Committee to Study Vesting Options for the Retirement Savings Plan

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FINAL REPORT

I. EXECUTIVE SUMMARY

Saving for retirement continues to be a critical component of employer benefit packages. These plans help recruit and retain a quality workforce, facilitate the transition of employees from work to retirement, and sustain their well-being in retirement. Many higher educational institutions sponsor a tax-deferred, defined contribution retirement plan. Generous institutional contributions are common in the higher education market, and often exceed those provided in private industry 401(k) plans.

The University of Michigan offers a 403(b) and 401(a) defined contribution plan to its faculty and staff, that serves as the core program to provide economic security once retired. According to the "Stewardship of Benefits: The Case for Change," expenditures to the University's benefit plans are increasing at an unsustainable rate. The task to understand and manage these issues was undertaken by Teresa Sullivan, Provost and Executive Vice President for Academic Affairs, Robert Kelch, Executive Vice President for Medical Affairs, and Tim Slottow, Executive Vice President and Chief Financial Officer.

A committee of ten faculty and staff members was formed to study the impact and potential cost savings that would result from two possible changes in retirement plan design, and to propose changes for consideration. The two changes reviewed were a vesting schedule and a waiting period to receive the University 10% contribution. Any changes in plan design would apply to employees hired after an implementation date and would not affect current faculty and staff.

The committee met monthly, starting in September of 2008 and ending in December of 2008. Relevant data and benefit practices of peer institutions, and the benefit needs of central campus and the hospitals and medical centers were examined as part of the evaluation process. Federal regulations that pertain to plan design were examined to determine feasibility to administer vesting and waiting periods.

A. Recommendation

The Committee recommends for consideration a one-year waiting period before a new hire or newly eligible faculty or staff member would receive the University 10% contribution. The rationales are as follows:

- A one-year waiting period yields a projected annual savings of $11 million to the University (see Appendix B), more than could be achieved with a vesting schedule.
- Operating units will experience an immediate and direct cost savings.
- A one-year waiting period maintains the University's market competitiveness and mirrors industry practices, as several peer institutions also have a waiting period.
- A waiting period longer than one year would be far longer that the practice of almost all U-M peer institutions and would adversely affect the ability to recruit talent.

- A waiting period reduces contribution "leakage" attributable to short-term employees who enroll in the retirement plan and terminate within one year of hire.
- A waiting period would affect all new hires, and would not advantage any particular employee demographic at the expense of another.

B. Alternate Recommendation

A six-month waiting period, combined with a three-year cliff vesting schedule is an alternative design change the Committee puts forth for consideration, should the one-year waiting period be deemed inappropriate. The rationales for this option are as follows:

- Three-year cliff vesting by itself only produces $4 million in savings. Five-year cliff vesting was deemed excessively long and would severely impact recruiting efforts. The majority of peers with vesting employ a schedule of three years or less. Combining three-year vesting with a waiting period of six months produces an estimated annual savings of $8.1 million (see Appendix C).
- Operating units will experience an immediate and direct cost savings from the waiting period. Units will realize savings from vesting indirectly, with the value of forfeited contributions being redirected to a central pool used to reduce costs for other benefit programs.
- Implementing both program changes still maintains the market competitiveness of the U-M plan, as several peer institutions have similar design elements present in their plans.
- A six-month wait has less impact to individuals when combined with a vesting schedule than having to wait a year to receive matching contributions.
- Vesting could improve retention. This assumption is based on vesting functioning as an incentive for employees to remain with the University to secure vesting rights who might otherwise have terminated employment prior to becoming vested.

C. Consideration for a Waiver to the Waiting Period

The committee considered a waiver for the waiting period for job candidates who were covered by a similar retirement plan at their previous employer and might be reluctant to accept a position at the University knowing there would be no retirement contributions during the waiting period. This option was rejected by the committee (with one dissent) because it would result in a substantial reduction in savings achieved by a waiting period. The committee believes that it is feasible to deal with such recruitment issues through normal salary negotiation procedures that are independent of retirement contributions and that these costs would be relatively small.

II. PROCESS FOR DEVELOPING A RECOMMENDATION

A. Committee to Study Vesting Options for the Retirement Savings Plan

A committee composed of faculty and staff members was assembled to examine potential cost savings and issues related to a waiting period and vesting. The composition of the committee was designed to reflect subject matter expertise and institutional experience. Membership was not developed with the intent to provide representation for all or any specific employee demographic. Monthly meetings began in September of 2008 and continued through December 2008.

