Meeting Synopsis

1. Call to order
2. Review of the minutes from October 29, 2018
3. Increased retirement contributions at age 50: Opt in vs. opt out (Stephan Siegel)
4. Supplemental retirement income (Gowri Shankar & Stephan Siegel)
5. Recommendations from the Ad hoc Committee on Faculty Retirement (Stephan Siegel & Charles Hirschman)
6. Health care plan choices during open enrollment (Stephan Siegel)
7. Good of the order
8. Adjourn

1. Call to order

The meeting was called to order at 2:30 p.m.

2. Review of the minutes from October 29, 2018

The minutes from October 29, 2018 were approved with minor edits.

3. Increased retirement contributions at age 50: Opt in vs. opt out (Stephan Siegel)

Siegel, the chair, reported that the University Board of Regents accepted the proposed opt-out option for increased retirement contributions (from 7.5 percent to 10.0 percent) once a UW employee reaches 50 years of age. Workday will need updates to accommodate the change.

4. Supplemental retirement income (Gowri Shankar & Stephan Siegel)

Gowri Shankar and the chair presented an overview of the UWSRP proposal to provide eligible faculty members (UWRP participants, who started before March 1, 2011) with an approximate benefit calculation for retirement planning purposes (Exhibit 1). Shankar further clarified that any proposed model would only be offered to UWRP participants who were 62 years of age and older.

A member noted that this model would be helpful in future, especially if financial markets encountered another crash. The member also asked if the model could be further simplified. Shankar responded that the general idea is simple, but this is a complicated calculation. The member offered that communications could be simplified by saying that this benefit will likely be available to employees with 25 years of service, if 6 percent of their total accumulation is less than 50 percent of their final salary assuming that their contribution were invested 50/50 to TIAA and CREF.
A member asked how the council envisions implementing this model. The chair commented that the administration is concerned that there may be liability issues. The implementation should make clear that the model produces unofficial estimates.

A member commented that the Social Security Administration provides a tool on their website that estimates what benefit one might receive.

A member asked faculty members could access their contribution history. Another member responded that UW HR has contribution history, but faculty members cannot easily access this information.

The chair suggested that the council could draft guidelines for how the supplement is calculated, including conditions and factors to consider.

5. Recommendations from the Ad hoc Committee on Faculty Retirement (Stephan Siegel & Charles Hirschman)

The chair visited the UW Retirement Association (UWRA) to discuss the recommendations from the Ad hoc committee on Faculty Retirement. The chair asked if council members were interested in working in a smaller workgroup with UWRA (Ellen Covey volunteered). The chair will ask Tanya Eadie if she or someone else from academic HR would join as well. The workgroup will report back at the February meeting.

6. Health care plan choices during open enrollment (Stephan Siegel)

Due to time constraints the council was unable to discuss this item.

7. Good of the order

Nothing was stated.

8. Adjourn

The meeting was adjourned at 4:00 p.m.

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Minutes by Lauren Hatchett, lehatch@uw.edu, council analyst

Present: Faculty: Gowri Shankar, Stephan Siegel (chair), Nicole Hoover, Ellen Covey, Mary O’Neil, Russel Fernandes, Jason Wright
Ex-officio reps: Charles Hirschman, Andrew Flannery
Guests: Patricia Dougherty, Gerry Grohs

Absent: Faculty: N/A
Ex-officio reps: Laura Lillard
President’s designee: Mindy Kornberg

Exhibits

Exhibit 1 – UWSRP benefit presentation.pptx
UW Supplemental Retirement Plan (UWSRP) benefit estimation model

FCBR presentation, 11/26/2018
The UWSRP benefit estimation project

• Project objective:
  • Compute the approximate UWSRP benefit, if any, that an eligible UWSRP participant would have earned if that person had retired at the beginning of the current calendar year. [*The actual UWSRP benefit to a retiree can only be computed & awarded by UW several months after the actual retirement date]*

• Presentation Outline
  • UWSRP – the basics
  • UWSRP benefit computation model
  • Factors that determine UWSRP benefit
  • Testing the model using data from actuals
  • Next steps – making the model available to potential retirees
UWSRP – the basic concept

• UWSRP provides supplements to retirees whose expected “goal” incomes are higher than the actual annuity income (or the “assumed income”) that can be generated with their UWRP accumulations.
  • UWSRP benefit = GOAL income minus ASSUMED income
  • UWSRP pays when UWRP accumulations are insufficient to generate ASSUMED income equal to GOAL income
  • If ASSUMED income exceeds GOAL income, no UWSRP benefit is payable!

