

A letter from Jim Johnsen
Vice President for Faculty and Staff Relations
University of Alaska

February 9, 2006

All University of Alaska Employees,

University of Alaska President Mark Hamilton is asking the Board of Regents to consider changes to the university's New Optional Retirement Plan (NORP). If approved by the Board at its February meeting, the changes would become effective for new hires on July 1, 2006. Current employees would not be affected.

Even though these changes would affect only new employees, I want to explain why the university is considering a revision to our retirement plan. The answer is complex, but the short version is this: We must rein in retirement costs while continuing to attract the best talent possible. The proposed changes would add a three-year vesting period and make the program available to more employees. These changes would reduce costs and help us stay competitive in the higher education marketplace.

Under current retirement options, faculty may choose between NORP and the state-sponsored Teachers' Retirement System (TRS). Staff may elect only the state's Public Employees' Retirement System (PERS). Executives may choose NORP or PERS.

President Hamilton's recommendation, if approved by the Board, would open NORP to all new faculty and staff who are hired after July 1 and are eligible for retirement benefits. Another proposed change would tie eligibility for the University's Pension Plan to the selection of NORP, rather than PERS or TRS. Through the University Pension Plan, the university contributes 7.65 percent of the employee's first \$42,000 of gross pay.

Under the revised NORP, faculty and staff would receive employer contributions of 12 percent. This contribution rate is higher than most public universities offer. A survey of 46 public universities found that the average employer contribution was 8.6 percent of an employee's salary. The University of Alaska Pension Plan is an additional benefit for our employees.

You have probably heard that the Alaska Legislature made changes to the PERS and TRS programs that become effective July 1. Employees hired under the new tier will not become eligible for medical benefits unless they have 30 years of service or work a minimum of 10 years, become Medicare eligible (age 65), and retire directly from a PERS- or TRS-covered job. Retirees eligible for the medical benefit will pay a percentage of the insurance based on years of service. PERS and TRS both require a five-year vesting period for the employer contributions.

New employees will be able to choose between NORP and the new PERS and TRS plans. Employees who value portability may favor NORP. While NORP currently does not have a health funding account for retirees, the university is considering creating a tax-advantaged account that employees could use for retirement health costs. Decisions on that and whether current staff could switch to NORP will be made next year.

Public employee retirement costs continue to rise in large part to fill the \$6 billion gap in the state's retirement system caused by low earnings of retirement fund investments, low contribution rates, and rising retiree health costs. President Hamilton's recommended changes to NORP will maintain a competitive and cost-effective retirement program for the university's employees.

Sincerely,

Jim Johnsen
Vice President for Faculty and Staff Relations
University of Alaska