SCFA REPORTS
UNIVERSITY OF MINNESOTA SENATE COMMITTEE ON FACULTY AFFAIRS
Fall Quarter 1976, Volume 4 Number 1

Dear Colleague:

In this edition of the SCFA Newsletter we present a brief report on the matters considered by the Committee during the Summer and Fall Quarters 1976. The Committee continues work on its recommendations for action in the five general areas presented in SCFA's 1974-75 Annual Report to the Senate. As we have reminded readers so often since then, the SCFA's five on-going issues include: (1) faculty retirement plans, (2) faculty health insurance, (3) fringe benefits for part time faculty, (4) performance of faculty retirement funds, and (5) sabbatical leaves.

I. PROGRESS REPORT ON FIVE ON-GOING ISSUES

A. Faculty Retirement Plan

SCFA is pleased to inform the members of the faculty that the Board of Regents at their October 8, 1976 meeting approved some modifications in the current retirement plan for faculty who began participation in the faculty retirement plan prior to 1963 and at the December 10th meeting approved a VOLUNTARY Early Retirement Plan.

I. 50% Minimum Guaranteed Faculty Retirement Supplement

The modified plan guarantees, with certain modifications a 50% (reduced proportionately for less than 30 years service) of the retiree's high five-year average salary as a retirement income, including social security, annuity payments, and any University contributions necessary to make up the difference. This will be effective for individuals who retire on June 30, 1977 or later. The following information has been supplied to us by the University Employee Benefits Department:

Description of University of Minnesota Faculty
Retirement Plan Minimum Benefit Program

a. The minimum benefit is applicable only to those staff members who have participated in the Faculty Retirement Plan on a continuous basis from a date prior to 1963 until the date of retirement and who retire on June 30, 1977 or later.

b. Benefits under this program shall be available only to those individuals who retire on or after the June 30 next following or coinciding with the 65th birthday, except for retirements which are approved under this special age 62-64 Early Retirement Program (See 2. Voluntary Early Retirement below).

c. (See "Definitions" below) When the sum of the Faculty Retirement Plan Annuity and Social Security are less than the product produced by applying the percentage for Credited Service to Average Covered Salary, the University of Minnesota shall provide an additional amount of retirement income sufficient to produce the appropriate product. Such retirement income shall be in the form of a Single Life Annuity, with the right to elect a survivorship annuity, if married at retirement date.

d. In no event shall any retiring employee receive less than would have been payable under the Minimum Benefit Plan that was applicable to retirements prior to June 30, 1977.

e. Only that income which is available from the basic Faculty Retirement Plan (Mills I) will be used in the calculation. Any income available from Mills II will not be used. The rationale for this is that the Mills II is considered as a private program, and therefore, over and above our basic retirement program. Income from Mills II for this purpose should not be treated any differently from any other private investments or savings which the faculty member might have.

Definitions

"Credited Service" means continuous completed years at 100 percent time appointment, subject to a maximum of 30 years.

"Percentage for Credited Service" means:

Years of Credited Service	Percentage	Years of Credited Service	Percentage
15	25.0	23	38.3
16	26.7	24	40.0
17	28.3	25	41.7
18	30.0	26	43.3
19	31.7	27	45.0
20	33.3	28	46.7
21	35.0	29	48.3
22	36.7	30 or more	50.0

"Covered Salary" means salary on which contributions to the basic Faculty Retirement Plan were made.

"Average Covered Salary" means the average of the five highest consecutive years of covered salary, except that "Average Covered Salary" for retirements in the 1976-77 academic year shall not exceed \$37,200. For succeeding years, the maximum "Average Covered Salary" shall be determined by increasing said \$37,200 at the rate of 4 percent per annum, compounded annually.

"FRP Annuity" means the annual Single Life Annuity that would be available at retirement date, assuming all allocations had been made on a Fixed Annuity basis.

"Social Security" means the estimated amount of annual income available to the employee at the date of retirement as calculated by the Employee Benefits Department based on continuous coverage from date of University hire or January 1, 1955, whichever is later, to the date of retirement. The estimated income shall not include dependent benefits

If faculty members have any questions concerning this 50% Guaranteed Retirement Plan, please refer them to Employee Benefits Telephone (612) 373-2115.

2. VOLUNTARY Early Retirement

The Board of Regents has extended the provisions of the 50% minimum benefit plan to those who select the age 62-64 early retirement option, to be effective for retirements on or after June 30, 1977. While the present approval is for 3 years, each year the Regents will be asked to extend the plan for one additional year in order to facilitate advance planning by the faculty members.

The formula for retirement at ages 62-64 is the same as for retirement at ages 65-68, except that years of service are counted to age 65 rather than to the date of early retirement.

A faculty member's election to take advantage of the early retirement option requires the recommendation of the Department Head, Dean and Academic Vice President and the approval of the President and Board of Regents. The following information has been supplied to us by the University Employee Benefits Department:

Description of VOLUNTARY Early Retirement at Ages 62-64

a. The Board of Regents has approved the program through June 30, 1979, under a moving three year approval. Each year, a one-year extension will be requested from the Regents. For example, in the spring of 1977, the Regents will be asked to extend the approval through June 30, 1980.

b. The program is applicable only to those staff members who have participated in the Faculty Retirement Plan on a continuous basis from a date prior to 1963 until the date of early retirement.

c. Benefits under this program shall be available only to those individuals who retire on or after the June 30 next following or coinciding with the 62nd birthday.

d. (See Definitions below) When the sum of the FRP annuity available at age 65 (based on premium payments to age 65) and Social Security available at early retirement are less than the product produced by applying the percentage for Credited Service to Average Covered Salary, the University of Minnesota shall provide an additional amount of retirement income sufficient to produce the appropriate product. Such retirement income shall be in the form of a Single Life Annuity, with the right to elect a survivorship annuity, if married at retirement date.

e. Prior to age 65, the retiree would be eligible to receive an income from Social Security and the University, but income from the annuity contracts would be deferred until age 65. When the income from the annuity contracts begins at age 65, an appropriate adjustment shall be made in the University payment.

f. In no event shall any retiring employee receive less than would have been payable under the Minimum Benefit Plan that was applicable to early retirement prior to June 30, 1977.

Definitions

"Credited Service" means continuous completed years at 100 percent time appointment, subject to a maximum of 30 years, including years to age 65.

"Percentage for Credited Service" means:

Years of Credited Service	Percentage	Years of Credited Service	Percentage
15	25.0	23	38.3
16	26.7	24	40.0
17	28.3	25	41.7
18	30.0	26	43.3
19	31.7	27	45.0

"Percentage for Credited Service" (continued)

Years of Credited Service	Percentage	Years of Credited Service	Percentage
20	33.3	28	46.7
21	35.0	29	48.3
22	36.7	30 or more	50.0

"Covered Salary" means salary on which contributions to the basic Faculty Retirement Plan were made.

"Average Covered Salary" means the average of the five highest consecutive years of covered salary, subject to a maximum, with a presumption that the "Covered Salary" during the year immediately prior to age 65 shall be used for the remaining years to age 65. "Average Covered Salary" for retirements in the 1976-77 academic year shall not exceed $37,200. For succeeding years, the maximum "Average Covered Salary" shall be determined by increasing said $37,200 at the rate of 4 percent per annum, compounded annually.

"FRP Annuity" means the annual Single Life Annuity that would be available at age 65, assuming all allocations had been made on a Fixed Annuity basis.

"Social Security" means the estimated amount of annual income available to the employee on the date of retirement as calculated by the Employee Benefits Department based on continuous coverage from date of University hire or January 1, 1955, whichever is later, to the date of retirement. The estimated income shall not include dependent benefits.

Procedures for Approval of Applications

The program as approved by the Regents provides that each request for early retirement requires individual approval. Administratively, the steps involved in seeking the approval would be as follows:

1. The individual staff member would make a request through his/her Department Head or Dean for the privilege of availing himself/herself of the early retirement option. The request would be made to the Employee Benefits Department.

2. The Employee Benefits Department shall prepare the necessary calculations and submit the request to the Vice President for Academic Administration.

3. The Vice President for Academic Administration will make a recommendation to the President.

4. The President would then make his recommendation to the Board of Regents for action.

While all requests for early retirement will be honored whenever possible, certain requests may not be approved. Any request which would work undue hardship on the departmental operation can be expected to be declined. One criteria for determining whether or not such a hardship exists will be the problems which may be encountered in filling a void left by the retirement. The Vice President for Academic Administration will make his recommendation only after consultation with the Dean and Department Head involved.

The salary funds which are released from the early retirement will revert to Central Administration. The additional cost required to establish the early retirement will be calculated by the Employee Benefits Department with the necessary funds to pay for such costs coming from salary funds released. The balance of the salary funds so released will then be available to Central Administration for reallocation and distribution.

If faculty members have any questions concerning this VOLUNTARY Early Retirement Plan, please refer them to Employee Benefits Telephone (612) 373-2115

B. Health Insurance

Meeting with Commissioner Session

The SCFA and Dr. Walter H. Bruning agreed that a committee consisting of Mr. Harold Bernard, Dr. Walter Bruning, Dr. Shirley Clark, Mr. William Thomas, Professor Andrew Whitman and Professor Mahmood Zaidi be formed to represent the University in meetings with Commissioner Session. Furthermore, it was agreed that the proposed method of representation will be evaluated after the newly created committee has met with Commissioner Session a few times.

