Human Resources Committee Memorandum
Board of Regents, State of Iowa

Subject: Phased Retirement – Cost Benefit Analysis

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Date: December 1, 2004

Recommended Action:

Receive the report.

Executive Summary:

This analysis is in response to questions by President Forsyth at the last Human Resources Committee meeting.

Program in place for 20+ years

The Board first began considering a phased retirement program in 1981. This consideration came after a recommendation from an ad-hoc committee established by the Board to "review policies and practices relating to personnel retirement with a view to facilitating retirement planning and making available increased options for faculty and staff in regard to retirement" [Board minutes November 18, 1981]

With a defined contribution retirement program such as TIAA-CREF and no mandatory retirement age, the phased retirement program was seen as an additional management tool to facilitate change.

The first program was approved in 1982 for faculty and P&S staff at the University of Iowa and Iowa State University for a five-year period. It was later extended to the other institutions in 1983 and to employees of the Regent Merit System in 1984. The program has been reviewed and approved for five-year periods since the initial approval. The current approval runs through June 30, 2007.

At the time of the approval of the program, it was felt that the program would provide opportunity for a more orderly transition in shifting responsibilities for faculty and staff phasing into retirement to another individual and thereby contribute to the vitality of the teaching, research, and service functions of the institutions.

Participation discretionary	Participation in the program is discretionary and is approved only if it is in the best interest of the institution. The three universities fully support the program and feel it is beneficial to all involved. To date, there have been no participants at the special schools.
Five-year phasing period	During the first four years of the phasing period, the salary received reflect the reduced time worked plus an additional 10 percent of the budgeted salary. In the fifth year, the staff member's appointment is no greater than fifty percent; and the salary is proportional to the full-time budgeted salary with no incentive.
Benefits	Benefits during the first four years are paid at the level of full-time employment. The entire program is described in Attachment A.
Majority of participants are faculty	Three-fourths of the participants since 1991 have been faculty. Normal phasing plan for faculty is teaching for one semester and taking the other semester off. Participation rates have not changed significantly in the past few years. There were 29 new participants in FY 2004.
Changing Workforce	With an aging workforce and a diminishing number of available new faculty and staff, employers have increasingly expressed an interest in retaining older employees. Meanwhile, employees are living longer and are at a greater risk of outliving their retirement savings. As a result many older workers need to continue working but still want some leisure time. These factors have contributed to increased interest in phased retirement programs. In the end it is good public policy to have a phased retirement program. The more flexibility employees have in retirement and employers have in designing programs, the better off working Iowans will be, given the financial concerns of retirement income, retiree medical costs, and extended life expectancies. Higher education is particularly well suited for phased retirement programs because of rising concerns about managing the age structure of the professoriate. The elimination on mandatory retirement for tenured in 1994 meant that the faculty age 70 and older had the right to remain on the job until they decided to retire.

Elimination of mandatory retirement

The following comments are excerpts from a paper prepared by Diane Oakley, Vice President, TIAA-CREF for the U.S. Department of Labor ERISA Advisory Council Work Group on Phased Retirement. In 1978, Congress amended the Age Discrimination in Employment Act prohibiting employers from requiring older workers to terminate employment at age 65. Prior to this change in the law, many faculty handbooks and pension plan documents required tenured faculty to retire at age 65. Often there was an option to continue to teach for a year at a time subject to approval by the employer.

Because of the employment protections of academic tenure, Congress granted colleges and universities special transitional relief when it raised the mandatory retirement age to 70 and then when Congress subsequently eliminated mandatory retirement. Colleges and universities were allowed to maintain mandatory retirement for faculty at age 70 until January 1, 1994.

TIAA-CREF Survey

A survey of 167 colleges and university was conducted by TIAA-CREF in 1998. The data from the 66 responses provided information on 77 early and phased retirement arrangements. Twenty-five colleges and universities had phased retirement arrangements and four more offered a combination of an incentive plan with phased retirement. Almost all of the colleges reported that they allowed retired faculty to teach part time.

Currently, the retirement plan documents at each of the universities do not allow a phased retirement participant to start income benefits from their pension accounts. This fact could be a deterrent to potential phased retirement participants. The institutions are considering amending their plan documents to allow access to faculty and staff who are employed part time.

Federal recognition of phased retirement program

Recently, the Internal Revenue Service published proposed rules to eliminate obstacles to phased retirement arrangements under qualified defined benefit retirement plans. This change would open up the availability of these programs to employers who have not been allowed to offer this type of program to their employees because of IRS rules for these types of retirement plans. This is a significant regulatory change that opens the door for all types of retirement programs to offer these programs. These rule changes will ignite a good deal of dialogue for employers about this option for meeting retention needs.

