6140 clark / TO RETIRE OR NOT / sheet 3 of 186

To Retire or Not?

Retirement Policy and Practice in Higher Education

Edited by
Robert L. Clark and P. Brett Hammond

Pension Research Council
The Wharton School of the University of Pennsylvania

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Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 4 of 186

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Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 114 of 186

Chapter 6

The University of California Voluntary Early Retirement Incentive Programs

Ellen Switkes

Public colleges and universities face considerable challenges in preserving and maintaining their missions and their operations while coping with serious budget problems. The economy of the state, state budget appropriations, and federal research funding are of enormous importance to the very core of the institution and its faculty and students, although the institution can impact these only peripherally if at all. Salaries of faculty and staff make up the majority of university spending, and in a budget crisis there are only limited ways to tighten the collective belt without reducing the payroll. Delayed hiring may have some effect, and hiring freezes are a common method of dealing with temporary or short-term crises. Reduction in the workforce through layoff or retirement incentives may be needed if the budget crisis is severe and prolonged. Such actions may address budget problems, but they engender grave concerns over program quality and continuity.

The University of California (UC) faced a serious budget crisis in the early 1990s and responded to it by instituting a series of Voluntary Early Retirement Incentive Programs (VERIPs). These programs were designed to encourage retirement of staff and faculty in order to reduce the payroll sufficiently to deal with the looming budget crisis. The institutional planners could only guess at the outcome and impact of these programs, because they had little experience with retirement incentive programs and could not know how attractive the incentives would be to faculty and staff. Nor did they know, as the budget crisis developed, how long it would continue and how deep it would eventually cut. Balancing incentives to encourage sufficient reduction in workforce without decimating academic programs was the challenge, and there was little guidance available to the planners. The premise behind VERIPs was fairly simple: encourage retirement of faculty and staff to reduce the payroll through voluntary employee actions, replace as few employees as possible until the budget crisis eased, and later replace

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 115 of 186

them with junior personnel at lower salaries. At the same time, the university needed to maintain the quality of instruction for students; maintain the university's ongoing research programs; maintain the University of California as a destination of choice for excellent undergraduate and graduate students and for new faculty recruits; and also maintain the prestige of academic programs with high quality scholarships. How could these seemingly conflicting objectives be accomplished?

The University of California experienced reductions in state appropriations of over 20 percent from 1990 to 1996. In response to these dramatic budget cuts, in 1991 the university offered the first in what was to become a series of three VERIPs. More than 10,000 staff and 2,000 tenured faculty retired in these programs. Those 2,000 tenured faculty members constituted over 20 percent of all regular faculty. This chapter describes the incentives offered, a profile of faculty who were eligible and of those who elected these programs, and information on the impact on the university's academic programs.

The Retirement System

The University of California is a system with nine campuses and over 150,000 students. The University of California retirement plan (UCRP) is a defined benefit pension plan with over 115,000 active members, 30,000 annuitants, and 21,000 inactive members eligible to receive a benefit. The defined benefit pension formula is determined by years of service, the average of the highest consecutive three years' salary highest average plan compensation (HAPC), and a factor based on age. Because of outstanding performance of investments of the university's retirement plan, neither the employees nor the university made retirement contributions to the plan since 1990. The incentives as well as all of the costs associated with administering the VERIP programs were borne by the retirement system and were not paid from the university's operating budget.

Figure 1 shows the age factors in place during the VERIPs. The minimum retirement age is 50. The age factors increase in a nonlinear fashion and reach a maximum at age 60. After age 60, the age factor remains constant but years of service and HAPC continue to increase until retirement. For example, if Professor Jones retired at age 57 with 16 years of university service and a three highest years average salary of \$75,000, the standard pension (P) upon retirement of \$20,400 would be calculated based on the age factor for age 57 (0.0170) as $P = (0.0170)(16 \text{ years})(\$75{,}000) = \$20{,}400$.

In addition to the university pension, many faculty and staff who retired also received social security benefits, 403(b) distributions, and almost all were eligible for annuitant health insurance on a basis comparable to active employees. (This latter affords a substantial incentive to retire.)