C. Fringe Benefits for Part Time Faculty

It is SCFA's understanding that President Magrath has included a supplement to the faculty salary proposal in the 1977-79 Biennium Request. The amount requested is $482,800 for social security coverage for part-time faculty. If approved by the Legislature, it would extend coverage to faculty who are appointed 25% full time or more.

D. SCFA Ad Hoc Committee On Performance of Faculty Retirement Funds

This Ad-Hoc Committee, consisting of Professors Gordon Alexander, Lenoid Hurwicz, Hugh Kabat, Marcel Richter, Craig Swan (Chairperson), Mahmood Zaidi (ex officio), and Ms. Mary Goldon, was established last year by the Senate Committee on Faculty Affairs to develop materials to survey faculty interest in new options in the faculty retirement system.

The report of this Committee is now in the process of being completed and when finished, it will be discussed by the SCFA. SCFA plans to forward its recommendation on this subject to the Senate for action before the end of the current academic year.

E. Sabbatical Leaves

The Committee at their October 18, 1976 meeting discussed the second proposed draft on Sabbatical Leaves. In general, the Committee agreed with the idea of liberalizing the Sabbatical Leave policy and recommended to Dr. Koffler that his third draft take into account the points raised by the Committee members as well as any other points which he considered important. Dr. Koffler said that he would take these comments back with him for use in preparing another draft.

II. A PHILOSOPHY OF FACULTY COMPENSATION

A. At the November 18, 1976 meeting of the Senate, the Senate Committee on Faculty Affairs brought to the Senate for information a draft of the document titled "A Philosophy for Faculty Compensation." (See the text of the document either in SCFA Reports, Volume 3, No. 2 or in Senate Minutes, November 18, 1976). The Committee proposed to forward the document to the President for his perusal and action with the Senate's concurrence.

B. After the SCFA recommendations were approved for transmission to the President and his staff, two Senators, towards the end of the meeting, raised questions concerning the subject matter of the recommendations and the ruling of the Parlimentarian on the procedure that led to the passage of the recommendation. In reply to the Senators, Professor Zaidi made three points: (1) The SCFA recommendation contained a philosophy of compensation for all faculty rather than the philosophy for the determination of the individual faculty salaries, (2) SCFA spent over a year in developing this philosophy and voted to include it in its Spring 1976 Newsletter, SCFA REPORTS, so that all the faculty members could have an opportunity to comment on it before it was transmitted to the Central Administration for its reaction, and (3) SCFA will be pleased to bring it back to the Senate after it has received comments from the President and his staff.

C. Since SCFA has invested considerable time in the development of this philosophy and since SCFA does not wish the authorization for its basic recommendation to be in a state of legal limbo, SCFA has decided to resubmit this item for action by the Faculty Senate on March 3, 1977.

III. UNIVERSITY CONSOLIDATED FUND DRIVE AND OTHER DEDUCTIONS

We have received the following information from the University Attorney's office and SCFA believes that you might want to have this information available to you before April 15, 1977:

> Faculty and Staff are reminded that the Internal Revenue Service may require verification of deductions, including contributions. Questions have arisen regarding the University Consolidated Fund Drive. To avoid any problems, we recommend that the receipt given to you be preserved. If you have made payment by check, and it was not made payable to the "University of Minnesota Consolidated Fund" or one of the named exempt agencies with which the University participated in this effort, you should have a receipt. If you desire a receipt, a duplicate or have questions contact Mrs. Jean Parmalee, Consolidated Fund Coordinator, 3300 University Avenue, Phone 373-2042. In addition, effective this tax year of 1976, new limitations apply to deductions relating to the use of a taxpayer's home for business purposes. Read the tax instructions carefully in this regard.

IV. GRADUATE ASSISTANT'S REPRESENTATION ON SCFA

SCFA has agreed to welcome a graduate assistant representative as a new member after the Faculty Senate has approved an amendment to the Senate, adding a graduate assistant to the Senate Committee on Faculty Affairs.

V. DISABILITY INSURANCE

While the SCFA's consideration of Faculty Disability Income Insurance is not as old as its work on the five on-going issues, the Committee has been concerned with this important subject for some time. At its June 1975 meeting the Senate, at the suggestion of the SCFA, requested that the Committee conduct an in-depth study of Faculty Disability Income Coverage and develop proposals aimed at remedying the existing deficiencies.

All University staff members who are covered by the $20,000 group life insurance are also covered in the event of temporary or permanent disability. To receive the benefit of this coverage a staff member must be unable to perform every duty pertaining to his or her regular occupation. After proof is furnished that a total disability has existed for at least four consecutive months the staff member is eligible to receive 60% of his or her regular monthly salary with a ceiling of $12,000 per year until he or she reaches age 65. In addition, in the event of total permanent disability that occurs before age 60 he or she is eligible to receive the entire amount of his or her group life insurance.

There are at least two questions about this plan that require a review by the SCFA, the faculty and the Central Administration. One is that the maximum benefit of $1,000 per month (including social security benefits) is no longer reasonable in light of present day salary levels. Anyone disabled who was paid more than $20,000 would not receive even 60% of his or her pay; and since disability is more likely for the senior members of the faculty, this will usually be the case. Also, there is no provision for one who receives disability benefits to keep up with inflation. Anyone who is dependent on the program for an extended time needs some protection against a rapidly increasing cost of living. Because the disability plan stops at age 65, he or she also needs some way to increase payments into his or her retirement account so that his or her retirement income will not be unrealistically small when he or she switches from the disability plan to the retirement plan.

A second area of concern is over the definition of the term "total disability." Such conditions as stroke, heart attack, or terminal illness are clearly understood to be included but others are subject to administrative or medical interpretation. Dismemberment, in general, is not considered "total disability" although loss of two limbs is; loss of hearing or verbal capacity is not explicitly defined as total disability. Thus the contractual definition of total disability may not be adequately designed to reflect actual ability to perform professional duties. In addition, some attention should be paid to the consequences or partial disabilities.

SCFA, Dr. Walter Bruning, and Mr. Harold Bernard are now in the process of developing recommendations on this subject and it is hoped that the SCFA will be able to report to the Senate and the faculty on this matter during the Winter Quarter and/or Spring Quarter 1977.

VI. UNIVERSITY COMMITTEE ON TENURE AND UNIVERSITY APPEALS COMMITTEE ON ACADEMIC FREEDOM AND RESPONSIBILITY

To strengthen the existing working relationship between the SCFA and the University Committee on Tenure and the University Appeals Committee on Academic Freedom and Responsibility, this newsletter will continue to carry news items on the activities of the above mentioned committees.

A. University Committee on Tenure (Chaired by Professor Fred Morrison, Law School, M139 Fraser, Minneapolis Campus)

The Tenure Committee will again be substantially restricted in its activities by the Cease and Desist Order. The Committee's activities will be limited to those which do not involve changes in the terms or conditions of employment.

In meetings this fall, the Committee has concentrated on the problem or relationships or jurisdiction between the tenure regulations (and the Judicial Committee) on the one hand and the Academic Freedom and Responsibility Statement (and Civil Service-Faculty-Student Grievance Committees created thereunder) on the other hand. The Committee is now preparing a memorandum to the President and to the Vice President on these issues.

The Committee will also be examining the proposed structure for E appointments, and perhaps reconsidering some of the proposals in the new tenure code which may require change in light of subsequent developments.

B. University Appeals Committee on Academic Freedom and Responsibility (Chaired by Professor Marcia Eaton, 106 Johnston)

The Committee is completing its survey of grievance procedures of the various units of the University. This survey has raised several problems which do not seem to fall easily within the Senate guidelines from April 1974. Discussion of these problems will undoubtedly continue into winter quarter. It is probable that clarification of the guidelines by the Senate will be required.

A panel has been appointed to hear a grievance.

VII. LIABILITY INSURANCE AND AN INCOME TAX SEMINAR

As a final note, the SCFA wishes to inform the faculty of two other matters receiving its attention this year. These are the issue of Liability Insurance coverage and plans for an income tax seminar.

The issue of Liability Insurance coverage for members of the University community has become an important issue. The administration has recently acquired liability insurance which is discussed in a letter expected shortly from the President's office. The SCFA is reviewing this issue in terms of faculty needs and available coverage. Comments and concerns are welcomed; please address them to:

Professor Richard E. Poppele	or	Professor John Boyer
Department of Physiology		Department of Business Adminsitration
424 Millard Hall		University of Minnesota, Duluth

In view of the extensive revision in the 1976 Federal income tax laws, the SCFA discussed the idea of having an Internal Revenue Service Representative present a seminar to interested faculty on this subject. The SCFA accepted Vice President, Dr. Henry Koffler's offer of help in organizing this activity and will be making an announcement on such a seminar in the near future.

The SCFA wants and needs your feedback to your Committee on any of the subjects discussed in this Newsletter. Please contact the Chairperson or any of the SCFA members whose addresses and phone numbers are listed below with your ideas, comments, and suggestions.

