Structuring an Effective and Successful Early Retirement Plan For Your Campus

Higher Education Summit

December 3, 2014
Agenda

- Designing Voluntary Separation Agreements for a broad population
- Designing Voluntary Separation Agreements for a small targeted group of Faculty
Case Study I

Designing Voluntary Separation Agreements for a broad population
Internal and External Factors Driving Voluntary Separation Offers

➢ Financial – Cost Reduction
  • Declining investments from state governments
  • Increased demands to offer affordable education
  • Declining enrollments in professional programs (law, business, etc.)
  • Greater reliance on endowments
  • Increased operational costs

➢ Organizational restructuring
  • Demands for increased organizational efficiency
  • Opportunities for consolidation of existing service areas
  • Opportunities for departmental restructurings
  • Opportunities to leverage emerging technologies

➢ Faculty and staff renewal
  • Opportunities to address declining / reduced productivity
  • Opportunities to instill new ideas / energy into the institution
Early Retirement vs. Voluntary Separation Incentive Plans (VSIP)

- **Early Retirement Incentive Plans**
  - Direct link to Retirement Plan
  - Requires employee to actually retire, begin participating in retirement distribution
  - Requires common incentive across all employees (discrimination tests)
  - Limited flexibility in structuring terms and conditions

- **Voluntary Separation Incentive Plans**
  - Essentially seeking employee’s resignation in exchange for a financial incentive
  - Greater flexibility in structuring terms of the offer, qualification for the incentive, timelines, etc.
    - Opportunity to differentiate incentive terms (e.g., different terms for faculty vs. staff)
    - Opportunity to customize departure dates and other program elements
Assessing the Viability of Offering a VSIP

Before offering a VSIP it is important to accurately assess the following:

- Average number of annual retirements
- Incentive terms and conditions necessary to generate sufficient interest
  » Financial, non-financial, timing
- Potential interest in in VSIP
  » Protect against too few participants
  » Protect against too many participants
- Costs of the incentive
- Return on investments timeline and variables
  » Employee replacement / non-replacement
  » Reduced salary
- Potential operational impacts / risks / benefits
- Cultural impacts / risks / benefits
Assessing the Viability of Offering a VSIP

> Approach for assessing the viability of offer:
  • Define potential population of VSIP targets
    – Combination of years of service and age (e.g., 75)
    – Other
  • Identify all faculty and staff in potential pool
  • Meet with all Deans, VPs and other leaders to
    – Assess particulars of each faculty and staff member's personal situation to assess / estimate potential interest in VSIP
    – Assess potential operational issues
    – Assess cultural impacts
    – Assess interest level among leaders
    – Assess financial and non-financial benefits
  • Conduct a few small focus group discussions with faculty and staff to assess interest level and understand incentive expectations

> Finalize terms of VSIP
> Identify number of likely participants
> Financial Plan
> Return on Investment
> Risk Assessment
> Benefits Assessment
Common Terms and Conditions of VSIP’s

▶ Eligibility
  • Full time employees
  • Combination of years of service and age 70-75
  • Minimum of 10 years of service

▶ Financial Terms
  • Faculty – 1 year of pay, lump sum
  • Staff – range of 6 months of pay to 1 year of pay, lump sum

▶ Other Terms
  • Some continuation of health care for participants under age 62
  • Continuing affiliation terms, particularly for faculty

▶ Timing
  • Faculty – full academic year from date opting into the program
  • Staff – within 3-6 months from date opting into the program

▶ Other
  • One-time offer
Program Mechanics

- Request those that meet eligibility requirements to file a confidential Expression of Interest on the VSIP
  - 30 – 45 day period
    - Provide employees access to independent financial / retirement counseling
  - Validates interest level
  - Validates operational risks and benefits

- Determine whether to formally offer the program

- Prepare and distribute the VSIP offer to eligible faculty and staff
  - Narrow window to opt in, 2-4 weeks
  - Require employees to sign a binding agreement to resign from the institution in exchange for the incentive
Funding Approaches

- Funding approaches vary across institutions
  - Central one-time funding approach
  - Distributed funding approach
  - Combination of central and distributed funding approach

- ROI and payback scenarios vary across institutions
  - Typically 1 to 3 years
    - Shorter timeline results in higher degrees of short term operational impacts
      » Non-replacement of positions

