MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Annual Report on Retirement Programs – FY 2003

Date: September 8, 2003

Recommended Actions:

1. Receive the Annual Report on Retirement Programs for FY 2003 and;

2. Establish a present value rate of 1% for lump sum payout under the Early Retirement Incentive Program for FY 2004.

Executive Summary:

Phased Retirement

The Board first approved the Phased Retirement Program in 1982. The program was continued through June 30, 2007, by action of the Board in July 2001.

The Phased Retirement Program is described in Attachment A.

There were 30 new participants in the program during FY 2003.

Through June 30, 2003, 576 faculty and staff have participated in the Phased Retirement Program with 92 currently active.

Early Retirement

The Early Retirement Incentive Program (ERIP) expired on June 30, 2002. The Board allowed each institutional head to exercise discretion as to whether faculty and staff who were eligible for the program on June 30, 2002, have until June 30, 2004, to request participation.

Each institutional head agreed to the extension.

The ERIP is described in Attachment B.

In FY 2003, 146 employees entered the ERIP.

Regular Retirements

In addition to employees leaving the institutions through the ERIP, 197 faculty and staff left via regular retirement.

Present Value Rate

Participants in the ERIP may accept the present value of all or part of the incentives available through the program as a discounted lump sum. The rate has been set as the average of the 90-day and one-year Treasury bonds. The recommended rate for FY 2004 is 1%.

Age Distribution

As part of this annual governance report, the institutions report the age distribution of faculty and staff. Currently, 30.4% of faculty; 14.5% of P&S staff; and 20.1% of merit staff are age 55 or older.

Background and Analysis:

Phased Retirement

New participants into the Phased Retirement Program during FY 2003 by employee category are as follows:

	Faculty	P&S	Merit	Total
SUI	11	7	2	20
ISU	8	1	0	9
UNI	1	0	0	1
TOTAL	20	8	2	30

New participants over the past five years are as follows:

5-year comparison

FY 1999	48
FY 2000	50
FY 2001	41
FY 2002	35
FY 2003	30

There have been no participants at the special schools in the past five years.

Released funds

The following table shows the financial impact of the program at the universities for FY 2003. "Incentive Amount" is the difference between the total compensation (salary and university fringe benefit contributions) under the Phased Retirement Program and the total compensation that would have been paid if the individual had reduced to the specified percentage of effort without the special provisions of the program. "Released Funds" is the difference between the total compensation received under the policy and the total compensation that would have been received if the individual had remained full time.

	Incentive Amounts	Released Funds
SUI	1,090,369	2,502,990
ISU	402,429	1,352,321
UNI	205,111	313,070

The released funds are used for replacement personnel or reallocation to other areas of need.

Early Retirement

Since the beginning of the ERIP in 1986, 2,755 faculty and staff have chosen this retirement option. During FY 2003, 146 employees entered the program.

Early retirees

A breakdown of early retirees by category for FY 2003 is shown below:

	SUI	ISU	UNI	ISD	IBSSS	TOTAL
Faculy	10	17	11	0	0	38
P&S	34	13	5	0	0	52
Merit	32	15	8	1	0	56
TOTAL	76	45	24	1	0	146

5-year comparison

ERIP participation since FY 1999 is shown below:

FY 1999	216
FY 2000	218
FY 2001	254
FY 2002	297
FY 2003	146

The following table shows the future liability and estimated funds available for reallocation during the period the retirees are in the program. A retiree can be in the program from one to eight years dependent upon age.

Future liability and funds available for reallocation

	FY 2003 Participants	Future Benefit Liability for Retirees	Estimated Funds Available for Reallocation
SUI	76	3,098,286	3,334,815
ISU	45	1,531,327	2,018,226
UNI	24	778,672	1,662,629
ISD	1	21,527	(22,948)
IBSSS	0	-	-
TOTAL	146	5,429,812	6,992,722

As noted above the funds available for reallocation is the total estimated available over the period of time retirees are in the program. Average length of participation is 4.36 years at SUI; 4.0 years at ISU; and 4.08 years at UNI. For example, with an average length of program of participation of 4.08 years at UNI, the estimated available funds for reallocation per year would be $407,507.

Some positions eliminated

In addition some of these positions were eliminated as a part in the overall budget reductions in past years and, therefore, do not generate a savings now or in the future.

Savings result when employees who elect early retirement are either not replaced or replaced at lower salaries. Of the 146 employees who chose early retirement in FY 2003, 102 were replaced at lower salaries; 17 were not replaced; 9 were replaced at higher salaries; and 2 were replaced at the same salary. Searches are underway to replace 16 employees.

Regular Retirements

In addition to early retirements, faculty and staff left the institutions through regular retirement.

	Faculty	P&S	Merit	Total
SUI	25	43	51	119
ISU	25	11	16	52
UNI	9	5	6	20
ISD	2	0	1	3
IBSSS	1	0	2	3
	62	59	76	197

5-year comparison

As a comparison, there were 136 regular retirements in FY 2002; 160 regular retirements in FY 2001; 166 in FY 2000; and 294 in FY 1999.

Age Distribution

Current age distributions of the faculty and staff at the three universities are shown below:

	Percent Age 50 and Over	Percent Age 55 and Over	Percent Age 65 and Over
Faculty	48.6%	30.4%	5.6%
P&S	31.0%	14.5%	0.9%
Merit	38.8%	20.1%	1.8%

Current faculty age distributions show that the three universities have 1.1% of faculty age 70 and above.

Marcia Brunson Approved: Gregory S Nichols
Marcia R. Brunson Gregory S. Nichols

Attachment A

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 more 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.

Attachment B

Early Retirement Incentives Program

Eligibility: Faculty, professional and scientific and merit system staff members employed by the Board of Regents, who have attained the age of 57 and have 15 years of service with the Board of Regents are eligible for participation in the Retirement Incentives Program.

Approval: All requests for admission to the retirement incentives program must receive approval from the appropriate administrative offices of the institution by which they are employed. The program does not create a right for the employee and the request to enter the program may not be approved if it is not in the best interest of the institution.

Incentives:

Life Insurance - a paid-up life insurance policy of $2,000 to $4,000 equal to what the individual would have received if he/she had retired at the age of 65.

Retirement - The employer will pay the employer's and the employee's retirement contribution for three years and the employer's contribution only for another two years or until the participant is eligible for full Social Security benefits, whichever is first. The benefit is payable for a maximum of 5 years.

Health and Dental Insurance - The employer will pay its standard share for health and dental insurance until the employee is eligible for Medicare benefits. This contribution shall be equal to the amount contributed for an active employee in the same plan.

Alternative Plan Method: If the employer agrees, upon request from the participant, the employer's contributions for any of the benefit programs may be paid in lump sum equal to the present value of the benefit cost. The interest rate used in the calculation of the present value shall be determined annually by the Board.

Duration of Program: Subject to annual review, the program expired on June 30, 2002. Employees meeting eligibility as of June 30, 2002, may apply to participate through June 30, 2004.

Miscellaneous Information: Employees participating in the phased retirement program may transfer into the retirement incentives program with approval of the appropriate administrative offices of the institution for which they are employed. Eligibility for benefits will be reduced by one month for each month of participation in phased retirement.