DOCUMENT RESUME

ED 409 948		JC 970 412

AUTHOR	Schwartz, Arthur E.
TITLE	Proposal for an Early Retirement Incentive Program at Mercer County Community College.
INSTITUTION	Princeton Univ., NJ. Mid-Career Fellowship Program.
PUB DATE	Jun 97
NOTE	15p.; In its: Issues of Education at Community Colleges: Essays by Fellows in the Mid-Career Fellowship Program at Princeton University; see JC 970 402.
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*College Planning; Community Colleges; *Early Retirement; *Employment Practices; Incentives; *Reduction in Force; Teacher Retirement; Two Year Colleges
IDENTIFIERS	Mercer County Community College NJ

ABSTRACT

A project was undertaken to evaluate existing models of early retirement incentive programs (ERIPs) and recommend an ERIP for New Jersey's Mercer County Community College (MCCC). The following categories of ERIPs were reviewed: state plans for New York and Minnesota; K-12 school districts plans at the Castro Valley Unified School District and 48 school divisions in Saskatchewan (Canada); university programs at the University of Missouri, University of California, University of Virginia, and Quebec's McGill University (Canada); and five New Jersey county college programs at Camden County College, Cumberland County College, Middlesex County College, and Gloucester County College, as well as New York's Dutchess County College. Based an analysis of these ERIPs, a two-track program was recommended for MCCC that would offer faculty the option to accept immediate early retirement (Plan A) or a transitional approach of reduced workload from one to six semesters (Plan B). The recommended program also contained the following characteristics: (1) faculty should be 55 years or older and have completed 25 years of service at the college to participate; (2) they should have a 3-month window in which to choose to participate; (3) Plan A would provide 2% of the final year's salary times the number of years employed, while Plan B would allow faculty to teach half load at 60% of salary; and (4) other incentives would include life-time health benefits, Internet access, and free tuition and fees. Contains 13 references. (BCY)

PROPOSAL FOR AN

EARLY RETIREMENT INCENTIVE PROGRAM

AT

MERCER COUNTY COMMUNITY COLLEGE

Arthur E. Schwartz
Mercer County Community College

Mid-Career Fellowship Program
Princeton University
1996 - 1997

Issues of Education at Community Colleges: Essays by Fellows in the Mid-Career Fellowship Program at Princeton University

Introduction

Many institutions of higher learning, both two-year and four-year, are experiencing severe financial difficulties. One attempt to deal with rising operating costs, capital expenses and salaries is to increase tuition. In a recent article of *Time* magazine entitled "Why Colleges Cost Too Much," it was reported that tuition increased twice as fast as the overall cost of living during the past 20 years.

Large tuition increases not only limit the accessibility to higher education for many people, but can also have a significant negative impact on enrollment with fewer students having the resources to afford full-time college expenses. Thus, a solution to solve the college's budgetary needs may produce an enrollment problem that is equally devastating.

If this cycle is to be broken, institutions must look at creative ways of cutting costs while maintaining quality instruction, services to students, and a broad range of course offerings. This paper will attempt to look at a possible solution to help institutions become more cost effective or at least control increases in the area of faculty salaries.

Early Retirement Incentive Plans (ERIP), if done properly, can help colleges manage costs by replacing senior faculty with younger, less experienced faculty and in some cases, where appropriate, with adjunct faculty at even greater savings. In addition, ERIPs can ease the problem of reducing staff as a result of declining enrollments and budgetary constraints without resorting to riffing junior faculty, who generally lack the seniority to protect them when positions or programs are eliminated. As stated in the report *Graying Teachers* (Auriemma, Cooper, & Smith, 1992), the authors note that "the advantages of good incentive plans are clear: smooth transitions from one teacher generation to the next, financial savings, revitalization, new ideas, and improved education."

My intention in this paper is two-fold:

1) to present a broad representation of a variety of ERIPs which appear to have been successful both for the institutions involved as well as the participants (retirees);
2) to recommend an ERIP specifically designed for Mercer County Community College (MCCC).

By analyzing several existing early retirement incentive plans, I will attempt to select those characteristics which I feel will best fit the needs of MCCC. Hopefully, this approach will provide a basis for justifying my recommendations and offer a reasonable measure for predicting its success.

