Average Final Compensation of $59,572.
**This includes a $4,000 exemption on the annual State Retirement Benefit.
***Social Security benefits may be subject to federal and state income taxes but they are not taken into consideration in this projection. In addition, Social Security benefits are not included in Assumption 2 although using this scenario, at age 65, it is possible to receive a Social Security benefit for approximately 6 months of the year. For 1997, the Social Security earnings limit for a person between the ages of 65 and 70 is $13,500. Each $1 in benefits is deducted for each $3 earned above $13,500.

OPTIONAL RETIREMENT PLAN (ORP)
Employer and Employee Contribution Rates*

State/University *(How Plan Is Used**)*	ORP Employer Contribution	ORP Employee Contribution
Alabama Voluntary Plans • Auburn U. • Jacksonville St. U. • U. of South AL • Troy State U. • U. of AL (3 campuses) *(supplement to state plan)*	0% to 5% (varies by institution)	0% to 5% (varies by institution)
U. of Alaska *(alternate to state plan)*	8%	12.25%
Arizona Board of Regents • U. of Arizona • Arizona St. U. • Northern Arizona U. *(alternate to state plan)*	7%	7%
Arkansas State Colleges & Universities • Arkansas St. U. • Arkansas Tech U. • U. of Central Arkansas • Henderson St. U. • Southern Arkansas U. *(alternate to state plan)*	6% to 10% (varies by institution)	0% to 6% (varies by institution)
'niversity of Arkansas *ernate to state plan)*	Matching: • 5% • 5% • 6 • 7% • 8% • 9% • 10%	Matching: • 0% • 5% • 6% • 7% • 8% • 9% • 10%
University of Colorado: • Boulder • Denver • Colorado Springs • Health Sciences Ctr. *(single plan)*	9%	5%
Colorado State University *(single plan)*	9%	8%
University of Northern Colorado *(single plan)*	11.6%	8%
University of Southern Colorado and Fort Lewis College *(single plan)*	11.1%@ U. of Southern C. 11.6% @ Fort Lewis College	8% @ U. of Southern C. 8% @ Fort Lewis College
State Colleges in Colorado *(single plan)*	11.6%	8%
Connecticut (all public institutions of higher education) *'ernate to state plan)*	8%	5%

State/University *(How Plan Is Used**)*	ORP Employer Contribution	ORP Employee Contribution
District of Columbia (University of DC System) *(single plan)*	10%-15% (varies by employee class)	0%
University of Delaware *(alternate to state plan)*	11%	4%
Florida (all 10 senior public universities comprising the State University System) *(alternate to state plan)*	11.64%	0%
Georgia (all 36 public institutions comprising the State University System) *(alternate to state plan)*	7.42%	5%
Idaho • Boise State • U. of Idaho • Idaho State • Lewis-Clark State C. • State Board of Education *(single plan)*	7.078%	7.10%
Illinois Higher Education (approved but implementation delayed until July 1997)	7.6%	8%
Indiana • Indiana • Purdue • Indiana State • Ball State • Ivy Tech (13 campuses) • U. So. Indiana • Vincennes *(single plan, alternate, or supplement to state plan)*	Varies by institution	
Iowa Board of Regents • U. of Iowa • Iowa St. U. of Science & Tech. • U. of Northern Iowa *(alternate to state plan)*	Step rate during first 5 years, after 5 years 10%	Step rate during first 5 years, after 5 years 5%
Kansas Board of Regents • Wichita State • U. of Kansas • U. of Kansas Med. Ctr. • Kansas State U. • Emporia State U. • Fort Hays State • Kansas State U.-Salina • Pittsburgh State *(single plan)*	8.5%	5.5%

State/University (*How Plan Is Used***)	ORP Employer Contribution	ORP Employee Contribution
Kentucky • U. of Kentucky • U. of Louisville • Northern Kentucky U. *(independent plans)*	10% at UK and Northern Kentucky U. 7.5% QNEC plus 2.5% match at U. of Louisville	5% at UK and Northern Kentucky U. 7.5% QNEC plus 2.5% match at U. of Louisville
Kentucky Regional University • Eastern Kentucky U. • Kentucky State U. • Morehead State U. • Murray State U. • Western Kentucky U. *(alternate to state plan)*	8.34% (matching contribution schedule)	6.16%
Louisiana (all public institutions of higher education) *(alternate to state plan)*	7.089%	8%
University of Maine System (7 campuses& systems office) *(single plan)*	10%	4%
Maryland (all public titutions of higher ication) *(alternate to state plan)*	7.25%	0%
Massachusetts (all public institutions of higher education) *(alternate to state plan)*	5% (out of the 5%, up to 1% to go to disability plan)	8% up to $30,000 and 10% above $30,000
Michigan Public Institutions • Grand Valley State • Michigan State • U. of Michigan • Oakland U. • Saginaw Valley State • Wayne State *(single plan)*	Ranges from 10% to 15% total. Varies by institution.	Ranges from 10% to 15% total. Varies by institution.
Michigan • Central Michigan • Eastern Michigan • Ferris State • Lake Superior State • Michigan Technological • Northern Michigan • Western Michigan *(single plan)*	Ranges from 11% to 15% total. Varies by institution.	0%
Minnesota (all state universities) *(ngle plan)*	6%	4.5%