- Assume 100% of faculty will be replaced
  - Costs savings achieved on lower salaries
    - Issue in professional programs (e.g., business schools)

- Assume 25% + non-replacement of staff positions and lower salaries for replacement staff
Other Considerations

» Deciding whether employees who have opted into VSIP can return to work at the institution in the same or different role

» Determining whether the offer should be extended to employees who are close to meeting the eligibility requirements

» Determining what do you in the situation where some leaders don’t support the program?
  • Preventing people from opting into the VSIP
  • Pushing people into the VSIP

» Developing messages and efforts to support those “left-behind”

» Celebrating those that are leaving

» Getting external / objective support for assessing the opportunity and building the program components

» Ensuring there is clarity about the replacement terms
Case Study I: Broad Based Voluntary Separation Incentive

- Large public university experiencing several years of state funding reductions needs to reduce costs but knows that a large scale reduction in force / layoff would be culturally damaging to the institution
  - University also knows it has several faculty and staff who have become less productive in recent years but tenure and campus culture prevent targeted reduction in force measures
- Structured a voluntary separation incentive program aiming to achieve a participation rate equal to or greater than triple the number of average annual annual retirements
- Offer is 1 year of pay for faculty and 6 months for staff along, with 2 years supplemental health insurance coverage for those under the age of 62, in exchange for agreement to resign employment
- Assumption was that all faculty positions would be replaced (at reduced salaries) and 25% of all staff openings resulting from the incentive would not be replaced
- Assessment was conducted by Sibson to identify participation levels, costs and payback scenarios
- The project exceeded financial expectations and achieved participation targets
- Culturally the program received praise from faculty and staff
Designing Voluntary Separation Agreements for a targeted faculty group
Case Study II: Targeted Voluntary Separation Agreements

- XYZ had identified several long term professors who had 3 consecutive years of poor performance reports based on teaching and grant award criteria
- Provost had university financial commitment to offer incentives to encourage separation
- XYZ worked with Sibson to develop the structure for the program
- Potential legal issues were identified and researched
- Meeting with all department heads was held led by Provost, Sibson and Human Resources
- One on one session were held to train the department heads for the discussion with the individuals who were identified, and to answer any questions that they may have had
- The offering parameters were established that allowed faculty chairs to have some flexibility based on the individual situations
- Meetings were then held with each of the identified members
- As a result 7 out of 8 faculty members accepted the offer
- Now the details………. 
Discovery Step:
*Clarify Goals and Objectives*

**Business Considerations**

- University renewal
- Faculty invigoration
- Financial boundaries (formula)
- Departmental objectives (replacements?)
- Positive/negative impact of incentives on other faculty – what if others request participation?

*Caution against building expectations that incentives are a frequent occurrence.*
Strategy Formulation

▷ **Effective Date**
  - Determine based on faculty member’s interests and business needs
  - Separation will usually be effective on the last work or assignment day

▷ **Incentive Decision Window**
  - Sufficient enough in length for individuals to properly consider the offerings
    - New York standard is 21 days and revocation 7 days

▷ **Announcement Date**
  - Confirm no conflicts with other major events that may interfere or be impacted by this announcement or retirement effective date.
  - Prepare all documentations – agreement, benefit conversion, etc.

▷ **Window**
  - Coordinate with organizational needs
  - Provide sufficient lead time to support Chairs and individual decision making process

▷ Departmental and Leadership Approval Required
Strategy Formulation:
Determine Best Approach

Two sample retirement incentive approaches are—"buyouts" and "phased retirement."

- "Buyouts" are lump sum payments to enable a faculty member to resign or retire earlier than anticipated.
- "Phased resignation/retirement" is an opportunity for a faculty member to choose a separation date in the future and begin working part-time until that date.
- A combination of the "buyout" and "phased" approaches.
- Individuals given the option to choose their preferred approach.
Although accepting a VISP is a personal decision, four factors primarily influence the decision: financial, healthcare, professional, and personal.

