



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: January 30, 2020

SUBJECT: Senate Proposal 18-20

Attached is Senate proposal 18-20, "Proposal to Examine the University Defined Contribution Plan," which the Senate passed at their January 22, 2020 meeting.

I have reviewed this proposal and recommend acknowledgement. Because this proposal does not propose new policy or procedure, or modify or rescind existing policy or procedure, it does not require administration approval or disapproval. Additionally, the topic addressed is considered a Senate "B" list item, falling under the category of "Other Matters of Policy and Procedure".

I concur X do not concur _____ with this recommendation.

Richard Koubek, President

2/4/20

Date



Michigan Tech

University Senate

DATE: January 23, 2020
TO: Richard Koubek, President
FROM: Michael Mullins
University Senate President
SUBJECT: Resolution 18-20
COPIES: Jacqueline E. Huntoon, Provost & Senior VP for Academic Affairs

At its meeting on January 22, 2020, the University Senate approved Proposal 18-20, "Proposal to Examine the University Defined Contribution Plan". Feel free to contact me if you have any questions.

The University Senate of Michigan Technological University

Proposal 18-20

(Voting Units: Full Senate)

“Proposal to Examine the University Defined Contribution Plan”

Submitted by: The University Senate Fringe Benefits Committee

I. Introduction

In this era of increased competition for a declining number of high school graduates in the Midwest and for graduate students (including a more challenging environment for the recruitment of foreign students), recruiting and retaining top faculty and staff is important to maintain and grow the positioning and 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 state and peer institutions is key in recruiting and retaining top talent.

The University Senate passed Proposal 37-19 in the Spring of 2019, asking the Administration to consider changing the University defined retirement contribution to a 10% base with no match required, with an additional 1:1 match up to a total of 2.5%. Approval of the proposal would have placed Tech closer to what most state universities in Michigan provide and would have positioned Tech on a more even playing field with our out-of-state peer institutions. It would also have increased the ability of future and existing employees to move into retirement more comfortably and on time; a benefit to both the employee and the University. Despite general support for improving retirement benefits, the Administration was unable to approve the proposal at that time.

The Senate recognizes the current financial challenges facing the University that led to the denial of Proposal 37-19. However, we as a body are still committed to improving the benefits package for employees of the University and ask the Administration to study the feasibility of moving in the near future to a defined 7.5% base contribution with no required match, with the option for employees to make additional pre-tax contributions up to the legal limit.

II. Background/Rationale

Prior to the mid-1990's the faculty and staff of Michigan Tech were enrolled in the Defined Benefits Retirement Pension plan managed by the State of Michigan. In 1997 the State ended this plan for all future

State employee hires, including those at Michigan Tech. 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 a combined 5%. In 2012 this was again changed to a 1:1 match with a combined contribution up to 7.5%. This change represented a 41% decrease in the University's contribution to employees' retirement over the past decade ([History of Total Compensation at Michigan Tech, 2008-2017](#)).

As a result, Michigan Tech currently ranks near the bottom for retirement contribution plans when compared to our self-described university peers, as well as other major State universities in Michigan. This deficiency does not serve as a positive incentive for retention or recruitment of highly sought-after faculty and staff (for specific comparative data, see Table 6 in the report [History of Total Compensation at Michigan Tech, 2008-2017](#)).

A potential change to a flat 7.5% defined contribution will serve a multitude of purposes. First, this change will ensure that all employees, regardless of economic circumstances, will be working toward retirement savings. Two, it will better position retirement benefits at Michigan Tech relative to our state and peer competition, enhancing our competitive position in recruitment and retention. Third, it will lessen the impact of retirement savings on lower-income wage earners at the University, promoting greater equity. Fourth, a positive change in retirement benefits would begin to reverse a decade-plus of benefit losses suffered on the part of employees at Michigan Tech, signaling a good faith effort on the part of the Administration and fostering a sense of goodwill.

With specific reference to point three above (and related to point one), institutional data suggests that lower-income earners at Michigan Tech are disproportionately affected when it comes to retirement saving. The data suggests that some employees may not be taking advantage or full advantage of the current matching plan due to income concerns. Data from 2015 provided by Human Resources indicates that 1,220 employees were eligible for the defined contribution matching plan at that time, and that a total of 212 (17.4%) either took no advantage or only partial advantage of the benefit. Examination of the data suggests a potential correlation between pay and contribution to the current plan; implying that lower-paid employees are less likely to opt into the plan. Here is the basic breakdown for program participation:

- Only 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;
- A full 29.9% of eligible employees (140 of 469) making under \$50,000 fail to take full advantage of the 7.5% match.

While the rationale for these decisions are likely complex and variable, there does seem to be an economic motivation involved with limited or non-participation in the plan. More complete data detailing participation and contribution rates would further flesh-out this hypothesis. At the same time, it is encouraging that a full 82.6% of employees, at least as of 2015, were taking either full or partial advantage

of the defined contribution plan. This suggests that the impact on the University of moving to a base 7.5% contribution may not be as financially demanding as might be expected.

III. Proposal

The University Senate asks for greater transparency regarding the financing of retirement benefits at Michigan Tech. The Senate requests that the University Administration and Human Resources attend a Senate meeting prior to the completion of the 2019-20 Senate term to present information related to the following:

- A detailed cost accounting analysis regarding the cost of implementing a base 7.5% defined contribution for qualified employees of the University, including a breakdown of participation rates and contribution percentages across all relevant variables;
- An up to date and detailed benchmarking study comparing retirement benefits at Michigan Tech with all state universities in Michigan, as well as with a broad selection of peer and aspirational institutions (Carnegie Classification R1) with whom Michigan Tech competes for the recruitment and retention of high-quality faculty and staff;
- A detailed three-year plan for the targeted improvement of retirement benefits at Michigan Tech.