

**VII. STANDING COMMITTEES****B. Finance, Audit, and Facilities Committee**University of Washington 401(a) Supplemental Retirement Plan – Amendment to Limit ParticipationRECOMMENDED ACTION

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents approve amendment of the University of Washington 401(a) Supplemental Retirement Plan (UWSRP) limiting participation to those individuals who are eligible on February 28, 2011.

The UWSRP was split out from the University of Washington Retirement Plan (UWRP) by Regent action effective January 1, 2009. The UWSRP is a defined benefit plan intended to be qualified under Internal Revenue Code Section 401(a). UW has an application pending for a determination by the Internal Revenue Service that the UWSRP is qualified under Section 401(a). This action will close the UWSRP to new participants after February 28, 2011.

EXPLANATION OF PROPOSED CHANGESSection 2.7 – “Eligible Employee”

Section 2.7 currently reads as follows:

2.7. “Eligible Employee” means any employee of UW who is employed in an Eligible Position, other than an employee who has retired from a position which is covered by RCW 28B.10.400 et seq.

Section 2.7 would be amended, effective February 28, 2011, to read as follows:

2.7. “Eligible Employee” means any employee of UW who either

(a) is (and was on February 28, 2011) employed in an Eligible Position (as defined), other than an employee who has retired from a position which is covered by RCW 28B.10.400 et seq.; or

(b) was an employee of UW who was employed in an Eligible Position (as defined) but who, before February 28, 2011, was moved to or whose position was converted to a position that qualifies for participation in a Washington State Retirement System, and who has irrevocably elected to remain in the UWRP under UWRP Section 3.1(c).

## VII. STANDING COMMITTEES

### B. Finance, Audit, and Facilities Committee

#### University of Washington 401(a) Supplemental Retirement Plan – Amendment to Limit Participation (continued p. 2)

This provision shall not adversely affect the right of any individual who on February 28, 2011 has satisfied all conditions for receiving benefits under the Plan to receive those benefits.

#### REVIEW AND APPROVAL:

This recommendation has been reviewed and approved by the Interim President, and reviewed by the Interim Provost, Vice Provost for Planning and Budgeting, and Executive Director of Benefits. The recommendation has also been reviewed by the following staff and faculty groups: Board of Deans and Chancellors, Professional Staff Organization, Association of Librarians at the University of Washington, and the Faculty Council on Benefits and Retirement.

#### *Attachments*

1. October 2010 Regents information item – UW Supplemental Retirement Plan Overview
2. Letter from Gerry Philipsen, Chair, Faculty Council on Benefits and Retirement

***Information item presented to the Board of Regents on October 21, 2010 as  
Item F-7***

UW Supplemental Retirement Plan Overview

INFORMATION:

In addition to the University of Washington Retirement Plan (UWRP) defined contribution 403(b) plan available to public higher education plan participants, there is the UW Supplemental Retirement Plan (UWSRP), a defined benefit, or formula-driven retirement plan. The Regents authorized the UWSRP in 1955 as established in RCW 28B.10.430 et seq. Effective January 2009, the Regents authorized a split of the UWSRP Defined Benefit into its own 401(a) Plan Document in response to changes in the Internal Revenue Code. Regardless of the Plan Document split, participants in the UWRP 403(b) continue to be concurrent participants in the UWSRP 401(a).

Eligibility for a UWSRP benefit calculation applies to those who retire with a minimum of 10 or more years of service in the Plan, and who are age 62 or older. The UWSRP is a formula-driven calculation created in 1955 in response to faculty concerns that there be some sort of “minimum benefit” provided by the institution. There are no employee contributions to the UWSRP; the benefit is fully funded by the institution, and projected future liabilities are funded within the Benefits Loading Rate calculation. Eligibility for a calculation does not guarantee that a benefit will be provided. Historically about 5 to 10% of those eligible for a UWSRP benefit calculation actually received a benefit. However during the economic downturn of the past three years, the rate of those retiring for whom there is a positive benefit calculation has risen to approximately 25% of those eligible for a calculation.