- Full-time tenured faculty commonly respond to all four incentives
  - Financial—A fundamental concern as one contemplates retirement is “will I have enough money on which to live?”
  - Healthcare—Continuation of comprehensive, quality health coverage
  - Professional—Maintenance contact with students, research, colleagues and professional activities.
  - Personal factors—Influencing the retirement decision can range from financial standing, interest in hobbies, and familial issues to personal health or health of a loved one.

**Caution:** Avoid sharing your intent for an incentive program before commitments to proceed have been established.
Strategy Formulation: 
Provisions, requirements and Incentives

- Continuation of health insurance coverage
  - Health Insurance (medical only)
- Pension eligible (55 and 20 minimums)
  - Age credit
  - Employment credit
  - Combination of the above

- Continuation of Institutional affiliation
  - Retiree central office or center for retiree support
  - Department affiliation
  - Continued support for funded research

- XYZ’s post-retirement perquisites

Create a best fit design for the institution’s culture and intended outcomes.
### Possible Continued Perquisites

<table>
<thead>
<tr>
<th>Most Often Available</th>
<th>Departmental Discretion</th>
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<tbody>
<tr>
<td>- Retiree ID card</td>
<td>- Attendance at departmental meetings</td>
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<tr>
<td>- Phone directory listing</td>
<td>- Office space</td>
</tr>
<tr>
<td>- Library privileges</td>
<td>- Laboratory space depending on funding and availability</td>
</tr>
<tr>
<td>- Recreation/athletic pass</td>
<td>- Clerical support</td>
</tr>
<tr>
<td>- Events at faculty rates</td>
<td>- Recommendation for Emeritus status</td>
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<td>- Ability to purchase parking</td>
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<td>- Employee discounts</td>
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<td>- Retiree group membership</td>
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<td>- Campus dining facilities</td>
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<tr>
<td>- Campus transportation</td>
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<tr>
<td>- Campus committee member</td>
<td></td>
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<tr>
<td>- Exercise and wellness</td>
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</tbody>
</table>

> Others needed?
- (general or departmental )
  -
  -
  -

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XYZ’s Design

➢ Financial Supports – Individuals take advantage of this opportunity are eligible for payments equal to 1 year of base salary plus $X,XXX per each year of service and the possibility of planned, continued responsibilities up to the maximum of 3 years. Any signed and approved individuals, whose planned separation date is within 1 year from May 31, 2011, will receive an additional, signing bonus.

➢ Other Considerations - Depending on individual
  – access to Retirement saving payout if 55 or older,
  – access to Retiree Medical Benefits if 55+ and more than 20 years of services, and
  – access to Social Security Benefits if qualified

➢ Window of Opportunity: Agreements must be signed by January 15, 2011.

➢ Affiliation: Faculty taking advantage of this opportunity will receive the same access to XYZ post-separation services, affiliation, and benefits as other retirees, summarized below:
  • AFFILIATION PERKS

<table>
<thead>
<tr>
<th>UNIVERSALLY AVAILABLE</th>
<th>AT DEPARTMENT HEAD’S DISCRETION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mail Services</td>
<td>• Office or desk space</td>
</tr>
<tr>
<td>• University Publication</td>
<td>• Copy and Printing Support</td>
</tr>
<tr>
<td>• Library Services</td>
<td>• Email Account</td>
</tr>
<tr>
<td>• Recreation/Athletic pass</td>
<td>• Invitation to Department Event(s)</td>
</tr>
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<td>• Employee Discounts</td>
<td>• Attendance at Dept. meetings (non-voting)</td>
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<td>• Campus Committee member</td>
<td>• Laboratory space depending on funding and availability</td>
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<td>• Exercise and Wellness</td>
<td>• Recommendation for Emeritus status</td>
</tr>
<tr>
<td>• Retiree group membership, if applicable</td>
<td>• Campus Directory – with voicemail and listing</td>
</tr>
<tr>
<td>• Retiree ID, if applicable</td>
<td>• Department Committee member</td>
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</table>

Approval Standards for:
Supported Resignation for Retirement Decision Programs

- The Department Head must formally review the intended list of participants for this opportunity with the Provost prior to any discussion or action with those proposed eligible.

- The head of the appropriate department must personally endorse each resignation/retiree candidate prior to requesting formal consideration by the Provost.
  - Each Chair will personally present the recommendation to the Provost for final written approval.

