

The University Senate of Michigan Technological University

Proposal 37-19

(Voting Units: All)

Proposal to Change the University Defined Contribution Plan to a 10% Base Contribution With a 2.5% 1:1 Match

Submitted by: The Senate Fringe Benefits Committee

Background/Rationale

Prior to the mid-1990's the faculty and staff of Michigan Technological University (the University) were enrolled in the Defined Benefits Retirement Pension managed by the State of Michigan. The State at that time ended this plan for all future State employee hires, including those at the University. At that time the University instituted a Defined Contribution Plan, which has changed considerably over the intervening 20 years.

As recently as 2008, the University had a 10.55% base contribution with a 1:1 match for another 2%, which was changed in 2010 to the 5-5-5 contribution plan. In the 5-5-5 plan, the University paid a 5% base contribution to the plan, with a 1:1 matching contribution up to another 5%. In 2012 this was again changed to a 1:1 match up to 7.5%. This is a 41% decrease in the University's contribution to employees' retirement over the past decade.

When compared to our self-described university peers, and in comparison to the other major State of Michigan universities, the University Plan ranks near the bottom and does not serve as a good incentive for retention or recruitment of highly sought after faculty and staff (see attached.

Retirement Plan Comparison table). In this era of increased competition for the declining number of high school graduates in the Midwest, and for graduate students (including a more challenging environment for foreign students), recruiting and retaining top faculty and staff is important to maintain the positive reputation of our University. The Defined Contribution Plan is an important element of the total compensation package provided to new hires and existing employees, and making sure that our plan is competitive with our peers is key in recruiting and retaining top talent.

In addition, there is a concern that employees are not taking advantage of the matching plan, perhaps due to lack of information, and income concerns. From 2015 information provided by the University's human resources department, 1,220 employees were eligible for this the matching defined contribution plan, and a total of 212 (17.4%) either took no advantage, or only partial

advantage of this benefit. There does seem to be a correlation between pay and contribution to the current plan, suggesting that lower-paid employees are less able to afford the 7.5% contribution:

- **4.3%** of eligible employees (9 of 211) making over \$100,000 fail to take full advantage of the 7.5% match.
- **11.7%** of eligible employees (63 of 540) making between \$50,000 and \$100,000 fail to take full advantage of the 7.5% match.
- **29.9%** of eligible employees (140 of 469) making under \$50,000 fail to take full advantage of the 7.5% match.

Benefit to the University

Increasing the amount contributed by the University to the Defined Contribution plan does more than make the University plan more competitive with other universities. Both employers and employees benefit when the employee is empowered to retire when they have sufficient financial resources. Providing sufficient resources to facilitate University employees' ability to retire has other positive impacts as well. Assisting employees in being 'retirement ready' **benefits the University by**

1. reducing University insurance costs since trends show older employees to have more health and disability claims than younger employees,
2. helping the University with recruitment and retention by incentivizing newer employees to stay for advancement opportunities as retiring employees create open positions, and
3. providing the University greater flexibility for onboarding new hires when providing higher-paid, long-term employees better opportunities for retirement.

The following link to a 2017 Forbes Magazine article provides some good reasons why it is a benefit to both the employer and the employee to provide stronger assistance with retirement. (<https://www.forbes.com/sites/steveparrish/2013/04/17/why-you-should-care-about-your-employees-retirement-plans/#37fe493075f5>)

Proposal

It is proposed that the University returns to contributing 10% of an employee's pre-tax pay to the Defined Contribution Plan as a base contribution with no match required. Thereafter the University would offer a 1:1 match up to 2.5% of the employee's pre-tax pay amount, thus assisting the employee in reaching the potential of 15% of their pay into their retirement account. This plan would put us closer to the majority of what other state universities provide, and put us on a more level field with our out-of-state peers who no longer provide a Defined Benefit Plan. It would also provide new employees, and existing employees hired after the demise of the State Defined Benefit Plan, the real possibility of being able to retire in the future to the benefit of the employee and the University.