The Committee strongly felt the following values should serve as the foundation for any recommendations made regarding a vesting schedule or waiting period:

- The University must be fiscally responsible with regards to its financial resources and cognizant of the effect those expenditures may have on its funding sources.
- Changes should maximize savings for the University, while minimizing negative effects on recruitment and retention.
- The University should continue to be socially responsible to its faculty and staff by providing a meaningful retirement savings benefit, whose purpose is to provide economic security in retirement.
- The market competitiveness of the retirement plan relative to University peers should not be reduced in order to maintain the ability to attract and retain a quality workforce.
- Changes should not affect one group of employees at the expense of another.

B. Information Gathered by the Committee

1. Peer Practices. While it is important to understand overall trends in retirement plan design, the Committee understands that the University competes for its workforce primarily from higher educational institutions and from health care systems. With that in mind, the Committee examined the plan design of 32 institutions that the University considers to be its peers (see Appendix A) to determine the prevalence and terms of waiting periods and vesting schedules. Implementing a waiting period or vesting schedule that is more restrictive than the employer market in which the University competes to recruit and retain faculty and staff will likely reduce the ability to successfully engage talent.

2. Regulatory Environment. Federal requirements pertaining to plan design and compliance to operational mandates were reviewed to determine design options as well as constraints that would affect the administration of proposed changes. These regulations vary by employment sector and affect the maximum length of waiting and vesting periods, as well as measuring service. As a governmental employer, the University has flexibility in the design of a waiting period and vesting schedule that is unavailable to private-sector employers and even to private institutions of higher education.

3. Data on Estimated Cost Savings and Demographics Impacted. Several data models were constructed to determine potential savings to the University that would likely result from the implementation of waiting periods and vesting of various lengths in duration. Data included the effect changes may have to employee demographics to detect any disparities that may result from implementation of one change over another.

III. PLAN DESIGN: PEER COMPARISONS

A. Peer Practices in Plan Design

Waiting periods to receive employer contributions and vesting schedules are common design mechanisms that are utilized to manage a retirement plan's expenditures. A waiting period specifies the length of time that must pass before an employee becomes eligible to receive the employer's contribution to its retirement plan. This is usually measured from date of hire or eligibility for plan participation and is commonly six months or one year. Individuals may still contribute to the retirement plan; employer contributions are simply not provided until the expiration of the waiting period.

Thirty-two peer institutions were surveyed to determine if a waiting period exists as a condition to receive employer contributions (see results below). A wait of one year was the most common duration for peers that have a waiting period in their retirement plan.

	Length of Waiting Period		
	6 Months	**1 Year**	**2 Years**
Number of Peers	3	8	1

A vesting schedule refers to the length of service that must be completed by an employee before he or she secures rights to the employer's retirement plan contributions. An employee's own contributions must always be fully vested. Vesting is commonly measured from date of hire but can be measured from date of eligibility for plan participation. Vesting can be a graded schedule (e.g. 25% per year, with 100% vesting occurring after four years) or a cliff schedule (no vesting occurs until completion of the final year of service required by the schedule).

Nine of the thirty-two peer institutions maintain a vesting schedule (see chart below for results). The most common lengths are one and five years. All peers with vesting use a cliff schedule, except one that utilizes a graded schedule.

	Length of Vesting Schedule			
	1 Year	**2.5 Years**	**3 Years**	**5 Years**
Number of Peers	3	1	2	3

B. Retirement Savings Plan Benefits at the University of Michigan

Retirement plans sponsored by employers are a very cost-effective and efficient way to deliver retirement income benefits. There are many unique features that only an employer-sponsored plan can provide, such as fiduciary oversight, tax-deferred employee contributions, employer contributions, and economies of scale that are not available in individual retail products. Investment carriers often waive record keeping and service fees for large employer plans and frequently provide free workshops and individual financial planning services to the workforce.

The Committee recognizes the importance of these advantages and that the U-M Retirement Plan is a vital component of the overall benefits package. The generous contribution and plan features are often cited by employees as an essential factor in their decision to work for the University.

Currently, enrollment in the U-M Basic Retirement plan is open to faculty and staff with as little as a 1% or greater appointment effort lasting four continuous months or longer. LEO Lecturer I and adjunct titles must have a 50% effort or greater, lasting at least four months. Under the contribution structure, the employee contributes 5% of eligible compensation and the University provides a 10% matching contribution. There is no waiting period or vesting for any job title. Temporary employees, House Officers, Research Fellows, Graduate Student Assistants, and Professional Specialists are not eligible for the Basic Plan but may contribute to a non-matching supplemental retirement account (SRA).