Methodology

My investigation of various ERIPs can be grouped into four major categories:

*State Plans

*K-12 School Districts

*Universities

*County Colleges

My research emphasis was placed on universities and county colleges wherein I examine nine institutions, each of which had a significant early retirement incentive plan.

In an effort to maintain some control over the length of this paper as well as narrow the focus on the major characteristics of the various ERIPs, I have gleaned only aspects of the plans that I consider to be of vital importance. In the appendix, I have listed my sources to which the reader can refer if details and/or a more comprehensive analysis of each plan is desired.

State Plans

With regard to the two state plans reviewed, I found that the New York State plan for 1995 was extremely comprehensive. This plan addressed the problem of dealing with employees who participated in public retirement plans (state/city) versus private retirement programs such as TIAA-CREF. In the case where employees were enrolled in a public pension plan, eligible employees were given 1/12 of a year credit for each year of service, not to exceed a maximum of 3 years of service credit. For members of TIAA-CREF, there was a monetary incentive calculated as :

(1/12) **x** (# of years of service) **x** (15%) **x** (base salary)

(where number of years of service is limited to 36 years.)

Thus, the maximum payout would be 45% of base salary for employees with 36 or more years of service. This bonus incentive is paid out over a period of 26 months in three equal payments. Eligibility requirements include a minimum age of 50 and 10 years or more experience. This two-prong plan was a "targeted incentive," that is, ***positions vacated due to the incentive must be eliminated.*** An amendment was approved that allows replacements in school districts (except the State universities) if employer can demonstrate a savings of 50% of the amount of payroll that would have been paid to the retiree for a two-year period. Although there was no data indicating the cost effectiveness for the 4,800 employees who took part in this program, it is reasonable to expect that this targeted approach saved the state a substantial amount of money.

The Minnesota Legislature offered a very modest ERIP from 1990 through 1992 which provided employees between the ages of 55 and 65 an opportunity to retire with free health insurance until the age of 65. In 1993, the legislature added an additional incentive that increased retirees pensions by 15-19%. An example given involved a state employee who retired at age 65 with 30 years of service and a base salary of $36,000. Under the incentive plan, the pension would increase from $16,200 to $18,900 (approximately a 17% increase). Unfortunately, there were no details given as to how the increases in the retirees' pensions were calculated. I can only assume that it was probably similar to the New York State plan where employees were given additional service credit based on years of service or possibly a fixed amount, such as 5 years. With regard to the latter, if the service time is increased by 5 years (which has been used by New

Jersey in their latest ERIP) from 30 to 35 years as given in the example above, it results in an approximate 17% increase.

In a follow-up survey of the Minnesota ERIP covering the period from 1990 through 1994, "three -quarters or more of employees said that the overall impact of the incentives is positive." It was further reported that "about two-thirds of school administrators felt that the early retirement program improved the quality of teachers, while only 6 percent thought that there was a loss of quality."

K-12 School Districts

In looking at K-12 School Districts, I focused on a specific school system, the Castro Valley Unified School District, and a broader study involving an extensive survey of 48 school divisions in Saskatchewan, Canada.

The Castro Valley district initiated a phase out plan over a five-year period (1 to 5 years). The typical plan involved a teacher who would work for one semester, rather than two, and the salary would be pro-rated accordingly. Since minimum eligibility requirements are 55 years of age and 10 years of teaching experience, even full-time replacements for retirees should yield significant savings immediately. In addition, the district can make definite plans for permanent replacements or adjust staffing allocations based on district needs. The three benefits for the employee are: a smoother transition to full retirement; full health benefits during the transition period; and a continuation of retirement fund contributions by both the teacher and the district at the full-time salary level. Thus, an employee working half-time for the 5-year period will be credited with a full 5 years toward his/her pension plan.

The study involving the Province of Saskatchewan was valuable not in giving specific ERIPs, but rather in the methodology of surveying its 48 districts in an attempt to identify those areas of agreement which might be addressed in an early retirement incentive plan. The summary report, prepared by Mike Fulton of Educon Services for the SSTA Research Centre, was commissioned by the Centre in response to inquiries by the Boards of Education in Saskatchewan. The report states that over 67% of the districts have developed some sort of ERIP.