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 116 of 186

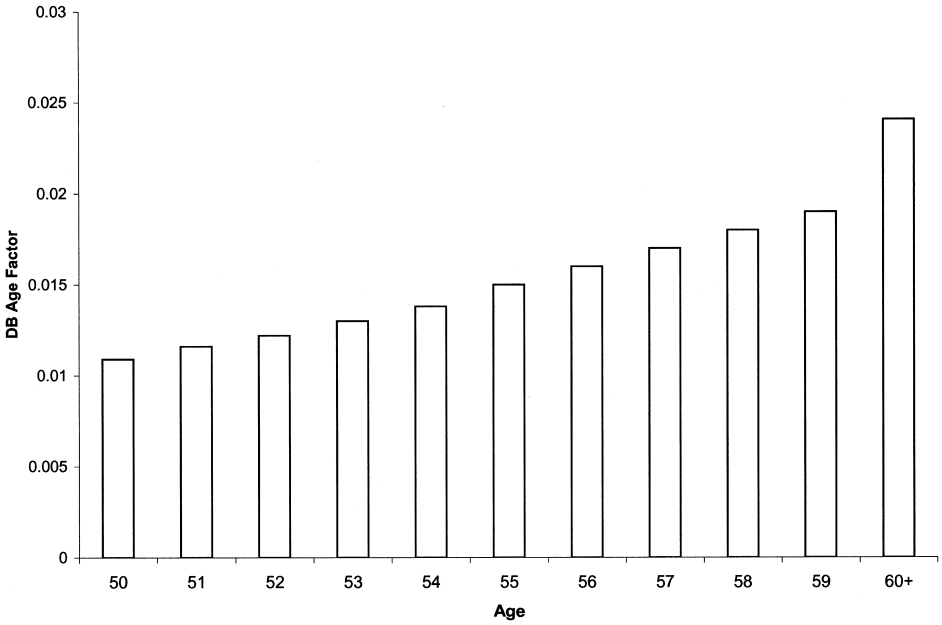


Figure 1. Defined benefit plan age factors in effect during the VERIP programs. Source: Author's calculations.

The Budget Crisis

Figure 2 shows the change over time in the university's budget, enrollment, and faculty numbers during the period preceding and following the deep budget cuts. From 1990 to 1994, the university experienced a budget cut of almost 20 percent, while at the same time the student enrollment decreased only slightly. Also marked in this figure are the three VERIP programs. Budget appropriations for the University of California grew steadily from 1985–86 to 1990–91; substantial enrollment growth spurred aggressive faculty hiring, capital projects, and campus expansion around the system. When the budget crisis hit, a reduction in workforce was the most feasible way to deal with such substantial budget cuts in such a timely and effective way. While layoffs of other staff could have been effected, it was impossible to lay off sufficiently large numbers of tenured faculty within a short time to meet substantial salary saving targets. When the first VERIP program was announced in October 1990, the budget crisis was still young and the total reduction in workforce that would ultimately be needed wasn't yet known.

The university had little experience with large-scale workforce reductions. The VERIP program was designed based on what turned out to be

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 117 of 186

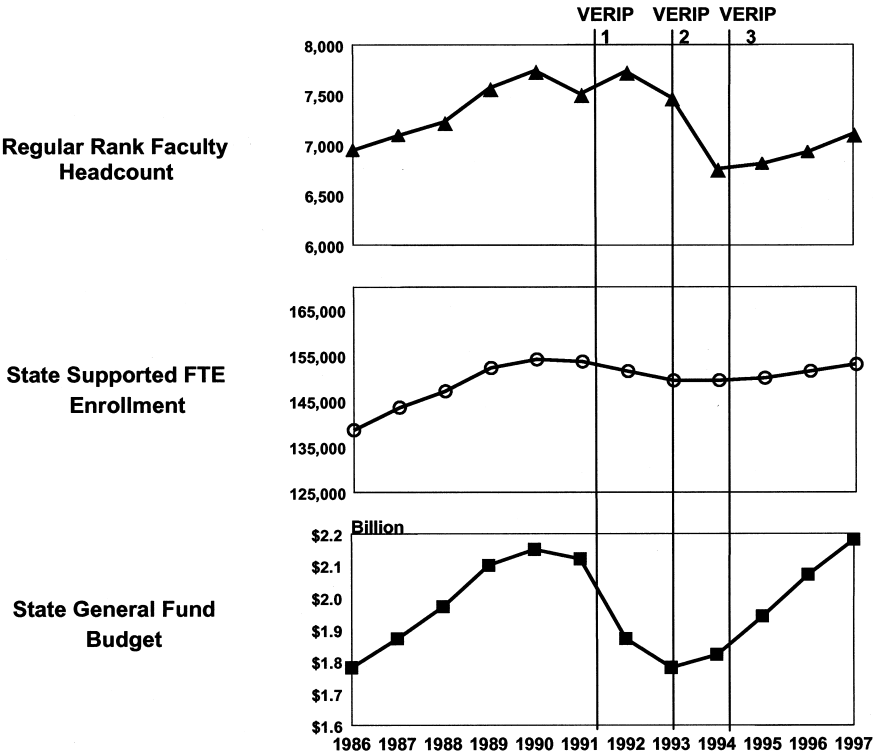


Figure 2. University of California faculty count, student enrollment, and California state budget, 1986–97. Source: Author's calculations.

rather good guesses about the kinds of incentives that would encourage retirement without decimating the workforce. In fact, the university's faculty senate provided substantial support for the incentive plan, in large part because of the anticipated opportunity for a large-scale faculty renewal. In fact, substantial hiring of new faculty was delayed for several years as the budget crisis continued to deepen.

