

# Yale University

OFFICE OF THE PROVOST  
New Haven, Connecticut 06520  
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To Members of the Ladder Faculties of the University  
Dear Colleague:

I am pleased to enclose a description of the recent changes in the University's retirement policies and programs that affect the Yale faculty. This description will also be published in the August 23 edition of the Weekly Bulletin and Calendar. These new policies originated in the work of several faculty committees established to study the issues raised by the end of mandatory retirement for tenured faculty. The result of these studies is a comprehensive set of policies, including a number of new programs for tenured faculty. These were approved by the Yale Corporation on June 26, 1993, and became effective on July 1, 1993. I hope that you will find these new policies and programs attractive and helpful to your long-range planning.

I urge you to read the enclosed description of the new policies and programs with care, since several of the changes are quite complex in their design and application. Following the description you will find a section of Questions and Answers, designed to help you understand the programs and policies and to draw your attention to their main features.

The primary objectives of the new policies are:

- to provide a number of new choices and opportunities for faculty who must now think of their date of retirement in an entirely new way;
- to ensure that the University's faculty retirement plan remains adequate so that individuals may base their decision of when to retire on personal and professional rather than financial reasons;
- to make prudent and equitable use of University resources; and
- to retain the University's important capacity to plan on an orderly turnover of senior faculty and a predictable source of opportunities for new faculty appointments.

There are four new programs available to tenured faculty (including the continuing clinical professors in the School of Medicine):

1. An Early Retirement Subsidy Benefit that provides a salary supplement to tenured faculty who elect to retire before the normal retirement age of 70. This subsidy is based on the individual's salary, years of service, and the amount of annuity benefit he or she might expect at normal retirement age. The subsidy is intended to make early retirement an option by providing a salary supplement that would replace a significant portion of the annuity income that would be forgone by the decision to retire early.

2. A Planned Retirement Program designed to begin reducing such multi-year responsibilities as dissertation direction for tenured faculty who are prepared to indicate a specific retirement date (within one to three years) but who wish to remain teaching and working full time at full salary until then. Faculty choosing this program who will fully retire before the normal retirement age will also be eligible for an Early Retirement Subsidy benefit payable during the planned retirement period.

3. A significantly revised Phased Retirement Program for tenured faculty who would prefer half-time teaching and research status for a fixed period (from one to three years) before full retirement. (Because of differences in the sources of faculty salaries, faculty in the School of Medicine have under certain conditions the option for other fractions of employment and compensation.) Faculty electing Phased Retirement before the normal retirement age will also be eligible for an Early Retirement Subsidy benefit during the phased retirement period.

4. A Long-term Care Insurance option at group rates for faculty of any age who would like to purchase coverage for that kind of catastrophic illness as a supplement to the normal retiree health benefits. This insurance is expensive, and the decision to purchase it will require a careful weighing of the costs and benefits. Detailed information will be made available directly from the Benefits Office.

In addition to these new programs, several changes have been made in the Yale University Retirement Annuity Plan (YURAP), commonly known as TIAA/CREF, that will affect all faculty and all members of the Management and Professional staff who have elected that plan. These changes include:

1. A change in the Normal Retirement Age from 68 to 70 to reflect the recent actual retirement age of faculty. The primary function of identifying a normal retirement age is to provide a basis for the structure and contribution rates of the retirement plan. It also provides the basis for determining the Early Retirement Subsidy Benefit.

2. A small reduction in the rate of the University's full contribution to YURAP for earnings over the plan base or \$31,500 The University regularly monitors the average retirement age and the performance of the YURAP in order to maintain a retirement plan that produces an adequate retirement income at the normal retirement age. Over the years the contribution rates have gone up and down accordingly, and for the last few years, University contribution rates have been higher than at any time during the history of the plan and significantly higher than the 5%/10% levels in place in 1970's and early 1980's. It appears that at the current rates and the current normal retirement age, the plan is "overperforming" relative to its design. Therefore, effective July 1, 1993, the University will adjust its full contribution rate as a percentage of the participant's salary as follows

	1 Rate	New Rate
Earnings up to \$31,350	7.50%	7.50%
Earnings above \$31,350	13.00%	12.50%

3. A policy of stopping the University's contributions to YURAP after the goals of the plan have been met. Several faculty committees have expressed the view that continuation of University contributions to individual retirement plan accounts should not be open-ended. It is not appropriate for the University to continue contributions beyond the time when an adequate retirement is fully

funded and the plan's goal has been achieved. The University has therefore adopted a formula that projects retirement accumulations for each cohort of service. When the hypothetical benefits from YURAP and social security provided for any cohort exceed a target income replacement ratio for two consecutive years (70% of final salary at the normal retirement age and 35 years of service), contributions may be stopped. If, in future years, the hypothetical benefits drop below the target, contributions would resume. It is anticipated that this policy will affect very few employees. In addition, the University has adopted a "grandparent" clause for all current employees with 15 or more years of service in the YURAP (i.e., under the current rule, the University will continue to make regular contributions to the retirement accounts of those employees at least until age 70).