Most of the participating boards in Saskatchewan chose a monetary incentive based on years of service-usually a percentage of salary in the final year of employment or a number of days of salary per years of service.

It was further reported that approximately 41% of the boards offered a lump sum incentive. Interestingly, the preferred practice was to pay out the incentive over a period of two or more years. This approach allows the boards to spread their cost over several years while immediately taking advantage of the savings realized through the retirements.

In my opinion, one of the major outcomes of this report was the Guidelines for Policy Development of an ERIP. They are as follows:

1. Include a statement of purpose which outlines the reasons why the board has chosen to offer early retirement incentives, for example:
   * to promote ongoing renewal of teaching staff
   * to improve the quality of teaching and learning in schools
   * to realize financial savings over time
   * in recognition of the potential benefits to students, staff, and the school
   * to recognize years of faithful and committed service by teachers
   * to assist in the transition from employment to retirement status
2. Outline the eligibility requirements, including number of years in the system
3. Define the level and extent of the incentive, for example
   * a monetary base incentive amount or an incentive based on years of teaching
   * some other arrangement
4. Carefully outline the procedures to be followed by teachers when applying for an incentive
5. Set deadlines for when teachers may apply and indicate to whom they apply
6. Outline payment procedures, for example
   * to a fund of the teacher's choice over a period of two or more years
   * in a lump sum

7. Explain the voluntary nature of the program
8. Outline the board's procedure with respect to notifying teachers about the availability of the incentive.

Universities

The University of Missouri offered employees a one-time only incentive to retire early. This plan involved a window of one year and approximately 700 of the 1,700 faculty and staff who were eligible took advantage of the ERIP. Although incentives varied from campus to campus, the most common approach was to add 3 to 5 years to employees' service records or to calculate their pension benefits as if they were 3 to 5 years older. The former appears to be similar to the Minnesota State plan offered in 1993.

R. Kenneth Hutchinson, associate vice president for human resources for the university system, estimated that annual savings would be approximately one-half of the more than $23 million annual payroll costs for the retirees. (Note: This seems a little low). These monies would be used to help offset pension benefits estimated at $2.5 million per year for 20 years. While Hutchinson called it "a means of getting smaller gracefully," critics argued that such a plan "can leave some departments decimated, while others are untouched."

The University of California, from the period of 1990-1994, offered a similar plan to approximately 2,000 faculty or about 20% of the entire university faculty. The net savings realized was approximately $200 million. However, the problem of not being able to control in what academic areas retirements would occur was cited. Despite this concern, it was agreed that without an ERIP, there would have been mass layoffs, salary cuts and dismissals of non-tenured and junior faculty.

The University of Virginia offered an ERIP over a three year period from 1989-1992 which involved two options. One option was a phased retirement where faculty contracted for 50% of their full-time load per year for 1 to 5 years, but not beyond age 70. This was similar to the Castro Valley school district plan. Option two required that faculty retire between the age of

65 and 67 (upper age limit was waived during the first year of the plan) in exchange for one year's salary paid in two installments over the first year of retirement.

One of the most creative ERIPs that I reviewed was instituted by McGill University in Quebec, Canada. The plan was adopted in February of 1996 and was offered to faculty and administrative staff who were 55 through 64 years of age. The regular plan provided for a monetary incentive of "5% of current salary for each year of service or 75% of the total salary that would have been earned to age 65, whichever is less." Furthermore, during a one-month window beginning April 15, 1996, there would be an additional incentive of 6 months current salary. This incentive would also be available to any faculty 65 or older.

In addition to the regular incentive plan, faculty are eligible to commit to early retirement preceded by a reduced workload (minimum of 50% normal load) from one to six semesters. If this option is selected, then the additional incentive of 6 months current salary would be decreased by 1/6 for each semester of reduced workload. The university estimates that if no replacements were made, it would take less than 18 months for the salary savings to offset the incentive costs. Officials anticipate no more than 20% replacements thus the pay-back will be somewhat longer.