- Understand each of the University’s departments separately for business needs and nature of issues to be addressed.
  - Understand the departmental needs and priorities before structuring the initial individual offering.
  - Each department may have different business objectives and individual challenges.
  - Different incentive combinations may be necessary for each department to maximize participation.
  - Such a program may be detrimental to some departments.
Key Points Agreement

Date:
Department Head’s Name:
Faculty Member’s Name:
Date of separation:
Total incentive amount (*add $XX,XXX if date of separation will be before May 31, 2012*)

Description of work schedule:

Payment schedule:

Faculty member has requested the following items:

*The general terms above will be used in drafting the legal agreement. By signing below, the parties agree that they are comfortable with the terms. Both parties will have a full opportunity to review and negotiate the legal agreement that is drafted.*

_________________________________________       ___________________________       ___________________________
Department Head       Faculty Member       Provost
Questions that need to be addressed???

1. Presentation of the issue:
   - How do I introduce the topic; is there recommended language both to use and not use?
   - Introduce the subject of increased emphasis on teaching and research productivity
   - Note that the individual’s teaching quality is not meeting departmental expectation
   - Clarify expectations and offer assistance
   - Introduce one-time financial assistance and irrevocable resignation agreement
   - Suggest the individual take time to discuss this confidential offer with family, counselor, financial and tax advisor and return with a proposal about what action s/he would like to take.

2. What boundaries (minimum and maximum) guidelines should we follow in the “package?”

3. What should we say, if anything, about financial planning and tax consequences?

4. How flexible can we be with the phase down or delayed retirement date?
Questions?

› What are the consideration and revocation periods?
› What is the approval process? What is the source of funds?
› What if the voluntary resignation possibility is rejected?
› What if we get additional requests for consideration?
› How confidential is this process?
› By what name do we refer to this approach?
› Can we talk about some “straw person” case studies or “what if “scenarios?
Scenario 1 – Professor at Median Salary

Dr. Tyred O. Teaching

- Dr. Tyred is inclined to take a one-time tenure buy-out but is not inclined to resign.

- Dr. Tyred wants:
  - A one year salary equivalent
  - No teaching responsibilities and
  - Pay split over two tax years

- Discussion
Scenario 1 – Professor at Median Salary

**ALTERNATIVES**

- Agree to the one year salary equivalent
- Suggest a date certain for future resignation date within two years as exchange value for the agreed pay-out
- Assign Tyred to student advising
- Tax implications - discussion
Scenario 2 – Professor at Low Salary

Dr. Baer Lee Able

- Dr. Able wants
  - No discussion of resignation (s/he can’t afford it)
  - To work as long as possible

- Dr. Able Verbalizes
  - Concern about how s/he was selected
  - Perception that this opportunity is age related
  - Or, this is a disguised forced retirement

- Discussion
### Scenario 2 – Professor at Low Salary

<table>
<thead>
<tr>
<th>ALTERNATIVES</th>
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<tbody>
<tr>
<td>Discuss emphasis on</td>
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<tr>
<td>- Quality teaching</td>
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<tr>
<td>- Research productivity</td>
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<tr>
<td>- Goals for department</td>
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<tr>
<td>- Need for faculty planning</td>
</tr>
<tr>
<td>Respect for Dr. Able’s career contributions</td>
</tr>
<tr>
<td>Emphasize one-time offer</td>
</tr>
<tr>
<td>Consider 2 year salary equivalent or post-retirement contributions</td>
</tr>
<tr>
<td>Tax implications - discussion</td>
</tr>
</tbody>
</table>
**Scenario 3 – Professor at Full Salary**

**Dr. Well Enoughoff**

- Dr. Enoughoff wants to
  - Retire in the next 5 years any way
  - Control the terms of his own separation

- Dr. Enoughoff wants to
  - Phase down teaching load
  - Feels affiliation, respect and inclusion in the department will be critical to any decision
  - Resist the offer if his/her expectations are not met

**Discussion**
Scenario 3 – Professor at Full Salary

ALTERNATIVES

› Suggest flexibility within the one-time offering
› Invite Dr. Enoughhoff to propose a phase down teaching and compensation package
› Set the standard that such an agreement must not exceed 2-3 years
› Set expectations
› Tax implications - discussion
Thank you!

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