G.D. 10

MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Early Retirement Incentive and Phased Retirement Programs

Date: June 1, 2001

Recommended Actions:

1. Approve continuation of the PHASED RETIREMENT PROGRAM as currently structured and the requirement of annual reports to the Board through June 30, 2007. (Attachment A)

2. Receive a report on the operation of the Early Retirement Incentive Program. (Attachment B)

Executive Summary:

The PHASED RETIREMENT PROGRAM was first approved by the Board in 1982 for faculty and professional and scientific staff. It allows faculty and staff to transition from work to retirement over a period of time. The Board approved a slightly different phased retirement program for Regent Merit System staff in 1984 consistent with the program for state merit system staff. The programs provide for reduction of appointment time over a maximum of a five-year period with full retirement not later than the end of the fifth year. Through June 30, 2000, 470 faculty and staff have participated in the program. The institutions feel that this program continues to be an effective management tool. The program provides for incentives in pay and retirement contributions during the phasing period.

It is recommended that the existing phased retirement program as described in Attachment A be continued through June 30, 2007. Participation in the program continues to be at the discretion of the institution.

The EARLY RETIREMENT INCENTIVE PROGRAM (ERIP) was first approved by the Board in 1986 for faculty and professional and scientific staff to comply with legislation enacted by the General Assembly. Eligibility for participation in the program was extended to staff of the Regent Merit System effective July 1, 1990. The original program was set to expire on June 30, 1991. In order that the institutions and the Board Office could properly evaluate the use, costs and the benefits of the program and determine what effect, if any, changes in the Older Workers Benefit Protection Act had on the program, the Board approved a one-year extension of the original program through June 30, 1992. After review and evaluation by the Board Office and the institutions, a modified program was developed and approved by the Board for a five-year period beginning July 1, 1992. The modified program changed the eligibility from a minimum age 57 and a maximum age of 63 with ten years of service to age 57 with 15 years of service. Changes were also made reducing the level of benefits provided under the program. In June 1996, the Board continued the program without change through June 30, 2002.

As of June 30, 2000, the last reporting period, 2,058 faculty and staff have participated in the ERIP since its inception.

Since 1998 there have been 662 regular retirees at the institutions. During the same period of time, there have been 580 employees approved for participation in the ERIP.

The ERIP provides incentives in retirement contributions and health, dental and life insurances for those approved for participation in the program. As the ERIP currently exists, participation is not to be approved by the institution if it is not in the best interest of the institution. This has meant either that the position will be eliminated at the faculty or staff member's retirement; or that faculty or staff revitalization will be enhanced through replacement; or that significant savings will be achieved by replacing the faculty or staff member with a lower salaried individual. For these reasons, each time the Board has approved the ERIP it has stated that participation in the program is not an employee right, and participation must be approved by the institution.

The institutions and Board Office are reviewing the ERIP and will request Board action in July. Current low unemployment rates, the need to replace many of the employees who are approved for participation in the program, and the highly competitive hiring environment for faculty and staff appear to have diminished the role of the ERIP in meeting management objectives of the Regent institutions.

The institutions and Board Office anticipate that the recommendation to the Board in July will be to discontinue the ERIP effective June 30, 2002, but will include a recommendation allowing each institution to determine if faculty and staff eligible on June 30, 2002, will have until June 30, 2004, to apply for the ERIP. This two-year extension would allow the institutions to diminish the impact of an abrupt end to the program, which might cause a large number of employees to seek participation in the program prior to June 30, 2002. The foundation for the anticipated recommendation is that the ERIP was always approved with recognition that it did not create a right vested in the faculty or staff member for participation in the program and that participation was to be approved only if it was in the best interest of the institution.

Background and Analysis:

PHASED RETIREMENT PROGRAM

The University of Iowa first requested approval of a phased retirement program in July 1981. The Board deferred action on the request in July 1981 and again in November 1981. The reasons for the deferrals were to allow time for additional review and discussion by the Board Office and the University of Iowa and allow time to determine the implications of such a program to the other institutions. In December 1981, the Board approved the first phased retirement program for tenured faculty at the University of Iowa to be effective July 1, 1982 through June 30, 1987. The Board approved the request of the University of Iowa to extend the phased retirement program to professional and scientific staff in June 1982. Phased retirement programs for faculty and professional and scientific staff at Iowa State University was approved in July 1982 and at the University of Northern Iowa in July 1983. A similar program was approved for the faculty and professional and scientific staff at the special schools and the professional and scientific staff in the Board Office in June 1984.