Cordially yours,

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Professor and Director of Graduate Study
Industrial Relations
537 Business Administration Tower
Minneapolis Campus 373-3827

C. Eugene Allen
Professor, Animal Science and Food
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136 Meat Science Laboratory
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228 Social Science Building
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Minneapolis Campus 373-9880

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SCFA REPORTS

UNIVERSITY OF MINNESOTA SENATE COMMITTEE ON FACULTY AFFAIRS

Winter Quarter 1977 Volume 4 Number 2

Dear Colleague:

This is our second Newsletter of the year. Herein we present a brief report on the matters considered by the Committee during the Winter Quarter, 1977.

I. AD-HOC COMMITTEE AND PERFORMANCE ON RETIREMENT FUNDS

This Ad-hoc Committee consisting of Professors Gordon Alexander, Department of Finance and Insurance, Leonid Hurwicz, Department of Economics, Hugh Kabat, College of Pharmacy, Marcel Richter, Department of Economics, Craig Swan, Department of Economics (Chairperson), Mahmood Zaidi, Industrial Relations and College of Business (Ex officio), and Ms. Mary Goldon, a PhD student in Psychology have completed their report and recommendations to the SCFA. This Report is the result of a questionnaire prepared by the Ad-hoc Committee in order to determine the level of faculty interest in additional investment options for retirement funds. The SCFA has discussed this report and has recommended that it be forwarded to President Magrath and the Central Administration officers for their reaction, before the SCFA formulated its final recommendations to the Senate for action in May. The Ad-hoc Committee Report is reproduced below.

REPORT OF THE AD-HOC COMMITTEE ON FACULTY RETIREMENT

The Ad-hoc Committee on Faculty Retirement was established by the Senate Committee on Faculty Affairs to develop materials to survey faculty interest in new options in the faculty retirement system. Its specific charge read as follows:

> "...that an edited version of the Hoenack-Weiler Report together with such other materials as are deemed useful, be distributed to the faculty with a questionnaire to determine the level of faculty interest in additional investment options for their retirement funds. The SCFA authorized (the committee) to prepare a version of the Hoenack-Weiler essay that could be understood by those unfamiliar with the financial technicalities...."

The Ad-hoc Committee met almost weekly during the winter quarter 1976 to develop a survey instrument and appropriate background material. The committee was very pleased to have the opportunity for discussion with Professor Irwin Friend, University of Pennsylvania, a recognized authority in the area of finance and investments. Professor Friend spent two days on campus conferring with members of the committee, the administration and the faculty. The committee is grateful to Vice President Walter Bruning, the School of Business Administration and the Department of Economics for financial support to underwrite Professor Friend's visit.

The development of background material for the survey continued into the spring quarter of 1976. Early drafts of materials were circulated to members of the faculty and administration for their reactions and comments. The committee is grateful to these individuals for their help in clarifying and focusing the survey material.

The committee established a working relationship with members of the central administration. The committee is grateful for the help and interest shown by Vice President Bruning, Assistant Vice President Donald Brown, and Mr. Harold Bernard, Director of the Office of Employee Benefits. The committee is also grateful to Vice President Henry Koffler for financial support to underwrite expenses connected with the survey.

The survey materials---questionnaire, background material, a glossary and letters from Professor Mahmood Zaidi, chairman of the SCFA, and Vice President Walter Bruning---were distributed in the middle of the Spring quarter 1976. The committee is especially indebted to all the members of the faculty who, at this busy time of year, took the time to fill out and return the questionnaire. The questionnaire was sent to all members currently participating or who would become eligible to partcipate in the faculty retirement program. It was the intention of the committee to educate all members of the faculty about the elements of their retirement system as well as to measure interest in some proposed new options.

Although the questionnaire was sent to all members of the faculty, the committee limited the formal analysis of responses to a random sample of the faculty. The use of the sample rather than all returned questionnaires was intended to guard against selective bias in the results. The members of the sample were identified before the survey materials were distributed and special follow up measures were undertaken to achieve a high response rate within the sample. Limiting statistical analysis to the sample also reduced processing costs. The use of a sample could raise questions about its representativeness. However, both the sample size and the random character of the sample suggest that there is high probability that the sample results are an accurate representation of views held by the entire faculty.

A number of faculty members volunteered comments or suggestions on their questionnaires. All the comments have been collected and are a part of the permanent record of the committee. The committee appreciated the numerous positive comments regarding the presentation of the background material.

One comment, from several faculty members, concerned the possibility of having TIAA-CREFF as an option for basic retirement contributions. The option was not included in the material prepared by the Ad-hoc Committee since the central administration had already committed itself to implementing this option. In subsequent discussions, Vice President Bruning said that he hoped the TIAA-CREFF option for basic contributions could be made available sometime during the academic year 1976-77.

Response Rate

A random sample of 840 individuals was selected. Five questionnaires, which members of the faculty indicated they had returned, were never received by the committee. Eighty-eight members of the sample were either no longer at the University, ill, or out of town. Eighty-six members of the sample refused to complete the questionnaire because they were about to leave the University or were not participants in the retirement program. Another nineteen members of the sample did not feel confident about making judgements and/or preferred to leave these decisions to "experts" in the field. One hundred and sixty-five members of the sample did not return their questionnaires for reasons unknown to the committee. Four hundred and seventy-seven members of the sample returned completed questionnaires.

The determination of a response rate depends on one's definition of a response. Four hundred and seventy-seven completed questionnaires out of 840 implies a response rate of 57 percent. However 675 faculty members responded to the survey in one form or another for a response rate of 80 percent. If one were to eliminate those members of the sample no longer at the University, not currently participating in the retirement system, or about to leave the University, the response rate was then over 60 percent.

In view of the tight time schedule on which this complex material was distributed, the Ad-hoc Committee is extremely pleased with the large number of completed questionnaires and feels that these results are an accurate representation of the feelings of the entire faculty.

Results

Responses to specific questions are presented in tabular form below. Responses are presented in total and with respect to age and income classes.

Recommendations and Discussions

RECOMMENDATION 1.

There was sufficient interest shown in all proposed options to merit further study of each option.*

Discussion

The Ad-hoc Committee was charged with developing material to measure faculty interest in proposed new options. This background material described the proposed options in a general way. The committee tried to indicate what a proposed option would mean to a faculty member in terms of its advantages and disadvantages. The committee tried to indicate what kinds of risks, costs and/or legal questions were associated with particular options. The committee had neither the time nor the resources to develop detailed estimates of costs or detailed plans for implementation. It was the committee's view and interpretation of its charge that interest in proposed options should be determined before staff time was spent developing detailed plans for implementation. Furthermore, indications of interest could be used as a guide for scheduling further consideration of options. An important part of the further consideration of any proposed option would be a more extensive investigation of the legal and cost implications of that option.

RECOMMENDATION 2

Further consideration of the proposed options should proceed by considering the following groups in turn:

1) The post-retirement options; See Appendix (D-1, D-2, D-4, D-6, D-8)
2) The variable-income annuity fund options; See Appendix (A-1, A-4)
3) The borrowing option; See Appendix (C-2)
4) The fixed-income annuity fund option and the transfer option; See Appendix (B-1,C-1)*

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*A minority opinion is held by Professor Alexander, who opposes recommending further study of options B-1 and C-1. In his judgement, because a majority of respondents opposed the establishment of these options, resources should not be committed to further study of their feasibility.

Discussion

The priority list above reflects the results of the survey as well as our understanding of the nature of the proposed options themselves.

1) The Post-Retirement Options (D-1, D-2, D-4, D-6, D-8)

Besides receiving the largest indication of interest, the post-retirement options should be relatively easy to implement. The proposed options would not require elaborate new investment decisions by the managers of the retirement system. For the most part these options merely change the timing of payments to retirees. However, given the legal restrictions under which the retirement system operates, there are important legal questions surrounding these proposed options that need to be more fully investigated. In addition numerous implementation details would need to be worked out in discussions with the managers of the annuity funds.

Only one post-retirement option (D-1), concerning the interest rate that could be used for a fixed income annuity from variable-income annuity contributions, was supported by less than a majority of the respondents. Further thought by members of the Ad-hoc Committee suggests that option D-8, the option that would allow the purchase of an annuity from another company, may well achieve the same objective as option D-1. (Option D-8 was supported by 63 percent of the respondents and directly opposed by only 20 percent.) Purchasing a fixed-income annuity from a company other than Minnesota Mutual-Northwestern Life (MM-NWL) would look especially attractive at times when interest rates were above the historical average of rates used by MM-NWL in determining their fixed income annuities. If option D-8 were available, an individual with variable income accumulations could receive a fixed income annuity based on current interest rates by withdrawing his variable income accumulations from MM-NWL and buying a fixed income annuity from another company.

Proposed options D-2 (partial cash settlement), D-6(leaving accumulations with the insurance companies) and D-8 (allowing withdrawal to purchase annuities elsewhere) all received strong general support. 63 to 76 percent of respondents directly favored these options (checked yes). Only 8 to 20 percent directly opposed these options. However, when those who favored the establishment of these options were asked whether they would take advantage of them, the percentage answering yes dropped substantially. This drop should not be interpreted as an indication that few individuals would use these options if they were available, because the desirability of actually using one of these options clearly will depend upon circumstances at the time of retirement, circumstances that are currently unknown. Looking at 'yes' and 'undecided' responses as an alternative measure of personal interest shows that from 76 to 91 percent of those favoring the establishment of these options also indicated personal interest.

