

Northwestern University Staff Advisory Council
Benefits Committee

**Recommendations for Restructuring
The Defined Contribution Retirement Plan**

Adopted April 3, 2002

NUSAC PROPOSAL:

NUSAC recommends that Northwestern University offer the same retirement plan to staff and faculty with the following provisions:

- NU continue to provide a 2 to 1 match of basic contributions up to a maximum of 10% (employee/faculty basic contribution up to 5%).
- Allow the staff/faculty member to choose any amount from 1% to 5% of their salary as their basic contribution to be matched.
- Continue to allow staff/faculty to make supplemental (unmatched) retirement savings to the extent allowed by IRS limits.
- Immediate eligibility to enroll in the retirement plan (no waiting period).
- Lower the eligible age to participate to 21 years.

Discussion:

The issue of the retirement plan has been under discussion by NUSAC for many years. This paper is an update to the last position paper drafted in August, 1999. The retirement plan is the one benefit that impacts every staff member and it is of primary importance that the University provide a retirement plan that offers staff the opportunity to maximize their retirement savings. Maximization of this plan can only be accomplished if the staff have the same opportunity to save for retirement at the same level as the faculty, i.e. having their contribution matched at the same level that faculty are currently offered. The ultimate goal of any retirement plan is to provide the opportunity for an employee to have a secure retirement. An employee who is loyal to Northwestern and spends their entire working life at NU should be able to provide a secure retirement for themselves and their family through participation in NU's retirement plan.

To provide a secure retirement, staff/faculty must replace dollars they currently earn before retirement (typically age 65) with income they derive from Social Security, their retirement savings, and the NU retirement plan. Under the current system, if an individual begins employment at NU at age 25 and continues for 40 years until

retirement, and he or she contributes to fullest extent provided through NU's current plan their NU retirement plan would supply 38.6% of the dollars needed to equal their pre-retirement salary. This can be contrasted with that same employee contributing the maximum under the proposed revised plan (their contribution of 5% and NU contributing 10%). The employee's retirement savings would provide 60.6% of the dollar needed to replace their pre-retirement salary. This coupled with Social Security provides the dollars a retiree needs in order to maintain their pre-retirement lifestyle.

It has long been recognized that an individual can expect Social Security to provide only a fraction of their pre-retirement income (generally estimated from 20 to 30%). Since Social Security does not even provide subsistence level resources, an employee must build his or her substantial savings through their retirement plan in order to live out their retirement years with a general degree of comfort. It is not equitable that the university provides the opportunity for faculty to secure their retirement after a life of service but does not provide the same opportunity to staff who have also given a life of service to university. By providing the opportunity for staff and faculty alike to secure their retirement the university is doing its part to be a responsible employer.

Currently the following schedule is used when determining how much NU contributes towards a staff member's retirement:

