The University Senate of Michigan Technological University

PROPOSAL 4-98

(Voting Units: Full Senate)

CALENDAR TRANSITION EARLY RETIREMENT

The Senate recommends the adoption of a program of granting a calendar transition early retirement (CTER) option to eligible employees who choose to participate. The details of the program will be as follows.

1. Phase I of the Program will start at the end of the 1997-98 academic year and continue for 5 years. The Program may become permanent (Phase II), if it is considered successful enough and recommended by the University Senate to become permanent.

2. Eligible employees are any full-time faculty and staff (non bargaining unit personnel), with nine month or twelve month appointments, whose total of age and period of service at Michigan Tech ("points") shall be at least 80 years (80 points) at the time of election of the Program. One year at a nine or twelve-month appointment shall count as one year of service.

3. The participating employee can choose one of the two options to start the retirement:

- Option A: the immediate retirement. This option allows one to use option AA or option AB of the payment plan (see below).
- Option B: the one-year postponed retirement. This option allows one to phase out the payment plan (Option BA) and continue to work as a full-time or part-time employee.

4. The participating employees will be provided the same benefits as those under standard retirement.

5. The participating employees will be paid an incentive payment calculated as 5.0% of the current (pro-rated) annual salary times the number of years of service at the time of election, as defined above. The incentive payment should not be more than a maximum of between $175,000 and $150,000 (depending upon detailed calculated options of the Finance Committee and the Provost).

6. The participating employees can choose three options of the payment plan calculated as mentioned above.

- Option AA: the moneys are paid directly to the employee in a lump sum upon retirement.
- Option AB: MTU transfers the moneys to the annuity (TIAA/CREF or MPSERS) in a lump sum upon retirement.
- Option BA: the moneys are paid directly to the employee in two installments, on the first month of the first and second years after the time of election the Program.

7. During Phase I of the Program, the positions freed up by the participating employees should be kept and filled out at the corresponding departments and filled out there. Consideration will be given for this matter, and a decision will be made for Phase II of the Program.

Proposal Background

This proposal was considered first in 1997 under the conditional title Proposal 4-98, Terminal Year Sabbatical, as a temporary program for faculty. However, after discussing the proposal, the Senate Academic Policy Committee came to a conclusion that such a program should include three main provisions that were not considered in the original draft. The Finance Committee in its report, attached to the agenda for Senate Meeting 288, February 18, 1998, also stated its concern on these issues.

We believe that the following three main feathers should be added to the original proposal:

(a) the Program must be permanent;

(b) both faculty and staff must be eligible to participate;

(c) it is not appropriate to consider the program as a "sabbatical" option. As a result, a new proposal is suggested for consideration to the MTU Senate.

The Academic Policy Committee discussed the principal features of the Program taking into consideration the following.

(a) We considered several options how to call the Program, including the original, a furlough, and a retirement plan. The final decision reflects the purpose of the program as well its design.

(b) The eligibility is one of the central features of such a program, and we believe that not only faculty but also staff must be included. As to what should be taken into consideration, age, years of service or points, we use the available faculty database (as of 12/22/97), with the frequency distributions shown in Pages 1 through 6 attached. We found that the restricted factor reducing considerably faculty eligibility is age. For instance, if minimum age is 64 in 1998 (as for standard retirement to start at 65 on January 1, 1999), with minimum points of 80 and therefore minimum service years of 16 (see Table), only 5 people (on average) will be eligible each year till 2001. Since we believe that the success of the program (included financial factor for MTU as shown by the Finance Committee calculations) depends upon how many people take part, we consider that the only restricted factor should be points, with the minimum of 80.

(c) Our calculations of a salary factor (also shown in Table) indicated that the average salary for an entry-level faculty position is about $44,000 or $20,000 less than that for the potential participants of the Program.

(d) Although we believe that the best scenario for the MTU employees would be a permanent Program, we prefer to establish the Program in two steps, to be sure of a proper design and ramifications. Therefore, after Phase 1 for 5 years, the Program should be reconsidered and confirmed for its continuation.

(e) We believe that the Program must take into consideration a tax factor to be attractive enough. For some retirees, immediate payment of a lump sum is a necessity; for others a spreadable sum is a better choice. The three optional payment plans are design for this purpose.

(f) Finally, we believe that the incentive payment should be based on not less than 5% of salary times the years of service. Together with the eligibility requirements, such an incentive will ensure that senior faculty and staff will be both encouraged and eligible. More detailed calculations of the Finance Committee have also confirmed such a conclusion that final financial results of the Program will not be a too heavy burden on the University budget.

In summary, the Academic Policy Committee believes that the program will encourage senior, close to retirement, employees to retire, freeing up positions to be filled with new employees. During Phase I, the program serves mainly for those who might not be enthusiastic about the calendar change, developing new curriculums and courses, and the implementation of new semester system. During permanent Phase II, it will serve as a planning tool for all eligible employees of Michigan Tech.

Table. Considered Factors for 1998

1	**Minimum Age**	**64**
2	**Minimum Service Years**	**16**
3	**Minimum Points**	**80**
4	**Salary fraction per year service**	**0.05%**
5	**Median Faculty Salary (calculated)**	**$55,530**
6	**Average Faculty Salary (calculated)**	**$57,865**
7	**Total Salary for 382 Faculty (calculated)**	**$22,106,839**
8	**Average Salary for Faculty with 3 years & <$65,000 (calculated)**	**$43,899**

Tabled by Senate: April 1998