

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Annual Report of Retirement Programs  
**Date:** September 5, 2000

**Recommended Actions:**

1. Receive reports from the institutions on the operation of the **PHASED** and **EARLY RETIREMENT** programs in fiscal year 2000.
2. Establish a present value rate of 6.1% for lump-sum pay out under the **EARLY RETIREMENT** program for fiscal year 2001.

**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 50 employees entered into the **PHASED RETIREMENT PROGRAM** during the past fiscal year. During fiscal year 2000, an estimated net saving of \$1.6 million was realized through the phased retirement program.

The **EARLY RETIREMENT PROGRAM** provides incentives to employees who retire as early as age 57. In fiscal year 2000, 218 employees entered the program. A net saving of approximately \$5.1 million will be realized during the period of time the fiscal year 2000 retirees are participating in the early retirement program. Savings are reallocated within the institutions.

In June 1996, the Board reviewed the two programs and renewed them without change for the period July 1, 1998, through June 30, 2002. The programs are under review by the institutions and the Board Office to determine what modifications, if any, will be recommended to the Board later this fiscal year.

In addition to employees leaving the institutions through the early retirement program, 166 faculty and staff left via regular retirement.

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 17% 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	Release Funds
1995-96	317,063	655,748	200,616	511,269	63,315	235,675	580,994	1,402,692
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
<b>TOTALS</b>	<b>2,686,828</b>	<b>5,996,777</b>	<b>1,560,628</b>	<b>4,321,344</b>	<b>616,012</b>	<b>1,623,293</b>	<b>4,863,468</b>	<b>11,941,414</b>

**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 2000 by employee category are as follows:

New Participants Into Phased Retirement -- Fiscal Year 2000

	Faculty	P & S	Merit	Total
University of Iowa	18	6	1	25
Iowa State University	17	1	1	19
University of Northern Iowa	6	0	0	6
Category Total	41	7	2	50

Since its inception in 1982, 470 employees have participated in **PHASED RETIREMENT** with 120 currently active.

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

Fiscal year 1996	23
Fiscal year 1997	45
Fiscal year 1998	44
Fiscal year 1999	48
Fiscal year 2000	50

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 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 5.03% for fiscal year 1999 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 6.1%. Therefore, the Board Office recommends a present value rate of 6.1% for fiscal year 2001.

Since the inception of the **EARLY RETIREMENT PROGRAM** in 1986, 2,058 employees have chosen this retirement option. During fiscal year 2000, 218 employees entered the program.

The following table shows the cost of lump sum payments, 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 2000 Number of Participants	Future Benefit Liability for Retirees	Estimated Funds Available for Reallocation
SUI	122	3,952,335	2,501,189
ISU	74	2,216,179	1,817,344
UNI	20	581,840	690,117
ISD	1	34,423	77,850
IBSSS	1	9,137	31,407
<b>TOTAL</b>	<b>218</b>	<b>6,793,914</b>	<b>5,117,907</b>

The preceding table indicates that an estimated \$5.1 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 218 employees who chose **EARLY RETIREMENT** in fiscal year 2000, 142 were replaced at lower salaries; 16 were not replaced; 29 were replaced at higher salaries; and 4 at the same salaries. Searches are underway to replace 27 employees.

Participation in the **EARLY RETIREMENT PROGRAM** since fiscal year 1996 is as follows:

Fiscal year 1996	145
Fiscal year 1997	129
Fiscal year 1998	146
Fiscal year 1999	216
Fiscal year 2000	218

Some of the increase in participation at the universities from 1998 to 1999 can be attributed to the approval of the special early retirement ("window") program used by institutions during fiscal year 1997 and 1998. This program provided the only opportunity for employees to exercise full convertibility of their CREF accounts during 1997 and 1998. With the full convertibility becoming a part of

the regular retirement program for TIAA-CREF participants in 1999, the window has become redundant. Faculty and staff are now opting for the early retirement program.

A breakdown of new early retirees for fiscal year 2000 is as follows:

**Early Retirees by Category -- Fiscal Year 2000**

	SUI	ISU	UNI	ISD	IBSSS	Total
Faculty	32	20	11	1	0	64
P & S	42	27	0	0	0	69
Merit	48	27	9	0	1	85
<b>TOTAL</b>	<b>122</b>	<b>74</b>	<b>20</b>	<b>1</b>	<b>1</b>	<b>218</b>

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

**Regular Retirements -- Fiscal Year 2000**

	Faculty	P&S	Merit	TOTAL
SUI	34	20	23	77
ISU	28	15	27	70
UNI	8	2	7	17
ISD	0	0	1	1
IBSSS	1	0	0	1
<b>TOTALS</b>	<b>71</b>	<b>37</b>	<b>58</b>	<b>166</b>

As a comparison there were 294 regular retirements 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.

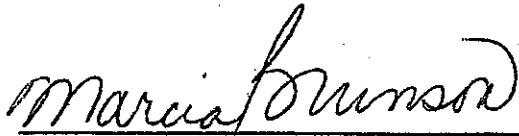
**Age Distributions -- August 2000**

	Percent age 50 and over	Percent age 55 and over	Percent age 65 and over
Faculty	45.4%	28%	5.0%
P&S	25.5%	10.9%	0.7%
Merit	32.3%	16.7%	1.4%

Current faculty age distributions show that the three universities have 1.4% of faculty age 70 and above.

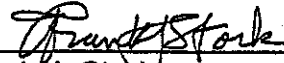
The federal Age Discrimination in Employment Act (ADEA) eliminated mandatory retirement at age 70 for tenured faculty effective December 31, 1993.

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



Marcia R. Brunson

Approved:



Frank J. Stork

## 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.