State/University (*How Plan Is Used***)	ORP Employer Contribution	ORP Employee Contribution
Minnesota State Supplemental Retirement Plan (all state universities) *(supplement to state plan)*	5% of salary between $6,000 and $36,000	
University of Minnesota *(single plan)*	13.5%	2.5%
Mississippi Institutions of Higher Learning (all 12 institutions) *(alternate to state plan)*	4.1356%	7.25%
Montana University System • Missoula C. of Tech. • Billings C. of Tech. • Butte College of Tech. • Great Falls C. of Tech. • Helena College of Tech. • Montana Tech. C. • Western Montana C. • MSU - Northern • MSU - Billings • Montana State • U. of Montana • Commissioner of Higher Ed *(alternate to state plan)*	4.956%	7.044%
University of Nebraska • U. of Nebraska • Kearney • Lincoln • Omaha • Medical Center • Central Administration *(single plan)*	Optional 6% or 7.5%	Optional 3.5% or 5.5%
Nebraska State Colleges • Chadron State College • Peru State College • Wayne State College *(single plan)*	7%	6%
University of Nevada System • U. of Nev.-Reno & Las Vegas • Desert Res. Inst. *(single plan)*	10%	10%
University System of New Hampshire • U. of New Hampshire • Keene State College • Plymouth State College *(single plan)*	5% or 10% for employees hired on and after 7/1/94	2.5% or 6% for employees hired on and after 7/1/94

State/University *(How Plan Is Used**)*	ORP Employer Contribution	ORP Employee Contribution
New Jersey (all institutions of higher education) *(single plan)*	8%	5%
New Mexico • U. of New Mexico • New Mexico State • New Mexico Highlands • Eastern N. Mexico • Western N. Mexico • New Mexico Inst. of Mining & Tech. *(alternate to state plan)*	5.65%	7.6%
City University of New York (all CUNY senior colleges) *(alternate to state plan)*	Date of hire 7/1/92 or later, 9.5% during first 7 years of service and 11.5% thereafter	Employer contribution includes 1.5% employee 414(h)(2) contribution
State University of New York (all colleges in the SUNY system) *(alternate to state plan)*	Date of hire on or after 7/1/92, 8% during first 7 years and 10% thereafter	3%
'versity of North olina (all 16 public stitutions in system) *(alternate to state plan)*	6.66%	6%
North Dakota University System (all institutions of higher education *(single plan)*	Varies by employee class and years of service	
Board of Regents of Oklahoma Colleges & Universities • Central State • East Central • Northeastern State • Northwestern State • S.E. Okla. State • S.W. Okla. State *(supplement to state plan)*	4%	0%
Oklahoma State *University* • OK State U. • OSU College of Osteopathic Medicine • OSU Tech. Br at Okmulgee • OSU Tech Br at OK City *(supplement to state plan)*	7% of salary up to $11,520 plus 11% of salary above $11,520 (Contributions generated from this formula are first used to fund OTRS with remaining funds going to ORP carrier.)	
University of Oklahoma • U. of OK • U. of OK Hlth. Sci.Ctr. *(supplement to state plan)*	15% on salary above $9,000	.0%
Oregon State System of Higher Education (all 7 public colleges and universities) *(alternate to state plan)*	6%	8.46%
Oregon Health Sciences *(alternate to state plan)*	6%	6%
Pennsylvania (state system of higher education) *(alternate to state plan)*	9.29%	5%
Rhode Island • U. of Rhode Island • R.I. College • Bd. of Gov. of Higher Ed. • Bd. of Regents *(single plan)*	9%	5%
South Carolina (all 9 public institutions of higher education) (alternate to state plan)	4.25%	6%
Tennessee (all 21 public universities) *(alternate to state plan)*	10% of Social Security Wage Base, 11% of excess	0%
Texas (all public institutions of higher education) *(alternate to state plan)*	6% for employees hired on and after 9/1/96	6.65%
Utah System of Higher Education • U. of Utah • Utah State U. • Weber State U. • Southern Utah U. • Utah Valley State College • College of Eastern Utah • Snow College • Dixie College *(single plan)*	14.2%	0%
Vermont State Colleges (all state colleges) *(single plan)*	10%-15% step rate using various step points	0%
University of Vermont *(single plan)*	10%	2%-3%
Virginia (all 41 public institutions of higher education) *(alternate to state plan)*	10.4%	0%

State/University *(How Plan Is Used**)*	ORP Employer Contribution	ORP Employee Contribution
West Virginia (all public institutions of higher education) *(alternate to state plan)*	6%	6%
Washington State Institutions of Higher Education *(single plan)*	• Age 35: 5% • Age 35-50: 7.5% • Age 50 & above: 7.5% or 10%	Same as employer
Wyoming • U. of Wyoming • Casper College • Eastern Wyoming C. *(alternate to state plan)*	11.25%	0%

*These Optional Retirement Plan Contribution Rates were taken from data compiled by TIAA-CREF in May 1996.
**There are three ways an institution uses the Optional Retirement Plan (ORP): (1) as an alternate to the state retirement plan (i.e., the employee must choose one or the other); (2) as a supplement to the state retirement plan; or (3) as a single plan (i.e., the state retirement plan is not available to new employees, only the ORP).