The University Senate of Michigan Technological University

Proposal 41-15

(Voting Units: Full Senate)

"Modify the University's Defined Contribution Retirement Benefit"

I. Introduction:

The Financial and Planning Committee of the University Senate is recommending that the University increase the amount of University contribution to faculty/staff defined contribution plans in order to provide a more robust and competitive compensation package.

II. Background:

The issue is that the current defined contribution plan provided by the University is currently not competitive with what our peers across the country are providing for faculty and staff, and is not conducive to good retirement planning by our faculty and staff. (See Addendum A)

- One of first goals of the University's Strategic Plan is to "attract, retain, and support faculty and staff by providing recognition, rewards, and competitive compensation." The benefits package is one major aspect of compensation, and in terms of retirement plans Michigan Technological University is currently not very competitive with our peers. Attached is a summary review of what many of our peer Technological Universities provide in terms of retirement packages, as well as a summary review of what many of our sister State Universities provide for retirement plans. Ignoring the Universities that still have State run defined benefit plans, the majority of Universities offer higher rates of University contributions to defined contribution plans, and many contribute funds into faculty/staff accounts without requiring matching employee contributions. In order to truly be competitive with our peers Michigan Tech should strongly consider boosting this part of the benefit package.
- Another reason to consider increasing the defined contribution plan is in regards to encouraging faculty and staff to retire when the timing is appropriate and they are financially able to do so. Retirement of older employees has some very real benefits for the University as a whole. Bringing in younger faculty/staff can often allow for a reinvigoration of ideas and methods, provide new energy and viewpoints, and sometimes reduce overall costs to the University as well. There are many positive aspects to having healthy and planned turnover from older to younger employees.
- The alternate aspect of this issue relates to faculty/staff who do not feel that they are able to retire when it would normally be appropriate. This hurts the University in that the beneficial turnover bringing in younger faculty/staff is not occurring, as well as potentially having demoralized and un-incentivized staff that can become a negative influence on campus.
- The inability to retire could be for a number of reasons, but a prime one is not having sufficient savings to comfortably be able to retire, or even having any savings at all. This is a

major concern as the faculty/staff that are still part of the State defined benefit plan retire, and the only retirement plan for future retirees is the defined contribution plan. For many of our lower paid staff in particular, being able to afford the deducted contribution from their regular paycheck may actually be a financial hardship.

- With these reasons for providing a strong retirement plan option, it should be disconcerting to the University to realize that faculty/staff contributions to the defined contribution plans have actually decreased slightly, and that a significant amount of eligible payroll (~$4M) goes unmatched.

III. Proposal

We recommend that the University modify the current defined benefits plan as follows:

- The University will automatically contribute 3% of the employee's salary/wage into the defined contribution without requiring any matching contribution from the employee.
- The University would then match any employee contribution at a 1:1 rate, up to an additional 6% of the employee's salary or wage.
- This would increase the University's contribution to 9% (currently 7.5 %). We estimate that the additional cost to the University would be approximately $1.2 million if all employees participated to the maximum level allowed.

Addendum A: ***Overview of regional and peer group retirement plans***

Peer schools (Ph.D granting w/ STEM emphasis).

Clarkson University:

- Defined contribution plan managed by TIAA-CREF
- Mandatory participation, but only after 2 years of full-time employment.
- Employee contribution of 4.8%, University contribution of 9.6%.

Illinois Institute of Technology (IIT)

- A base 5% university contribution is supplemented by matching the employee's contribution of up to an additional 4%. Investment options are TIAA-CREF and Fidelity Investments.

Missouri University of Science and Technology

- Two parts to the retirement plan
- First part is a defined benefit plan with mandatory participation, 5 years to be fully vested.
- Employees contribute 1% of first $50,000 of salary, than 2% for any salary over $50,000
- Second part is defined contribution 457b plan. All employees auto-enrolled but may opt out.
- 2% base contribution by university, than 1:1 match up to an additional 3%.

Colorado School of Mines:

- Mandatory participation in the Colorado Public Employees Retirement Assoc (PERA) defined benefit plan. Employee (faculty and staff) must contribute 8% of pre-tax salary into this fund, the university funds the remainder (18.35%).
- Non-classified staff (custodial, etc). No employee contribution required.
- Additional voluntary pre-tax contributions can be made to defined contribution plans managed by PERA (457, 401k or 403b plans). No university match for this.
- 5 years of service required to be fully vested.

Georgia Tech

- Mandatory that full-time faculty and staff participate in either the defined benefit plan, or the defined contribution plan.
- Defined benefit plan, employee must contribute 6% of pre-tax salary, university funds the remainder. Fully vested in plan after 10 years.
- Defined contribution plan, employee must contribute 6%, and university contributes 9.24% of pre-tax salary. Fully vested from day one. (Just updated to 6% +11.5%)

Penn State

- Choice of either state plan or TIAA-CREF
- In state plan employee contributes: 6.25% of gross earnings. University contributions: are determined by the State Retirement Board, as prescribed by state law.
- Employee contributes 5% of gross earnings. University contributes: 9.29% of gross earnings.

Purdue University

- Mandatory 4% contribution from employee, 10% contribution from university.

RPI

- Mandatory 1% from employee, 8% contribution from the university.

Regional/Michigan Universities

Northern Michigan University

- Faculty (AAUP), university contributes 15.64% to 403b with no match required.
- Faculty (NMUFA), university contributes 6.5% to 403B, matches additional employee contributions up to 5%
- Administration, university contributes 12.5% to 403b with no match required.
- For staff, university contributes 7.25% , then matches employee contributions up to 1.5%

Grand Valley University

- University contributes 12% to 403b, no employee contribution match required.

Western Michigan University

- University contributes 9% to 403b, than additionally matches employee contributions up to 2%

University of Minnesota – Twin Cities and Duluth (Mandatory participation)

- If hired prior to 2012, than employee contributes 2.5%, and the university contributes 13%
- If hired after 2012, than employee contributes 5%, and the university contributes 10%.

University of Michigan

- The University of Michigan Basic Retirement Savings Plan is a tax-deferred defined contribution retirement savings plan with a 2:1 match on earnings up to $265,000 for 2015.
- All other faculty and staff contribute 5% of salary and receive a 10% U-M match.

Michigan State

- Employee pre-tax 5% and University 10% matching contributions only.

Central Michigan University

- Hired prior to 1996, university contribution of 12%, no match required. Employee may opt to contribute more to pre-tax plan.
- Hired after 1996, university contribution of 10%, no match required. Employee may opt to contribute more to pretax plan.

Ohio State University:

- State defined pension plan: Faculty contribution 10%; University 14%.

Wayne State University

- 2:1 employer match up to 15%. 2 years vesting period.

Lake Superior State

- The University's contribution rate for all employees who participated in the TIAA-CREF plan prior to January 1, 1996 is 12% of gross earnings.
- All exempt employees belonging to the academic, administrative, executive and professional staff on or after January 1, 1996 receive a University contribution of 12% of gross earnings. Any person in this group hired after January 1, 2010 has a contribution rate of 10% of gross earnings.

Eastern Michigan University

- If hired prior to 2012, University contributes 9% with no required match.
- If hired after 2012, University contributes 5%, plus an additional 1:1 match for an employee contribution up to 4% (with complete employee contribution a 13% total).