Michigan Tech

Office of the Chief Financial Officer and Senior Vice President for Administration *906-487-1060*

Memorandum

TO: Rick Koubek, President

FROM: Sue Kerry, Chief Financial Officer and Senior Vice President for Administration

DATE: September 30, 2019

RE: University Senate Proposals 37-19

At its meeting on March 27, 2019, the University Senate approved Proposal 37-19, "Proposal to change the University Defined Contribution Plan to a 10% base contribution with a 2.5% 1:1 Match".

It is my recommendation that this proposal be denied at this time based on the constraints of the University financial resources over the next few years.

To be reconsidered once CFO evaluates benefits holistically

* Not approved

I X concur* ~~X~~ do not concur

Richard Koubek, President

9/30/19

Date

Michigan Tech

Office Memo

Office of the Provost and
Senior Vice President for Academic Affairs

Phone: (906) 487-2440
Fax: (906) 487-2935

TO: Richard Koubek, President

FROM: Jacqueline E. Huntoon, Provost & Senior Vice President for Academic Affairs Jacqueline E Huntoon

DATE: April 26, 2019

SUBJECT: Senate Proposal 37-19

Attached is Senate proposal 37-19, "Proposal to Change the University Defined Contribution Plan to a 10% Base Contribution with a 2.5% 1:1 Match," and a memo stating the Senate passed this proposal at their March 27, 2019 meeting.

Because this proposal addresses a "b-list" item (see Article III, Section 6 iv. b.1 of the University Senate Constitution). I recommend that this proposal be acknowledged rather than approved or declined.

I further recommend that the contents of this proposal be reviewed by the incoming CFO and Senior Vice President for Administration so the information incorporated in the proposal can be considered in the future as part of a large review of finances and compensation at the University.

I __X__ concur ________ do not concur

____________________ 4/28/19
Richard Koubek, President Date

Michigan Tech

University Senate

DATE:	March 28, 2019
TO:	Richard Koubek, President
FROM:	Michael Mullins University Senate President
SUBJECT:	Proposal 37-19
COPIES:	Jacqueline E. Huntoon, Provost & Senior VP for Academic Affairs

At its meeting on March 27, 2019, the University Senate approved Proposal 37-19, "Proposal to Change the University Defined Contribution Plan to a 10% Base Contribution With a 2.5% 1:1 Match". The Senate looks forward to approval of this proposal by the administration. Please keep me informed about the decision of the administration on this proposal and feel free to contact me if you have any questions.

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	Defined Benefit Plan	Years until vested	Emplyee Contribution	Defined Contribution Plan	Mandatory Participation	Univ. Base Contribution	Employee Percentage	Matching Percentage	Plan Website	Notes
Michigan Tech's Self Determined Peer Institutions										
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.
Renssealaer 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

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		same