4. The option to cash out of up to one-third of retirement account balances The University has consistently maintained the policy that the accumulations in employee basic retirement accounts are intended to provide an adequate retirement income. Therefore, it has restricted retirees from withdrawing funds prematurely. The Corporation has approved a plan change that allows retirees to cash out up to one-third of their accumulations -approximately the equivalent of their own contributions. This option may be restricted by the vendor with which the funds are invested. Currently, Vanguard and CREF place no additional restrictions on cash outs. TIAA limits cash outs to 10% of the balance each year.

If, after reading the full description of the new policies and the questions and answers that follow, you have questions regarding the provisions of the retirement plan, please feel free to contact the Benefits Office at 432-5550. Questions about the planned and phased retirement programs are best directed to a member of my office. During the fall, Dick Silva and other members of the Benefits Office will conduct information sessions for faculty and staff interested in any aspect of these policies. I urge all faculty who are considering any of the new options to attend one of these sessions.

I am grateful to the many committees and to the faculty and staff who helped to develop these new policies and programs. The end of mandatory retirement provides both opportunities and challenges to the institution and to each of us as individuals. Yale will monitor the impact of these policies as they relate to new patterns of faculty retirement that may evolve and to changes in TIAA/CREF performance and will respond with changes as needed.

Sincerely yours,

Judith Rodin  
Provost

Encl..

## **REVISIONS TO FACULTY RETIREMENT POLICIES AND THE YALE UNIVERSITY RETIREMENT ANNUITY PLAN**

August 18, 1993

At its June 26 meeting the Yale Corporation approved a number of significant changes in the University's retirement policies. The primary purpose of these changes is to facilitate and encourage the continued retirement of tenured faculty by the traditional retirement age following the elimination, on July 1, 1993, of the University's policy of mandatory retirement of tenured faculty. Although the proposals have been designed to address faculty retirement, those which affect the terms of the Yale University Retirement Annuity Plan (YURAP) will also affect members of the University's management and professional staff who have elected to join this plan in place of the Staff Retirement Plan.

The new policies give faculty the opportunity to consider and choose among a series of strategies for their retirement, while being assured of an adequate retirement income consistent with the efficient and equitable use of University resources. They include:

- introducing a new Early Retirement Subsidy Plan, a new Planned Retirement Program, and a revised, enhanced Phased Retirement Program for tenured faculty;
- modifying the Yale University Retirement Annuity Program to provide for adjustment of the Normal Retirement Age and of University contributions, and the option to cash out a portion of account balances at retirement;
- making available long-term care insurance for purchase by faculty and staff; and
- establishing a Provost's committee on faculty retirement issues to address on an ongoing basis issues of facilities, privileges and benefits for retired faculty.

The new policies draw upon the work of several faculty committees established to study these issues and make recommendations, particularly the 1990 Committee on Retirement Issues chaired by Professor Donald Crothers, the 1991 and 1992 Committees on the Economic Status of the Faculty, and a 1992-93 Retirement Working Group of faculty and administrators. Except where noted, the changes are effective on July 1, 1993, and therefore affect individuals who retire after that date.

Many factors were significant in the design of these policies, which build upon the foundation of a retirement plan that provides a sound and competitively attractive retirement income for faculty, and an existing program for subsidizing retiree health coverage. These considerations include changing perceptions about retirement and retirement age among faculty, the institutional need to promote orderly turnover of tenured faculty in the absence of mandatory retirement, the desire of faculty for greater flexibility in retirement options and withdrawals of accumulations, and the need to observe budgetary constraints and applicable legal provisions, particularly the Age Discrimination in Employment Act

Inherent in these retirement policies is the recognition that ages from 59 through the late 60's are a time for planning of and entry into retirement for some faculty members, while for many others an older age such as 70 has come to be the expected age of retirement. Despite the elimination of mandatory retirement, there continues to be a need to define a traditional age of retirement in order to structure retirement benefits (i.e., to determine the level of contribution necessary to produce an adequate retirement income at an anticipated age) and to establish a

reference point from which flexible options can be drawn. The new policies offer planned and phased retirement options beginning at age 59, and an early retirement option beginning at age 62. They also change the "Normal Retirement Age" defined in the YURAP from age 68 to age 70. This change brings this basic assumption of plan design into line with the patterns that have come to prevail among the faculty since the late 1970's, when the mandatory retirement age became 70.

## **I. EARLY, PLANNED, AND PHASED RETIREMENT FOR TENURED FACULTY**

### *A. Early Retirement Subsidy Plan for Tenured Faculty*

In order to make early retirement financially feasible and attractive to tenured faculty who choose that option, the University has adopted an Early Retirement Subsidy Plan for Tenured Faculty. Under this plan, faculty with tenure (and in the School of Medicine, professors in the clinical track with continuing appointments) who retire at age 62 or over with at least 15 years of University service and before the Normal Retirement Age of 70, will be eligible to receive a cash benefit. The benefit supplements the reduced retirement annuity under the YURAP which an individual who retires early would receive if his or her retirement income commenced at that time rather than at normal retirement. The benefit equals 60% of the participant's three-year final average salary plus 2% for each year of service with the University over 15, or, if less, the amount that would be required to purchase an annuity that would bridge the difference between the annuity which could be purchased with the participant's YURAP account balance at the date of early retirement and the annuity which could be purchased with that account balance projected (at 4%) to Normal Retirement Age<sup>1</sup>. For purposes of the foregoing, amounts in the account balance in excess of six times salary will be excluded from the calculations.

