PROPOSAL 27-99

COST REDUCTION RETIREMENT EQUITY PROGRAM

(TRANSITIONAL SUPPLEMENTARY RETIREMENT ANNUITY FOR MTU RETIREES)

The Senate proposes that employees 60 and over with 25 years of service to MTU as of June 30, 1999, who set a retirement date of June of the year immediately following Board of Control approval of this proposal will receive into their retirement accounts, on retirement, an amount equal to their years of service at MTU times 10% of their last year's annual 12-month salary immediately prior to retirement, the amount not to exceed $250,000. This amount may be paid in at one time, or spread equally over a number of years, at the retiree's choice; in the latter case, the payments are to be made to the retiree's survivors if he or she dies before payment is complete. The sum to be added to a retiring employee's account will be decreased by 5% per year for the next 10 years and by 10% per year for the following 5 years.

This is a transitional proposal in that the currently-proposed increase of .45% (Senate Proposal 9-99) would make MTU's contribution up to 13% and the employee's to 2%, making a total of 15% and enabling younger faculty to retire at 65.

RATIONALE
Employees approaching retirement, in MTU's present system, are those least prepared for it. MTU has been contributing a sum equivalent to 10.55% of their salary into their retirement program since 1969, a substandard rate given the norm of 15% universally recommended by retirement experts. This figure was only recently increased, in 1998, to 14.55%, of which 2% is being paid by employees. Additionally, studies have shown that, in the upper ranks of faculty and staff, MTU salaries are approximately 10% lower than those at benchmark institutions, leading to grossly inadequate accumulations.

Consequently, people approaching retirement from MTU have a problem. The recent improvement in Retirement Health Benefits, in the form of an "infusion" to make up for the Retirement Health Benefits shortfall as co-pays are increased to 100%, if implemented, will not even be a consideration if an employee near retirement cannot afford to retire in the first place because he or she will have a retirement accumulation considerably less than that found, for example, at NMU. A "graying" population at MTU will not only cause employees financial distress and delayed retirement, but will also render MTU less able to plan new programs.

COST OF PROPOSAL
Taking demographic figures and salary averages from the Provost's Office (including death benefits to those who would, in statistical probability, die on the job in that time-span), the costs to MTU of paying the SRA now, compared with the costs of the same people delaying their retirement until 10 years from now (Salaries, Raises, TIAA contributions, and Death Benefits), are as follows: Twenty-six faculty members would cost MTU ~$5M now versus ~$26M in 10 years' time, while 7 staff would cost MTU ~$1.05M now versus ~$5.6M in 10 years' time.

APPENDIX
An example illustrating how the TSRA program would work for a current employee contemplating retirement with an annual salary of $80,000 and 30 years of service:

Example TSRA Adjustment Schedule for a Hypothetical Retiree.

Item	Input
Annual Salary (12-mo.):	$80,000
TSRA Implementation Year:	1999
Annual Salary Escalation:	3.0%
Current Age of Employee:	60
Years of Service:	30
TSRA Status:	**eligible**
TSRA Cap:	$250,000

Year	Service (yrs)	Vestment %	One-Time Infusion
1999	30	100 %	$240,000
2000	31	95 %	$242,668
2001	32	90 %	$244,431
2002	33	85 %	$245,208
2003	34	80 %	$244,911

2004	35	75 %	$243,448
2005	36	70 %	$240,721
2006	37	65 %	$236,628
2007	38	60 %	$231,059
2008	39	55 %	$223,899
2009	40	50 %	$215,027
2010	41	40 %	$181,611
2011	42	30 %	$143,717
2012	43	20 %	$101,035
2013	44	10 %	$53,243
2014	45	0 %	$0

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