The Incentive Programs

Figure 3 is a time line for the VERIP programs. VERIP 1 was announced in October 1990. Faculty were required to make a binding decision by March 31, 1991 and to retire on July 1, 1991. VERIPs 2 and 3 were announced in July 1992 and June 1993 respectively, with retirement dates for faculty of January 1, 1993 and July 1, 1994. Each VERIP was anticipated to be the final

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 118 of 186

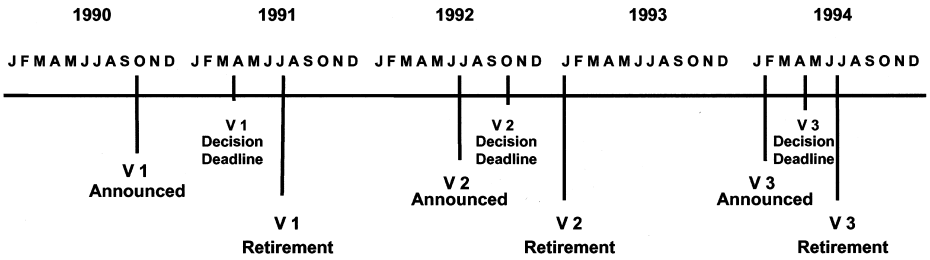


Figure 3. VERIP timeline faculty programs. Source: Author's calculations.

program. Eligible employees were presented with the choice to take the program offered in a window period or to continue in active employment. Each successive program provided broadened eligibility requirements to encourage retirements in response to a worsening state budget forecast. Some employees who selected the earlier programs were unhappy to learn later that if they had chosen not to retire when they did, they could have elected the last program with more valuable incentives. However, by the time VERIP 3 was offered, the incentives were sufficiently generous that a large number of employees elected the program rather than wait for the possibility that an even richer program would be offered later.

Figure 4 describes the three VERIP programs for faculty. Faculty who were subject to mandatory retirement were permitted to retire with the incentives provided in VERIPs 1 and 2, even though they would have had to retire anyway. Mandatory retirement was no longer in place at the time of VERIP 3.

In the first VERIP, faculty with a sum of age plus service of 80 or above were eligible. In the example above, Professor Jones at age 57 with 16 years of service had age plus service of 73 and was not eligible, while faculty colleagues age 60 with 20 or more years of service were eligible. For VERIP 2, faculty needed a combination of age and years of service of 78 to be eligible; for VERIP 3, faculty needed a combination of age and years of service of 73 to be eligible. Three years later Professor Jones was eligible for VERIP 3. At that point she was 60 years old with 19 years of service, so her age plus service equaled 79. Program eligibility for staff employees was more generous. A special set of incentives was established for VERIP 3 for the Berkeley campus because the faculty at this campus had higher average age and service than the rest of the system. The administration was concerned that a very high take rate at Berkeley could create a crisis by jeopardizing important academic programs.

Incentive. Figure 4 shows the incentives offered to faculty under each VERIP program. All three programs provided a lump sum cash payment

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 119 of 186

	Eligibility Requirements (Age + Service Years)	Retirement Incentives	Retirement Date	Takers
VERIP 1	80 and above	1) 5 years of service credit 2) lump-sum cash payment: 3 months' salary	7/1/91	675
VERIP 2	78 and above	1) 5 years of service credit 2) lump-sum cash payment: 3 months' salary	1/1/93	371
VERIP 3	73 and above [75 and more for Berkeley]	1) 5 years of service credit and 3 years of age, or up to 8 years of service credit* 2) lump-sum cash payment: 3 months' salary	7/1/94	938

* For Berkeley campus: 5 years of service credit plus 2 years of age

Figure 4. Faculty eligibility requirements, retirement incentives, and retirement dates. Source: Author's calculations.

equivalent to three months salary immediately upon retirement as a transition allowance, subject to Internal Revenue Code Section 415 limitations. In addition, faculty who elected VERIP 1 or 2 received five years of service credit. For a professor with 15 years of University of California service, adding 5 years of service credit would result in a pension formula crediting 20 years of service rather than 15 years, resulting in a 33 percent increase in pension. For VERIP 3, the incentives were more complicated as they were based on both an increase in age and service totaling eight. Faculty could add up to three years of age plus five years of service credit. For Berkeley, the numbers were two years and six years respectively.

Examples of the impact of VERIP 3 on retirement benefits for three fictitious faculty are shown in Figure 5. These illustrate how the incentives might influence an individual's decision to accept the incentive and to retire.

- Professor Holst was age 68 at the time she elected VERIP 3. She had been eligible for VERIP 1 and 2 but had not retired. Because the age factor reaches a maximum at age 60, Professor Holst had already reached the maximum age factor; additional age credit would not increase her pension. Thus Holst received an incentive of eight additional years of service, which resulted in a 27 percent increase in her pension from an

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 120 of 186

	Professor Holst		Professor Ramos		Professor King	
Employee status when VERIP is offered						
Actual age	68		55		57	
Years of service credit earned and accrued	30		20		16	
Average salary rate (HAPC)	$91,000		$80,000		$75,000	
VERIP incentives (based on age of employee)						
Additional years of age	0		3		3	
Additional years of service	8		5		5	
Benefits	**Standard Benefit**	**Benefit with VERIP**	**Standard Benefit**	**Benefit with VERIP**	**Standard Benefit**	**Benefit with VERIP**
Benefit percentage (Represents the retirement benefit as a percentage of average salary)	72%	92%	30%	45%	27%	51%
Approximate annual retirement benefit	$65,793	$83,338	$24,000	$36,000	$20,400	$37,957