Benefits will be paid in annual installments over a period of three years. Under the Internal Revenue Service's interpretation of applicable tax law, the present value of the entire benefit will be taxable in the year of first receipt of any portion of the benefit. Therefore, in order to accommodate the tax burden on participants, one-half of the total benefit will be paid in the first year, and one quarter in each of the second and third years.

Early in the period of eligibility for an Early Retirement Subsidy Plan benefit, an individual's benefit typically will increase as a result of salary increases and additional service. However, as the individual approaches Normal Retirement Age, the amount that would be required to supplement the early retirement annuity as described above to bridge the difference between the early and normal retirement annuity decreases and at Normal Retirement Age becomes zero. Thus, while the Early Retirement Subsidy Plan benefit will reflect each individual profile, for most people the combination of these two factors will produce the greatest level of subsidy benefit toward the late sixties.

<sup>1</sup>Specifically, the annuity limitation is calculated as follows: The annuity that could be purchased with the account balance at the chosen early retirement age is first calculated, using the CREF 4% annuity purchase rate table. The account balance is then projected at 4% growth to age 70, and a similar calculation of amount of annuity that could be purchased at age 70 is made. The difference between these two annuities is taken, and the amount of premium required to purchase an annuity to cover the difference commencing at the chosen retirement age is figured by multiplying the difference by the annuity purchase rate at early retirement.

Example: A faculty member with 35 years of service will be entitled to an Early Retirement Subsidy Plan benefit equal to 100% (that is, 60% plus 40%) of salary, or, if less, the annuity limitation. If that individual retired at age 62 with 35 years of service, a final three-year average salary of \$100,000 and an account balance of \$600,000, he or she would receive an Early Retirement Subsidy Plan benefit of \$100,000, and would not be constrained by the annuity limitation which at that age would be a larger amount. If, however, the individual defers retirement until age 68 or 69, his or her annuity limitation will become the constraint that will determine the amount of the benefit. Assuming salary growth of 4% a year after age 62, if the same individual retires instead at age 68, the benefit at that time will be \$104,200, or 89% of average final salary. If he or she retires at age 69, the benefit will be \$ 53,600, or 44% of salary. If the individual were to retire at age 70, the Normal Retirement Age, there would be no benefit.

The Early Retirement Subsidy Plan is not a funded plan (that is, it does not require assets to be set aside in a trust or other funding vehicle), and all benefits will be paid from the general assets of the University, which will administer the plan.

### *B . Planned Retirement Program*

In many departments effective planning may be considerably enhanced if the retirement date of individual faculty is known in advance (e.g., planning for coverage of specific sub-disciplines and for changes in the availability of and need for research space in the laboratory sciences). The University therefore has designed a Planned Retirement Program for tenured faculty to encourage individuals to fix a retirement date in advance.

The Planned Retirement Program is available to tenured faculty in FAS and to certain ranks in the professional schools (as designated by their respective Deans and the Provost) beginning at age 59 or over, without upper age limit. To be eligible, a faculty member must have 15 years of service with the University at the time of entry into the Planned Retirement Program. An individual faculty member who chooses to enter the program will be required to set irrevocably a specific date within 1 to 3 years by which he or she will fully retire.

The Planned Retirement Program permits an orderly reduction in certain responsibilities of participants, with appropriate approval. These may include dissertation supervision and major departmental administrative responsibilities which require multi-year commitments, as mutually agreed by the faculty member and the departmental chair and approved, where appropriate, by the professional school dean and by the Provost. (These arrangements must take due regard for the potential burden on other faculty, especially in small departments. Reduced classroom teaching responsibilities will not be offered to individuals electing Planned Retirement)

In addition, participants in the Planned Retirement Program may elect to start receiving their YURAP retirement annuities and to cash out a portion of their retirement accumulation as provided by the revised YURAP, as described below.

Finally, participants in the Planned Retirement Program may elect to accelerate the receipt of any Early Retirement Subsidy Plan benefit to which they will become entitled upon full retirement up to three years before actual retirement, beginning July 1, 1994. For purposes of determining the initial benefit amount, the accumulation at retirement will be calculated by projecting forward the accumulation balance at the time early retirement benefits begin, with a 4% growth rate, to a date of planned retirement. The three-year average salary at the time benefit payments begin will be used as a basis for determining

that initial amount Upon actual retirement, the benefit will be recalculated based on actual salary for the three final pre-retirement years, and a corresponding adjustment to the benefit will be made.