Attachment:

Retirement Plan Comparison dated January 2019.

| Institution | Michigan Tech's Self Determined Peer Institutions | | | | | | | | | Notes |
|---|---|--------------------|-----------------------|---------------------------|-------------------------|-------------------------|---------------------|---------------------|--------------------------|--|
| | Defined Benefit Plan | Years until vested | Employee Contribution | Defined Contribution Plan | Mandatory Participation | Univ. Base Contribution | Employee Percentage | Matching Percentage | Plan Website | |
| California Polytechnic State University | Yes | 5 | 5% | | Yes | | | | Cal Poly | University does not participate in Social Security. Defined Benefit contribution is 7.25% if hired after Jan. 2013, 5% if hired before |
| Carnegie Mellon Univ. | No | | | | No | 8.0% | | 0.0% | Carnegie | Univ. automatically puts base amount into employee account. Employee may contribute more as desired. Amount for Faculty on 9 month appointment is 9.78% |
| Clarkson University | No | | | Yes | Yes | 9.6% | 4.8% | 0.0% | Clarkson | Mandatory employee percentage after 2 years employment (info as of 2016, unable to update) |
| Colorado School of Mines | Yes | See notes | 8% | Yes | Yes | 12.0% | 8.0% | 0.0% | Colorado | University does not participate in Social Security. Faculty can elect either defined benefit (if enrolled prior to Jan. 2017) or defined contribution plan. New faculty are automatically enrolled into defined contribution, and are vested into Univ contributions after 3 years. Staff must enroll in defined benefit plan, and employee contribution is increasing to 10% by 2021. |
| Georgia Institute of Technology | Yes | 10 | 6% | Yes | Yes | 9.2% | 6.0% | 0.0% | GA Tech | University does not participate in Social Security. Mandatory to participate in one plan or the other. Vested in Defined Contribution from Day 1 |
| Lehigh University | No | 3 | | Yes | No | 8.0% | 6.0% | 3.0% | Lehigh | Employees auto-enrolled. Sliding scale to Univ Contribution based on years employed. What is shown is maximum after 5 years for 2016. Vesting relates to Univ. based contribution |
| Missouri University of Science and Technology | Yes | 5 | 1% | Yes | Yes | 2.0% | 3.0% | 3.0% | Missouri | All employees auto-enrolled in defined contribution plan. Mandatory participation in defined benefit plan. Vested in Univ contribution to defined contribution plan after 3 years. |
| Rensselaer Polytechnic Institute | No | 3 | | | No | | 1.0% | 8.0% | RPI | Employees become vested in Univ contribution after 3 years. They may contribute more to the plan as desired. |
| Michigan Technological | No | | | | No | 0.0% | 7.5% | 7.5% | | |
| Michigan Public State Institutions | | | | | | | | | | |

Retirement Plan Comparison Michigan Tech University Senate January, 2016

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|------------------------|----|---|--|--|-----|-------|------|-------|------------------------------|---|
| Central Michigan | No | | | | No | 10.0% | | | CMU | No employee match required. Employee may contribute if they wish up to IRA limits |
| Eastern Michigan | No | | | | No | 11.0% | | | EMU | Contributions vary with Employment Classification. Percent noted is for Faculty, Staff is 5%, with matching up to 5% additional |
| Ferris State | No | | | | No | 12.0% | | | Ferris | Employee may contribute if they wish up to IRA limits |
| Grand Valley State | No | | | | No | 12.0% | | | Grand Valley | Employee may contribute if they wish up to IRA limits |
| Lake Superior State | No | | | | No | 10.0% | | | LSSU | Employee may contribute if they wish up to IRA limits |
| Michigan State | No | | | | Yes | 0.0% | 5.0% | 10.0% | MSU | Becomes mandatory after certain age and length of employment |
| Michigan Technological | No | | | | No | 0.0% | 7.5% | 7.5% | | |
| Northern Michigan | No | | | | No | | | | NMU | the University contributes a Base amount of |
| Oakland University | No | | | | No | 14% | | | Oakland | may contribute if they wish up to IRA limits |
| Saginaw Valley State | No | | | | Yes | 12.0% | 4.0% | | Saginaw | Required after 1 year and age 30. |
| University of Michigan | No | | | | No | 0.0% | 5.0% | 10.0% | U of M | employment |
| Wayne State | No | 2 | | | No | 0.0% | 5.0% | 10.0% | WSU | employment |
| Western Michigan | No | | | | No | 9.0% | 2.0% | 2.0% | WMU | |
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