Figure 5. Examples of impact of VERIP 3 on retirement benefits. Source: Author's calculations.

annual benefit of $65,793 to a benefit under VERIP 3 of $83,338. Had she not retired under VERIP 3, she figured that with a merit increase of about 9 percent every three years and no cost of living increases due to the bad budget, she would have to work to age 73 or more to receive a pension similar to the one offered to her now at age 68. She had been thinking about retiring soon anyway, and so she took the offered incentive.

- Professor Ramos was age 55 with 20 years service when VERIP 3 was offered. He hadn't been eligible for VERIP 1 or 2. VERIP 3 changed his pension calculation by adding three years of age and five years of service to provide a pension 50 percent greater than he would receive if he retired without VERIP at age 55. A significant factor in his decision to retire was the possibility that he might later be recalled to partial active service and could retain his office, graduate students and research grants. Although no guarantees of recall could be made due to retirement plan restrictions, he was reasonably confident that his expertise would be needed, so the prospect of "retiring" without totally giving up his work was quite attractive.
- Professor King was age 57 when he considered electing VERIP 3. He also had not been eligible for VERIP 1 or 2. King's incentive of three additional years of age credit to age 60 (the maximum age factor) and five years of service credit increased his total years of service from 16 to 21. Under VERIP 3 his pension would increase to $37,957; it would have been at $20,400 if he had retired without the added incentives. This was an overall increase of 86 percent in his pension at retirement.

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 121 of 186

> However, King figured that the increase in the age factor from age 57 to 60 combined with a substantial merit increase he was expecting would give him the equivalent of the VERIP 3 benefit with a few more years of work. He was not ready to retire at age 57 and anticipated working many more years, so the VERIP 3 incentive was not sufficiently attractive to Professor King.

The campaign. The university undertook an extensive information campaign with each VERIP program. All eligible employees received a package of information about the VERIP program including individualized statements of what their pension would be if they elected the program. In addition, there were information sessions to which spouses were invited, videos describing the program, and individual retirement counseling for all professors and spouses.

Faculty had many factors to consider in addition to the financial arrangements of their university pension, such as additional income available from other sources, their health and the health of family members, postretirement plans, recall possibilities, and opportunities for other employment. Many faculty were relieved to find the time in retirement to complete a book manuscript, to become more active in their professional societies, or to assume leadership roles in faculty governance. Many were happy about opportunities to teach without having to attend department meetings or serve on committees. Although the university was unable to make any guarantees about future part-time appointments, many faculty considered this a likely option.

Outcome

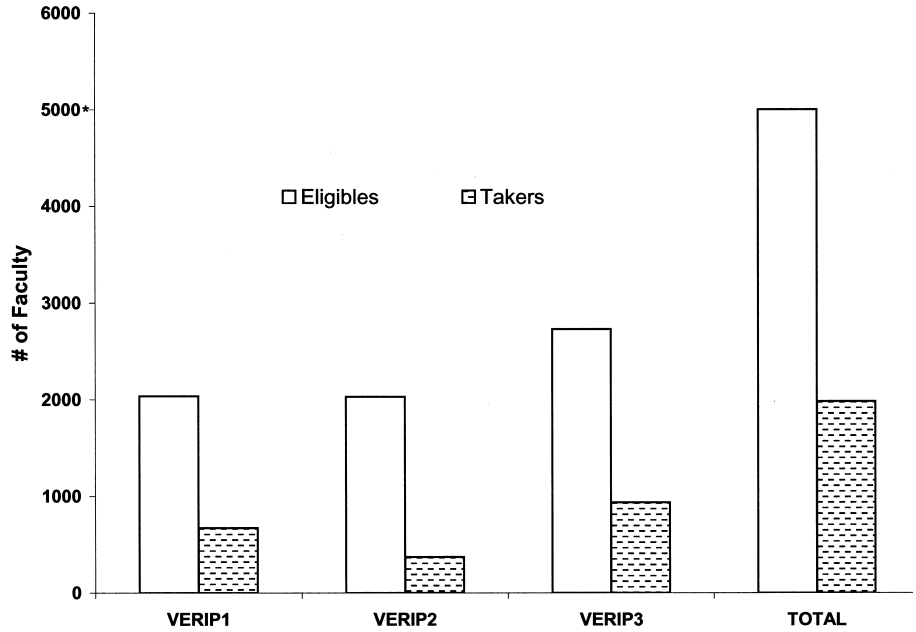
There were several variables across the three VERIP programs. The demographics of eligible faculty for each VERIP program was different. The eligibility criteria varied as each succeeding VERIP made more faculty eligible; in addition, many formerly eligible faculty had already retired with each successive VERIP offering. In addition, each successive VERIP left a group of eligible faculty less inclined to retire (Pencavel 1997).