### *C. Revised Phased Retirement Program*

The new Phased Retirement Program available to tenured faculty in FAS and to certain ranks in the professional schools (as designated by their respective Deans and the Provost), replaces the current Phased Retirement Program in order to increase its attractiveness to faculty. It provides for half-time rather than quarter-time appointment and salary, links to the new Early Retirement Subsidy Plan and Planned Retirement Program, and enhances certain other features of the program

The revised Phased Retirement Program can be elected by tenured faculty (and those in certain other designated ranks in the professional schools) with 15 years of University service, beginning at age 59 or over, without upper age limit. Phased Retirement may continue for a maximum of 3 years. An individual on Planned Retirement may convert to Phased Retirement during the Planned Retirement interval.

During Phased Retirement, the faculty member's appointment is half-time, and he or she draws half of normal salary. University TIAA/CREF retirement contributions for individuals on Phased Retirement are half of the amount contributed on full-time equivalent salary. Health benefits for individuals on Phased Retirement are those provided to full-time faculty.

In the School of Medicine, certain special rules will apply. Variable percentages of Phased Retirement between 10% and 80% will be permitted in that school, as determined by the Dean, according to the sources of funding that contribute to the individual's salary. Salary for participants in Phased Retirement in the School of Medicine will be scaled in proportion to the percentage of their appointments. Retirement plan contributions will be scaled based upon same percentage. Finally, a period of Phased Retirement longer than 3 years may be permitted in the School of Medicine when it allows Phased Retirement to be coterminous with a grant that pays the individual's salary.

In addition, participants in the Phased Retirement Program may elect to start receiving their YURAP retirement annuities and to cash out a portion of their retirement accumulation as provided by the revised YURAP as described below.

Upon entry into the Phased Retirement Program, a faculty member may elect to receive one-half of the amount of any Early Retirement Subsidy Plan benefit to which he or she would be entitled if he or she then retired fully, or, alternatively if the value is greater, may elect to receive, on an accelerated basis if requested, the Early Retirement Subsidy benefit, if any, calculated on the basis of age and full-time equivalent salary as of the date of full retirement, in accordance with the Planned Retirement Program. (In the School of Medicine, the foregoing will pertain to any appointment on Phased Retirement of half-time or less. Appointments of more than half-time will be eligible only for an accelerated Early Retirement Subsidy benefit based on the date of full retirement as provided in the Planned Retirement Program) To the extent permitted by law, the individual may contribute all or part of the benefit to a tax-deferred retirement annuity account.

A faculty member on Phased Retirement may accept outside support for up to the remaining portion of full salary, subject to the policies of his or her school that may require the use of external funding to support a portion of regular salary. Any outside academic activities undertaken by a participant in Phased Retirement must acknowledge Yale as the primary academic appointment. A Phased Retirement appointment cannot be combined with either a full-time or tenured part-time appointment at another university.. A faculty member on half-time Phased Retirement retains the voting privileges of a full-time faculty member.

The space occupied by the faculty member on Phased Retirement, particularly in the laboratory sciences, must be reduced, in an orderly manner as agreed to by the department chair, to about half or less of the amount occupied when the individual was full-time.

Individuals who are currently on Phased Retirement will be permitted to continue in the existing plan or may choose to complete their time (up to three years) under the revised Plan, without eligibility for any Early Retirement Subsidy Plan benefit.

## **II. MODIFICATIONS TO THE YALE UNIVERSITY RETIREMENT ANNUITY PLAN**

### *A. Revision of Normal Retirement Age; Adjustment of the University Contribution Rate*

Effective July 1, 1993, the Normal Retirement Age under the YURAP has been changed from 68 to 70, to reflect predominant patterns of faculty retirement and expectations about retirement. At the same time, in order to take into account the effect of these additional two years of normal plan participation, the University contribution rate above the Plan Base (for 1993-94, \$31,350) has been reduced from 13% to 12.5% of salary. There is no change in the University contribution rate below the Plan base, currently 7.5%, or in the contribution rate by participants, which is 2.5% below the Plan Base and 5% above.

Over the last 15 years, the rate of University contribution to the retirement plan has been adjusted both upward and downward, based on factors that include the plan's performance in meeting its objectives. A working committee, which recently examined the effect on plan performance caused by increases in the average retirement age of faculty and considered the consequences of gauging contribution rates by reference to age 70 rather than 68, concluded that the reduced rate would not compromise the plan's objective, namely to provide for an adequate annuity by the Normal Retirement Age of 70.

For example, based on actual investment experience (using a 50% TIAA and 50% CREF allocation) and contribution rates which were markedly lower in the 1974-1982 period, a hypothetical individual who retires in 1993 at age 68 after completing 33 years of service would reach an income replacement ratio of 74% (assuming a graded TIAA annuity). The figure grows to 79% if two more years of service are added, and in both instances, is substantially greater than the plan design goal of 70%. While a slightly lower contribution rate and more conservative earnings projections into the future (using, for example, a 2.5% excess of investment return over salary growth) would change this result, the replacement ratio for a participant with 35 years in the plan at age 70 would still remain above the 70% level.

