MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Annual Report of Retirement Programs – Fiscal Year 2001

Date: August 30, 2001

Recommended Actions:

1. Receive reports from the institutions on the operation of the **PHASED RETIREMENT PROGRAM** and **EARLY RETIREMENT INCENTIVE PROGRAM** in fiscal year 2001.

2. Establish a present value rate of 3.7% for lump sum pay out under the **EARLY RETIREMENT INCENTIVE PROGRAM** for fiscal year 2002.

Executive Summary:

There are two ongoing programs in place relating to retirement at earlier than the normal retirement age for employees of the Board of Regents. The **PHASED RETIREMENT PROGRAM** provides incentives to employees to reduce to part-time in anticipation of retirement. A total of 41 employees entered into the **PHASED RETIREMENT PROGRAM** during the past fiscal year. During fiscal year 2001, an estimated net saving of $2.4 million was realized through the phased retirement program.

The **EARLY RETIREMENT INCENTIVE PROGRAM** provides incentives to employees who retire as early as age 57. In fiscal year 2001 254 employees entered the program. Approximately $9.7 million in released funds will be realized during the period of time the fiscal year 2001 retirees are participating in the early retirement program. Early retirement participation periods can range from one to eight years. Average length of the participation period is 5.1 years at SUI; 4.2 at ISU; and 5.4 at UNI. Some of the positions have been eliminated as a part of the fiscal year 2002 budget reductions and, therefore, do not generate “released” funds now or in the future. There are also costs associated with the ERIP that are not reflected in the formula used to calculate the “released funds”. For example, the retiree is replaced on an interim basis; and when a permanent appointment is made, it is at a salary as high or higher than the retiree. The formula does not take into account expenditures such as increases in costs of health and dental insurance in future years; recruitment costs and start up costs for staff in specialized areas such as the sciences.

In addition to employees leaving the institutions through the early retirement program, 160 faculty and staff left via regular retirement.

Upon recommendations by the institutions and the Board Office in July 2001, the Board approved the continuation of the **PHASED RETIREMENT PROGRAM** for a five-year period beginning July 1, 2002.

Also at its July 2001 meeting, the Board approved discontinuation of the **EARLY RETIREMENT INCENTIVE PROGRAM** (ERIP) upon its expiration on June 30, 2002. The Board also authorized each institutional head to exercise discretion as to whether faculty and staff who are qualified for participation in the ERIP on June 30, 2002, may have two years after expiration of the program to request participation.

Also as a part of the Board's action in July, the institutions and the Board Office will collaborate and develop a set of principles to guide the Regent institutions in the development of future early retirement programs. These principles will be presented to the Board in November. If any one or all of the institutions wish to institute a new early retirement program based upon the principles approved by the Board in November, such program(s) are to be presented to the Board for approval not later than February 2002.

As a part of this annual governance report, the age distribution of faculty and staff is reported by the institutions. Currently, 28% of faculty; 11% of P&S staff; and 16% of merit staff are age 55 or older.

Background:

The Board first approved the **PHASED RETIREMENT** program for university faculty and professional and scientific employees in 1982 and later extended the program to merit system employees. The program is described in Attachment A.

The following table shows the financial impact of the program at the universities during the past five years. No staff at the Iowa School for the Deaf and the Iowa Braille and Sight Saving School have elected to participate in the program during this time.

	University of Iowa		Iowa State University		University of Northern Iowa		Regent Totals	
	Incentive Amounts	Released Funds	Incentive Amounts	Released Funds	Incentive Amounts	Released Funds	Incentive Amounts	Released Funds
1996-97	444,936	1,106,301	200,108	546,604	68,347	331,027	713,391	1,983,932
1997-98	531,635	1,112,345	301,176	852,383	137,063	474,898	969,874	2,439,626
1998-99	630,364	1,445,363	377,081	1,003,557	194,035	319,060	1,201,480	2,767,980
1999-00	762,830	1,677,020	481,647	1,407,531	153,252	262,633	1,397,729	3,347,184
2000-01	884,462	2,036,354	467,294	1,444,033	164,569	285,063	1,516,325	3,765,450
TOTALS	3,254,227	7,377,383	1,827,306	5,254,108	717,266	1,672,681	5,798,799	14,304,172

Incentive Amounts: the difference between the total compensation (salary and university fringe benefit contributions) under the **PHASED RETIREMENT** policy and the total compensation that would have been paid if the individual had reduced to the specified percentage of effort (e.g. 50 percent) without the special provisions of this policy.

Released Funds: 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.