Enrollment has always been historically high, and as of 12/31/2007 there were 29,353 faculty and staff members in the plan or 89.8% of those eligible. University contributions for fiscal year 2007 amounted to $186 million.

IV. WAITING PERIOD

A. Overview

New hire faculty and staff members may still contribute to the retirement plan if a waiting period to receive the U-M contribution is implemented. The University simply does not provide its contribution until expiration of the waiting period has occurred and the individual has enrolled in the plan. An individual who does not contribute during the waiting period must enroll and contribute his or her 5% in order to receive the University 10% contribution after the waiting period is over. The expiration of the waiting period does not automatically trigger enrollment and provide the U-M contribution.

A notice would be sent to individuals indicating that he or she has become eligible to receive University contributions prior to the expiration of the waiting period. The notice would include information about the need to enroll in the plan, or the need to adjust his or her contribution rate in order to qualify for the matching contribution. It is anticipated that an online enrollment functionality would be implemented by the time a waiting period would be adopted to facilitate the process to effect University contributions.

B. Length of Waiting Period

A waiting period of six months or one year is standard practice in retirement plan design for both higher education and the private sector. Waiting periods of two years are not unheard of and one University peer does apply a wait of this length. However, the Committee felt two years was not market competitive and would severely impair recruiting efforts. One-year and six-month periods were selected for evaluation and would align well with peer practices.

C. Measurement of Service

A waiting period to receive the University 10% contribution should be measured from date of eligibility for plan participation. For most individuals, this would be date of hire. However, some titles are not eligible for the Basic Retirement Plan and may only contribute through the SRA or Supplemental Retirement Account. These include temporary employees, House Officers, Research Fellows, Graduate Student Assistants, and Professional Specialists. In addition, LEO Lecturer I and adjunct titles must have a 50% effort to participate in the Basic Plan. An individual hired into one of these titles would have the waiting period start at the point he or she changed job titles to one that is eligible for plan participation.

<u>Example #1</u>
A House Officer who changes titles to Assistant Professor after completion of his or her residency would have the waiting period start upon becoming eligible to participate in the Basic Retirement Plan. This occurs with the change in title to Assistant Professor. Service spent as a House Officer would not count toward meeting the waiting period.

<u>Example #2</u>
An adjunct or LEO Lecturer I with an appointment effort of only 25% experiences an increase in effort to 50% and becomes eligible to participate in the Basic Retirement Plan. The waiting period starts with the increase in effort and service below 50% would not count toward fulfilling the waiting period.

Federal regulations permit that service toward meeting a waiting period can be measured from the date of hire, regardless of job title or eligibility for plan participation. However, the Committee felt that it was appropriate that an individual must qualify for the University contribution based on service that is accrued in a title eligible for the Basic Retirement Plan. Measuring service in a title not eligible for the plan would also reduce potential savings to the University.

D. Break in Service and Rehired Employees

The Committee felt it would be inequitable to require a faculty or staff member to fulfill the waiting period more than once due to being rehired within 12 months of termination or becoming eligible again for the plan as a result of a multiple changes in job title or effort. Doing so would be punitive to those who terminated and are rehired by the University or become newly eligible for University contributions due to multiple changes in title or effort.

E. Cost Savings

Units would experience a direct and immediate savings since there would be no contribution outlays to new hires during the waiting period. Estimated cost savings for a one-year waiting period are projected to be $11 million; a six month waiting period would reduce expenditures by $5.4 million. Cost savings were derived by modeling the effects of a waiting period on new hires that enrolled in the plan over the most recent seven-year period and the associated contributions provided for that population.

F. Affected Employees

While enrollment rates for highly-compensated employees tend to be higher than non highly-compensated employees during the first year of eligibility, both groups would be affected by not receiving University contributions during the waiting period. Titles with short-term employment tenures (adjunct, visiting, and some research titles) would experience a larger portion of their time at the University without contributions relative to long-term employees. However, the Committee felt the uniform nature of the waiting period made it an equitable and reasonable plan design feature.

G. Alignment with Probationary Period

A six-month waiting period aligns with the probationary period for new employees. Not providing contributions for the period in which an employee may be dismissed was deemed a reasonable practice.

