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Starting a Dialogue on Retiree Programs

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HR Management Forum

Starting a Dialog on Retiree Programs

Rev. Craig B. Mousin and Gary L. Miller

Craig, even though many colleges and universities have already taken serious measures to trim the cost of their retiree medical programs, the expense associated with these plans may again come under scrutiny because of the nation's weak economy. Particularly susceptible institutions may be those that cover part of their operating expense from their endowment earnings and tuition-driven institutions that experience a drop in enrollment. The challenge of funding retirement programs is not unique to colleges and universities, but constitutes a formidable task for employers of all types, from government organizations to Fortune 500 companies. Some employers have eliminated plans altogether. In January, General Motors discontinued retiree health coverage for their salaried retirees age 65 and over. Scaling back retirement plan funding, and retiree medical programs in particular, are good examples of how, in some cases, ideals must be set aside to address serious financial challenges. One article I recently read labeled elimination of matching contributions "the new no-brainer."

Gary, we definitely face a difficult economic time for institutions of higher education. Catholic Social Teaching (CST) would very much disagree that eliminating matching contributions is a "no-brainer." We cannot ignore such issues as honoring contracts or agreements that have already been made with those already in retirement or close to retiring as well as how we relate to current and future employees. Because most retirees have limited income potential, employers and employees must work together to ensure that faculty and staff with years of faithful service have enough set aside for retirement. Commutative justice calls us to honor original contracts or agreements for retirees. CST also raises issues regarding changes for current and future employees. In our last column, we raised the idea of a Roman Catholic institution's mission focus on human dignity as an integral part of its business decision-making. In addition, CST asks us to examine the way in which structures and institutions in society impact the life of the individual within the context of the community—the common good. Determining the appropriate level of funding for employees' retirement benefits poses significant challenges and forces us to explore how all the consequences of examining human dignity impact this decision. Funding retiree programs is hardly an "ideal" that can just be set aside. Rather, CST challenges us to consider how to maintain such a commitment or how to change the structure of society such that the same types of needs are met in another way. Simply withdrawing this benefit with no alternative or leaving the individual and his or her family to fend for themselves fails to meet our responsibilities under CST.

Yet, in these dire times, Craig, ceasing contributions to retirement plans may be much more palatable than other alternatives. Other types of employment-related cost cutting would not only be unpopular, but could undermine an institution's ability to maintain high quality teaching and good service. For instance, if salaries are not competitive, a college might lose some of its best faculty and staff thus compromising the quality of the education it delivers. Colleges and universities need to continue to provide competitive salary and benefits for active employees because faculty and staff are more immediately concerned about their current income than they are with retirement. Besides, if faculty and staff salaries stay healthy, anyone contributing less than the maximum amount into a 403(b) or 401(k) plan could increase deferrals should employer contributions be reduced or eliminated.

Gary, you may be right that there are a number of reasons to consider reducing retiree program funding first, but CST adds several additional important considerations to the process. I am not referring only to the promises and possibly legally binding guarantees universities may have included in their retiree correspondence, although those considerations remain important. Even in the absence of promises, universities that are concerned with the dignity of their retirees will maintain the priority of enabling employees to save for retirement even in difficult times. Full-time active employment is just not an option for many seniors, nor something that we as a society should encourage, yet significant financial needs continue to impact the retiree, his or her family, and the community. A 65 year-old couple retiring today will require more than $200,000 just to meet their health care expenses in their senior years.

Back to table of contents

If funds are insufficient at the time of retirement, very little can be done to rectify that situation. The problem expands beyond the individual retiree as well, impacting family and community. If a college or university ceases to make contributions into faculty and staff retirement accounts, not only are the employer contributions lost to the employee, but the earnings on those contributions are lost. Compounded earnings could add up to significant amounts for individuals by the time they retire. In addition, while salary competitiveness is a major concern for faculty and staff retention, for employees over the age of 40, a solid retirement program may prove to be equally important. Many of these older individuals have seen dramatic losses in their retirement portfolios and they are going to place a priority on getting back on track financially. CST would also encourage us to use prudence to seek other ways of maintaining competitiveness.

Ultimately though, Craig, financial considerations are going to trump all other concerns. Rapidly increasing medical costs combined with a surging retiree population will create an extremely challenging situation for colleges and universities facing declining enrollments.

Gary, I first take issue of your word "trump." A Catholic institution cannot remain faithful to its mission and to CST if a broad category designated as financial considerations trumps all other aspects of mission. Although CST does not propose any one particular solution since the answer may differ among institutions, the values of human dignity, common good, and stewardship must be considered by employers instead of allowing financial considerations to simply rule the day. Several consequences flow from holding human dignity as a centerpiece of an institution's mission. CST holds that work itself has dignity that enables workers to care for their family and to participate in building a more just community. To achieve that goal, work should not convert workers into a mere commodity, but rather work becomes a locus for human flourishing and meeting one's full potential, both for the individual and for the contributions that individual will make to the greater society. Human dignity is never taken as a simple snapshot of a person at a particular time and place. Rather, CST suggests that work enables individuals to grow and fulfill our God-given potential. Moreover, an employer cannot ignore the impact work has on a worker's benefits, his or her family, or the worker's community including the issues of retirement, aging, sickness, and the impact on the worker's family. If one takes the long view, retirement issues are part of the ongoing promises of working within Catholic principles. Once an institution comprehends these issues, it then must weigh them in accord with the institution's unique circumstances such as its strategic objectives, enrollment levels, endowment, tuition pricing strategy, and location.