In the next few years, the effect of this change and others on the performance of the plan for its participants will be carefully studied, and if further changes in the rates or the structure of those rates are justified they will be proposed. Since this adjustment is being made primarily to reflect the increased length of participation in the plan by tenured faculty, its projected effect on other faculty and on the management and professional staff who participate in the YURAP, which is expected to be minor with respect to actual contributions and anticipated retirement income, will be monitored to ensure that the plan continues to perform effectively for all participants.

### *B. Completing University Retirement Plan Contributions*

Committees that have studied retirement policies at the University have indicated their belief that continuation of University contributions to an individual's retirement account should not be

open-ended, in that the purpose of these contributions is to provide for a comfortable retirement. Continuation after that objective is achieved is neither a justifiable part of the retirement plan nor an appropriate use of University resources.

The University has amended the YURAP so that University contributions will cease after an individual has achieved an expected level of retirement income. This expected level is fixed as the time when the annuity that can be purchased with a participant's retirement account and social security benefits, using a monitoring model described below, exceeds a targeted income replacement ratio that rises with service to a maximum of 70%.

The committee that designed the monitoring model concluded that it was important that the University not be required to reconstruct each participant's actual salary history and investment selections. Without these factors, the plan is administratively feasible, and bases the cessation of contributions on typical investment assumptions rather than on the success of an individual's particular investment strategy. The monitoring model reflects the actual investment experience of a "hypothetical individual" with a typical career path, who has 35 years of participation at Normal Retirement Age and whose University and individual contributions were evenly divided between TIAA and CREF<sup>2</sup>. Based on this investment experience, a calculation is made of the income replacement ratio that the "hypothetical individual" would achieve at Normal Retirement Age. The average yearly replacement ratio achieved for the "hypothetical individual" is then applied to each actual participant in order to determine an assumed annuity based on his or her years of service and the rate at which an annuity could be purchased at his or her actual age. The University will cease contributions when the participant's assumed annuity, plus social security benefits for those 65 or older, exceed the targeted income replacement ratio. The targeted income replacement ratio for each participant starts at 40% and rises by 1 % for each additional year of service up to 70%.

The monitoring model contains a number of features designed to ensure that the basic retirement objective will be met in a way that takes into account the reasonable expectations of current and future participants. Most significantly, the model takes into account actual investment performance over a full career cycle of contributions. The model also acknowledges the significant concern about inflationary erosion of pension values by using the graded option for the TIAA portion of the annuity in its calculation<sup>3</sup>.

In order to provide heightened assurance that the retirement objective has actually been met when University contributions end, they will stop only after the formula has called for ending contributions in two successive years. Specifically, the calculation will be carried out as of the end of each calendar year. If ending contributions for a particular employee is called for in two successive years, then University contributions will stop the following July 1. Hence, all individuals will receive contributions for at least a year and a

<sup>2</sup> This assumption is not an endorsement of a 50:50 allocation ratio between TIAA and CREF. A number of financial analysts, along with faculty committees at Yale, have concluded that, for the last several decades, a ratio that tilts more heavily toward equities (CREF) would have a significantly higher yield.

<sup>3</sup> The "graded option" annuity offered by TIAA provides an annuity that is likely to grow each year. The use of this option as the basis for calculations does not imply a recommendation that this or any other option should be chosen by individuals.

half after the first signal. University contributions for all participants will continue at least until July 1, 1995.

Table 1 uses the date of December 31, 1992, to illustrate the ages and years of service of members of the YURAP to show the first year of service at which the completion signal would have called for ending University retirement contributions. This table will be recalculated each year and will reflect changes in the YURAP contribution rate and in the investment performance of TIAA and CREF. The first operative completion signal to be used as a basis for stopping University contributions will be calculated as of December 31, 1993. Whether contributions stop for any individuals depends on whether the signal is repeated after it is recalculated in subsequent years (and whether a current employee with 15 or more years of service in the plan has reached age 70 as described below).

As an additional protective feature, if market conditions worsen so that, after contributions have been stopped, the participant's annuity value (including any social security benefits) is less than the targeted replacement ratio, then contributions will be restarted on the following July 1, assuming continued employment. For purposes of this calculation, the individual's annuity value will be adjusted for each year after the end of University contributions, to reflect the receipt of retirement account yield.

Many current employees may have assumed that they would continue to receive retirement contributions until the age of normal retirement (an age which has changed over the years). To honor long-term employees' expectations regarding Plan contributions, the University will continue to make contributions for all current faculty and staff with 15 or more years of service in the YURAP through at least the academic year of employment in which age 70 is reached. (This rule, however, may be revised in the future if the provisions regarding completion of contributions are revised.)

Finally, pension growth for individuals who join Yale later in their careers is less accurately described by the model, which assumes a full career spent here. A minimum of 20 years of service while eligible for the plan therefore will be required before application of the formula to end University contributions.

### *C . Option to Cash Out a Portion of Retirement Account Balance*

Effective July 1, 1993, the University permits individuals who retire or who enter into the Planned or Phased Retirement Programs to cash out up to one-third of their YURAP account balances, subject to any vendor restrictions. Currently, Vanguard and CREF place no additional restrictions on cash outs. TIAA limits cash outs to 10% of the balance each year. This option, which represents a significant departure from past policy that has restricted such cash-outs, accommodates the expressed desire of many faculty for such flexibility, and recognizes that roughly one-third of retirement accumulations are attributable to the individual contributions of participants. It is believed that this degree of flexibility will not significantly compromise the primary objective of the retirement plan of providing for a secure retirement income.