H. Loss of Investment Opportunity

The absence of University contributions and the associated lost earnings during the waiting period does reduce retirement savings. However, it was noted that an individual does have the option of increasing his or her own contributions during the waiting period to offset this effect.

I. Impact on Retention

A waiting period has a neutral impact on reducing turnover. This is because it does not provide an incentive for individuals to remain employed with the University once the waiting period has been fulfilled.

J. Union Contracts

A waiting period would have to be negotiated into the provisions of the contracts with bargaining units. This would delay savings until it could be negotiated as the various union contracts come up for bargaining.

V. VESTING SCHEDULE

A. Overview

New hire faculty and staff members may immediately enroll in the plan and receive the U-M contribution under a vesting schedule. Failure to remain employed through the terms of schedule results in the individual forfeiting the University contributions. There are two types of vesting: graded and cliff.

An individual secures his or her right to employer contributions and earnings under a graded vesting schedule incrementally (e.g. 25% per year, with 100% vesting occurring at the completion of four years of service). A person who terminates employment prior to completion of the schedule retains a portion of the employer contributions according to the schedule terms. However, graded vesting is extremely complex to administer and it can be difficult for an individual to easily ascertain the value of contributions in which he or she has become vested. These complexities are a primary reason few peers employ graded vesting. The Committee decided not to pursue graded vesting for these reasons.

Employer contributions are secured under cliff vesting only upon completion of the entire service requirement (e.g. 100% at the end of five years of service). Termination prior to completion of the schedule results in the employee forfeiting all employer contributions and associated earnings. The Committee elected to pursue cliff vesting because it is significantly more common among both peers and employers in general, it is simpler to communicate, easier for individuals to understand, and it is easier to administer than graded vesting.

B. Length of Vesting

Vesting periods of one, two, three, four, and five years were considered. The Committee felt four-year and five-year cliff vesting were excessively long and would damage the ability to recruit due to the potential for a significant loss in compensation that would result from a termination prior to vesting. Projections indicate that vesting periods of one and two years produce moderate savings, but lower than deemed appropriate to achieve meaningful cost reductions. The Committee selected three-year vesting to further study as the maximum acceptable duration that would not reduce the competitiveness of the U-M plan below peer practices.

As an illustration of why five-year vesting was deemed excessive, the committee reviewed the scenario of an individual who terminates after completing four years and 10 months of service. This individual would forfeit nearly five years of retirement contributions. Since contributions are ten-percent of annual compensation, forfeiting almost five years of contributions would be equivalent to losing nearly half a year of salary. In addition, titles with short-term employment appointments (typically adjunct, visiting, and some research titles) would never vest under a five-year schedule. The inability of these titles to become vested in the plan would have harmful effects on recruiting.

C. Measurement of Service

The Committee felt that it was appropriate for an individual to secure rights to the University contribution based on service in a title eligible for the Basic Retirement Plan. This would also include counting the waiting period toward meeting the vesting schedule. For most new hires, the service accrual for vesting would begin with the date of hire, assuming the individual was hired into a title eligible for the Basic Retirement Plan.

Time spent in titles not eligible for the Basic Retirement Plan would not accrue service toward vesting. This would include service as temporary employees, House Officers, Research Fellows, Graduate Student Assistants, and Professional Specialists. In addition, LEO Lecturer I and adjunct titles below a 50% effort would not accrue service to meeting vesting.

Example #1
An individual is hired as a nurse. The service accrual toward meeting vesting would begin with the date of hire, even though the six-month waiting period would also begin with the date of hire.

Example #2
A House Officer who changes titles to Assistant Professor after completion of his or her residency would have service accrual toward meeting vesting commence effective with the change in title, even though the six-month waiting period would also begin with the change in title. The service as a House Officer would not count toward meeting the vesting requirements or the waiting period.

There is one particular federal regulation regarding vesting rights that merits notation. A plan must state a normal retirement age, at which point full vesting must be granted whether or not an employee has accrued the necessary years of service. The normal retirement age for the U-M plan is 65. If vesting were to be adopted, an individual hired at age 65 or older that is eligible for University contributions would become immediately vested even though he or she had not accumulated the necessary years of service.

D. Break in Service and Rehired Employees

Similar to the waiting period, the Committee felt it would be inequitable to require a faculty or staff member to fulfill the vesting period more than once due to being rehired within a relatively short time span after termination. An individual who becomes vested, later terminates employment, and is rehired within 12 months would be immediately vested for new contributions being made into the plan after rehire.