Craig, I can see how well intentioned decisions could be made for expense reasons that inadvertently conflict with an institution's core principles or with important organizational goals. For instance, if an institution has a long-term objective of developing a younger faculty mix, then reducing retirement plan funding could subvert that aim. So, in reviewing retirement program revisions, the first step should be to frame the issue as you suggest. From this the HR-related philosophy statements could be reviewed to ensure they provide adequate and proper guidance in light of these important considerations. This is the hard work – building the foundation and frame of the house so to speak. This is also the level that shared governance within an academic institution makes the most sense. Following this work, the plan design and funding options to help manage the cost of the retiree programs can be developed using best practices. This is also a point at which surveying other similarly situated organizations could be helpful.

Gary, another consideration here is the importance of looking at the whole person. We have been somewhat unclear about whether we are addressing defined contribution plans such as 403(b) arrangements, retiree medical plans or pension plans. A fragmented approach fails to take into consideration the fullness of the human being, yet because retiree medical costs have been in the forefront of concern lately, institutions face the temptation to address only the retiree medical plan rather than consider the entire retirement package. Eliminating specific benefits without considering the total impact on the worker may also fail to meet the goals of CST. If an employer has a fantastic retiree medical plan, but retirees end up with insufficient funds for retirement, then their needs still have not been successfully addressed.

I agree. A more holistic approach would be for an employer to project the total amount a typical retiree would need (perhaps partly as a percent of final salary) to live with dignity in the post-employment years. Once this amount is determined, it may be funded in different ways. Perhaps for funding

Back to table of contents

retirement income, a combination of a defined benefit plan and a defined contribution plan is used while for retiree medical a VEBA is established.

In addition, funding is just one aspect of the equation. An employer that cannot reach its funding target (as well as those with financial strength) can still take several relatively low cost measures to dramatically improve the likelihood that faculty and staff members will reach their financial objectives for retirement. Many of these measures are required by federal regulations.

We know that many employees, especially younger employees, tend to procrastinate in making deferrals into a retirement plan. Knowing this and knowing that the sooner individuals begin deferring the more likely they are to reach their retirement income goals, there are several proactive measures a college or university could take. This includes removing obstacles to plan participation such as complicated and poorly communicated enrollment processes, scores of self-directed investment options, complicated plan designs and complex eligibility requirements. It also includes taking additional measures to encourage participation – investment and plan education, targeted communications to non-participants, and early retirement planning sessions. Some institutions may even want to begin using automatic deferrals into their 403(b) plan for new hires.

Also, the investment options should be monitored closely by a plan investment committee with professional expertise to ensure that only well-performing funds with reasonable fees are available. Such oversight could mean hundreds of thousands of additional dollars to participants over many years. There are many sources of professional investment advice the investment committee could turn to in order to help monitor the plan's fund options. Regarding securing professional expertise to assist the investment committee, I don't see any reason why higher educational institutions with similar missions couldn't band together to share independent investment counsel.

Or, Gary, faculty/staff committees could research and provide alternative suggestions for appropriate investing. Faculty members with investment expertise could also be tapped for the investment committee. Faculty or staff expertise in CST may also help HR develop programs that explain to management and employees the many factors that influence final decisions so that all members of the community have a greater sense of why mission-related values become an integral part of the decision-making process. Catholic institutions of higher education have particular strengths and resources that they can call upon to ensure that specific decisions reflect the best thinking on how to balance these competing concerns. However the expertise is gathered, our faculty and staff depend on these investments for a secure retirement and as such, the investments options offered to employees through a 403(b) plan deserve a level of attention befitting an organization that holds the dignity of the individual in high regard. We also recognize that, at some point, human dignity recognizes the autonomy of the individual to make choices. As we develop these ideas in further columns, we will also have to examine the responsibility of the individual's choice in the context of the institution's decisions. Finally, CST encourages us to be part of the conversation within the wider community on these issues. How can our mission, ideals and principles contribute to the current discussion regarding the future of health care in the United States? CST envisions citizen and institutional participation in these conversations to further the common good.

As always, we invite our readers to enter into this dialogue by sharing their thoughts and experiences, as well as their practical and effective solutions, on any of the topics we address in our columns. To facilitate this, we have a blog – hr-forum-ccu.blogspot.com/ - where readers can comment on this column or any of our past columns. We encourage your feedback to begin our collective attention to these issues.

So many of you emailed or called for an answer to our last column that we are posting a poll to obtain the readers' solutions as to whether the delinquent faculty member should get medical coverage for her child. We will keep the poll open for two months and report our findings back to you.

We would also like to post links to your mission statements as well as HR and compensation philosophy documents if you would like to share them with our readers. This will permit a fuller discussion of how mission and CST enters into the employment process. Please let us know if you would like us to link to any of your institution's documents.

The opinions expressed in this column are ours alone and do not represent DePaul University's.