

Current Faculty Benefits at the University of Illinois and Potential Changes

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Overview

- Employee Benefit Comparison
- Current Employee Benefits
 - Pensions
 - Health Insurance
 - Disability Insurance
- SURS funding level
- Benefit Changes
 - Money Purchase Factors effective July 1, 2012
 - For employees starting on or after January 1, 2011
 - Potential changes for all employees
- Where to get more information

Value of Employee Benefits at Illinois

- “Salary and Benefit Compensation at American Research Universities” by Mark Browne and James Trieschmann, *Journal of Risk and Insurance*, Sept. 1991
 - study of 106 universities
 - ranked universities based on salaries, benefits and real disposable income
 - How do think the benefits at the University of Illinois ranked?

Is this Study Valid?

- Yes
 - Based on employer’s payments for benefits
 - U of I employees not covered under Social Security
 - 7.65% employer contribution would be required
 - State’s payments to State Universities Retirement System were (and still are) below the cost of those benefits (9.1%)
 - Post retirement health care coverage is on a pay-as-you-go system

Is this Study Valid? (cont.)

- No
 - For long term employees the value of pensions and post-retirement health care are much more generous than many other plans
 - Payments not made when benefits are earned will be paid when benefits are received
 - Benefit promises are guaranteed by state constitution or by contracts

Pension Benefits

- Pension benefit options
 - Traditional
 - Portable
 - Self-Managed Plan
- New employees must select a plan within 6 months of first employment
- No changes are allowed
- Employee cost is 8% of compensation
 - 6.5% for retirement
 - 0.5% for automatic annual increase
 - 1.0% for survivor's benefits (Traditional) or portability feature (Portable)

Traditional Benefit

- Only plan available prior to 1998
- Retirement available
 - Age 55 with 8 years of service
 - Benefit reduction for retirement before age 60
 - Age 62 with 5 years of service
 - Any age with 30 years of service, no reduction
- Pension is based on higher of General Formula or Money Purchase Plan

Traditional Benefit General Formula

- 2.2% of Final Average Earnings for each year of service
 - Unused, unpaid sick leave can count for up to 1 year of service
- Final Average Earnings is based on 4 highest consecutive years of earnings
 - Includes summer sessions and accumulated paid vacation (up to 56 days)
- Maximum benefit is 80% (36.4 years)
- Example:
 - 30 years of service would provide a pension of 66% of final average earnings

Traditional Benefit Money Purchase Plan

- Only available for employees who began SURS employment prior to July 1, 2005
- Approximately 2/3 of eligible employees retire based on this plan
- Calculation
 - Total employee contributions plus interest
 - Multiplied by 6.5/8 (for retirement portion)
 - Multiplied by 2.4 (to reflect State's share)
 - Total is divided by Money Purchase Factor

Traditional Benefit Example

Employee age 60 on 6/30/12
30 years of service
Final Average Earnings \$100,000
Contributions plus interest = \$350,000

General Formula

30 x 2.2% = 66%
100,000 x 66% =
66,000/ year or
5,500/month

Money Purchase Formula

Contributions plus interest =
350,000
X 6.5/8.0 = 284,375
X 2.4 = 682,500
/119.521 = 5,710/month
(if retire on 6/30/12)
or /129.943 = 5,252/month
(if retire on 7/1/12)

Traditional Benefit Survivor Benefits

- Payable to a spouse at least age 50
- 50% of pension benefit

Traditional Benefit Automatic Annual Increase

- 3% per year compounded
- Starts January 1 after retirement

Traditional Benefit Separation Refund

- Employee contributions and 4.5% interest
- All employee contributions and additional interest forfeited

Portable Benefit

- No survivor benefits
 - Can be purchased by reducing pension
- Separation refund (after 5 years)
 - All employee contributions and all interest
 - Plus 1-for-1 match of employer contributions and interest
- All other benefits same as Traditional

Self-Managed Plan

- 8% employee contribution
- 7.1% employer contribution
- Total invested in any of 52 investment alternatives
- At retirement can choose an annuity or a lump sum
 - Can choose survivor benefit for lower annuity
- Automatic annual adjustment does not apply
- Must annuitize to get health insurance

Health Insurance

- Employees – contributory with premium based on salary and number of dependents
- Retirees – with 20 years service
 - State pays full premium for retiree
 - Retiree pays premium for dependents
 - If under 65, State plan is primary
 - At 65+, Medicare is primary if employee is eligible

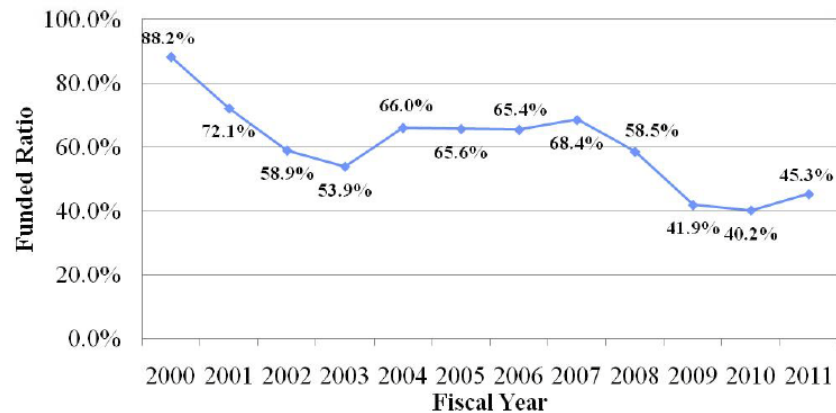
Disability Benefits

- If unable to perform your own job
 - 50% of basic compensation until payments equal 50% of total earnings under SURS
 - Will last a little less than length of employment
- Disability retirement allowance
 - If unable to perform any job
 - 35% of basic compensation
 - Not available under Self-Managed Plan
- Option to purchase additional disability insurance
 - 15% of compensation
 - **Very important coverage!**

SURS Funding

- defined benefits assets: \$14 billion
- expected 2012 benefit payments: \$1.75 billion
- 2011 funding level: 45.3%
- “The Illinois Constitution provides that the pension obligation of the state *shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.*”

SURS Funding



Changes Enacted

- Money Purchase Formula as of 7/1/12
 - New table reduces this calculation by about 8%
- Employees hired on or after 1/1/11
 - Traditional and Portable Benefits
 - Retirement age 67 with 10 years of service
 - Early retirement allowed at 62 with reduced benefits
 - Limits maximum pensionable earnings to \$106,800
 - Final average earnings based on 8 years of service
 - Survivor benefit increased to 2/3 pension benefit
 - Automatic annual increase changed
 - Does not start until January 1 following age 67
 - Lesser of 3% or ½ change in Consumer Price Index
 - Not compounded
 - Self-Managed Plan
 - No changes apply

Changes Being Considered

- Possible choices for current employees
 - Continue current benefits but with higher employee contribution (~15%)
 - Have same benefits as those for new employees
 - Shift to Self-Managed Plan
- Make retiree health care contributory
 - Retiree premiums based on total household income
- Subject pension benefits to Illinois taxes

For More Information

- SURS Website www.surs.org
 - Retirement Benefit Estimator
- SURS Counseling
 - Can meet once a year if within 4 years of retirement
- Pre-retirement conferences
- SUAA
 - State and Chapter websites
 - www.suaa.org
 - www.suaa-ui.org
 - email alerts for members