

As you are well aware, the budget picture for our District is not looking very bright. As a cost cutting measure, ACE and the District have been working very hard to reach agreement on a retirement incentive package. If enough people take advantage of the incentive, this should alleviate the need to consider any lay-off of faculty in the near future. Prior to putting together a proposal, ACE surveyed the target group of possible retirees to determine what type of incentive would be needed to convince them to retire. We have had a couple of intensive negotiation sessions with the District. At this point, we need to share where the proposals are and get your feedback as to how to proceed.

### **ACE PROPOSAL:**

Any member at least age 55 and qualified to retire under STRS (or PERS) who notifies the District by May 23, 2008 of their intent to retire in the period 6/1/08-8/22/08 OR 12/22/08-1/29/09 OR 6/1/09-8/22/09 shall have the choice of one of the following (**Note:** STRS has not yet verified whether the second window of 12/22/08-1/29/09 is acceptable to them—it may not be long enough):

**Option 1**—The District shall purchase 2 additional years of service credit under the STRS “Plus 2” program. (**Important Note:** under the STRS provisions, any member who takes this option is not eligible to work for the District in any capacity for a minimum of five years—faculty would not be able to accept part-time employment from our District after retirement but they may work in another district.)

**Option 2**—The District shall make a lump sum cash payment to the member equal in amount to the payment required to purchase the 2 additional years of service credit for the member under the STRS “Plus 2” program. (**Note:** This lump-sum payment would be taxable when received.)

**Option 3**—The District shall make a cash payment to the member equal in amount to the payment required to purchase 2 additional years of service credit for the member under the STRS “Plus 2” program—the member shall direct the District to use payment (in pre-tax dollars) to invest in a 403(b) and/or 457 plan(s) of the member’s choice up to the current statutory limits, any excess balance to be paid in a lump-sum to the member.

(**Note:** the cost of purchasing the STRS credit under the “Plus 2” program varies from member to member dependent upon the member’s age and years of service credit. STRS provides tables to determine the “cost factor” which is multiplied by the member’s STRS retirement salary—these tables are attached. The cost factors range up to about .610—the average factor of the ACE target group is about 0.560—so if your STRS retirement salary is \$80,000 and your cost factor is 0.560, then the cost of purchasing the credit is  $\$80,000 \times 0.560 = \$44,800$ . If the STRS program is not chosen by the member, this amount would be the cash payment available to the member.)

Any members retiring 6/1/08-8/22/08 choosing Option 2 or 3 shall also be granted emeritus status if they received a Satisfactory evaluation on their most recent full evaluation prior to retirement.

Any members retiring with banked load shall cash out using the cash disbursements chart in Article 38.6.3 (**Note:** this is existing contract language) and shall have the option of directing the District to make the payment into a 403(b) and/or 457 plan(s) of the member’s choice up to the current statutory limits, any excess balance to be paid in a lump-sum to the member.

In addition, **if** at least 20 members elect to retire 6/1/08-8/22/08 and an additional 10 members elect to retire 12/22/08-1/29/09 OR 6/1/09-8/22/09, then the member shall also have the choice of one of the following:

Option 1—Retiree health benefit changes as follows:

- a. For Pre-1994 members—the member shall retire with the package in place at the time of retirement—any subsequent changes to the plans provided to active members shall not affect these retirees.
- b. For Post-1993 members—the member may elect to continue receiving the paid benefits package in place at the time of their retirement at District cost until the member reaches Medicare eligibility. Any subsequent changes to the plans provided to active members shall not affect these retirees.

**Note:** Post-1993 refers to any member hired in 1994 or later.

**OR**

Option 2—\$10,000 if retirement is 6/1/08-8/22/08

**OR**

Option 3—\$5,000 if retirement is 12/22/08-1/29/09 or 6/1/09-8/22/09

#### **DISTRICT PROPOSAL:**

Any member at least age 55 and eligible to retire under STRS (or PERS) who notifies the District by May 23, 2008 of their intent to retire in the period 6/1/08-8/22/08 OR 6/1/09-8/22/09 shall have the choice of the following:

Option 1—The District shall purchase 2 additional years of service credit under the STRS “Plus 2” program. (**Important Note:** under the STRS provisions, any member who takes this option is not eligible to work for the District in any capacity for a minimum of five years—faculty would not be able to accept part-time employment from the District after retirement but they may work in another district.)

Option 2—The District shall make a lump sum cash payment to the member equal in amount to the payment required to purchase the 2 additional years of service credit for the member under the STRS “Plus 2” program. (**Note:** This lump-sum payment would be taxable when received.)

Option 3—The District shall make a cash payment to the member equal in amount to the payment required to purchase 2 additional years of service credit for the member under the STRS “Plus 2” program—the member may enroll in and direct this payment to a District 403(b) and/or 457 plan(s) up to the current statutory limits and subject to plan provisions, any excess balance to be paid in a lump-sum to the member.

In addition, the member shall receive \$8,000 if retiring 6/1/08-8/22/08 or \$4,000 if retiring 6/1/09-8/22/09. However, the total aggregate amount paid to members shall not exceed the total aggregate difference between 65% and the cost of the STRS “Plus 2” plan.

Any members retiring 6/1/08-8/22/08 choosing Option 2 or 3 shall also be granted emeritus status if they received a Satisfactory evaluation on their most recent full evaluation prior to retirement.