Figure 6 shows the take rate for faculty for each VERIP program. This varied from 18 percent for VERIP 2 to 34 percent for VERIP 3. VERIP 2 had a lower take rate because although more people were eligible for VERIP 2 than for VERIP 1, those newly eligible had less seniority and many did not want to retire because their pension, even enhanced by the incentive, was too small. Many faculty were eligible for more than one of the VERIP programs. Overall, of those faculty eligible for any of the programs, 40 percent (which amounted to 2,000 tenured faculty) took advantage of one of the VERIP programs and retired.

The average age of faculty who retired for VERIP 1 was 66 (about the nor-

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 122 of 186



	VERIP1	VERIP2	VERIP3	TOTAL
Take Rate %	33%	18%	34%	40%
Average Age	66	64	62	64
Average Service Years	28	27	26	27

Figure 6. Faculty VERIP participants by program. Source: Author's calculations.

mal retirement age for University faculty). For VERIP 3 the average retirement age was 62, so a younger group of faculty retired with the changes in eligibility and with the added incentive of this third program.

Figure 7 shows the take rate for various age ranges. Not surprisingly, older eligible faculty tended to retire at a higher rate than younger eligible faculty. Of special interest is the group who were 70 or older and eligible for one or more VERIP programs. This group had the highest take rate of all; 110 of the 145 who were eligible chose to retire. However, the remaining 35 (24 percent) who did not retire might have to work for up to eight more years before their pension would equal that offered under VERIP 3.

The average age of those eligible for a VERIP program who did not retire was 60, and the average age of those who retired under these programs was 63.5. Those with more years of service also had a higher take rate, but this effect was surprisingly modest. The average years of service of those eligible who did not retire was 25.5 and of those who did retire was 26.6 years.

Campus variation. Overall, 1,984 ladder-rank faculty retired under all three

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 123 of 186

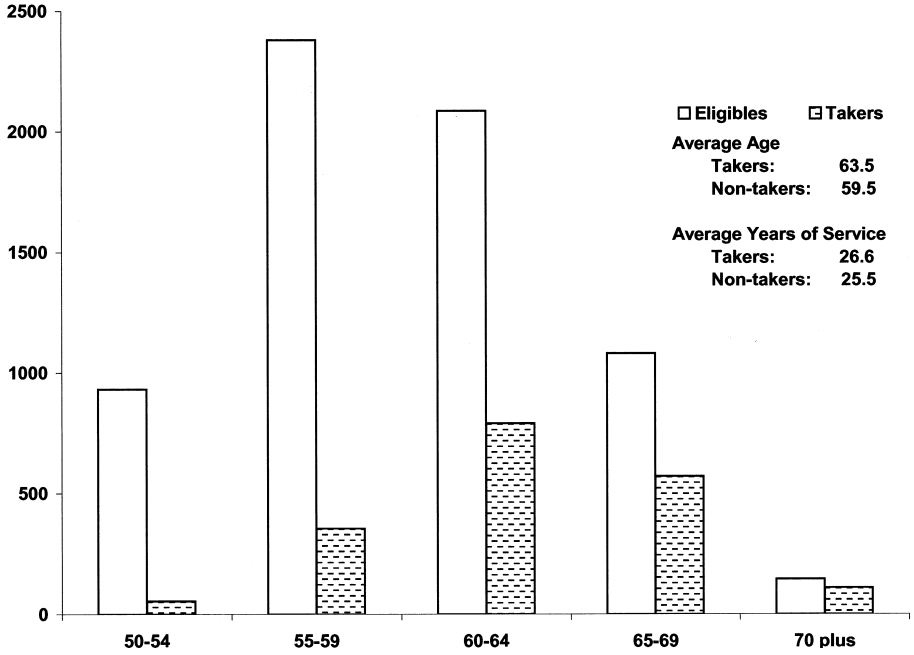


Figure 7. Acceptance rates of VERIP eligible faculty by age. Source: University of California, Office of the President, Academic Affairs.

VERIP programs. In April 1991 when the first election took place, the University's regular faculty numbered 9,802. By July 1994, more than 20 percent of those had retired under a VERIP program. In general, campuses with older faculties had higher take rates. These varied from 13 percent at the San Francisco health science campus to 27 percent at the Berkeley campus, in spite of the decreased eligibility criteria under VERIP 3 at Berkeley.

