

University of Illinois Board of Trustees



UNIVERSITY OF ILLINOIS

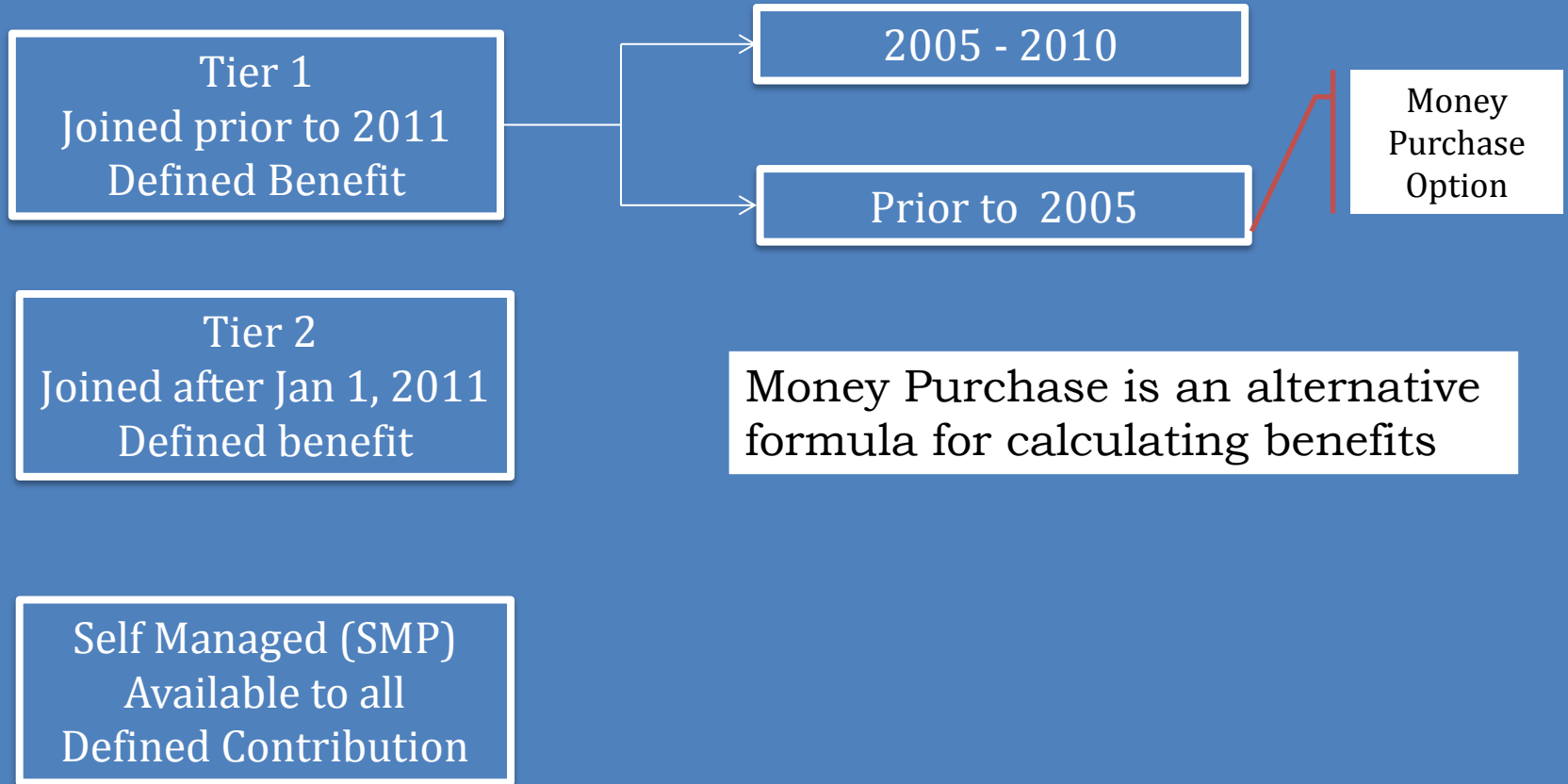
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

April 18, 2014

Retirement Programs for University Employees

**Presentation to the
Board of Trustees
April 18, 2014**

State University Retirement Systems (SURS) Three Pension Programs



Money Purchase Option

During Employment
Contributions Accumulate with
Interest

During Retirement
Monthly Annuity



Total accumulation converted to monthly annuity
Annuity based on interest rate

PA98-0599 fixed interest rate for calculating annuity (effective 7.1.2014)

Interest Rate 6.30.14	7.75%
Interest Rate 7.1.14	4.27% (approx)

Impact of Rate Reduction

Annuity on 6.30.14 (old rate)	\$2,540
Annuity on 7.1.2014 (new rate)	\$1,640

Annuity on 6.1.2013	\$1,810
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Penalty for not retiring
29% loss in lifetime income

Additional Changes Imposed by PA98-0599

- Reduce COLA
- Temporarily suspend COLA for future retirees
- Cap pensionable earnings
- Delay retirement age for those under 45
- Change effective rate of interest
- Reduce employee contribution by 1%

Level of Benefit Reduction Depends on Salary Level

Consider individuals who joined 10 years ago and expect to work for another 25 years. The table below shows benefit reduction for this group of employees (for different starting salary levels).