In March 1987, the Board approved a modified phased retirement program, which was to expire on June 30, 1992. The modifications included reducing the age from 60 to 57, requiring full retirement at the end of the phasing period except that participants may continue on ½ time until age 65, and reducing the initial phasing maximum from 80% to 75% of full-time employment. The Board made additional modifications in June 1996 and extended the program through June 30, 2002. These modifications included reducing the phasing maximum from 75% to 65% and requiring full retirement at the end of the five-year phasing period.

The Board approved participation of employees of the Regent Merit System in the phased retirement program effective July 1, 1984. The program was initially not made available to merit system staff due to the fact that group of employees were covered by the State Merit Employment Act. The Office of the Attorney General subsequently advised the Board Office and a Governor's Task Force on Retirement Incentives that legislation should be sought in order to implement a phased retirement program for merit system staff. The Regents Committee on Efficiency and Cost Effectiveness and the Regents Merit System Advisory Committee made the same recommendation. HF 2473, which amended Iowa

Code Chapter 70 (later changed to Chapter 70A), was passed during the 1984 legislative session and provided phased retirement to employees of the state merit systems. This program (Iowa Code §70A.30) established eligibility for phased retirement at age 60 with 20 years of service. In March of 1987, employees of the Regent Merit System were not included when the Board approved reducing the eligibility from age 60 to 57 due to the eligibility in §70A.30.

The current program allows faculty and P&S staff with at least 15 years of service who are age 57 to enter phased retirement (age 60 and 20 years for employees of the Regent Merit System). The staff member may reduce from full-time to no more than a half-time appointment either directly or via a stepped schedule; however, an employee cannot hold a greater than 65% appointment. The maximum phasing period is five years with full retirement at the end of five years. Incentives include continuing life insurance, health insurance, and disability insurance at the same levels had the staff member continued on a full-time basis. Retirement contributions to TIAA-CREF are based on full-time salary. During the first four years, the salary will reflect the reduced appointment plus an additional 10% of the full-time salary. During the fifth year, the staff member will receive salary based upon the actual appointment, which cannot exceed 50%.

A total of 470 faculty and staff have participated in the phased retirement program since 1982. A total of 315 faculty and staff entered the program in the last ten years.

The following table, taken from past annual reports to the Board, details the participation at the institutions in the phased retirement program in the last ten years.

FY	SUI				ISU			
	Faculty	**P&S**	**Merit**	**Total**	**Faculty**	**P&S**	**Merit**	**Total**
2000	18	6	1	25	17	1	1	19
1999	10	7	1	18	18	4	2	24
1998	12	2	1	15	16	0	0	16
1997	13	7	2	22	18	0	1	19
1996	7	3	0	10	4	3	1	8
1995	7	3	1	11	8	3	1	12
1994	4	2	0	6	11	1	0	12
1993	11	0	1	12	4	0	0	4
1992	2	0	0	2	6	1	1	8
1991	13	2	3	18	4	1	0	5
FY	**UNI**				**TOTAL**			
	Faculty	**P&S**	**Merit**	**Total**	**Faculty**	**P&S**	**Merit**	**Total**
2000	6	0	0	6	41	7	2	50
1999	6	0	0	6	34	11	3	48
1998	13	0	0	13	41	2	1	44
1997	4	0	0	4	35	7	3	45
1996	5	0	0	5	16	6	1	23
1995	2	1	0	3	17	7	2	26
1994	0	0	0	0	15	3	0	18
1993	2	0	0	2	17	0	1	18
1992	5	0	0	5	13	1	1	15
1991	4	0	1	5	21	3	4	28

EARLY RETIREMENT INCENTIVE PROGRAM

Legislation enacted in 1986 (SF 2242) provided an early retirement incentive program for state employees. This was a "window" program whereby eligible employees (age 62 with at least five years of service) had to state their intent to retire by July 31, 1986, and actually retire by October 31, 1986. A similar "window" program was made available to employees in the Regent Merit System. The Act also provided that the Board of Regents establish an early retirement incentive program for faculty and other staff. The Board subsequently approved the first early retirement program in June 1986. This program was in effect through June 30, 1992. The Board Office and the institution evaluated this first program and modification was recommended. The revised program was effective July 1, 1992, through June 30, 1997. The Board continued the program without change from July 1, 1997, through June 30, 2002.