E. Cost Savings

Savings to units would be in the form of an indirect cost recovery for employees who terminate prior to becoming vested. Units would still have the expenditure of contributing for those who choose to enroll in the plan. However, the method of savings is noticeably different from a waiting period and more difficult to quantify.

Vesting involves notifying the investment carriers (TIAA-CREF and/or Fidelity) of each plan participant's date of termination and confirmation whether vesting was achieved. Contributions and associated earnings are removed from the accounts of non-vested individuals. However, those forfeited contributions are not returned to the University. Federal regulations state that employer contributions can only be used for the exclusive benefit of plan participants and that an employer cannot divert or recapture those contributions once made.

Two provisions are permitted related to forfeited employer contributions. The first allows the employer to reallocate forfeited contributions to the remaining plan participants. In essence, the value of forfeited contributions is given to the rest of the individuals in the plan. However, this practice is rarely followed since it results in no savings to the employer.

The second option is to reduce a future employer contribution by the value of the forfeited contributions. In effect, the employer simply reduces the amount of contributions to be sent next month by the amount of contributions that were forfeited the previous month. The following illustrates how this process would function:

- The University calculates the ten-percent contribution to be provided for all employees enrolled in the plan for the current month.
- The University then charges departments for the 10% contribution for its employees enrolled in the plan.
- TIAA-CREF and Fidelity determine the amount of forfeited contributions that have resulted for the preceding month due to plan participants who have terminated without meeting the vesting schedule terms as reported by the University.
- The University reduces the amount of contributions to send for the current month by the value of the forfeited contributions that accrued during the previous month.
- TIAA-CREF and Fidelity receive less money that is actually needed to provide the U-M contribution for plan participants for the month.
- The shortfall in contribution funding is made up by applying the value of forfeited contributions held by the investment carriers to the current employees' accounts.
- The amount of contributions not sent to TIAA-CREF and Fidelity are retained by the University and reallocated elsewhere. For example, the funds could be redistributed through an indirect method, such as to a pooled fund used to pay for other benefit plans.

F. Affected Employees

A vesting schedule would only impact those employees who enroll in the plan and then forfeit contributions because they terminate employment prior to completing the schedule. Regular instructional faculty has the lowest turnover rate of any employee group, with a cumulative turnover rate of 14% for those hired from 2002 through 2004. By contrast, the cumulative turnover rate for non-faculty titles hired between 2002 and 2004 is 46%. Vesting would have minimal impact on faculty, leading to a disproportionate level of savings coming from non-faculty titles. With the majority of savings being attributable to non-faculty titles, this group would essentially be subsidizing benefit costs for faculty.

Titles with short-term employment appointment periods (adjunct, visiting, and some research titles) would likely never become vested in the plan because they would terminate before the schedule could be reached. Even a schedule as short as three years would be a serious hindrance to recruit these job titles.

G. No Loss of Investment Opportunity

Eligible new hires may immediately enroll and receive contributions under a vesting schedule. There is no loss of investment opportunity for those who remain employed long enough to become vested.

H. Change in Contribution Valuations

Contributions that are forfeited are subject to market valuations at the time of forfeit. Negative returns on investments would mean that contributions that are forfeited could be worth less than the original contributions. This would reduce savings to the University, particularly in a poorly performing equities market. Conversely, a positive investment return would increase the value of savings, as the associated earnings on the original contributions would be included with the forfeitures.

I. Turnover Rates

Units with low turnover rates would have fewer forfeitures and a lower contributory impact on savings to the University. Meanwhile, units with higher turnover would have a greater impact on savings and would serve to subsidize benefits for those units with lower turnover. This would be true of academic units who experience low turnover rates of instructional faculty. This potential imbalance is another factor that makes vesting less cost-efficient than a waiting period.

J. Impact on Retention

Vesting may promote behavioral changes that would reduce turnover rates and improve retention of the workforce. Individuals may postpone a decision to leave employment in order to secure his or her vesting rights. Although a certain degree of self-selection would be involved in these cases, a reduction in training costs would be an additional benefit for the University. However, vesting would have little or no impact on retention of instructional faculty, who already have an exceptionally high retention rate.

Data on turnover rates indicate the highest occurrences of employees terminating take place during the first year of employment, with a reduction in turnover with each successive year. Turnover further declines after year three, indicating a vesting schedule longer than three years would have minimal impact on retention and would provide marginal additional cost savings.