### **III. OTHER ISSUES**

#### *A . Long-Term Care Insurance*

Over the past several years recommendations for long-term care insurance have been made by several committees and individual members of the faculty and staff. The University will now make available to all faculty and non-bargaining unit employees the opportunity to purchase at their own expense a long-term care insurance program at a group rate through UNUM, a carrier identified by the Benefits Office, which has evaluated offerings of such coverage. The details of the coverage will be announced by that Office.

Long-term care insurance coverage is expensive, especially when elected at older ages. Two major criteria by which long-term care insurance plans are judged are cost and the extent to which access to the plan is guaranteed. Plans are offered as "guarantee issue" and "medically underwritten." The former is a more expensive option guaranteeing coverage to all, and the latter, generally less expensive, allows the insurance carrier to decline coverage to individuals deemed to be poor risks. Because the cost of long-term care insurance is very high, as is often the case with catastrophic risk insurance, in many instances an employee would receive benefits less than the amount he or she would derive from investing the funds instead of paying the premiums. However, some individuals wish to purchase such insurance, and have indicated that the sense of security offered by the insurance would be an important factor in their decision to retire. Given the relative newness of this kind of insurance and the possibility of significant changes in national health care policy, the University will continue to evaluate alternative policies as they become available.

#### *B . Provost's Committee on Retirement Issues*

The Provost will appoint a standing committee of faculty and administrators, including at least one retired faculty member, that will, on an ongoing basis, address faculty retirement issues, including the many aspects of quality of life for retired faculty that go beyond the financial issues addressed by the proposals outlined above. The difficulty in establishing University-wide options in these areas derives in part from the significant local differences across the University in space and resources. Nevertheless, the University recognizes the need to continue working to provide better and more conveniently located offices for retired faculty who desire them, to increase and broaden the communication and intellectual interchange among retired faculty and their long-time colleagues and current students, and to accomplish certain goals with respect to retiree health care, including improving the manner in which the University Health Service delivers service to Medicare-eligible retirees. The committee will also be asked to monitor and help to evaluate, at the end of a three-year period, the effectiveness of the University's Early, Planned, and Phased Retirement Programs and related policies.

*Table 1*

***Completion Signal as of December 31, 1992, Related to Years of Service at Yale After Age 35 and the Adjustment for Annuity Prices Based on Age***

<i>Age at Which an Individual Started at Yale</i>	<i>Years of Service at Which First Completion Signal Would Occur</i>
35	33
36	32
37	32
38	31
39	31
40	30
41	30
42	29
43	29
44	28
45	27
46	27
47	26
48	25
49	25
50	24
51	24
52	23
53	22
54	22
55	21

This table summarizes the result of the calculation of the completion signal as of December 31, 1992. A 70-year old individual who started at Yale at age 35 (in 1957) and who had invested his or her account 50% in TIAA and 50% in CREF, is calculated at the end of 1992 to have an income replacement ratio of 79%, including social security. This means that the plan has performed somewhat better than its design specification of a 70% replacement ratio, which is why the completion signal for someone who started at age 35 occurs after 33 years rather than after 35 years. The completion age for each level of service summarized in this table is based on adjusting this income replacement ratio for the effect of service and for annuity purchase price and then comparing the adjusted figure to a target percentage based on years of service. Each year the completion signal would be based on a calculation revised to take into account the actual performance of TIAA/CREF and changes in the "bend point" and in Yale's contribution rates.

## Questions and Answers about the New Retirement Programs

August 18, 1993

### A. About the Early Retirement Subsidy Benefit for Tenured Faculty

#### *1. Who is eligible for the Early Retirement Subsidy Benefit?*

You are eligible if you are a tenured member of the faculty (or, in the School of Medicine, a professor in the clinical track with a continuing appointment) and you have completed at least 15 years of service at Yale and reached your 62nd birthday by the date of your retirement. However, if your retirement date is on or after your 70th birthday, you will not be eligible for a subsidy.

#### *2. When do I have to state my decision to retire?*

There is no required amount of advance notice. However, it is recommended that you give your chair or dean at least several months notice.

#### *3. How can I get more information to decide whether to take advantage of this subsidy?*

The Benefits Office will schedule a number of information sessions early in the fall term, to which interested faculty of all ages will be welcome. In addition, Dick Silva or another member of the professional staff of that office will meet with individual faculty members to discuss their particular situations and to help them determine the amount of the benefit.