County/Community Colleges

In reviewing five county colleges (four from New Jersey), I was particularly impressed with Camden County College's ERIP. The college presented a two-part program between 1994 and 1996. Part one involved a typical incentive plan which offered a payment for unused sickleave for faculty with a minimum of 20 years of service. The retiree would receive "a lump sum payment equal to $60/day for not more than 50% of unused accumulated sick leave." The second part of the ERIP provided for a 'transition sabbatical leave." The purpose of the leave was stated as to "offer faculty members a transition from active employment at the college to other pursuits while providing continued financial support" and at the same time, give the college "more flexibility in responding to the needs of students and the labor market."

Eligibility requirements included 15 years continuous service and the sum of the faculty's age and service must be at least 75 years. ***Administrators make the final decision based on impact on quality of instruction, budgetary limitations and percentage of department/discipline or faculty applying for leave.***

This leave has two options:

a. Full sabbatical for two years at half pay

b. Faculty member would work full-time for the fall semester at regular salary and take the following calendar year as transitional leave with one year's salary.

Cumberland County College's ERIP was available for one year to full-time faculty with a minimum of 10 years service. The incentive was a lump sum payment and was calculated by the formula:

[65-Age] **x** [10% of Base Salary]

Example: a 57 year-old faculty member with 10 or more years of service would receive:

[65-57] **x** [10% of base salary] = 80% of base salary

Middlesex County College in its 1995-1997 contract had two plans based on age. Those individuals age 60 or younger would receive 100% of their final year's salary if:

60 years old and		11 years of service	
59	"	13	"
58	"	15	"
57	"	17	"
56	"	19	"
55	"	21	"

If the faculty member was over 60 years old upon retiring, a sliding scale would be used from 80% for an individual 61 years old to 10% for a person 69 years of age.

Gloucester County College's ERIP focused on unused accumulated sick leave. The payout was \$80/ unused sick day for faculty with 20 or more years of service. If service was 10 years or more but less than 20 years, the total payout was pro-rated as follows:

19 years service yield 19/20 of maximum

18 years service yield 18/20 of maximum, and so on...

(Note: This does not seem to be an early retirement incentive plan since the amount received by the faculty member increases for each year of service.)

Dutchess County College in New York State offered 95% of base salary for those retiring at age 55 with 10 years of service or at any age less than 55 with 20 years of service. For faculty from ages 56 to 64 with 20 years of service, there was a pro-rating from 90% down to 10% of base salary. The college also offered full coverage in the health insurance program until age 65.

Recommendations

After careful review of the various ERIPs, I am convinced that a plan similar to McGill University's is best suited to an institution such as Mercer County Community College. Its two-prong approach offers the most flexibility both to the college and the faculty. Unfortunately, MCCC would not be able to offer a package as generous as McGill's. Because of its much smaller size and relatively large number of senior faculty, Mercer could not absorb the initial financial impact of such a plan.

With the above in mind, I am proposing a modification which I believe can allow MCCC to recoup any up-front costs within the first year after implementation.

My ERIP for MCCC is as follows:

I. Eligibility Requirements - Faculty member must be 55 years or older and have completed 25 years of service at MCCC upon termination of employment.

II. The Window of Eligibility - Faculty must declare their intention by choosing Plan A or Plan B (including choice of 1, 2 or 3 year option) between Sept. 15, 1997 and

Jan. 15, 1998. Effective retirement date for Plan A is June 30, 1998 and Plan B is June 30, 1999 through June 30, 2002 depending on option.

III. The Selection Process - The Board of Trustees has final approval in determining which divisions, departments or programs will be eligible based on staffing needs and financial constraints. However, within the targeted areas, selection and approval of faculty will be based on seniority.

IV. The Monetary Incentive Plans

A. Plan A

Faculty member opting to retire at end of 1997-98 academic year will receive:

(2% of final year salary) **x** (# of years at MCCC)

Ex. Using typical faculty member eligible under this plan with 28 years of service and an approximate salary of $66,000

(2%) ($66,000) (28) = $36,960

Note 1: This money would be recouped by the college in one year with a full-time replacement.