Benefit Reduction	Starting Salary Level					
	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000	\$200,000
At Retirement	0%	7%	30%	44%	50%	50%
20 th Year of Retirement	8%	24%	43%	54%	60%	65%
Present value Of Lifetime Loss	5%	17%	38%	50%	56%	59%

Assumptions: (1) Average annual salary growth 3%, (2) Inflation rate 2.5%
 (3) Present value discounted at 5%, assuming life expectancy of 25 years after retirement

BIG TEN UNIVERSITIES RETIREMENT CONTRIBUTION LEVEL COMPARISON

Institution	Social Security		University Retirement Plan		Total		GRAND TOTAL
	Employee	Employer	Employee	Employer	Employee	Employer	
University of Minnesota	6.20%	6.20%	5.50%	10.00%	11.70%	16.20%	27.90%
University of Iowa	6.20%	6.20%	5.00%	10.00%	11.20%	16.20%	27.40%
University of Michigan	6.20%	6.20%	5.00%	10.00%	11.20%	16.20%	27.40%
Michigan State	6.20%	6.20%	5.00%	10.00%	11.20%	16.20%	27.40%
Northwestern University	6.20%	6.20%	5.00%	10.00%	11.20%	16.20%	27.40%
Penn State	6.20%	6.20%	5.00%	9.29%	11.20%	15.49%	26.69%
Purdue University	6.20%	6.20%	4.00%	10.00%	10.20%	16.20%	26.40%
University of Wisconsin	6.20%	6.20%	7.00%	7.00%	13.20%	13.20%	26.40%
University of Nebraska	6.20%	6.20%	5.50%	8.00%	11.70%	14.20%	25.90%
Ohio State University	0.00%	0.00%	11.00%	14.00%	11.00%	14.00%	25.00%
Indiana University	6.20%	6.20%	0.00%	10.00%	6.20%	16.20%	22.40%
Average Big Ten					10.91%	15.48%	26.39%
University of Illinois Tier I	0.00%	0.00%	8.00%	7.50%	7.00%	7.5%-8.0%	14.5%-15.0%
University of Illinois Tier II	0.00%	0.00%	7.00%	7.50%	8.00%	7.50%	15.50%
University of Illinois SMP	0.00%	0.00%	8.00%	7.60%	8.00%	7.60%	15.60%

Illinois employer costs are estimates post 7.1.2014. Source: 2010 Buck Consulting study updated by UI HR

Supplementary Benefits Will Help To:

- Gain parity with peer institutions
- Improve ability to recruit and retain talent
- Enhance individual retirement savings
- Facilitate appropriate workforce transitions

How: Expand 403(b) Plan

- Supplementary 403(b) Retirement Plan established in 1964
- 403(b) allows employee and employer contributions
- Amend existing plan to make University contribution
- All current and future employees who are “SURS” eligible should receive contribution (Tier I, Tier II and SMP)
- Pensionable salary limited to IRS limit (currently \$255,000)

Principles for Plan Design

- Provide retirement benefits comparable to peers
- Increase combined contribution level to accumulate adequate retirement savings
- Utilize mix of core and matching university contributions
- Encourage all participants to utilize matching program
- Follow industry best practice in plan design

Three Part Framework

- A. A level of university contribution for all SURS eligible employees
- B. University matching of employee contribution up to specified limit.
- C. Additional contribution for Tier I members with salary caps based on portion of the individual's salary that is above the cap

All pensionable salaries will be subject to IRS limit

Example Plan for Illustration

- A. University contributes 2% of all pensionable salary of all eligible employees
- B. University provides 50% match for contributions made by employees to 403(b) accounts up to maximum of 2% of salary
- C. In addition, University provides 100% match for Tier I members with salary caps based on portion of the individual's salary that is above the cap up to a maximum of 5% of that amount

All pensionable salaries will be subject to IRS limit

Augmenting Retirement Savings

Individual works for 25 years and receives 2.5% annual salary increase
Fund earns 5% per annum. At retirement converts to 25 year annuity earning 5% return.

	Starting Salary		
	\$40,000	\$80,000	\$120,000
Total Accumulation	\$217,186	\$434,273	\$651,558
Monthly Annuity at Retirement	\$1,264	\$2,539	\$3,793

Annuity approximately equals 20 percent of final income

Discretionary University Contributions

- University contributions not guaranteed on an on going basis
- It will be set annually and can be changed or suspended in the future
- University retains right to prospectively terminate all employer contributions to the 403(b) plan

Necessary Steps After Board Approval

- Amend current 403(b) plan
- Legal review and approval of plan amendments
- Communicate program features to eligible employees
- Communicate new program guidelines to vendors
- Enrollment to program—communicate repeatedly
- Reprogram payroll, salary deferral and other systems
- Arrange transfer of contributions to vendors.