#### *4. Can I calculate for myself my Early Retirement Subsidy?*

Yes, though it is somewhat complicated. The benefit for those retiring between ages 62 and 66 will typically be equal to 60% of their average annual salary over the three years preceding retirement, increased by 2% for each year of service over 15. For those retiring between ages 67 and 69, the subsidy percentage will start to decrease and will be zero at age 70. By reading section IA of the plan description carefully, you should be able to make an approximation of your early retirement subsidy. The tables included at the end of this document can be used to help you estimate the amount of early retirement subsidy benefit available to you. First choose one of the three tables that comes closest to describing the size of your accumulations in your YURAP accounts. Next, based on your years of service at Yale and age at retirement, you can see the size of the early retirement subsidy, expressed as a percentage of the average of your final three years of salary. You may wish to make an appointment with the Benefits Office to calculate the benefit more precisely.

*5. Will I maximize my Early Retirement Subsidy by retiring as soon as I am eligible?*

Normally, no. Look at figures 1 and 2 in section I.A of the description of the program. As a percentage of current salary, the benefit increases somewhat beginning at age 62, as a result of each additional year of service. From about age 67 or 68, however, depending on the size of your annuity account balance, the subsidy begins to decline because the amount needed to fill the gap between the annuity available at your current age and the annuity anticipated at the normal retirement age of 70 declines quite sharply.

*6. How will I receive the Early Retirement Subsidy?*

You will receive the first 50% on or shortly after the date you actually retire. (You may receive it even earlier if you elect either Planned or Phased Retirement, as explained below.) The remaining two parts of 25% each will be sent to you shortly after the 1st and 2nd anniversaries of your retirement.

*7. How will the subsidy be taxed?*

Under current law, the present value of the total subsidy will be treated as taxable income in the year in which you receive the first payment. For this reason, the University must withhold from the first payment a prescribed fraction based on the entire present value. Consequently, there will be little tax due or withheld from the second and third payments. In keeping with this tax regulation, the first payment is much larger than the other two.

*8. Must I begin taking my regular retirement annuity payments as soon as I retire?*

No. However, under current federal tax law, you must commence retirement benefits no later than the April 1 after the calendar year in which you turn 70 ½, regardless of whether you continue working or are retired.

*9. Does early retirement affect my eligibility for retiree health benefits?*

Not directly. Retiree health benefits and costs depend upon a combination of age and years of service. You should consult the Benefits Office for details. Retired individuals (and spouses) under 65 may remain members of the Health Plan. At age 65, Medicare assumes primary coverage for all retirees, though they may choose to use the Health Service as a provider of services.

*10. Do privileges such as parking, office space, and use of the library accorded to retired faculty differ for those who choose to retire before the Normal Retirement Age?*

Not at all.

## B. About the Planned and Phased Retirement Plans

### *1. What are the primary differences between Planned and Phased Retirement?*

Although both programs are designed for faculty who would like to move in an orderly way toward a specific retirement date, they are very different. Faculty who have elected Planned Retirement remain full-time employees with full salary and benefits, but by mutual agreement with their chairs and approved by the Provost, they begin over a one- to three-year period to reduce their multi-year commitments and their administrative responsibilities, primarily supervision of dissertations and service on major departmental and University-wide committees. There is no reduction in teaching responsibilities. Faculty on Phased Retirement also begin reducing their multi-year commitments, but they become half-time employees, with half of the teaching load and half of the normal departmental and University-wide advising and administrative responsibilities. They receive half of their scheduled salaries and half of the University's contributions to the retirement annuity plan. (In the School of Medicine other percentages of time and salary are possible for faculty whose salary is supported by grants.)

The rules for eligibility are the same for both Planned and Phased Retirement Faculty on either must make a firm commitment to retire at a specific date from one to three years in the future. During this period, faculty in either program retain full voting rights in their departments, receive full medical benefits, and retain regular offices, although the laboratory space for faculty on Phased Retirement is likely to be reduced as appropriate for their ongoing research. Faculty in either group who plan to retire before the normal retirement age of 70 are eligible for the Early Retirement Subsidy, calculated from the date of retirement, and faculty in Phased Retirement have the option of electing half of the benefit calculated from the time they begin Phased Retirement. Faculty in either program may begin receiving this subsidy during their one-to three-year period of planned or phased retirement

### *2. How is the Early Retirement Subsidy Benefit taxed for participants in Planned or Phased Retirement?*

As is the case for other recipients of this benefit, the present value of the total subsidy will be treated as taxable income in the year in which the participant receives the first payment of 50% of the subsidy. This will be either in the first year of full retirement, or earlier, during the period of Planned or Phased Retirement. The remaining two payments of 25% each will be substantially tax-free.

### *3. Is there an age limit on Planned or Phased Retirement?*

No. However, a faculty member whose full retirement date occurs after the normal retirement age of 70 is not eligible for an Early Retirement Subsidy Benefit, even if he or she is under 70 during the period of Planned or Phased Retirement.

### *4. Is the quarter-time Phased Retirement Plan still available?*

No. It has been replaced by the half-time plan.

*5. What is the rationale for providing special benefits for faculty who choose Planned or Phased Retirement?*

Knowing the specific date on which a faculty member will retire remains a very valuable part of departmental and University planning. In the absence of mandatory retirement, it is especially helpful to know when an opportunity for appointment or promotion might become available to a nontenured faculty member. These programs are designed both to provide some desirable options for tenured faculty and to facilitate long-term planning for faculty development.