Proposed Option D-4, the escalating annuity, not only received strong general support but also a very strong indication of personal interest as well. Again the desirability of an escalating annuity will be strongly influenced by personal expectations and circumstances at the time of retirement. One might have expected a pattern of responses similar to those found in options D-2, D-6 and D-8. In this case it may be that expectations of immediate post-retirement employment possibilities and of continuing inflation are held very strongly by members of the faculty.

2) Variable-Income Annuity Options (A-1 and A-4)

Both proposals for new variable-income annuity funds---funds of differential risk and an index fund---received indications of support from a majority of respondents. 55 and 53 percent checked yes. Attitudes about the establishment of funds of differential risk show some variation across age and income groups with younger and lower salaried faculty members more likely to favor their establishment. These changing attitudes, especially with respect to age, are not too surprising. The modern theory of capital markets suggests that while an efficient high risk portfolio offers a higher expected return, it also carries with it the possibility of lower returns. It is by definition riskier. Younger faculty members, with a longer time horizon until their retirement, may feel more comfortable about themselves or others taking these risks in return for the higher expected return. Sub-par performance for a few years need not jeopardize their retirement prospects 20 or 30 years into the future. As faculty members get closer to retirement it is not surprising that they become more conservative in their attitudes towards risk. A more diverse mix of variable-income annuity funds would enable faculty members to modify their allocation decisions over time as their own attitudes toward risk change.

Attitudes about the establishment of an index fund appear to be independent of age and income. The performance of variable-income annuity funds is often compared to established market indices such as Standard and Poor's 500 and the New York Stock Exchange Index. The establishment of an index fund would enable faculty members to invest in the standard of comparison if they wished. The index fund would be a logical candidate for a medium risk variable-income annuity fund and would thus help achieve the option of differential risk funds.

The variable-income annuity options would require new investment strategies on the part of MM-NWL. In the case of the index fund, one would have to determine an appropriate charge for implementing the index fund rule. Discussions with MM-NWL in previous years have considered the question of differential risk funds. While no decisions were reached, MM-NWL was receptive to the idea.

3) Borrowing Option (C-2)

Over half the faculty expressed support for some form of borrowing option, either without constraints (25 percent) or in special circumstances to avoid financial strain (32 percent). Younger faculty members would put fewer restrictions on borrowing. Respondents aged 45-54 showed the largest support for a borrowing option to avoid financial strain. This age group may have the highest concentration of faculty members with college-age children.

The borrowing option raises difficult legal questions. The right to defer taxes on money set aside for retirement is accompanied by restrictions on access to these funds before retirement. These legal questions need to be more fully investigated in the context of specific proposals.

4) <u>The Fixed-Income Annuity Fund Option and the Transfer Option</u> (B-1 and C-1)*

These two proposed options, B-1 and C-1, received the samllest indications of general support, 29 and 33 percent. However, most members of the Ad-hoc Committee believe that there is a case to be made for further consideration of these options, especially as regards their cost implications, although the priority of this exploration clearly reflects the survey results. In general, members of the Ad-hoc Committee favor the introduction of new options if they are desired by a substantial portion of the faculty and if their introduction does not impose significant costs on those faculty members who choose not to make use of the options. Although there is no precise definition of a substantial portion of the faculty, one fifth or 20 percent would probably qualify. Both options had indications of general support of around 30 percent. Of those indicating support for option B-1, differential crediting in the fixed-income annuity fund based on years of contributions, almost 80 percent said they would take advantage of this option if available. (Those favoring C-1, the transfer option, were not asked if they would use it, as the committee felt that decisions to use the transfer option would clearly depend upon circumstances in the future.) Given this indication of interest by a substantial portion of the faculty, further study of the cost implications of these options is needed before a final decision can be made.

<u>RECOMMENDATION 3</u>.

A feasibility committee should be established to develop the necessary information for decisions regarding implementation.

<u>Discussion</u>

The feasibility committee, together with the central administration, should initiate discussions with MM-NWL to:

-develop estimates of the magnitude and incidence of various costs associated with proposed new options,
-resolve various legal questions surrounding proposed options,
-develop possible implementation procedures.

As regards costs, the feasibility committee should consider costs to both the individual and the retirement system as a whole. For example, while any new variable-income annuity fund will have some associated costs, to the extent that an individual pays the costs for one fund rather than another, there need be no increase in costs to the system as a whole. In fact, if a particular fund--such as an index fund--had lower costs, there may be a reduction in the total costs to the system. However, even in this case there may be effects on the costs specific individuals face. If an annuity fund has certain fixed costs that are independent of the size of the fund, then the establishment of new funds could mean that individuals electing to stay in the original fund may have slightly higher costs as they must now share an unchanged amount of fixed costs among a smaller fund. Estimates of the magnitude of these effects are necessary before the decision to implement a particular option should be made.

With respect to legal questions, some of the retirement options and the borrowing option raise important legal questions concerned with the restrictions imposed by law and associated with the tax deferral feature of the retirement system. Some of these legal questions may mean that certain options would jeopardize the tax deferral feature of the retirement system. Other legal questions may only mean that certain procedures to achieve a particular objective would be inadvisable while other procedures to achieve the same objective would be feasible.

As the feasibility committee finishes work concerned with particular options, the cost and legal information would allow the University Senate to make a final decision regarding the desirability of adoption of particular options.

Once again the committee would like to thank those individuals who helped the committee both in the preparation of material and by completing the questionnaire. Members of the committee hoped their work would achieve two objectives: 1) educate the faculty about the workings of the current system, and 2) measure faculty interest in proposed new options in the faculty retirement system. We hope that the background material has served its education function. We feel that the survey results indicate a broad, general consensus for more flexibility in the current retirement system.

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*See footnote on page 2 for Professor Alexander's position on these options.

APPENDIX

QUESTION A-1 DO YOU FAVOR THE ESTABLISHMENT OF SEVERAL VARIABLE-INCOME ANNUITY FUNDS OF DIFFERENTIAL RISK?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	477	264	149	64	55	31	13
BY AGE							
under 35	97	71	18	8	73	19	8
35-44	159	96	40	23	60	25	14
45-54	127	61	47	19	48	37	15
55 and over	94	36	44	14	38	46	15
BY SALARY							
under $15,000	86	53	19	14	62	22	16
$15,000-$19,999	125	78	33	14	62	26	11
$20,000-$24,999	135	78	44	13	58	33	10
$25,000-$29,999	55	18	26	11	33	47	20
$30,000 and over	71	35	25	11	49	35	16

QUESTION A-2 if yes to A-1: WOULD YOU BE INTERESTED IN PUTTING ANY OF YOUR VARIABLE-INCOME ANNUITY CONTRIBUTIONS AND/OR ACCUMULATIONS INTO ANY OF THESE DIFFERENTIAL RISK FUNDS?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	268	172	27	69	64	10	26
BY AGE							
under 35	72	44	6	22	61	8	31
35-44	95	65	9	21	68	10	22
45-54	62	43	3	16	69	5	26
55 and over	39	20	9	10	51	23	26
BY SALARY							
under $15,000	53	34	5	14	64	9	26
$15,000-$19,999	78	54	7	17	69	9	22
$20,000-$24,999	80	46	9	25	58	11	31
$25,000-$29,999	20	12	3	5	60	15	25
$30,000 and over	35	26	3	6	74	9	17

QUESTION A-4 DO YOU FAVOR THE ESTABLISHMENT OF AN INDEX FUND THAT WOULD BUY A PREDETERMINED LIST OF BROAD-BASED STOCKS ACCORDING TO ESTABLISHED INDICES?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	477	252	116	109	53	24	23
BY AGE							
under 35	97	55	19	23	57	20	24
35-44	159	90	29	40	57	18	25
45-54	127	65	38	24	51	30	19
55 and over	94	42	30	22	45	32	23

QUESTION A-4 cont.

	Number of Responses	Number: Yes	No	Undecided	Percentage: Yes	No	Undecided
BY SALARY							
under $15,000	86	39	24	23	45	28	27
$15,000-$19,999	125	66	29	30	53	23	24
$20,000-$24,999	135	75	28	32	56	21	24
$25,000-$29,999	55	34	11	10	62	20	18
$30,000 and over	71	35	22	14	49	31	20

QUESTION A-5 if yes to A-4: WOULD YOU BE INTERESTED IN TRANSFERRING SOME OF YOUR VARIABLE-INCOME ANNUITY ACCUMULATIONS INTO SUCH A FUND?

	Number of Responses	Number: Yes	No	Undecided	Percentage: Yes	No	Undecided
TOTAL	256	173	29	53	68	11	21
BY AGE							
under 35	57	28	11	18	50	19	32
35-44	92	66	7	18	72	8	20
45-54	65	49	4	12	75	6	18
55 and over	42	30	7	5	71	17	12
BY SALARY							
under $15,000	40	21	4	15	52	10	38
$15,000-$19,999	68	46	5	17	68	7	25
$20,000-$24,999	76	52	15	8	68	20	10
$25,000-$29,999	33	24	1	8	73	3	24
$30,000 and over	36	27	4	5	75	11	14

QUESTION A-6 if yes to A-5: ABOUT HOW MUCH OF YOUR ACCUMULATED FUND WOULD YOU TRANSFER?