Disciplinary variation. Early retirement incentive programs were available to everyone who met the eligibility criteria. Growing or newer programs such as molecular biology and ethnic studies tended to have younger faculty than did stable, long-established programs such as engineering and physics. Reports after VERIP 1 were that engineering and physics programs were seriously impacted. However, after all three VERIP programs were completed, there were only small variations in take rate by discipline, as shown in Figure 8. It should not be assumed that the take rates were uniform within disciplines across all nine campuses. In fact, within disciplines, the pre-VERIP ages and years of service among faculty did vary across the campuses. Figure 8 shows only the systemwide averages. It is interesting to

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 124 of 186

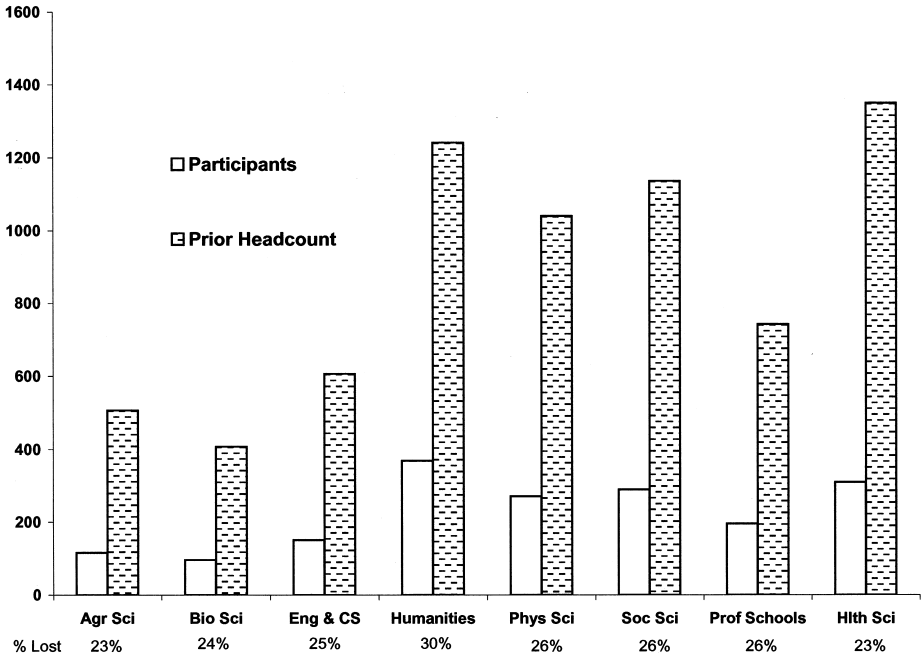


Figure 8. Faculty count prior to first VERIP, VERIP participants, and percent lost. Source: University of California, Office of the President, Academic Affairs.

note that disciplines where faculty might be expected to have other employment opportunities (such as engineering and computer science, biological sciences, and health science) had lower take rates than other disciplines, and humanities had the highest take rate of all.

Profiles of the "Takers"

It is difficult to characterize those who took the retirement incentives. A study of all UCLA faculty eligible for VERIP 3 examined publication output, and it found that the faculty with the most recent publications tended to retire at a slightly lower rate than faculty with fewer recent publications (Kim 1995). In addition, Figure 9 shows the variation of take rate with salary step. At the University of California, faculty are assigned a rank and step to chart their academic progress. Figure 9 shows the steps for the professor rank. Faculty who make normal progress are advanced to a higher step at a higher salary every three years. Thus, the salary step is a rough indicator of academic progress. In addition, those who do not advance beyond step 5 to higher levels are likely to have lower scholarly output. Faculty with higher

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 125 of 186

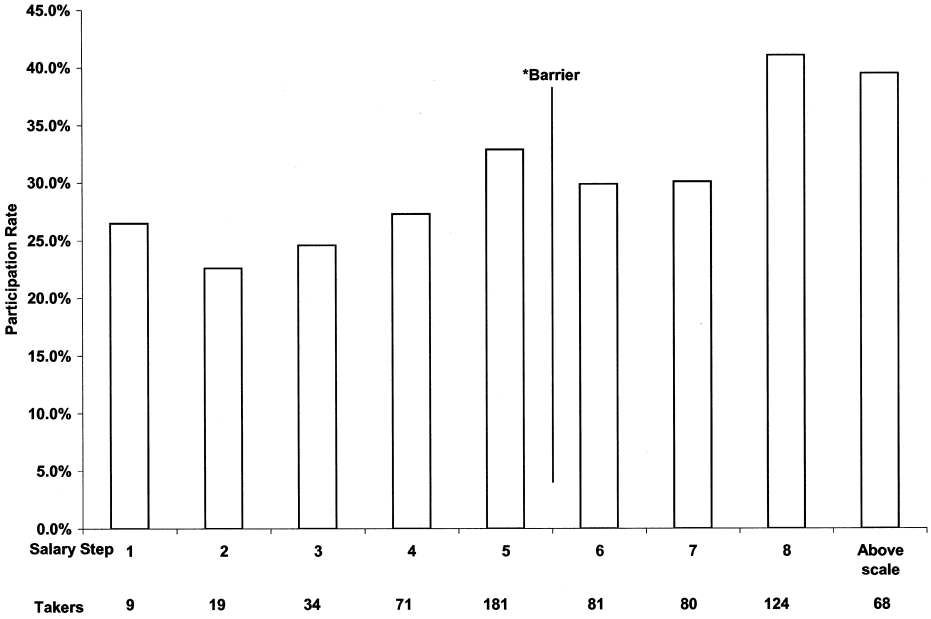


Figure 9. Number and acceptance rates of VERIP 3 participants, full professors by salary step. Promotions from step 5 to step 6 involved a more extensive and intensive review process than for promotions to steps 2–5. Source: University of California, Office of the President, Academic Affairs.

salaries tended to be older and in general did have a higher take rate, and faculty at step 5 did have a higher take rate than those at steps 6 and 7 (even though those at higher steps might be substantially older). In fact, immediately after the VERIP programs ended, an informal count identified very few faculty who retired under VERIP who then took regular full-time employment at other universities. One conclusion that may be drawn from this information is that the most outstanding faculty who would likely be those with other employment possibilities tended not to retire as readily as other faculty, but the correlations were modest.