• What is “Goal” income?
  • Goal income is the income annuity that a retiree is supposed to earn in retirement. It is usually 2% per year of service multiplied by number of years of service multiplied by average monthly salary in highest paid 24 months of service. (years of service is actual years or 25 years, whichever is lower)

• What is “Assumed income”?
  • It is the lifetime income annuity that can actually be generated from the accumulated balances in UWRP (under the assumption that 50% of all UWRP contributions were invested in CREF stock and the other 50% in TIAA Traditional Annuity).
• Who is eligible for UWSRP benefits?
  • UWRP participants:
    • whose UW employment started **before 3/1/2011**,  
    • are aged 62 or older at retirement and  
    • have at least 10 years participation in the UWRP.

• Will *all* eligible UWRP retirees get UWSRP benefits?
  • NO! UWSRP benefit is paid only when GOAL income is greater than ASSUMED income.
  • In recent years, about 30% to 50% of retirees have been eligible for UWSRP benefits. Factors that drive the benefit amount are discussed later.
Computing the UWSRP benefit in our model

• Step 1: Collect details of the UWRP employee and employer contributions, by quarter, since the beginning of UWRP participation. (Note: UW VIP contributions, if any, are not included in this computation)

• Step 2: Assume 50% of each contribution was notionally invested in CREF Stock and the other 50% in TIAA Traditional Annuity. (The actual investment choices by the employee are not material for this computation)

• Step 3: Use MULTIPLIERS (from returns data) provided by TIAA and compute the notional accumulations for each of the CREF and TIAA contributions, by the end of the previous calendar year.
  • For e.g., $100 invested in CREF in the 1st quarter of 2010 would have multiplied to $229 by the end of 2017; a similar $100 invested in TIAA would have multiplied to $135 by the end of 2017.

Then, add up all the accumulations in the TIAA and CREF accounts
UWSRP benefit computation model (cont’d)

• Step 4: Use Annuity rates (based on age at retirement, marital status, and age of spouse) provided by TIAA to compute the ASSUMED income from the CREF and TIAA total accumulations.

• Step 5: Compute GOAL income, based on years of service (max=25 years), average monthly compensation in highest paid 24 months of service, and 2% per year of service.
  • Adjust GOAL income downwards for (a) retirement before age 65 (but after age 62) and (b) for contributions below 10% at any age after 50.

• Step 6: Compute UWSRP benefit as GOAL Income minus ASSUMED income. If ASSUMED income exceeds GOAL income, no UWSRP benefit is payable to the retiree!
Factors that affect UWSRP benefits

• UWSRP benefit is the difference between GOAL and ASSUMED income. All else equal, higher the GOAL, higher the UWSRP. Conversely, higher the ASSUMED income, lower the UWSRP benefit.

• Factors that *increase* the GOAL income (and *increase* UWSRP benefits):
  • Years of service: GOAL income increases by 2% per year, upto 25 years. Beyond 25 years, GOAL income is capped at 50% of highest average salary.
  • Spikes in average salary, especially towards the end of the career will increase GOAL income. For example, serving in a 12-month role (instead of the typical 9-month contract), or a significant hike in salary, can increase the average salary and thus the GOAL income.
Factors that affect UWSRP benefits (cont’d)

• Factors that increase ASSUMED income (and *reduce* UWSRP benefits)
  • Long years of service (beyond 25 years): Longer the service, greater the TIAA/CREF contributions & accumulations; thus, higher the ASSUMED income.
  • Age at retirement: Retiring at ages beyond 65 will increase ASSUMED annuity income, given shorter life expectancy as a person ages.
  • Marital Status: Single retirees will have higher ASSUMED incomes than married retirees, since only one life annuity is required. Among married retirees, those with older spouses will have higher ASSUMED incomes than those with younger spouses.
  • Annuity rates: They are driven by interest rates, among other things. All else equal, higher the interest rates in the economy, higher the ASSUMED income.
  • Market returns on CREF and TIAA accumulations: Higher the returns on CREF and TIAA balances, greater the ASSUMED income. Retiring in an up market will lead to higher ASSUMED incomes (and lower UWSRP benefits!)
Factors that affect UWSRP benefits (cont’d-2)

• In summary, UWSRP benefits will be lowest for participants who retire:
  • Around age 70 or later
  • After 30 years or more of service
  • After having no significant salary increases in recent years
  • At a time when interest (Annuitization) rates are high
  • At a time when markets and market returns are high
  • Are single at retirement

• Conversely, UWSRP benefits will be highest for participants who retire:
  • Close to age 65
  • After just 25 years of service
  • After having had a significant spike in total salary in recent years
  • At a time when interest (Annuitization) rates are low
  • At a time when markets are significantly down
  • With a spouse who is younger than the retiree
Illustration of UWSRP benefit computation

• UWSR benefits for three (fictional) professors:
  • Prof. Long started in 1988 and retires after 30 years of service
  • Prof. Short stared five years later (1993) and retires after 25 years of service. Both Professors Long and Short earn almost the same 9-month salary throughout their overlapping years.
  • Prof. Starr started at same time as Prof. Short and had an identical 9-month salary all through their careers. However, in the last two years, Prof. Short was paid for 12-months (earning the same monthly salary as before).