In 1988, legislation was again enacted (HF 2415) providing for another "window" early retirement program for eligible state employees (age 62 with at least five years of service). Again, a similar program was made available to staff in the Regent Merit System. Effective July 1, 1990, the Board approved extending the existing early retirement program to staff in the Regent Merit System.

In 1992, the General Assembly enacted legislation (HF 2454) authorizing a third "window" early retirement program for eligible state employees (age 59 with 20 years of service). Since all employees of the Board of Regents were eligible for the Board's early retirement program, they were not included in this state program.

Under the current program, an employee is eligible at age 57 with 15 years of service. Benefits include 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 and the employer share of health and dental insurance until Medicare eligibility. The employer pays both the employer and employee's retirement contribution for three years and only the employer's contribution for another two years or until the participant is eligible for full Social Security benefits whichever is first.

Through June 30, 2000, a total of 2,058 faculty and staff have participated in the ERIP since it was first approved. A total of 1,679 employees entered the program in the last ten years.

The following table, taken from past annual reports, shows the participation at the institutions in the ERIP in the last ten years.

	SUI				**ISU**			
FY	**Faculty**	**P&S**	**Merit**	**Total**	**Faculty**	**P&S**	**Merit**	**Total**
2000	32	42	48	122	20	27	27	74
1999	14	45	48	107	36	32	19	87
1998	6	26	22	54	16	12	29	57
1997	6	8	28	42	23	18	27	68
1996	10	16	31	57	24	17	36	77
1995	7	16	28	51	19	11	14	44
1994	2	11	19	32	8	12	12	32
1993	1	2	4	7	12	13	14	39
1992	24	67	111	202	34	24	24	82
1991	3	33	65	101	16	16	72	104

	UNI				**ISD**			
FY	**Faculty**	**P&S**	**Merit**	**Total**	**Faculty**	**P&S**	**Merit**	**Total**
2000	11	0	9	20	1	0	0	1
1999	16	1	5	22	0	0	0	0
1998	16	6	9	31	0	1	0	1
1997	8	1	7	16	3	0	0	3
1996	3	1	3	7	0	0	2	2
1995	4	0	6	10	0	1	3	4
1994	2	2	2	6	1	0	3	4
1993	1	1	0	2	1	0	3	4
1992	19	5	13	37	1	0	0	1
1991	13	7	25	45	4	0	6	10

	IBSSS				**Board Office**	**TOTAL**			
FY	Faculty	P&S	Merit	Total	P&S	Faculty	P&S	Merit	Total
2000	0	0	1	1	0	64	69	85	218
1999	0	0	0	0	0	66	78	72	216
1998	0	1	2	3	0	38	46	62	146
1997	0	0	0	0	0	40	27	62	129
1996	2	0	0	2	0	39	34	72	145
1995	0	0	3	3	1	30	29	54	113
1994	0	0	1	1	0	13	25	37	75
1993	0	0	0	0	0	15	16	21	52
1992	0	0	1	1	0	78	96	149	323
1991	1	0	1	2	0	37	56	169	262

Since its inception, the institutions have reported that the ERIP has generated funds that the institutions have been able to reallocate within each institution. For example, it was estimated in the annual reports for fiscal year 2000 that $5.1 million would be available for reallocation at the institutions during the period the early retirees were in the program. The majority of these funds was due to the fact that faculty and staff were either not replaced or replaced at lower salaries. With the competitive recruiting environment in recent years, it has been very difficult to recruit highly skilled faculty and staff at lower salaries. The institutions report that salaries for replacements are often higher than those of the departing faculty or staff person. The institutions also report that replacement faculty and staff often require start up packages that can be quite costly. The continuing benefit liability for the 218 employees who entered early retirement program in fiscal year 2000 is $6.7 million. Participation in the program can be from one to seven years depending upon the age at which an employee is approved for participation.

The Board Office is considering with institutional administrators the changing environment in preparing a recommendation for the ERIP for action by the Board in July. Historically, the Board has approved extension of and changes in the ERIP and Phased Retirement Program twelve months prior to their expiration.

Approval of the recommended actions is requested.

Marcia Brunson
Marcia R. Brunson

Approved: Frank J. Stork
Frank J. Stork

h:(hr/docket2001)junegd10.doc

ATTACHMENT A

PHASED RETIREMENT PROGRAM

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 rece ived 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 that 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 INCENTIVE 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.