% of accumulated funds like to transfer to index fund

	Number of Responses	Number: <25%	25%	50%	75%	>75%	Percentage: <25%	25%	50%	75%	>75%
TOTAL	175	26	66	68	4	11	15	38	39	2	6
BY AGE											
under 35	28	6	12	8	1	1	21	43	29	4	4
35-44	68	12	19	26	3	8	18	28	38	4	12
45-54	49	4	23	21	0	1	8	47	43	0	2
55 and over	30	4	12	13	0	1	13	40	43	0	3
BY SALARY											
under $15,000	21	3	9	9	0	0	14	43	43	0	0
$15,000-$19,999	46	8	16	20	2	0	17	35	44	4	0
$20,000-$24,999	53	9	24	15	0	5	17	45	28	0	9
$25,000-$30,000	25	4	8	9	2	2	16	32	36	8	8
over $30,000	27	2	9	13	0	3	7	33	48	0	11

QUESTION A-7 if yes to A-4: WOULD YOU BE INTERESTED IN PUTTING SOME OF YOUR FUTURE VARIABLE-INCOME ANNUITY FUND CONTRIBUTIONS INTO SUCH A FUND?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	254	186	14	54	73	6	21
BY AGE							
under 35	56	37	6	13	66	10	23
35-44	89	68	2	19	76	2	21
45-54	65	49	2	14	75	3	22
55 and over	44	32	4	8	73	9	18
BY SALARY							
under $15,000	40	25	2	13	62	5	32
$15,000-$19,999	67	47	5	15	70	8	22
$20,000-$24,999	76	58	5	13	76	7	17
$25,000-$29,999	34	23	0	11	68	0	32
$30,000 and over	34	31	1	2	91	3	6

QUESTION A-8 if yes to A-7: ABOUT HOW MUCH OF YOUR FUTURE CONTRIBUTIONS TO THE VARIABLE-INCOME ANNUITY FUND WOULD YOU BE WILLING TO PUT INTO SUCH A FUND?

% of future contributions to index fund

	Number of Responses	Number					Percentage				
		< 25%	25%	50%	75%	> 75%	< 25%	25%	50%	75%	> 75%
TOTAL	186	32	63	74	2	15	17	34	40	1	8
BY AGE											
under 35	36	8	13	12	1	2	22	36	33	3	6
35-44	69	14	19	26	1	9	20	28	38	1	13
45-54	49	7	18	22	0	2	14	37	45	0	4
55 and over	32	3	13	14	0	2	9	41	44	0	6
BY SALARY											
under $15,000	24	8	6	9	0	1	33	25	38	0	4
$15,000-$19,999	47	6	19	20	1	1	13	40	43	2	2
$20,000-$24,999	59	10	24	20	0	5	17	41	34	0	8
$25,000-$29,999	23	4	6	9	1	3	17	26	39	4	13
$30,000 and over	31	4	8	15	0	4	13	26	48	0	13

QUESTION B-1 DO YOU FAVOR THE ESTABLISHMENT OF AN ADDITIONAL FIXED-INCOME ANNUITY FUND THAT CREDITS EARNINGS TO CONTRIBUTIONS BASED ON THE YEAR CONTRIBUTIONS WERE MADE?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	476	139	243	94	29	51	20
BY AGE							
under 35	97	40	32	25	41	33	26
35-44	158	37	97	24	23	61	15
45-54	127	31	68	28	24	54	22
55 and over	94	31	46	17	33	49	18

QUESTION B-1 cont.

	Number of Responses	Number Yes	Number No	Number Undecided	Percentage Yes	Percentage No	Percentage Undecided
BY SALARY							
under $15,000	86	27	41	18	31	48	21
$15,000-$19,999	125	43	59	23	34	47	18
$20,000-$24,999	134	39	67	28	29	50	21
$25,000-$29,999	55	14	29	12	26	53	22
$30,000 and over	71	15	45	11	21	63	16

QUESTION B-2 if yes to B-1: WOULD YOU BE INTERESTED IN PUTTING ANY OF YOUR FIXED-INCOME ANNUITY CONTRIBUTIONS INTO SUCH A FUND?

	Number of Responses	Number Yes	Number No	Number Undecided	Percentage Yes	Percentage No	Percentage Undecided
TOTAL	143	110	8	25	76	6	17
BY AGE							
under 35	42	28	4	10	67	10	24
35-44	37	27	2	8	72	6	22
45-54	31	29	0	2	94	0	7
55 and over	33	26	2	5	79	6	15
BY SALARY							
under $15,000	29	19	3	7	66	10	24
$15,000-$19,999	43	35	1	7	81	2	16
$20,000-$24,999	41	30	3	8	72	8	19
$25,000-$29,999	14	10	1	3	71	7	21
$30,000 and over	15	15	0	0	100	0	0

QUESTION B-3 if yes to B-2: WHAT PERCENT OF YOUR FIXED-INCOME ANNUITY CONTRIBUTIONS DO YOU THINK YOU WOULD PUT INTO SUCH A FUND?

	Number of Responses	Number <25%	Number 26-50	Number 51-75	Number >75%	Percentage <25%	Percentage 26-50	Percentage 51-75	Percentage >75%
TOTAL	112	30	44	10	28	27	39	8	25
BY AGE									
under 35	28	9	9	3	7	32	32	11	25
35-44	29	8	9	3	9	28	31	10	31
45-54	29	10	8	2	9	34	28	7	31
55 and over	26	3	18	2	3	12	69	8	12
BY SALARY									
under $15,000	20	8	8	3	1	40	40	15	5
$15,000-$19,999	35	13	13	1	8	37	37	3	23
$20,000-$24,999	31	4	15	3	9	13	48	10	29
$25,000-$29,999	10	2	6	2	0	20	60	20	0
$30,000 and over	15	3	2	0	10	20	13	0	67

QUESTION C-1 DO YOU FAVOR THE ESTABLISHMENT OF RETIREMENT FUNDS THAT WOULD LET INDIVIDUALS TRANSFER THEIR ACCUMULATIONS AMONG VARIOUS RETIREMENT FUNDS?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	476	155	256	65	33	54	14
BY AGE							
under 35	96	46	39	11	48	41	12
35-44	159	47	92	20	30	58	13
45-54	127	36	70	21	28	55	16
55 and over	94	26	55	13	28	58	14
BY SALARY							
under $15,000	86	34	39	13	40	45	15
$15,000-$19,999	124	43	67	14	35	54	11
$20,000-$24,999	135	45	69	21	33	51	16
$25,000-$29,999	55	12	36	7	22	66	13
$30,000 and over	71	18	43	10	25	61	14

QUESTION C-2 WHICH OF THE FOLLOWING STATEMENTS MOST CLOSELY REFLECTS YOUR OPINION ABOUT ALLOWING INDIVIDUALS TO BORROW AGAINST THEIR RETIREMENT ACCUMULATIONS?

	Number of Responses	Number					Percentage				
		Any Reason	Avoid Financial Strain	No	Other	Undecided	Any Reason	Avoid Financial Strain	No	Other	Undecided
TOTAL	476	117	154	189	11	5	25	32	40	2	1
BY AGE											
under 35	97	43	31	20	2	1	44	32	21	2	1
35-44	159	44	44	68	2	1	28	27	43	1	1
45-54	126	17	51	53	3	2	14	40	42	2	2
55 and over	94	13	28	48	4	1	14	30	51	4	1
BY SALARY											
under $15,000	86	27	31	25	2	1	31	36	29	2	1
$15,000-$19,999	124	30	38	53	1	2	24	31	43	1	1
$20,000-$24,999	135	32	43	54	5	1	24	32	40	4	1
$25,000-$29,999	55	6	20	29	0	0	11	36	53	0	0
$30,000 and over	71	17	22	28	3	1	24	31	39	4	1

QUESTION C-3 IF BORROWING IS ALLOWED, SHOULD REPAYMENT OF THE LOAN THROUGH MANDATORY PAYROLL DEDUCTIONS BE REQUIRED?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	418	306	55	57	73	13	14
BY AGE							
under 35	93	62	20	11	67	22	12
35-44	141	107	18	16	76	13	11
45-54	106	79	12	15	75	11	14
55 and over	78	58	5	15	74	6	19
BY SALARY							
under $15,000	78	55	12	11	71	15	14
$15,000-$19,999	107	74	14	19	69	13	18
$20,000-$24,999	120	91	16	13	76	13	11
$25,000-$29,999	47	40	2	5	85	5	13
$30,000	61	44	8	9	72	18	15

QUESTION D-1 DO YOU FAVOR GIVING INDIVIDUALS WHO ELECT A FIXED-INCOME ANNUITY WITH THEIR VARIABLE-INCOME ACCUMULATIONS THE OPTION OF RECEIVING A FIXED-INCOME ANNUITY THAT REFLECTS INTEREST RATES AT THE TIME OF RETIREMENT?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	477	184	184	109	39	39	23
BY AGE							
under 35	97	34	34	29	35	35	30
35-44	159	57	57	45	36	36	28
45-54	127	53	55	19	42	43	15
55 and over	94	40	38	16	43	40	17
BY SALARY							
under $15,000	86	33	27	26	38	31	30
$15,000-$19,999	125	54	48	23	43	38	18
$20,000-$24,999	135	45	56	34	33	42	25
$25,000-$29,999	55	16	24	15	29	44	27
$30,000 and over	71	33	28	10	46	39	14

QUESTION D-2 IF FEASIBLE, SHOULD FACULTY MEMBERS BE GIVEN AN OPTION OF RECEIVING A PARTIAL CASH SETTLEMENT AT RETIREMENT?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	475	359	76	40	76	16	8
BY AGE							
under 35	97	81	8	8	83	8	8
35-44	159	123	17	19	77	11	12
45-54	126	98	21	7	78	17	6
55 and over	93	57	30	6	61	32	6
BY SALARY							
under$15,000	86	66	10	10	77	12	12
$15,000-$19,999	124	103	10	11	83	8	9
$20,000-$24,999	134	96	28	10	72	21	8
$25,000-$29,999	55	34	16	5	62	29	9
$30,000 and over	71	56	12	3	79	17	4

QUESTION D-3 _If yes to D-2_: DO YOU THINK THAT YOU WOULD USE THIS OPTION?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	356	88	85	183	25	24	51
BY AGE							
under 35	82	24	11	47	29	13	57
35-44	124	35	20	69	28	16	56
45-54	93	22	25	46	24	26	50
55 and over	57	7	29	21	12	51	37

QUESTION D-3 cont.