<table>
<thead>
<tr>
<th></th>
<th>Prof. Long</th>
<th>Prof. Short</th>
<th>Prof. Starr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of employment</td>
<td>1/1/1988</td>
<td>1/1/1993</td>
<td>1/1/1993</td>
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<tr>
<td>Date of retirement</td>
<td>1/1/2018</td>
<td>1/1/2018</td>
<td>1/1/2018</td>
</tr>
<tr>
<td>Total Years of service</td>
<td>30</td>
<td>25</td>
<td>25</td>
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<tr>
<td>Starting salary (annual)</td>
<td>$35,000</td>
<td>$42,500</td>
<td>$42,500</td>
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<td>Final year salary (annual)</td>
<td>$121,278</td>
<td>$121,042</td>
<td>$160,985</td>
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<td>Highest monthly average salary</td>
<td>$9,621</td>
<td>$9,602</td>
<td>$12,770</td>
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<tr>
<td>GOAL income per month</td>
<td>$4,810</td>
<td>$4,801</td>
<td>$6,385</td>
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<tr>
<td>CREF total accumulation</td>
<td>$622,108</td>
<td>$436,953</td>
<td>$447,854</td>
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<tr>
<td>TIAA total accumulation</td>
<td>$392,226</td>
<td>$295,408</td>
<td>$304,651</td>
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<tr>
<td>ASSUMED Income per month</td>
<td>$5,433</td>
<td>$3,869</td>
<td>$3,967</td>
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<tr>
<td>UWSRP benefit per month</td>
<td>$0</td>
<td>$932</td>
<td>$2,418</td>
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### Validation of Model with actual data

Comparison of model UWSRP estimates with actual TIAA benefits (four examples)

<table>
<thead>
<tr>
<th></th>
<th>Example 2.4</th>
<th>Example 2.5</th>
<th>Example 3.1</th>
<th>Example 3.2</th>
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<tbody>
<tr>
<td><strong>Date of retirement</strong></td>
<td>1/1/2018</td>
<td>2/1/2018</td>
<td>10/1/2017</td>
<td>4/1/2018</td>
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<td><strong>Age at retirement</strong></td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>70</td>
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<td><strong>Marital status</strong></td>
<td>Single</td>
<td>Married</td>
<td>Married</td>
<td>Single</td>
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<tr>
<td><strong>Age of Spouse, if any</strong></td>
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<tr>
<td></td>
<td>49</td>
<td>72</td>
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<tr>
<td><strong>GOAL income computations</strong></td>
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<tr>
<td>Average highest monthly salary</td>
<td>$8,168</td>
<td>$8,180</td>
<td>$7,809</td>
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<tr>
<td>Number of years of qualifying service</td>
<td>17</td>
<td>17</td>
<td>10</td>
<td>10</td>
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<tr>
<td>years in which contrib. was &lt; 10%</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Replacement income goal (fraction)</td>
<td>0.335</td>
<td>0.335</td>
<td>0.200</td>
<td>0.200</td>
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<tr>
<td>GOAL INCOME</td>
<td>$2,736</td>
<td>$2,740</td>
<td>$1,562</td>
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<td><strong>ASSUMED income computation</strong></td>
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<tr>
<td>TIAA Accumulations</td>
<td>$159,134</td>
<td>$150,035</td>
<td>$99,980</td>
<td>$101,276</td>
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<td>CREF Stock accumulations</td>
<td>$237,134</td>
<td>$237,435</td>
<td>$150,714</td>
<td>$158,869</td>
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<tr>
<td>ASSUMED Income - CREF &amp; TIAA</td>
<td>$2,192</td>
<td>$2,181</td>
<td>$1,157</td>
<td>$1,308</td>
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<tr>
<td>ASSUMED Income from PERS or TRS</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>UWSRP Benefit: (GOAL minus ASSUMED)</strong></td>
<td>$544</td>
<td>$559</td>
<td>$405</td>
<td>$254</td>
</tr>
<tr>
<td>Months under 65, unless disability</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>NET USWRP BENEFIT</strong></td>
<td>$544</td>
<td>$559</td>
<td>$405</td>
<td>$254</td>
</tr>
</tbody>
</table>
Next steps

• Our objective is to make this model (to compute approximate UWSRP benefits) available to all UWRP participants aged 62 or older.

• Participants would collect the data on their historical contributions from UW HR/ISC and input that into a web-based spreadsheet (available only to UW employees).

• Total Benefits/HR is working on how to make historical UWRP contributions data available to participants.

• Based on the input data, the spreadsheet would provide an approximate estimate of what the UWSRP benefit would have been had the employee retired at the beginning of the current calendar year.

• **It will be emphasized that this benefit estimate is only an approximation and is meant to be illustrative.**

• The actual UWSRP benefit, if any, may differ from the estimate by hundreds of dollars per month, since the estimation is very sensitive to even small changes in Annuitization rates and market returns that may occur before actual retirement.