Cost Benefit Analysis

In order to provide a better cost benefit analysis than was presented to the Committee in September, the universities were asked to provide how the savings generated from the program were utilized over the past two fiscal years. It was felt it would be problematic, if not impossible, to go back more than two years.

Savings over the past two years

The annual reports presented to the Board on phased retirement for the past two years have shown the costs and savings attributed to the program as follows:

	FY 2003			FY 2004		
	Cost of Incentive Amounts	Released Funds	Amount available for reallocation	Cost of Incentive Amounts	Released Funds	Amount available for reallocation
SUI	1,090,369	2,502,990	1,412,621	1,078,275	2,464,358	1,386,083
ISU	402,429	1,352,321	949,892	384,313	1,419,703	1,035,390
UNI	205,111	313,070	107,959	195,706	352,702	156,996

University of Iowa

The University noted the following on the usage funds resulting from participation in the phased retirement program.

Faculty

- On 7 occasions, funds were used for faculty salaries and faculty searches
- On 3 occasions, funds were used to retain visiting faculty.
- On 3 occasions, funds were used to hire new permanent faculty.
- On 1 occasion, faculty member not replaced; funds used for salary budget.
- On 1 occasion, faculty member returned to teaching; new director hired.

P&S

- On 5 occasions, the positions were eliminated resulting in budget savings
- On 5 occasions, budget savings were placed in the salary pool.
- On 2 occasions, funds were used to fund a new position.
- On 4 occasions, portions of the funds were used to increase another salary line with the remainder being placed in the salary pool.
- On 1 occasion, funds were reallocated in the grant to operational costs which extended time for the grant.
- On 1 occasion, funds were used to support a new and different position.

Merit

- On 1 occasion, the savings were placed in the salary pool.
- On 1 occasion, funds were redirected to another position.

Iowa State University	Iowa State University utilized the savings attributed to phased retirements in a variety of ways as noted below. • On 11 occasions, funds were used for adjunct salaries. • On 1 occasion, the funds were used for a graduate assistant position. • On 2 occasions, the funds were used to support departmental operating expenses and budget reversions. • On 1 occasion, funds were used for three individuals to attend a conference. • On 1 occasion, a visiting faculty was hired. • On 1 occasion, funds were used for recruitment and start-up costs.
University of Northern Iowa	Savings associated with phased retirements at UNI are typically transferred from the affected departments to the college deans for reallocation. On a temporary basis, savings are used for hiring adjuncts to cover essential classes as a result of phased and regular retirements and resignations throughout the college. With regard to permanent reallocations, because the funds are pooled, there is no specific mechanism to track a particular dollar. The remaining resources are redirected to program with priority needs in support of the University's strategic plan.

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Phased Retirement Policy

Eligibility: Faculty of Regent universities and the special schools and professional and scientific staff of the Regent institutions and Board Office who have attained the age of 57 with at least 15 years of service with the Board of Regents are eligible for participation in the phased retirement program. Merit system employees who have attained age 60 and have at least 20 years of service with the Board of Regents are eligible for participation.

Approval: At various levels within the institution. No right to enter a phased retirement agreement without approval by all officials as designated by the institutions is conferred by this policy. The Board of Regents will ratify entries into the phased retirement program as a part of the monthly Register of Personnel Changes.

Schedule of Phasing: A staff member may reduce from full-time to no less than a half-time appointment either directly or via a stepped schedule. At no time during the phasing period may an employee hold greater than a 65 percent appointment. The maximum phasing period will be five years with full retirement required at the end of the specified phasing period. Once phased retirement is initiated, employees may not return to full-time appointment.

Compensation: During the first four years of the phasing period, the salary received will reflect the reduced responsibilities plus an additional 10 percent of the budgeted salary, had the person worked full time. In the fifth year following the initiation of phased retirement, the staff member's appointment will be no greater than fifty percent, and the salary will be proportional to the budgeted salary had the person worked full-time.

Benefits: During the first four years of the phasing period, institution and staff member contributions will continue for life insurance, health insurance, and disability insurance at the same levels which would have prevailed had the staff member continued at a full-time appointment. Retirement contributions to TIAA/CREF will be based on the salary which would have obtained had the individual continued a full-time appointment. As mandated by law, FICA contributions will be based on the staff member's actual salary during the partial or pre-retirement period. The same is true for retirement contributions for those participating in the Iowa Public Employees Retirement System or Federal Civil Service System. Accrual of vacation and sick leave will be based on percentage of appointment.

Duration of Program: Subject to annual review, the program will expire on June 30, 2007, unless renewed by the Board prior to expiration.