K. Union Contracts

A waiting period would have to be negotiated into the provisions of the contracts with bargaining units. This would delay savings until it could be negotiated as the various union contracts come up for bargaining.

Turnover Among all Faculty and Staff

Analysis of those hired FY 2002-2004

		Length of Service Before Termination				
	Total	< 6 months	6-12 months	1-2 years	2-3 years	Total Remaining
All Employee Groups	11,933	1,761	1,207	1,447	995	6,523
As Percentage	100.0%	14.8%	10.1%	12.1%	8.3%	54.7%
Cumulative	100.0%	14.8%	24.9%	37.0%	45.3%	54.7%

VI. IMPACT ON RECRUITMENT & CONSIDERATION FOR A WAVIER

The Committee examined two issues regarding how recruitment may be affected by a reduction in retirement contributions (either through vesting or a waiting period). The first was the potential for increases in costs as new hires may demand higher salaries to compensate for the loss in plan benefits. The second issue was that recruitment may become more problematic, as waiting and vesting could negatively influence the decision of a job candidate to pursue or accept a position at the University.

The majority of the Committee felt that while these issues may likely occur, it is unlikely to be a systemic encumbrance to recruitment efforts. Waiting periods and vesting schedules will continue to become more prevalent and is developing into a best practice in plan design as employers contend with managing plan expenditures. Candidates considering employment with the University will likely have to contend with a waiting period or vesting schedule at most other employers. These factors may likely serve to moderate any negative perceptions a candidate may have regarding the equitable nature of the University's retirement plan and the overall benefits package.

The Committee recognizes that units may face recruiting challenges as some job candidates may be reluctant to accept a position at the University knowing there would be no retirement contributions during the waiting period. The Committee examined the issue of including a waiver for the waiting period for new hires who participated in a similar retirement plan at another institution of higher education or a non-profit research or health care system. These employers were considered as part of the criteria since they are the primary markets in which the University competes for its workforce.

Two peer institutions in higher education offer a waiver for their waiting period and both report a utilization rate in excess of 70%. The effect on cost savings to the University was modeled, with assumed levels of utilization that varied by job title that ranged from 30% to 70%. High utilization rates were assumed for job titles that characteristically enter the University as mid-career hires and are likely to have come from another employer with a retirement plan. In contrast, titles that typically have a concentration of individuals who are new entrants to the workforce (e.g. U-M is their first job, recent college graduates) would not qualify for the wavier and were assumed to have low utilization rates.

A waiver significantly reduces cost savings under these assumptions. Savings for the one-year waiting period shrink from $11 million to $6 million, and savings for a six-month waiting period decrease from $8.1 million to $4.5 million.

The Committee is mindful of the exceptionally competitive nature of recruiting in higher education and that the University must successful engage talent to retain its standing as a premier institution. However, the majority of the Committee does not recommend a waiver for the waiting period be made available for the following reasons:

- Cost savings would be greatly reduced and would appreciably diminish the goal of achieving an effective and substantial reduction in plan expenditures.
- A waiver would not be equitable across all job titles, since only a select segment of the new hire population would likely qualify for it.
- Few peer institutions offer a waiver policy.
- A waiver policy would be extremely cumbersome and time consuming to administer.

One member of the committee strongly advocates that a wavier policy will be necessary in order for the University to effectively recruit talent. The absence of a waiver may lead to inconsistent hiring practices (with possible legal ramifications) and increased costs to units that have to offer higher salaries to attract individuals in order to compensate for the lack of contributions during the waiting period.

VII. RECOMMENDATION

The Committee recommends for consideration that the University implement a 12-month waiting period before new hire employees would be eligible to receive the U-M retirement plan contribution. Eligibility for University contributions would also be conditional upon enrollment in the plan by the individual (i.e. enrollment and U-M contributions would not automatically begin simply due to the expiration of the waiting period).

The Committee cites the following as reasons for this recommendation:

- A 12-month waiting period achieves the maximum cost reduction of all options reviewed, with an estimated annual savings of $11 million (see Appendix B).
- Units will experience a direct and immediate cost savings since there would be no contribution outlays for new hires during the waiting period.
- Employee turnover across all job titles is highest within the first 12 months of employment. A waiting period of twelve months increases the efficiency of plan benefits by not providing contributions to short-term employees.
- A waiting period maintains the University's market competitiveness and mirrors industry practices, as several peer institutions also have a waiting period.
- A waiting period would affect all new hires and would not advantage any particular employee demographic over another.
- A waiting period is simple to administer and easy to communicate to new hires.

