

MICHIGAN STATE
UNIVERSITY

November 30, 2011

MEMORANDUM

To: Trustee Finance Committee
From: Fred L. Poston 
Subject: Modification to the University Non-Contributory Retirement Plan

RECOMMENDATION:

BE IT RESOLVED that the Trustee Finance Committee recommends to the Board of Trustees that the University Non-Contributory Retirement Plan (UNCRP) be modified to provide annual 5% increases in benefit levels, commencing January 1, 2012, to support MSU retirees who receive a fixed UNCRP benefit with no automatic increment. This increase will be provided to all individuals receiving benefits only from the UNCRP, and to all individuals receiving benefits based on a comparison to UNCRP benefits.



BACKGROUND:

The UNCRP has been in existence since 1937, and provides benefits to 635 retirees as of January 2011. It is a defined benefit plan in which retirement pension benefits are paid based on years of service and salary, and subject to rules of vesting.

In 1958, the TIAA-CREF program was first made available to faculty and AP staff. The TIAA-CREF program, which now is called the Michigan State University 403(b) Retirement Plan, is a defined contribution plan in which the University and the employee each make specific annual contributions to an account owned by the employee, and under which the University has no ongoing obligations beyond the matching contribution.

By 1973 all employee groups were converted to the TIAA-CREF program. Certain employee groups had prior service credits "frozen" at the point of conversion of the program to TIAA-CREF. Others were promised no less from the University's contribution to the TIAA-CREF plan than the old plan would have provided (the "comparison" group). There are no current employees who will retire in the future solely with UNCRP benefits, and approximately eight current employees who will receive future "frozen" benefits when they ultimately retire. No current employees are expected to receive "comparison" benefits upon retirement.

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Benefit levels are not automatically adjusted under the UNCRP, and benefit adjustments have been recommended and approved by the Board of Trustees each of the last twelve years, and periodically in earlier years. These adjustments were applied to "UNCRP Only" participants in some years, and to other groups of UNCRP participants in other years. These adjustments have been made in recognition of the fixed benefit levels of the UNCRP and in light of the retiree health benefit changes that were implemented over time. Consideration is being requested for benefit improvements for "UNCRP Only" retirees and "UNCRP comparison" retirees.

The UNCRP is accounted for in the University Retirement and Insurance Fund. It is fully funded with assets invested in the long-term investment program. The population covered under the UNCRP program will continue to decrease over time due to the finite number of individuals covered by this program and the aging of this population. Therefore, it is projected that this program will continue to be fully funded despite these benefit increases. The recommendation will provide improved benefits to approximately 195 retirees, and a decreasing number of retirees going forward due to the declining number of participants in this plan.

cc: C. Hanna, T. Kleibecker, K. Lindahl, D. Mackey, R. Rivard