After Retirement

After retirement, emeritus faculty tend to continue as active members of the university in research, department activities, and/or Academic Senate activities. The faculty who retired under the VERIP programs were no different. Prior to 1991, campuses recalled small numbers of faculty to active service, mainly to teach specific courses. Subsequently, the number of recall appointments increased and continues to remain high to meet the needs of

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 126 of 186

instructional programs. At UCLA, most faculty who retired under VERIP remained active on campus at least immediately after they retired (Kim 1995). Eighty percent were recalled to active service, a few on contract and grant funds, but most were recalled to teach one or more courses, some without salary. Because the hiring of new faculty slowed considerably during the period of budgetary crisis, faculty who retired were often able to retain use of their offices and laboratories whether or not they were recalled to teach. Emeritus faculty remained engaged in research, and this prompted the university to create a special title for faculty who had retired but who wanted to apply for research grants and continued to have active research programs. Immediately following retirement, some faculty took other full or part-time work such as consulting, while only a small number retired completely from professional life. In a follow-up study of VERIP retirees in 1998, almost 70 percent of respondents to their survey of VERIP retirees were still working either full or part time, including 40 percent who continued to work part-time for the University of California (Kim 1998). The VERIP retirees reported a very high degree of satisfaction with their decision to retire and their current activities.

Academic Program Continuity

Because of these incentive programs for retirement, almost 2,000 tenured faculty left their university positions. Many had never planned their retirement. Others were in their late 50s and while they may have thought about retirement, they had not been intending to retire within three months' time, although they ended up doing just that. Departments normally have long notification of impending faculty retirement and can plan an orderly succession, but with the VERIP programs, departments had little or no time to plan. In addition, the timing of retirement for VERIP 2 was especially disruptive to departmental operations. There were 371 faculty who elected VERIP 2 in October 1992 who retired in the middle of the academic year, just as the second term began in January 1993. Faculty and their departments had no time to plan for the upcoming term. A retirement date of July 1 was therefore selected for faculty for VERIP 3, even though continuing budgetary constraints forced the retirement date for staff under VERIP 3 at an earlier date of November 1, 1993.

The disruption following retirement of significant numbers of faculty was ultimately confronted in a variety of ways. Following a break in service, faculty were permitted to be rehired at less than half-time, and many were eager to do so. Many retired faculty were willing to continue to teach on a recall basis or as volunteers. The number of lecturers, adjunct faculty, and visiting faculty showed little change. Almost no classes were canceled. The remaining faculty taught extra classes; some classes were larger when sections were consolidated.

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 127 of 186

Campuses were concerned that the departure of some of their most prestigious faculty would have an adverse effect on the stature of their departments. However the effect has generally been a positive one: stellar faculty remained active in their departments following the retirement, and the sudden retirement of so many faculty provided a unique opportunity to examine long-range academic planning and organization goals. Several campuses made difficult organizational changes in the wake of the VERIP programs. Overtime hiring of new faculty has been an overall benefit, and some older faculty cited the need for their departments to hire new faculty as among their reasons for electing to retire.

In addition, more than 10,000 staff employees retired under VERIP programs. This created problems for faculty as department support staff took advantage of the retirement incentive programs. On the other hand, research support staff is generally funded from extramural sources, and unlike state-supported staff, money was available to replace those retired research support staff.

Although the defined benefit retirement system is no longer as well funded as it was prior to the VERIP programs, faculty and staff who remain continue to make no direct contributions. The nature of the defined benefit plan means that remaining employees will continue to receive the pension to which they are entitled based on the defined benefit formula. In fact, the age factor profile has recently been changed from what it was during the VERIP programs (see Figure 1) to provide a more generous age factor for those from age 55 to 59, to "smooth" out the discontinuity in the age factor that existed between age 59 and 60. Remaining employees are not faced with the possibility of a reduced pension benefit even though the retirement system was able to fund all aspects of the VERIP program. Another complication has been the cost of replacing faculty.

As seen in Figure 10, as the budget crisis eased, faculty hiring has resumed to replace those faculty who retired with permanent new faculty. Even though the salaries of incoming faculty are normally lower than the faculty who retired, in many fields the cost of recruitment and start-up is high. In fact in some fields, such as business and economics, the salaries of new faculty may be even higher than initially forecasted.