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
BY SALARY							
under $15,000	65	16	10	39	25	15	60
$15,000-$19,999	100	29	22	49	29	22	49
$20,000-$24,999	99	25	23	51	25	23	52
$25,000-$29,999	34	3	13	18	9	28	53
$30,000 and over	54	13	17	24	24	32	44

QUESTION D-4 DO YOU THINK THAT AN ESCALATING ANNUITY IS A DESIRABLE OPTION FOR THE RETIREMENT SYSTEM?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	476	285	67	124	60	14	26
BY AGE							
under 35	97	61	10	26	63	10	27
35-44	127	90	22	47	57	14	30
45-54	159	75	20	32	59	16	25
55 and over	93	59	15	19	63	16	20
BY SALARY							
under $15,000	86	58	9	19	67	10	23
$15,000-$19,999	125	74	16	35	59	13	28
$20,000-$24,999	134	78	19	37	58	14	28
$25,000-$29,999	55	33	8	14	60	14	26
$30,000 and over	71	41	12	18	58	17	25

QUESTION D-5 <u>If yes to D-4</u>: AT RETIREMENT, DO YOU THINK THAT YOU WOULD BE INTERESTED IN SUCH AN OPTION

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	288	184	21	83	64	7	29
BY AGE							
under 35	61	40	4	17	66	7	28
35-44	92	62	4	26	67	4	28
45-54	76	48	9	19	63	12	25
55 and over	59	34	4	21	58	7	36
BY SALARY							
under $15,000	59	41	2	16	70	3	27
$15,000-$19,999	73	48	4	21	66	6	29
$20,000-$24,999	81	51	5	25	63	6	31
$25,000-$29,999	33	21	4	8	64	12	24
$30,000 and over	41	22	6	13	54	15	32

QUESTION D-6 IF FEASIBLE, DO YOU THINK IT DESIRABLE THAT FACULTY MEMBERS HAVE THE OPPORTUNITY TO KEEP SOME OR ALL OF THEIR RETIREMENT ACCUMULATIONS INVESTED WITH THE INSURANCE COMPANIES AFTER RETIREMENT?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	476	368	39	79	75	8	17
BY AGE							
under 35	97	80	5	12	82	5	12
35-44	159	117	7	35	74	4	22
45-54	127	96	11	20	75	9	16
55 and over	93	65	16	12	70	17	13
BY SALARY							
under $15,000	86	63	6	17	73	7	20
$15,000-$19,999	125	93	7	25	74	6	20
$20,000-$24,999	134	101	13	20	75	10	15
$25,000-$29,999	55	44	5	6	80	9	11
$30,000 and over	71	55	7	9	78	10	13

QUESTION D-7 <u>If yes to D-6</u>: DO YOU THINK YOU WOULD TAKE ADVANTAGE OF THIS OPPORTUNITY?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	358	110	49	199	31	14	56
BY AGE							
under 35	79	22	9	48	28	11	61
35-44	117	39	15	63	33	13	54
45-54	97	30	15	52	31	16	54
55 and over	65	19	10	36	29	15	55
BY SALARY							
under $15,000	63	22	6	35	35	10	56
$15,000-$19,999	91	30	12	49	33	13	54
$20,000-$24,999	102	20	14	68	20	14	67
$25,000-$29,999	44	15	6	23	34	14	52
$30,000 and over	56	21	11	24	38	20	43

QUESTION D-8 IF FEASIBLE, DO YOU FAVOR ALLOWING INDIVIDUALS AT RETIREMENT THE OPPORTUNITY TO WITHDRAW THEIR ACCUMULATIONS FROM THE PRESENT INSURANCE COMPANIES AND BUY AN ANNUITY FROM ANOTHER COMPANY?

	Number of Responses	Number			Percentage		
		Yes	No	Undecided	Yes	No	Undecided
TOTAL	475	301	95	79	63	20	17
BY AGE							
under 35	96	76	11	9	79	11	9
35-44	159	104	20	35	65	13	22
45-54	127	80	27	20	63	21	16
55 and over	93	41	37	15	44	40	16

QUESTION D-8 cont.

	Number of Responses	Number Yes	Number No	Number Undecided	Percentage Yes	Percentage No	Percentage Undecided
BY SALARY							
under $15,000	86	59	14	13	69	16	15
$15,000-$19,999	124	82	23	19	66	18	15
$20,000-$24,999	134	83	33	18	62	25	13
$25,000-$29,999	55	29	14	12	53	26	22
$30,000 and over	71	46	11	14	65	16	20

QUESTION D-9 If yes to D-8: DO YOU THINK YOU WOULD TAKE ADVANTAGE OF THIS OPPORTUNITY?

	Number of Responses	Number Yes	Number No	Number Undecided	Percentage Yes	Percentage No	Percentage Undecided
TOTAL	299	86	28	185	29	9	62
BY AGE							
under 35	76	20	7	49	26	9	64
35-44	103	34	8	61	33	8	59
45-54	80	23	8	49	29	10	61
55 and over	40	9	5	26	22	12	65
BY SALARY							
under $15,000	59	13	3	43	22	5	73
$15,000-$19,999	80	23	6	51	29	8	64
$20,000-$24,999	83	27	10	46	32	12	55
$25,000-$29,999	29	10	2	17	34	7	59
$30,000 and over	46	12	6	28	26	13	61

Any comments or questions you might have on the draft will be very welcome.

II. PHILOSOPHY OF FACULTY COMPENSATION

At the meeting of the University Senate on March 3, 1977, the Faculty Senate approved the following SCFA recommendations on Faculty Compensation (See the text of the document either in SCFA Reports, Volume 3, No 2 or in Senate Minutes, November 18, 1976.)

> That the Senate approve transmission of the draft document "A Philosophy for Faculty Compensation" to the President and his staff for reaction.

III. DISABILITY INSURANCE

The Committee met with Dr. Walter Bruning on February 28, 1977 to discuss changes in the Disability Insurance Program for faculty without additional cost to individual faculty members. Dr. Bruning agreed with the Committee that the Disability Plan as it stands now is inadaquate and suggested the following changes:

1) Increase the maximum benefit to $24,000 per year ($2,000 per month), fully coordinated with Social Security (both primary and secondary)benefits.

2) Cover 60% of gross salary.

Dr. Bruning reminded the Committee that if any changes are made in the Disability Insurance Plan it will be necessary under the Cease and Desist order to have written assurances from all the faculty organizations now involved in the collective bargaining activity. At its March 28th meeting, the Committee voted to approve the proposed changed in the disability benefits for faculty and authorized the chairperson to secure written assurances from all the faculty organizations now involved in the collective bargaining activity that they were in accord with this improvement in benefits for faculty.

IV. MM NWL AND TIAA-CREFF

At the February 28, 1977 meeting with Dr. Bruning, the Committee discussed the new insurance option now being offered to the faculty (TIAA-CREFF). The Committee felt that the deadline of February 28th gave very little time for the faculty members to decide on the new option and recommended to Dr. Bruning that the faculty members be given another opportunity to consider this plan. In addition, the Committee recommended that the Employee Benefits Office provide adequate explanation by means of examples of the costs and benefits to persons in certain typical situations. Dr. Bruning agreed with the Committee that more efforts should be made to educate faculty about TIAA-CREFF Retirement policy. Since the meeting, Dr. Bruning has informed the Committee that the Central Administration has decided to keep TIAA-CREFF open for an undetermined period and that the Employee Benefits Department is now in the process of preparing examples of cost and benefits to persons in certain typical situations. SCFA urges you to evaluate the TIAA-CREFF option carefully when you receive more information on this subject from the Employee Benefits Office. Since this option is going to cost a great deal of money per participant at the low levels of adoption, Dr. Bruning would like to review this matter again with the Committee sometime in the Fall of 1977.

V. INCOME TAX SEMINAR

The SCFA sponsored a two hour Seminar on Income Taxes for the Faculty on Monday, March 14, 1977. Speakers included Mr. John Schagun from the Internal Revenue Service, Mr. Arlo Peterson a Certified Public Accountant and Treasurer of the State Association of Public and Tax Accountants, and Mr. Harold Bernard Director of the Employee Benefits Office.