New participants into **PHASED RETIREMENT** during fiscal year 2001 by employee category are as follows:

New Participants Into Phased Retirement -- Fiscal Year 2001

	Faculty	P & S	Merit	Total
University of Iowa	15	8	0	23
Iowa State University	5	3	4	12
University of Northern Iowa	5	1	0	6
Category Total	25	12	4	41

Since its inception in 1982, 510 employees have participated in **PHASED RETIREMENT** with 133 currently active.

The number of new participants into the **PHASED RETIREMENT** program for each of the last five years is as follows:

Fiscal year 1997	45
Fiscal year 1998	44
Fiscal year 1999	48
Fiscal year 2000	50
Fiscal year 2001	41

Effective July 1, 1986, the Board approved an **EARLY RETIREMENT INCENTIVE PROGRAM** for faculty and professional and scientific staff in accordance with legislation enacted by the 1986 General Assembly. Employees in the Regents Merit System were approved for participation in the program in 1990. This program as originally structured expired on June 30, 1992. The Board approved a revised program in April 1992, which became effective July 1, 1992. The program has been extended by the Board through June 30, 2002, without change. The program is described in Attachment B.

Participants in the **EARLY RETIREMENT INCENTIVE PROGRAM** may accept the present value of all or part of incentives available through the program as a discounted lump sum payment. The Board approved a present value discount rate of 6.1% for fiscal year 2000, which was the average of July 1 rates earned on 90-day and one-year Treasury Bills. The current average of the rates earned on 90-day and one-year Treasury Bills is 3.7%. Therefore, the Board Office recommends a present value rate of 3.7% for fiscal year 2002.

Since the inception of the **EARLY RETIREMENT INCENTIVE PROGRAM** in 1986, 2,312 employees have chosen this retirement option. During fiscal year 2001, 254 employees entered the program.

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.

	Fiscal Year 2001 Number of Participants	Future Benefit Liability for Retirees	Estimated Funds Available for Reallocation
SUI	149	5,227,331	2,880,740
ISU	83	2,609,794	5,864,456
UNI	21	839,268	764,587
ISD	1	45,415	185,813
IBSSS	0	0	0
TOTAL	254	8,721,808	9,695,596

The preceding table indicates that an estimated $9.7 million would be available at the institutions during the period of time the participants continue in the program. These funds have been and will be reallocated within the institutions. It should be noted that the amount of funds released is dependent upon whether or not the institutions choose to replace the retiree.

Savings result when employees who elect early retirement are either not replaced or replaced at lower salaries. Of the 254 employees who chose early retirement in fiscal year 2001, 170 were replaced at lower salaries; 25 were not replaced; 26

were replaced at higher salaries; and 10 at the same salaries. Searches are underway to replace 23 employees.

Participation in the **EARLY RETIREMENT INCENTIVE PROGRAM** since fiscal year 1997 is as follows:

Fiscal year 1997	129
Fiscal year 1998	146
Fiscal year 1999	216
Fiscal year 2000	218
Fiscal year 2001	254

A breakdown of new early retirees for fiscal year 2001 is as follows:

Early Retirees by Category -- Fiscal Year 2001

	SUI	ISU	UNI	ISD	IBSSS	Total
Faculty	16	25	7	0	0	48
P & S	68	28	5	0	0	101
Merit	65	30	9	1	0	105
TOTAL	149	83	21	1	0	254

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

Regular Retirements -- Fiscal Year 2001

	Faculty	P&S	Merit	TOTAL
SUI	23	20	42	85
ISU	25	13	25	63
UNI	8	3	1	12
ISD	0	0	0	0
IBSSS	0	0	0	0
TOTALS	56	36	68	160

As a comparison there were 166 regular retirements in fiscal year 2000, 294 in fiscal year 1999 and 215 in fiscal year 1998.

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

Age Distributions -- August 2001

	Percent age 50 and over	Percent age 55 and over	Percent age 65 and over
Faculty	44.9%	27.5%	4.8%
P&S	27.0%	10.8%	0.6%
Merit	33.1%	16.4%	1.3%

Current faculty age distributions show that the three universities have 1.3% of faculty age 70 and above.

The federal Age Discrimination in Employment Act (ADEA) eliminated mandatory retirement at age 70 for tenured faculty effective December 31, 1993.

Acceptance of the reports and approval of the present value rate is recommended.

Marcia Brunson
Marcia R. Brunson

Approved: Robert J. Barak
Robert J. Barak

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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, 2002, 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 will expire on June 30, 2002, unless renewed by the Board prior to expiration.

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.