Retiree - $66,000 + $16,000 (fringe benefits)	=	$82,000
Replacement - $36,000 + $9,000 (fringe benefits)	=	<u>-$45,000</u>
Savings	=	$37,000

Note 2: The faculty member can have an option to receive the payout over 1-3 years which could be used to supplement the pension plan. This is especially helpful if the retiree is not immediately eligible for full social security. It would also enable the college to recognize savings in the beginning of the first year.

B. Plan B. (Transitional Retirement)

In lieu of the above, a faculty member can commit to a transitional retirement plan from one to three years which must be declared at the time of application. The faculty member would teach half-load at 60% of 1997-98 base salary.

Ex. The typical faculty member would receive

60% of $66,000 = $39,000 for each year

Therefore, the cost to the college each year using a full-time replacement for the remaining half-load would be:

$39,600 + $13,000 (fringe benefits) + $ 23,000 (1/2 of f.t.) = $75,600*

Thus, the savings each year for the college would be:

Current faculty- $ 66,000 + 16,000 (fringe benefits)		=	$ 82,000
*Above Costs		=	-$ 75,600
	Savings	=	$ 6,400

This is considering full-time replacements, using adjuncts at present rate would save the institution approximately $23,000 per faculty member per year.

V. The Non-Monetary Incentive Plan

* Full life-time health benefits for faculty member and spouse as provided by existing contract for individuals with 25 years of service
* Free access to MCCC Internet and library services
* Full recreation pass including use of pool and fitness center for life for both faculty member and spouse
* Free tuition and fees (up to 8 credits per semester) for both faculty member and spouse

The non-monetary incentives of my proposal are extremely important. The health benefits aspect coupled with the monetary incentive should enable the faculty member to retire with two of the major concerns assured- financial security and health benefits protection. The last three non-monetary incentives provide the faculty member with a continuous affiliation with MCCC and the ability to pursue a retirement which includes both physical and intellectual opportunities.

The Early Retirement Incentive Plan which I have presented above should enable senior faculty to retire in a manner which is consistent with their present lifestyle. In addition, the plan allows the institution to realize savings within the first year of implementation. The selection process gives the administration the ability to target those areas which best serve institutional needs for restructuring. These factors, together with the transitional plan, provide the college with the opportunity to respond to staffing needs over a projected period of three to four years.

At the very least, this proposal provides the basis for meaningful discussions and planning which will hopefully lead to an established ERIP at Mercer County Community College that will benefit the entire institution.

WORKS CITED

Chronister, Jay L. and Katherine M. Reed. "Assessing the Effectiveness of Voluntary Retirement Incentive Options for Faculty: A Case Study." College and University Personnel Association Journal 45 (Fall 1994): 29-33.

Early Retirement Incentives. Executive Summary 95-04. (March 1995) Available: http://www.auditor.leg.state.mn.us/retire.htm.

Fulton, Mike. (1996) "Early Retirement Incentives." SSTA Research Centre Report #96-11. Available: http://www.ssta.sasknet.com/issues/admin/96-11htm.

Larson, Eric. "Why Colleges Cost Too Much." Time, 17 March 1997, 46-55.

Magner, Denise K. "Colleges Debate Benefits of Early-Retirement Plans as a Way to Shrink Budgets and Avoid Layoffs." The Chronicle of Higher Education, 29 July 1992, 11-12.

Magner, Denise K. "Net Saving, Net Loss." The Chronicle of Higher Education, 20 July 1994, 15-16.

Auriemma, Frank, Bruce Cooper and Stuart Smith. Graying Teachers: A Report on State Pension Systems and School District Early Retirement Incentives, prepared for the Office of Educational Research and Improvement, U.S. Dept of Education, 1992, ERIC, Ed 347 620.

Swan, Peter N. "Early Retirement Incentives With Upper Age Limits Under the Older Workers Benefits protection Act." The Journal of College and University Law 19 (Fall 1992): 53-72.

EN Higher Education Research Center Update, 2 (March 1996), "Retirement Plans of Instructional Faculty and Staff."

Higher Education Contract Analysis System. CD-ROM. Washington, D.C.: National Education Association, 1995-96.