The speakers provided information on changes in the 1976 Tax Law and on general tax provisions of interest to faculty members. The Coordinate campuses at Duluth, Morris, Crookston and Waseca were connected by telephone hook-up and participated with the Twin Cities faculty in the questions and answer period which followed the presentations.

The lectures and questions and answers were informative and helpful, and the SCFA hopes that this Seminar will become a regular event of service to the faculty. The SCFA also extends its appreciation to Vice President Koffler's office for help in arranging the Seminar.

Tapes of the Income Tax Seminar for Faculty are available to the faculty at the Learning Resource Center in the Twin Cities. Faculty at the Duluth, Morris, Crookston, and Waseca campuses may contact their Academic Deans for information on the location of the tapes on their campuses.

The SCFA wants and needs your feedback to your Committee on any of the subjects discussed in this Newsletter. Please contact the Chairperson or any of the SCFA members whose addresses and phone numbers are listed below with your ideas, comments, and suggestions.

Cordially yours,

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SCFA REPORTS

UNIVERSITY OF MINNESOTA SENATE COMMITTEE ON FACULTY AFFAIRS
Spring Quarter 1977 Volume 4 Number 3

Dear Colleague:

This is our third and last newsletter for the academic year '76-77. Herein we present I) a letter from the outgoing chairperson, II) statements on the past activities of the SCFA from (i) President C. Peter Magrath, (ii) Vice President Henry Koffler, (iii) Vice President Walter Bruning and (iv) Vice President Donald Brown and III) a letter from the incoming chairperson.

I. LETTER FROM OUTGOING CHAIRPERSON

As many of you know by now I have resigned from the SCFA. During the past five years, I enjoyed working on matters which pertained primarily "to the responsibilities, rights, privileges, opportunities and welfare of the faculty, collectively and as individuals." Many of the goals which the Committee set out for itself in 1973 have been met, resolved - though not necessarily in the precise form presented by the SCFA - or are close to some form of resolution.

My departure from the Committee in no way reflects dissatisfaction but rather constitutes a recognition of our successes and of the fact that the time has come to pass the "baton" to another person. The long hours involved in SCFA activities while challenging and invigorating, have also taken their toll in energy. Drawing to a close of five years of service, during a time when the University has faced some of its most serious challenges, marks a time when it is appropriate to bring new, energetic leadership to the Committee.

I feel that before I leave the Committee, I should (a) summarize the SCFA activities over the past five years and (b) acknowledge the assistance of many people who helped me in carrying out my responsibilities as the Chairperson of the SCFA.

a. REPORT ON SCFA ACTIVITIES, 1973-77

1. Decision to begin issuing SCFA Newsletter: SCFA REPORTS

2. Decision to include in the SCFA Newsletter reports on the activities of (a) University Committee on Tenure and (b) University Appeals Committee on Academic Freedom and Responsibility

3. Recommendations on summer charges for Fringe Benefits on Research Grants

4. Discussion and Implementation of Five On-Going Issues:

   A. Faculty Retirement Plan:

      1. Approval of 50% Minimum Gurataneed Faculty Retirement Supplement by the Board of Regents

      2. Approval of VOLUNTARY Early Retirement Plan by the Board of Regents

      3. Introduction of TIAA-CREFF as an additional option

   B. Health Insurance:

      Discussions culminating in the formation of a committee consisting of Mr. Harold Bernard, Dr. Walter Bruning, Dr. Shirley Clark, Mr. William Thomas, Professor Andrew Whitman and Professor Mahmood Zaidi to represent the University in meetings with Commissioner Session.

   C. Fringe Benefits for Part Time Faculty:

      President Magrath included a supplement to the Faculty salary proposal in the 1977-79 Biennium Request. The amount requested was $482,800 for Social Security coverage for part-time faculty. If it was approved by Legislature, it would have extended coverage to Faculty who were appointed 25% of full time or more.

   D. Sabbatical Leaves:

      The Committee at their October 18, 1976 meeting discussed a second proposed draft on Sabbatical Leaves. In general, the Committee agreed with the idea of liberalizing the Sabbatical Leave Policy and recommended to Dr. Koffler that future drafts take into account the points raised by the Faculty and the Committee. Dr. Koffler accepted this recommendation.

   E. Performance of Faculty Retirement Funds:

      -Report of the SCFA Ad-hoc Committee on Faculty Retirement Funds
      -Approval by the Senate of establishment of SCFA Feasibility Committee to collect information needed for decisions regarding implementation of the recommendation made by the Ad-hoc Committee.

5. Discussion of Tuition Grants for Dependents of Faculty

6. Participation in the preparation of 1975-77, 1977-79 Legislative Request for Faculty Salaries

7. Participation in the preparation of the President's Mission Statement

8. Recommendation for the preparation of New Faculty Handbook containing a description of all the benefits written in a clear and understandable manner

9. Recommendation on Disclosure of Contents of Faculty and Student Personnel file under the new "Open Files" State and Federal Regulation

10. Recommendations on Salary Distribution

11. Discussion and Recommendations on other Committees' Reports:

    A. Task Force on Academic Salaries

    B. Ad Hoc Committee on Faculty Accountability

12. Recommendation on Academic Personnel Record Procedures and Policies

13. Development of a Philosophy for Faculty Compensation

14. Changes in the Disability Insurance approved by the Board of Regents

15. Recommendations on Liability Insurance

16. Participation in the Report for the North Central Accreditation Review Team

17. Arranging a Seminar on Income Tax

18. Individual Concerns:

    Many letters were received from faculty members expressing concern on a wide variety of issues including complaints in salary adjustments, the temporary policy on faculty employee grievances, the nature of the Cease and Desist Order etc. These issues were acted upon or referred to appropriate committees or authorities by the SCFA.

In departing, I note that no Chairperson can lead a Committee where its members do not choose to go. Moreover, the successes of the Committee must be attributed to the cooperation of those members and non-members who gave so unselfishly of their time and energy. Therefore, it is important that I acknowledge the help and assistance of all the SCFA members who have supported me during the past five years. They are, alphabetically: C. Eugene Allen, Theodore R. Anderson, Robert H. Beck, Thomas G. Boman, John W. Boyer Jr., John S. Chipman, Leona E. Classen, Victoria B. Coifman, Ruth F. Hovde, Leonid Hurwicz, Eloise M. Jaeger, Hugh F. Kabat, Donald Kahn, Bill W. Kennedy, Virginia M. Kivits, Ramond J. Lammers, Clarice N. Olien, Richard E. Poppele, William P. Robbins, Eugenia R. Taylor, Clare K. Woodward.

In order to carry out the business of the SCFA various subcommittees were appointed by the Chairperson to make in-depth studies of certain fringe benefit items. Most of the SCFA recommendations were largely based on the work of these subcommittees. The non-SCFA members who need special mention are: Professor Gordon Alexander, Professor John A. Anderson, Professor Paul Cartwright, Professor Clark A. Chambers, Professor Edward Coen, Professor Bright M. Dornblaser, Professor Edward Foster, Professor Irwin Friend of the University of Pennsylvania, Professor Charles Freedman, Ms. Mary Goldon, Professor Russel K. Hobbie, Professor Stephan A. Hoenack, Professor John Kidneigh, Professor Maurice M. Kreevoy, Professor C. Robert Morris, Professor Marcel Richter, Professor John C. Schreiner, Professor Craig Swan, Professor Philip J. Tichenor, Professor Robert L. Vernier, Professor Maurice Visscher, Mr. William C. Weiler, Professor Andrew Whitman.

A special note of thanks is due to President Magrath and Vice Presidents Koffler, Bruning and Brown. While approaching issues and problems with the perspective of administrators, they always appreciated the instructive concern of SCFA on matters of faculty need and interest. Even though we didn't always agree on the appropriate solutions to problems discussed, when there was disagreement, we learned to disagree agreeably. And without their support, the tasks of SCFA would have been far more difficult. Since these members of the Central Administration had worked closely with the SCFA, they have been invited to speak to you through the SCFA Report in their own words

In addition to these administrative officers, many other members of the Central Administration have also assisted the SCFA and they deserve special mention: Mr. Daniel P. Benda, Mr. David J. Berg, Mr. Harold J. Bernard, former Vice President James V. Brinkerhoff, former acting Vice President Harold Chase, Assistant Vice President Shirley Clark, Associate-Vice President Albert Linck and former Vice President Jerry Shepherd.

The recently announced resignation of Dr. Bruning from the Central Administration came as a surprise. He will be missed. I am sure that all faculty members will join me in wishing him all the success in his new job.

And to my successor, Professor C. Eugene Allen, personal and collective support is in order. This Committee, as all committees, has a life and dynamics of its own. I am certain that the SCFA will continue its work uninterrupted with the rights and intersts of the faculty being protected before the Legislature and in the administrative councils. The transition will bring new people, ideas and approaches to the problems of the University faculty - at a time when they are certainly needed.