The calculation is actually a comparison of two separate calculations. Following is an abridged summary of that process.

One half of the UWSRP calculation process is similar to the state Public Employees’ Retirement System (PERS) Plan 1 formula:

2% X Years of Service (up to 25 years maximum) X Average Final  
Monthly Salary (high 2 years)

The result of this calculation is translated into a monthly retirement ***goal income*** amount.

The second half of the calculation is establishing a retirement ***assumed income*** amount based upon the contributions made during the individual’s participation in the UWRP. State law requires this calculation to assume that the total

ATTACHMENT 1

contributions (employer and employee) were invested 50% in a *fixed annuity* and 50% in a *variable annuity*. That is, instead of the actual returns the participant achieved, this model runs the actual contributions through an actuarial model as if they had been invested in a fixed annuity and variable annuity. The result is turned into a monthly annuity. Actuaries perform this calculation and provide the results to UW which uses the data to complete the calculation of the assumed income.

The goal income and assumed income, stated as monthly amounts, are compared. If the goal income calculation is higher, the difference between the two amounts is paid to the participant for the rest of his/her life, plus the life of the selected beneficiary. If the assumed income is higher, then no payment is due to the participant.

The UWSRP calculation is performed once, effective as of the date of retirement. No further calculations are ever performed.

#### UWSRP FACTS

Current number of retirees receiving a UWSRP lifetime benefit	220
Average monthly benefit amount	\$ 745
UWSRP payments to retirees for fiscal year 2009 – 2010	\$2.2 million

Additional details about the UWSRP are available online at:

<http://www.washington.edu/admin/hr/benefits/retirement/plans/uwrp/uwsrp.html>

January 28, 2011

To: J.W. Harrington, Chair, Faculty Senate

From: Gerry Philipsen, Chair, Faculty Council on Benefits and Retirement

Subject: Council resolution recommending against the elimination of the UW Supplemental Retirement Benefit for new hires (Adopted by the FCBR on January 28, 2011)

Whereas the UW Supplemental Retirement Benefit (UWSRP):

- Has helped 5-10% of UWRP participants in retirement over approximately 55 years
- Has protected UWRP participants when they needed it most (during severe economic downturns). While the actuarial liability has increased during the recent economic crisis, this is exactly what it is designed to do. This liability will likely recede as the economy recovers and interest rates rise to “normal” levels.
- Provides a surviving spouse/partner a continuing supplemental monthly benefit upon death of retiree
- Puts UWRP benefits on par with defined benefit plans in place for other University employees (e.g., PERS 1, PERS 2)
- Only serves as downside protection and does not have inflation or other escalator clauses that are included in some other retirement plans (e.g., PERS 1), and thus UWSRP is much less expensive to fund than these other plans
- Is *potentially* a powerful recruiting and retention tool

Whereas elimination of the UW Supplemental Retirement Benefit for new hires:

- Would not save the University or the State any money for at least 10 years, and likely would not save significant money for 30 years or more (as UWRP participants must have a minimum of 10 years of service and cannot retire before age 62 to be eligible for a supplemental benefit)<sup>1</sup>
- Would jettison an important safeguard that differentiates the UW from its competitors
- Would be the largest benefit takeaway in decades and sends a negative message to UWRP participants and potential hires

Be it resolved that the Faculty Council on Benefits and Retirement encourages the UW Administration to reconsider its support for elimination of this important benefit. Its elimination does nothing to solve the current budget crisis and harms yet-to-be hired colleagues many years in the future.

Further, be it resolved that the Faculty Council on Benefits and Retirement encourages the Administration to help current UWRP participants plan for their retirement by supplying an estimate of the value (if any) of their supplemental benefit. One cannot adequately plan for retirement without this information and, currently, the information is only provided after one retires – a Catch 22.

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<sup>1</sup> The 30-year estimate assumes that the typical new hire is age 32 and retires at age 62. The earliest any cash savings could occur from elimination of the UWSRP for new hires is 10 years, i.e., where the new hire is age 52 and retires 10 years later at age 62.