VIII. ALTERNATE RECOMMENDATION

The Committee recognizes that a vesting schedule may have features that are more advantageous than a waiting period. However, three-year cliff vesting only produces savings of $4 million. Therefore, it is recommended for consideration that the University combine a 6-month waiting period for eligibility to receive the U-M contributions, followed by a three-year cliff vesting schedule as an alternative to a one-year waiting period.

The Committee cites the following as reasons for this recommendation:

- A 6-month waiting period combined with a three-year cliff vesting schedule produces an estimated annual savings of $8.1 million (see Appendix C).
- Operating units will experience an immediate and direct cost savings from the waiting period, while savings from vesting would occur indirectly in the form of a reduction in the cost for other benefit programs attributable to savings realized from the value of forfeited contributions.
- Both design changes maintain the University's market competitiveness.
- A six-month waiting period has less impact to individuals than having to wait one year to receive matching contributions.
- Vesting should provide marginal improvements in retention, as it would serve as an incentive for employees to remain with the University and may training costs.
- After the expiration of the six-month waiting period, there is no further loss in benefits for new hires who become vested.

Appendix A: Peer Institutions (Comparator Group)

Baylor
Brown University
Case Western
Columbia
Cornell
Duke University
Emory University
Harvard
Johns Hopkins University
Michigan State University
Northwestern
NYU
Princeton
Stanford University
UC - Berkeley
UC - Irvine
UC - San Francisco
UCLA
University of Arizona
University of Chicago
University of Iowa
University of Maryland
University of Minnesota
University of North Carolina
University of Pennsylvania
University of Texas
University of Virginia
University of Washington
University of Wisconsin
USC
Washington University
Yale

Appendix B: Savings Projection for 1-Year Waiting Period

Recommendation

1 Year Waiting Period with and without Immediate Eligiblity Provisions
Impact on New Hires Using Historical Data

7 Year Impact of a 1 Year Waiting Period for people hired on or after 7/1/2001 (Beginning of Fiscal Year (FY) 2002).

	Savings from 1 Year Waiting Period	Annual University Contributions	% of Total Contributions
FY 2002	5,286,255	134,961,036	3.9%
FY 2003	8,995,600	145,844,527	6.2%
FY 2004	8,982,564	153,239,290	5.9%
FY 2005	8,844,712	162,661,012	5.4%
FY 2006	9,530,149	174,172,453	5.5%
FY 2007	10,523,951	185,713,592	5.7%
FY 2008	11,005,535	197,751,577	5.6%
Total	63,168,766		

Appendix C: Savings Projections for 6-Month Waiting & 3-Year Vesting

Alternate Recommendation

Combination - 6 Month Waiting Period and 3 Year Vesting

Impact on New Hires Using Historical Data

7 Year Impact of a 6 Month Waiting Period for people hired on or after 7/1/2001 (Beginning of Fiscal Year (FY) 2002).

	Savings from 6 Month Waiting Period	Annual University Contributions	% of Total Contributions
FY 2002	3,699,949	134,961,036	2.7%
FY 2003	4,313,836	145,844,527	3.0%
FY 2004	4,330,483	153,239,290	2.8%
FY 2005	4,242,982	162,661,012	2.6%
FY 2006	4,561,710	174,172,453	2.6%
FY 2007	5,132,464	185,713,592	2.8%
FY 2008	5,398,802	197,751,577	2.7%
Total	31,680,226		

7 Year Impact if a 3 Year Vesting Schedule was implemented for people hired on or after 7/1/2001 (Beginning of Fiscal Year (FY) 2002) after 6 month waiting period for contributions.

(Assumes employees would not leave within 3 months of achieving vesting)

	Vesting Contribution Forfeitures	Annual University Contributions	% of Total Contributions
FY 2002	106,315	134,961,036	0.1%
FY 2003	698,217	145,844,527	0.5%
FY 2004	1,803,877	153,239,290	1.2%
FY 2005	2,406,142	162,661,012	1.5%
FY 2006	2,376,732	174,172,453	1.4%
FY 2007	2,917,710	185,713,592	1.6%
FY 2008	2,690,762	197,751,577	1.4%
Total	12,999,755		