I conclude this letter with a plea: IT IS EXTREMELY IMPORTANT THAT ALL OF US UNDERSTAND

MORE FULLY THE FISCAL ENVIRONMENT OF OUR UNIVERSITY AND THE STATE. AS A RECENT CHANGE PUBLICATION HAS POINTED OUT "THERE REMAINS NOT A SINGLE ACADEMIC INSTITUTION IN THIS COUNTRY WHERE THE DEBATES OVER MONEY ARE NOT AT LEAST AS CENTRAL AS THOSE OVER STUDY CONTENT AND STUDENT LIFE". IT IS MY BELIEF THAT THE QUALITY OF THIS DEBATE AT OUR INSTITUTION WILL LARGELY DEPEND ON OUR WILLINGNESS AND CAPACITY TO UNDERSTAND COMPLEX BUDGETARY ISSUES AND THE DECISION MAKING PROCESSES WITHIN THE UNIVERSITY AND THE STATE.

Mahmood A. Zaidi.

II. STATEMENTS SENT TO PROFESSOR ZAIDI BY PRESIDENT MAGRATH AND HIS THREE ADMINISTRATIVE COLLEAGUES

a) President's Message

Our recent experiences working with the Senate Committee on Faculty Affairs, especially in the area of compensation, have been extremely rewarding. I am particularly pleased with the document that the administration had an opportunity to review concerning an overall view of the philosophy of compensation. It is quite important in these days of high taxation and high cost of living to balance the compensation program for faculty members. We will also press for expanded benefits that will ease the burden of catastrophic illness or permanent disability. My colleagues in the central administration, who are also reporting to you in this issue of the SCFA Newsletter, will have a few more specific comments to make on these matters.

I look forward to a continuing productive relationship with SCFA and am pleased with the quality and quantity of advisory reports and studies that have been sent through my office by your committee since I have been at the University of Minnesota.

b) Vice President Koffler's Message

Thank you for the opportunity of making a statement for the SCFA Newsletter.

Since original and productive individuals are the essential ingredients of a first-rate institution, in my role as Vice President for Academic Affairs my first commitment is to help provide the incentives and atmosphere that enable us to attract, develop, and keep talented faculty members. It is for this reason that I have respected the work of the SCFA as being among the most significant in the University and have valued my membership on it so highly.

The accomplishments of the SCFA as described in this Report are indeed impressive. My colleagues Vice Presidents Bruning and Brown have elaborated on them more fully. While these achievements are a tribute to the good judgement and persistence of the Committee and its dedicated chairman, they also reflect the fact that this administration places the highest priority on the welfare of the faculty, in general, and on competitive salaries and fringe benefits, in particular. In spite of our combined efforts much remains to be done, and the unfinished items on the agenda will receive our serious attention. Since the continuing intellectual and professional growth of individual faculty members is critical to the vitality of the institution, I am especially concerned over any improvements we can make in the future in programs for faculty development.

It has been reassuring to me to notice an increasing awareness on the part of the Committee (as illustrated in its statement on "A Philosophy for Faculty Compensation") that the resources available to us are limited and that we have to make judicious choices as to whether our funds are best spent on improving salaries, fringe benefits, or various aspects of working conditions, and in what proportion. To the extent that we are capable of performing the functions of the University effectively and more economically we shall have more resources available to fulfill the needs of the faculty. In fact, our ability to identify and concentrate on the most important items on our agenda, in all our activities and at all levels, will determine whether the University will succeed in maintaining and improving its quality during the 1980's.

The next few years will be exciting ones and I am looking forward to working with the SCFA on making this University an even better institution than it is.

c. Vice President Bruning's Message

The specific improvements in employee benefits for faculty members in the recent past are most gratifying: The approval by the Board of Regents of the 50%, minimum guarantee, retirement benefit for faculty who joined the University prior to 1963; approval of the continuation of the early retirement provision; and, the improvement of the permanent disability insurance to a new level of $2,000 per month maximum (subject to certain limitations). Improvement in health care coverage and dental care has consistnetly come to us from the State of Minnesota through settlements with various employee collective bargaining units and a continuing legislative determination to provide the same benefits to union and non-union state employees wherever they might be in the State of Minnesota. We do consult with the Commissioner of Personnel and have asked for a meeting with him that would include some members of the Senate Committee on Faculty Affairs and the administration to discuss general issues and future improvements relating to health care coverage and dental coverage. Due to the busy nature of recent months of the legislative session, we were unable to have our first meeting with the current Acting Commissioner of Personnel, Richard Session. We will attempt to arrange a meeting early this fall.

One particular area that needs investigation in order to finish our current improvement of benefits has to do with group life insurance. The amount which is currently paid for by the Board of Regents for each faculty member is $20,000. Additionally, the State of Minnesota provides $5,000, with an additional $5,000 amount of coverage after an employee has worked here five years. This coverage seems less than adequate to many faculty in view of recent inflation.

The current retirement program is in fairly good shape and provides faculty members with anticipated retirement benefits (and death benefits) that are very competitive in higher education in comparison with other first-rate American universities. The addition of TIAA-CREFF as an option for faculty to purchase annuities is in the experimental stage, and we will check after one year to see what sort of popularity this program has. Up until now, not very many people have chosen to shift from Northwestern National Life/Minnesota Mutual coverage.

The working relationship between Mr. Harold Bernard, Assistant Director of Personnel for Employee Benefits, my office, and the Senate Committee on Faculty Affairs has been extraordinarily productive in the past thirty months. Without the long hours of study and analysis provided by faculty members on this committee, the administration would not have been able to respond in as positive a fashion with improvements in existing programs. During the next year, we will look into the possibility of improving group life insurance and also be looking at some variations on annuity payouts and other matters relating to the retirement system.

d) Vice President Brown's Message

Over the past year the Investment Office has established a regular study of the comparative performance of the faculty retirement portfolios managed by Minnesota Mutual and Northwestern National Life. There are two separate accounts - the variable annuity and the fixed dollar account. Each has individual performance characteristics which will be summarized in this report.

VARIABLE ANNUITY

The variable annuity account is invested primarily in stocks and therefore can be compared with the Dow Jones Industrial Average and the Standard & Poor 500.

	Separate Account "A"	S&P 500	DJIA
Last 5 years (1972 - 1976):			
Cumulative	+36.45%	+27.02%	+39.69%
Compounded Annually	+ 6.41%	+ 4.90%	+ 6.91%
Last 10 years (1967 - 1976):			
Cumulative	+90.57%	+90.49%	+90.40%
Compounded Annually	+ 6.66%	+ 6.66%	+ 6.65%

For the ten years ended December 31, 1976 the total return results of the variable annuity account, the Standard & Poor 500, and the Dow Jones Industrials Average are extraordinarily close with each showing a compound annual rate of +6.7%. For the 5 years ended December 31, 1976 the variable annuity account outperformed the S&P substantially but was somewhat behind the Dow Industrials for this period.

Relating this to all investment managers for these periods it can truly be stated that Minnesota Mutual's performance was superior. (The A.G. Becker Funds evaluation studies indicated that the S&P 500 out-performed over 90% of its population of managers from 1967-76). It also can be said Minnesota Mutual - Northwestern National Life would have marginally outperformed index funds for this period if such had been in existence, as index funds would have had some transaction costs and management fees which would have subtracted somewhat from the performance for "the averages".

Regarding the topic of index funds in general, we believe it wise to continue to adopt a wait-and-see attitude toward the current debate. Certainly, all reliable statistics for the past five to ten years would place the weight of evidence on the side of proponents of index funds. Statistics are less reliable for prior periods but those available appear to question the evidence of the past ten years as conclusive for all periods. Probably the most interesting question raised, -obviously unanswerable at this time, - is what would happen if the great bulk of institutional money was suddenly shifted to index funds. Would such a move create new market inefficiencies and force a complete reassesment regarding efficient markets and index funds? We continue to follow the pros and cons with much interest.

FIXED DOLLAR ACCOUNTS

For various reasons the Fixed Dollar Account portion of the Faculty Retirement Program does not lend intself to simple measurement in terms of total return or even interest income return as does the Variable Annuity Portion.

One reason for this is that the dollars going into this program are comingled with the insurance companies' other invested assets. Also, a major proportion of assets are either private bond issues or mortgages for which market evaluation at any particular time is extremely difficult or impossible.

We have been working on a study of the rates of return for participants over the past ten years in order to relate these returns to interest rate conditions for the same periods. A very general early conclusion is that the return to the participants year by year appears to be in line with interest rate conditions as they develop, allowing for deductions for administrative costs and actuarial risks.

SUMMARY

In general it can be said that participants in the Faculty Retirement Plan as it relates to the Minnesota Mutual - Northwestern National Life investments have received good investment experience and fair treatment relative to the experience of similar funds during the periods covered.

III. A LETTER FROM INCOMING CHAIRPERSON

As you will note from Professor Zaidi's letter, the SCFA has been an active committee relative to many issues of importance to faculty members. It is the hope of the present committee to continue this kind of service on issues that are of significance to the faculty. We encourage you to contact any of the committee members about new or old items that are appropriate topics for SCFA consideration.

Professor Zaidi and former members of the SCFA are to be commended for a job well done. We hope to serve in that same tradition.

The SCFA wants and needs your feedback to your Committee on any of the subjects discussed in this Newsletter. Please contact the Chairperson or any of the SCFA members whose addresses and phone numbers are listed below with your ideas, comments, and suggestions.

C. Eugene Allen.

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