The University faces a serious barrier to faculty recruitment if legislative action is not taken to resolve problems with faculty retirement plans, said Faculty Senate President Kevin Cope.

Cope said there are two retirement plans faculty members may choose from: a defined benefits plan and a defined contribution plan. The differences between the two are similar to the differences between Social Security and a 401(k), Cope said.

The defined benefits plan operates like Social Security, with employees paying a certain percentage of each paycheck to the retirement fund to receive a pension at the end of their careers, Cope said. The defined contribution plan is more like a 401(k), with an investment plan that pays money out depending on how the investments do, Cope said.

Cope said the state has been inadequately funding the defined benefits plan for decades, leading to a growing deficit called the Unfunded Accrued Liability (UAL).
RETIREMENT, from page 1

He said the University must pay an employer's share of the UAL, currently about 27 percent, which takes money away from funding other University functions.

Universities across the state pay $1.17 million each year to the UAL as a result of a lack of state funding, Cope said.

Of the employer's share of the UAL, about 22 percent goes to paying off the UAL, while employees receive about 5 percent in retirement benefits, Cope said. He said this 5 percent is set to go down to 3.66 percent next year.

Cope said the reason the share reaching employees is decreasing is because by law, the money reaching employees on the defined contribution plan is tied to the "normal cost" of the defined benefit plan. Cope defined the normal cost as the cost to maintain the plan in a given year.

The past year, the defined benefit plan "had a good year," driving down the cost of the plan, Cope said. Because the two plans are tied, the amount of money reaching employees on the defined contribution plan decreases.

Cope said this means participants in the defined contribution plan are penalized when the defined benefit plan has a good year, even though the plans are separate and the defined contribution plan participants reap no benefits from the other plan.

In a worst-case scenario, the decrease in money reaching employees would completely erase the recent pay-raises and drive effective salary back to before the previous round of pay-raises, Cope said.

To give some context, Cope said employees at the University get 35 percent of what colleagues at peer institutions get.

A temporary solution, Cope suggested, would be for the state to start "properly" funding retirement plans, which "stops the bloodletting," but doesn't address the UAL.

Another solution is for the University to offer its own retirement plan independent of the state, Cope said. He said the University is unique in that "nearly every other major state university" operates its own retirement plan. Cope said this is the best plan, as long as the University retirement plans are coupled with proper funding.

University President F. King Alexander said the issue is a big priority for the administration and wants to pursue flexibility for the University to be able to set its own rates.

Cope said if not fixed, the problems with the retirement plan means "everyone who can leave will." He said a chemistry professor left for the University of Georgia last week "largely owing to the superior standard of retirement plan."

Both Alexander and Cope are concerned about the disadvantage the problem will present in attracting candidates to fill faculty positions at the University. Alexander said the University is recruiting about 100 new faculty members this year, and he believes the retirement plan issue could be an impediment to hiring.

Cope put it more bluntly, saying the University "can forget about" attracting top-tier candidates, because anyone who has the choice will choose an institution with a better choice of plans. He also pointed out about a third of University faculty will be reaching retirement age in two to three years, so the 100 new positions are not the only kind of hiring the University will have trouble with.

Cope said he is moderately optimistic about the solutions. He said there are bills in the state legislature seeking to address the problem, and in addition, the Board of Regents has a bill to deal with the issue.

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