Conclusion

From many points of view, the VERIP programs sponsored by the University of California were clearly successful. These programs reduced the university's payroll through voluntary retirement rather than through layoff or termination, mitigating the possibility of litigation. Generally, those who retired under these programs felt that they made the right decision. No one was forced to retire, and the incentives were generous. The resulting payroll reduction was sufficient to deal with severe cuts in state funding from

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 128 of 186

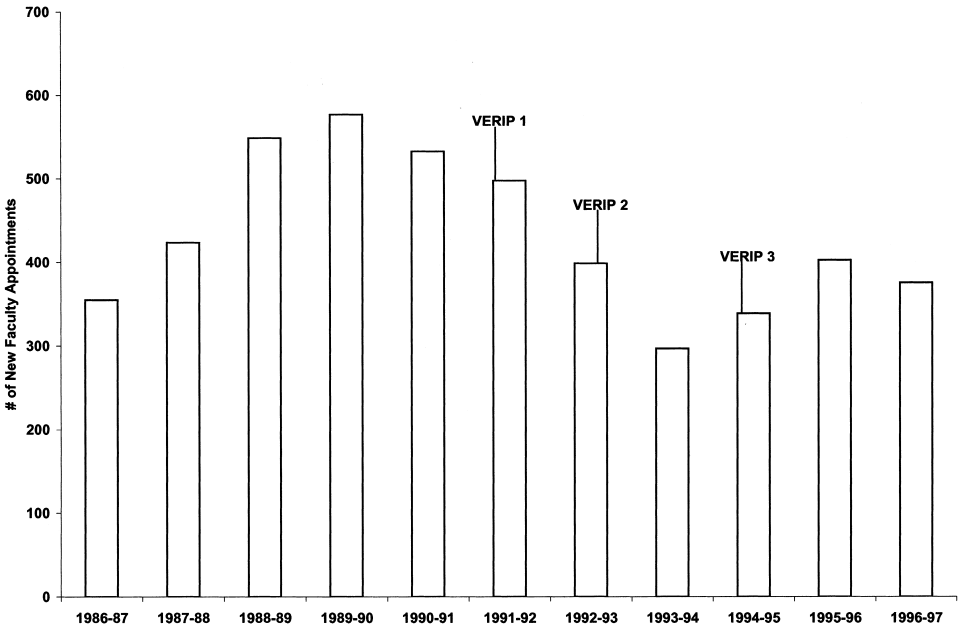


Figure 10. New appointments of ladder rank faculty. Source: University of California, Office of the President, Academic Affairs.

1991 to 1996. The university's retirement system was able to finance all aspects of the incentive programs and the VERIP programs made it possible to realize substantial savings in salary and benefits. In addition, sufficient resources remained in the pension fund to guarantee future defined benefits for remaining employees. By contrast, other universities must sometimes finance early retirement programs from university operating funds, and this can create serious funding problems in a budget crisis.

The University of California's academic program weathered the temporary reduction in faculty and support staff in a variety of ways. A major factor was the willingness of many retired faculty to remain part of the university community, to teach courses on a recall basis at low salaries or as volunteers, and to maintain laboratories and research projects as emeriti while continuing to attract research grants and superb graduate students. Remaining faculty took on additional teaching and service responsibilities, and had reduced staff support. In addition, the mass retirement of so many faculty in a short time provided a unique opportunity for campuses to consider major organizational changes in academic programs. Positions vacated are now being refilled with new faculty with fresh perspectives and in emerging

Tseng 2000.8.18 14:02 OCV:0

6140 Clark / TO RETIRE OR NOT / sheet 129 of 186

areas. The quality of the University of California's academic programs today seems to be as high or higher than it was at the beginning of the decade.

Each time a new VERIP program was offered, the administration assured faculty and staff that it did not envision future programs. Although that was indeed the expectation at the time each of the programs offered, the continuing budgetary crisis necessitated three such programs. Were expectations raised of continued retirement incentive programs? Did faculty and staff defer their decision to retire in the expectation that something better would come along? It is impossible to answer those questions. However many faculty and staff continue to inquire about the possibility of a new retirement incentive, though another one seems remote. The extreme budgetary circumstances that gave rise to the VERIP programs early in the decade of the 1990s no longer exist.

In order to justify use of retirement system funds for a retirement incentive program, a surplus must exist, and the university would need to demonstrate a business necessity such as the one that arose in the early 1990s. University employees have made no retirement contribution to the defined benefit plan since 1990, but some time in the future, contributions will once again be required. Without a dramatic and looming catastrophe, both active employees and university administrators would be very displeased if retirement system funds were used for a retirement incentive, because that would hasten the day when the employer and employees would again have to make contributions to the defined benefit plan.

Additionally, the University of California is projecting an additional 63,000 students in the next 12 years, a 40 percent increase in the student body. A program to encourage wholesale retirements of faculty and staff at this point would be contrary to anticipated staffing needs for this massive enrollment increase. An employee benefits update in the summer of 1999 carried the following sidebar: "So here's the official word: No more VERIPs are anticipated at this time" (HR/Benefits Review 1999).

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