Agreement Between The Board of Trustees of Middlesex County College and Faculty Union of Middlesex County College (Local 1940 AFT) (AFL-CIO). July 1, 1995-June 30, 1997. Edison, N.J.

Agreement Between Board of Trustees of Camden County College and Camden County College Faculty Association, July 1, 1994-June 30, 1996. Blackwood, N.J.

Agreement between the Board of Trustees of Gloucester County College and the Gloucester County College Federation of Teachers (affiliated with AFT, AFL-CIO. 1992-1995.

REPRODUCTION RELEASE

(Specific Document)

I. DOCUMENT IDENTIFICATION:

Title:
Issues of Education at Community Colleges. Essays by Fellows in the Mid-Career Fellowship Program at Princeton University

Author(s): (Fellows in the MCFProgram, 1996-7)

Corporate Source: Mid-Career Fellowship Program at Princeton University

Publication Date: 1997

II. REPRODUCTION RELEASE:

In order to disseminate as widely as possible timely and significant materials of interest to the educational community, documents announced in the monthly abstract journal of the ERIC system, *Resources in Education* (RIE), are usually made available to users in microfiche, reproduced paper copy, and electronic/optical media, and sold through the ERIC Document Reproduction Service (EDRS) or other ERIC vendors. Credit is given to the source of each document, and, if reproduction release is granted, one of the following notices is affixed to the document.

If permission is granted to reproduce and disseminate the identified document, please CHECK ONE of the following two options and sign at the bottom of the page.

[X] **Check here For Level 1 Release:** Permitting reproduction in microfiche (4" x 6" film) or other ERIC archival media (e.g., electronic or optical) ***and*** paper copy.

The sample sticker shown below will be affixed to all Level 1 documents

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

Level 1

The sample sticker shown below will be affixed to all Level 2 documents

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL IN OTHER THAN PAPER COPY HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

Level 2

[ ] **Check here For Level 2 Release:** Permitting reproduction in microfiche (4" x 6" film) or other ERIC archival media (e.g., electronic or optical), but ***not*** in paper copy.

Documents will be processed as indicated provided reproduction quality permits. If permission to reproduce is granted, but neither box is checked, documents will be processed at Level 1.

"I hereby grant to the Educational Resources Information Center (ERIC) nonexclusive permission to reproduce and disseminate this document as indicated above. Reproduction from the ERIC microfiche or electronic/optical media by persons other than ERIC employees and its system contractors requires permission from the copyright holder. Exception is made for non-profit reproduction by libraries and other service agencies to satisfy information needs of educators in response to discrete inquiries."

Sign here→ please

Signature: T K Rabb	Printed Name/Position/Title: Theodore K. Rabb, Director	
Organization/Address: Mid-Career Fellowhip Program at Princeton University 129 Dickinson Hall, Princeton, NJ 08544	Telephone: 609/258-4994	FAX: 609/258-5382
	E-Mail Address: tkr@princeton.edu	Date: 22 July 1997

(over)

III. DOCUMENT AVAILABILITY INFORMATION (FROM NON-ERIC SOURCE):

If permission to reproduce is not granted to ERIC, *or*, if you wish ERIC to cite the availability of the document from another source, please provide the following information regarding the availability of the document. (ERIC will not announce a document unless it is publicly available, and a dependable source can be specified. Contributors should also be aware that ERIC selection criteria are significantly more stringent for documents that cannot be made available through EDRS.)

Publisher/Distributor:
Address:
Price:

IV. REFERRAL OF ERIC TO COPYRIGHT/REPRODUCTION RIGHTS HOLDER:

If the right to grant reproduction release is held by someone other than the addressee, please provide the appropriate name and address:

Name:
Address:

V. WHERE TO SEND THIS FORM:

Send this form to the following ERIC Clearinghouse:	Jonathan Kelly ERIC Clearinghouse for Community Colleges 3051 Moore Hall Box 951521 Los Angeles, CA 90095-1521

However, if solicited by the ERIC Facility, or if making an unsolicited contribution to ERIC, return this form (and the document being contributed) to:

ERIC Contributors
June, 1997