October 2010

IFC Report (written by Dr. Susan Feigenbaum)
The IFC met via telepresence on Monday, September 27, 2010. In addition to members of the IFC, President Forsee and Vice President of Human Resources, Betsy Rodriguez, were in attendance.

The President began his remarks with a reference to the recent announcement that MOSERS (the Missouri State Employees’ Retirement System) would contribute over 14% of payroll into its pension fund in the coming year. He took this as an indication of where the UM retirement plan was headed if nothing is done to modify the current defined benefit plan. Among the comments the President made were that:

- Current employees will not be affected by the proposal to offer a DC plan to new employees, and that the anxiety that current employees have expressed is unfounded;
- That salaries come from the same pool of dollars as medical insurance and pension benefits, and that to be more competitive on salary means that benefit costs must be better managed;
- That using “breakage” (funds from employees who leave before vesting) to partially fund the current DB plan is an unwise strategy given that employee turnover appears to be on the wane;
- That moving towards a DC plan will reduce the risk to the University and provide for a more predictable budget commitment, albeit at the same time shifting investment risk to employees;
- That one reason to move away from a DB plan is that retirees come to expect cost-of-living adjustments, and that these adjustments represent dollars that could be used to improve salaries for current employees.
- That a proposal will be taken to the Board of Curators for action at the Board’s December meeting.

A candid discussion ensued, with IFC representatives raising several issues, including the fact that the stabilization fund can provide the budget process with the predictability that is being sought through a new DC plan; that shifting investment management and risk to employees will undoubtedly lower the returns ultimately enjoyed by retirees; that without a vesting requirement in the proposed DC plan, the new plan will inevitably add to the pension costs of the University; and that switching to a DC plan for new employees which is funded at the same level of the current DB plan – approximately 7% of payroll – will make us even less competitive in faculty recruitment relative to our comparator institutions. There was also concern expressed that a December deadline would not give sufficient time for all interested parties to analyze and comment upon the proposal.