*6. When must I announce my intention to elect Planned or Phased Retirement?*

You should plan as early as possible and in any case begin discussing your proposed teaching and other responsibilities with your chair or dean early in the year preceding the date you would wish to begin either program.

### C. About the Completion of University Contributions to the YURAP

*1. What is the earliest age at which University contributions might be stopped?*

Because of the way the calculation is tied to social security payments, it is not anticipated that the completion signal would go below age 65, even after a series of years with remarkably positive performance of TIAA and CREF. In effect, this means that in future the earliest age at which contributions could be stopped is age 66. Based on the performance of TIAA and CREF as of December 31, 1992, the earliest age at which a completion signal would have occurred is age 68 for an individual who had 32 years of participation in the plan. Because two completion signals are required, had the plan been in effect then, the earliest age at which contributions could have stopped is 69.

*2. Are there other provisions that defer the date when the University will stop making contributions to my retirement account?*

Yes. No one's University contributions will cease before July 1, 1995. The first application of the completion signal will occur as of December 31, 1993. As a protection that contributions do not end too soon, the plan requires that the signal to end contributions occur two years in a row. Contributions begun in any academic year will continue until June 30 of that year.

No current employee with 15 or more years of service to Yale in the plan can be affected before the end of the academic year in which he or she reaches age 70.

Also, under the current plan, for all employees (including new employees and current employees with less than 15 years of participation in the YURAP), contributions will continue at least until they have completed 20 years of participation.

In addition to the above safeguards, the exact age at which contributions may end for any individual will depend on the actual success of the standard YURAP investment plan in reaching the target annuity over the previous 35 years. Table 1 represents the service and age factors that (combined with TIAA/CREF performance at the end of December 1992) would have led to a signal to end contributions had this plan been in effect then.

*3. How will future performance of the plan affect the calculation of the signal to end University contributions?*

The completion signal is based in part on the actual performance of TIAA and CREF. Future performance worse than average would tend to raise the age at which the signal would occur, and performance better than average would lower the age. As described above, current employees with fifteen years of participation in YURAP would not have contributions stopped before age 70, regardless of the performance of the plan.

*4. Must individuals stop making contributions when University contributions cease?*

No. A participant may choose to continue making individual contributions even after the University has stopped making contributions.

*5. How will the completion of contributions affect the amount of annuity income during retirement?*

The amount of the annuity income depends on the total value of the accumulations in YURAP accounts at the time of retirement. Even after University contributions to the accounts stop, the accounts may continue to grow as a result of the compounding effect of investment return and any continuing individual contributions. For example, for an individual with an account balance of \$400,000, an investment return of 4% would cause the account balance to increase by \$16,000 in one year even without any additional individual contributions.

*6. Is 50% TIAA and 50% CREF the best allocation of my retirement contributions?*

The calculation of the completion signal assumes a 50-50 split between TIAA and CREF because this is the most common one among the participants. Many financial experts and several University committees have pointed out that individuals who have invested a larger proportion in CREF have done better in the long run than if they had invested half of their funds in each. No one can say with certainty what the "best" allocation will be in the future. It is an axiom of investments, of course, that higher returns usually entail higher risk, so each individual should make his or her choice of allocation, considering such factors as the length of time until retirement, his or her personal financial objectives, and the degree of risk he or she finds comfortable.

*7. Do these provisions apply equally to faculty and to members of the Management and Professional staff who have chosen to belong to the YURAP?*

Yes.

### ***Early Retirement Benefit as a Percentage of Salary***

*If YURAP Accumulation is 6 times salary*

Service	Age					
	62	64	66	67	68	69
15	60%	60%	60%	60%	60%	44%
20	70%	70%	70%	70%	70%	44%
25	80%	80%	80%	80%	80%	44%
30	90%	90%	90%	90%	89%	44%
35	100%	100%	100%	100%	89%	44%
40	110%	110%	110%	110%	89%	44%

*If YURAP Accumulation is 5 times salary*

Service	Age					
	62	64	66	67	68	69
15	60%	60%	60%	60%	60%	37%
20	70%	70%	70%	70%	70%	37%
25	80%	80%	80%	80%	74%	37%
30	90%	90%	90%	90%	74%	37%
35	100%	100%	100%	100%	74%	37%
40	110%	110%	110%	110%	74%	37%

*If YURAP Accumulation is 4 times salary*

Service	Age					
	62	64	66	67	68	69
15	60%	60%	60%	60%	59%	29%
20	70%	70%	70%	70%	59%	29%
25	80%	80%	80%	80%	59%	29%
30	90%	90%	90%	90%	59%	29%
35	100%	100%	100%	92%	59%	29%
40	110%	110%	110%	92%	59%	29%

In this table the salary referred to is the average of your final three years before retirement. Note that earlier than two or three years before normal retirement age, years of service alone is the factor which determines the percentage applicable to the early retirement subsidy payment. In the two or three years before the normal retirement age, the subsidy calculation becomes the deciding factor, and the size of the YURAP account balance has an effect.