Combined Savings

6 Month Waiting Period and 3 Year Vesting Schedule

	Combined Savings	Annual University Contributions	% of Total Contributions
FY 2002	3,806,264	134,961,036	2.8%
FY 2003	5,012,053	145,844,527	3.4%
FY 2004	6,134,360	153,239,290	4.0%
FY 2005	6,649,124	162,661,012	4.1%
FY 2006	6,938,442	174,172,453	4.0%
FY 2007	8,050,174	185,713,592	4.3%
FY 2008	8,089,563	197,751,577	4.1%
Total	44,679,981		

Appendix D: Committee Charge

Committee	**Committee to Study Vesting Options for the Retirement Savings Plan**
Sponsorship	Robert Kelch, Executive Vice President for Medical Affairs Tim Slottow, Executive Vice President and Chief Financial Officer Teresa Sullivan, Provost and Executive Vice President for Academic Affairs Laurita Thomas, Associate Vice President for Human Resources
Charge of the Committee	The University provides employees with a source of retirement income through the U-M Retirement Savings Plan. In calendar year 2007, almost 90% of the eligible faculty and staff employees were enrolled in the retirement savings plan receiving approximately $191 million in University of Michigan's contributions towards their retirement. To receive the 10% university retirement contribution, plan participants must contribute 5% of their eligible gross salary. Enrollment in the retirement savings plan is compulsory for employees at age 35, who have completed two years of service and who are working a 100% appointment. If an employee who meets the compulsory criteria does not voluntarily contribute a 5% match, the U-M employer contribution is reduced to 5%. Over 1,100 employees are enrolled and receiving this reduced contribution. The university contributions to the retirement savings plan are vested immediately. Vesting refers to the years of service or waiting period an employee must complete in order to have the right to the university contribution. Currently, U-M's 10% retirement saving plan contribution is slightly above market average when compared with peers in higher education and much higher when compared with health system peer markets. The charge of this committee is to study and evaluate the potential cost savings of vestir options and/or waiting periods for the U-M Retirement Savings program, to assess the impact of proposed alternatives, and to make a recommendation for sponsor consideratic A Case for Change and further information is available at the Stewardship of Benefits website: www.hr.umich.edu/benefitsstewardship/
Objective	The primary objectives of the Committee to Study Vesting Options for Retirement is to provide advice, guidance, and recommendations with regard to multiple options for vesting including waiting periods and different levels of contributions. The options to be studied include but are not limited to: • 5-year cliff vesting • 6-month wait on enrollment • 1-year wait to enroll
Scope and Boundaries	The primary focus of the committee is on the impact and implications of changes in the approaches or models of vesting/waiting periods as noted above in order to ensure that the University has identified possible outcomes and consequences for faculty and staff.

Membership	Robert Willis, Chair: Professor of Economics, LS&A; Research Professor, Survey Research Center; Research Professor, Population Studies Center, Institute for Social Research Charlie Brown: Professor of Economics, LS&A; Research Professor, Survey Research Center, Institute for Social Research Tony Burger: Director of Financial Analysis Mary Cardwell: Registered Nurse, UMH 7B/C Cardiology Regine Caruthers: Clinical Pharmacist, UMH Inpatient Pharmacy Services; Adjunct Clinical Instructor in Pharmacy, College of Pharmacy Jeff Frumkin: Associate Vice Provost and Sr. Director, Academic Human Resources Margaret Gyetko: Professor of Internal Medicine and Associate Dean for Faculty Affairs Rich Holcomb: Director of Compensation, UMHS Human Resources Matthew Shapiro: Lawrence R. Klein Collegiate Professor of Economics; Professor of Economics LS&A; Research Professor, Survey Research Center, Institute for Social Research Pamela Smock: Professor of Sociology, and Professor of Women's Studies, LS&A; Research Professor, Population Studies Center, Institute for Social Research Steve Sindlinger: Benefits Manager, Retirement Savings/Deferred Compensation Plan, Benefits Administration Office Content experts will attend meetings as needed.
Staff Support	Mike Duell: Analyst, Benefits Administration Office Gail Gentes: Project Manager, HR Records & Information Services[1] Kathy Hutchison: Administrative Support, Benefits Administration Office Brian Watson: Analyst, Benefits Administration Office
Timeline	Sept/October 2008: Committee meetings Dec 2008: Committee Recommendations to sponsors

Progress Reports	• Agendas and Meeting Notes
	• Status Reports
	    o BLT October 30
	    o EVPs Nov 11
	• Final report December 2008

[1] Gail Gentes transferred to a different position within the University during the work of the Committee. Rebekah Ashely, Academic Labor Relations Consultant, assumed the role of Project Manager for the Committee in October 2008.