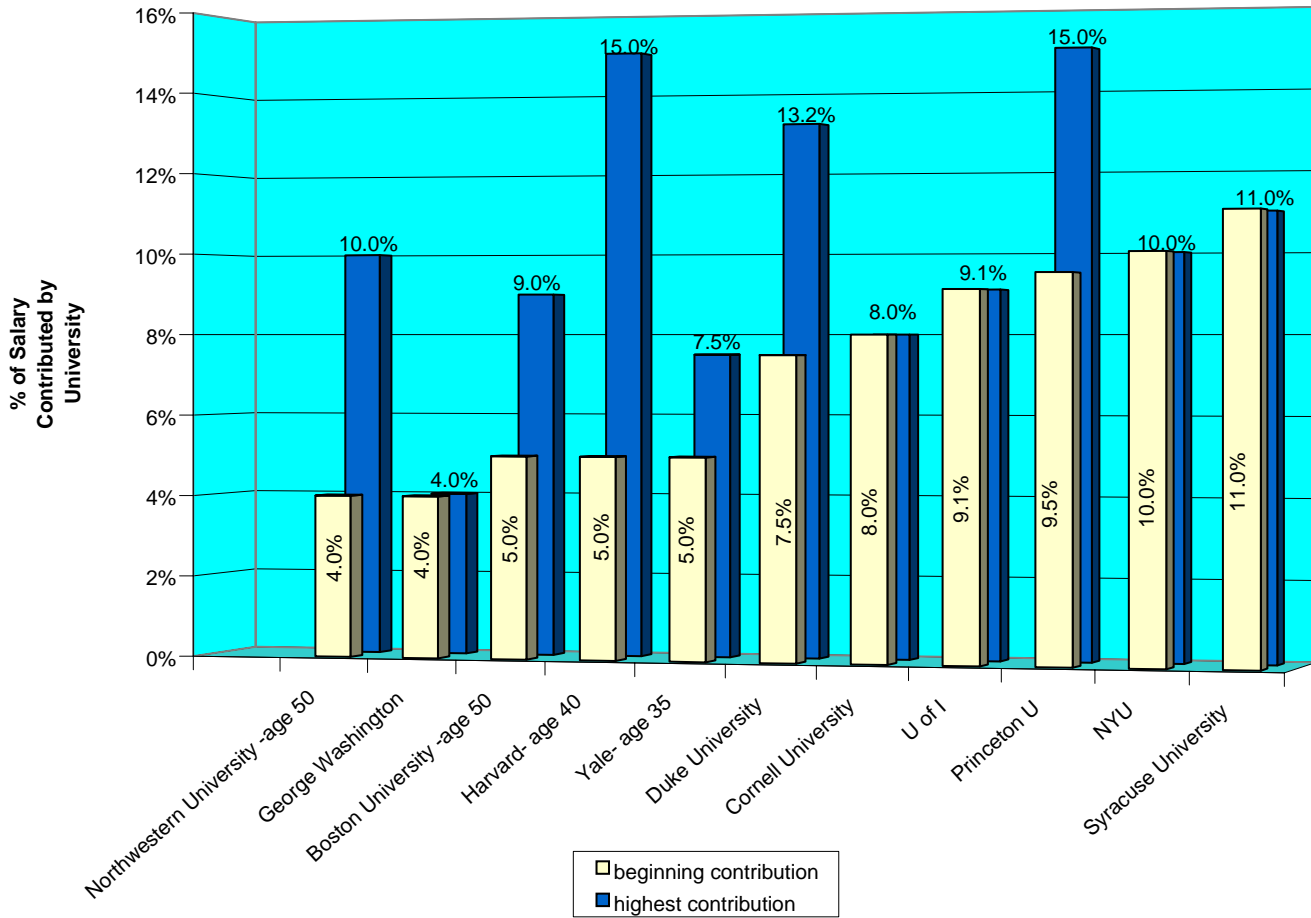
Current Staff Plan:

	<u>Employee Contributes:</u>	<u>NU Contributes:</u>	<u>Total</u>
Under 24	0%, no NU contribution	own savings only	
24 + all ages	1%	2%	3%
Age 24 to 39	2%	4%	6%
40-49	3.5%	7%	10.5%
50+	5%	10%	15%

Faculty however, are matched immediately at the 10%, with a 5% contribution on their part.

To truly meet the goal of providing a retirement plan to meet their employees retirement needs Northwestern must increase the employees' retirement plan to match the faculty plan allowing staff to contribute up to 5% of their salary, and to have this amount matched at 10% by NU. We propose the faculty and staff have the same retirement plan. Every staff or faculty member should be able to choose their tailored plan contributing from 1% to 5% with a \$2 match for every \$1 contributed. This plan would eliminate the difference between the faculty and staff plans and thus secure Northwestern's full compliance with IRS retirement discrimination test.

COMPARE CONTRAST NORTHWESTERN TO PEER INSTITUTIONS:



As the above chart indicates. For the initial contribution to staff retirement plans, Northwestern is at the very lowest end of the contribution scale when compared to other universities. Only George Washington University occupies the lowest rung with Northwestern equaling a contribution rate of 4% towards employee retirement plans. At the higher end Northwestern compares favorably, however, not until a staff member is 50 years old will they benefit from this retirement contribution. Of the schools listed on the chart above 4 schools have an aged based system (including Northwestern). Again only one other school, Boston University, delays higher contributions to their staff until the age of 50.

By a variety of measures, Northwestern's Retirement Plan for staff does not measure up. Clearly the University priorities have excluded the staff's welfare in designing a retirement plan that would reward long term employees of the University. It is time for the University to provide the means for staff as well as faculty to secure their retirement while serving Northwestern University.