Any members retiring with banked load shall cash out using the cash disbursements chart in Article 38.6.3 (**Note:** this is existing contract language) and may enroll and invest in a District 403(b) and/or 457 plan(s) up to the current statutory limits and subject to plan provisions, any excess balance to be paid in a lump-sum to the member.

The early retirement incentive is offered by the District subject to the following conditions:

1. STRS must approve the STRS “Plus 2” offering.
2. At least 25 faculty members must elect to retire under this incentive plan during the first window (6/1/08-8/22/08).
3. At least an additional 10 members must elect to retire under this incentive plan during the second window (6/1/09-8/22/09).
4. Elections are irrevocable unless the District decides not to provide this incentive plan.
5. If not enough faculty members elect to retire under this incentive program the District will not provide this program.
6. The District does not intend to offer an early retirement incentive for at least five more years.

### **ANALYSIS OF PROPOSALS:**

In analyzing the proposals, ACE’s overriding view is that an incentive program is absolutely essential in protecting our most recently hired faculty from the threat of lay-offs; this means that the incentive program must be “good enough” to get the most people possible in the target group to retire—it must be a real **incentive** to go now and not later.

There are two major differences in the two proposals:

- (1) The District proposal does not contain any health benefit guarantees and
- (2) The District proposal requires a minimum number of members to retire for an incentive to even be offered. Without the minimum number the District will withdraw the offer.

ACE feels the District is misguided on both of these points.

Although the pre-1994 members have retirement benefits, they can surely foresee the benefit battles to come. Once they retire, they lose their voice at the negotiating table. If they stay, they can fight against any changes to the benefits packages. Therefore they are encouraged to stay. However, if the benefits are guaranteed there is no obstacle to their retirement. In terms of District cost there might be an additional cost if future changes are made to the benefits. The District gave this guarantee the last time an incentive was offered. Our proposal uses the benefits as a true **incentive** to retire **now** for the pre-1994 people. The way our proposal is structured, it also maximizes the savings to the District. Unless 20 or more people retire then the District's cost of the incentive would **only** be the cost of the STRS “Plus 2” program.

What about the post-1993 employees? Without a health benefit program until Medicare it is hard to believe that anyone of them would retire NOW. The cost savings to the District will be the **same** for these members as for the pre-1994 members and the savings will then **increase** when these members reach Medicare age (for the entire target group of post-1993 potential retirees age 55 or older, the average health benefits coverage period would be 7 years).

Finally, we cannot agree to put restrictions on the entire program in terms of a minimum number that choose to retire, since there is a savings to the District for each and every member who retires no matter what the number.

### **SOME NUMBERS TO CONSIDER:**

Current # of full-time faculty:	approximately 347
Expected faculty obligation for 2008-2009:	319

The faculty retiring **under this program** would be considered “late” retirees and will still count towards the FON for next year—this means that they could be replaced for one full year by associate faculty—that is the assumption ACE is making.

Note: the FON is the minimum required number of full-time faculty.

Average Annual Salary Cost of Potential Retirees with Mandatory Benefits:	\$96,447
Average Annual Associate Replacement Cost with Mandatory Benefits:	\$53,260
Average First Year Savings:	$\$96,447 - \$53,260 = \$43,187$
Average STRS Cost:	\$48,353, which can be paid to STRS over 8 years at 6% interest—roughly \$6,100 per year.
Net First Year Savings per Member:	$\$43,187 - \$6,100 = \$37,087$

**Under the ACE proposal**, if 19 faculty choose to retire by 8/22/08:

$\$37,087 \times 19 = \$704,654$  first year savings.

**Under the District proposal**, if 19 faculty choose to retire, the incentive program would not be offered, these people would probably revoke their retirement election, and there would be no savings.

**Under the ACE proposal**, if 25 faculty choose to retire by 8/22/08 and another 10 choose to retire by 8/22/09: \$927,175 savings in the first year, regardless of whether the members are pre-1994 or post-1993 (and assuming they choose the benefit guarantees in lieu of any additional cash). Depending upon enrollment and our future FON, it is unclear how many of these faculty would be replaced by full-time members by the second year. Replacement by a full-time member reduces the annual savings by approximately \$36,600 (depending upon replacement salaries). If 13 faculty are replaced (and 12 continue to be replaced by associates), then the savings would be \$451,376 in the second year PLUS the additional savings from those retiring 6/1/09-8/22/09, \$370,870 for a total of \$822,246.

**Under the District proposal**, if 25 faculty choose to retire by 8/22/08 and another 10 choose to retire by 8/22/09: \$727,176 savings in the first year plus the benefit savings for each post-1993 member who chooses to retire. If 13 faculty are replaced (and 12 continue to be replaced by associates), then the savings would be \$451,376 in the second year plus the additional savings from those retiring 6/1/09-8/22/09, \$330,870 for a total of \$782,246 plus any benefit savings for each post-1993 member who chooses to retire.

The ACE proposal offers the best incentive to get the most people in the target group to retire. The District plan does not provide a good enough incentive and we believe that the District minimum will not be met, which means an incentive won't even be offered.

The District has indicated that they will not offer an incentive that includes benefit guarantees. We need your feedback on how to proceed. We believe feedback from the entire membership is critical as this affects not only the potential retirees but the future of the remaining faculty.

ACE Negotiating team and ACE Council