

Retirement Newsletter Number 10

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To: Oklahoma State University Faculty and Staff

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Plaintiff Class Action Lawsuit

Vice-Chair, Faculty Council

The purpose of this and other newsletters to follow is to keep all of you informed about current developments in our class action lawsuit aimed at recovering our retirement benefits confiscated by the Campbell administration and retained first by the Halligan administration and now by the Schmidly administration. The first nine newsletters can be found on the Faculty Council webpage. If you have trouble finding them, send an email message to either Lionel Raff (lionelraff@hotmail.com) or Carol Moder (clm1011@okstate.edu), and we will help you gain access to them.

There are some positive developments to report to you in this Newsletter. As most of you probably know, Judge Morris has now submitted his analysis and report on the OSU retirement situation to the OSU Board of Regents. This report recommends several of things be done. Among these are that the OSU Administration provide the opportunity for OSU Faculty and Staff to return to a program very similar to that in existence prior to 1993 when the Campbell administration effectively confiscated our retirement benefits by forcing us into the 7-11 program against our wishes with no opportunity for grandfathering vested employees in the previous TIAA-CREF system. In addition, Judge Morris' analysis leads him to state that damages to class members because of the change to the 7-11 program amount to \$818,100 per year. He recommends that appropriate recompense be provided in compensation. In view of the fact that Judge Morris was selected by the Regents, charged by the Regents, and paid by the Regents for his expertise, we regard his recommendations as decisive corroboration of our allegations of damages.

President Schmidly has now recommended a new retirement program to the Regents. There is every indication that his recommendation will be accepted by the Board and the program implemented on July 1, 2003. President Schmidly's recommended program incorporates every recommendation contained in Judge Morris's report. In several respects it is more generous to faculty and staff than the program suggested by Judge Morris. The new program is as follows:

1. Employees participating in the TIAA-CREF retirement program prior to 1993 will be given the option of returning to a retirement plan very similar to the TIAA-CREF program. Under this "prior plan option", OSU would pay 6% of the first \$25000 paid to OTRS and contribute 10% of all employee salary in excess of

\$7800. There would be no required matching 5% that was a requirement of the old TIAA-CREF program. All employees selecting this plan would be given the option to use OSU contributions to pay their additional required contributions to OTRS. These features match exactly the recommendations advanced by Judge Morris in his report. It is clear that the prior plan option is a response to the class action lawsuit filed in behalf of OSU faculty and staff. We regard it as an adequate compromise, and, if implemented, to constitute a satisfactory negotiated settlement to the going-forward portion of the lawsuit.

2. Employees who were not participants in the TIAA-CREF program prior to the adoption of the 7-11 program cannot select the prior plan option. However, President Schmidly's proposal also addresses the needs of these employees. If adopted, the President's plan will increase the OSU contribution to each employee's retirement program from the current 7-11 formula to a straight 11% of employee salary. If the budget permits, this amount will be increased to 11.5% in 2005 and 12% in 2006. Any eligible employee who selects the prior option plan may, at any future date, elect to switch to the new 11%-12% plan. This policy is more liberal than the one suggested by Judge Morris.

To assist faculty and staff in their assessment of the new program, an analysis follows. I first present the analysis in the form of some formulae for those who prefer this type of presentation. This is followed by some tabular data for those who are more comfortable with numerical presentations. In each equation, S is the employee's annual pay.

Old TIAA-CREF Program:	OSU Contributions = $0.1 S + 970$ dollars/year.
Present 7-11 Program:	OSU Contributions = $0.11 S - 461$ dollars/year
Prior Plan Option:	OSU Contributions = $0.1 S + 720$ dollars/year
11% Plan Option:	OSU Contributions = $0.11 S$ dollars/year
11.5% Plan Option:	OSU Contributions = $0.115 S$ dollars/year
12% Plan Option:	OSU Contributions = $0.12 S$ dollars/year

A very important consideration in assessing the value of the new program proposed by President Schmidly is the percentage of the retirement benefits that were contributed by OSU prior to the switch to the 7-11 program that are restored by the prior plan option. This quantity is given by

$$\% \text{ retirement benefits restored} = (100)(0.1 S + 720)/(0.1 S + 970).$$

A second important consideration is what plan should OSU employees who are eligible for the Prior Plan Option adopt. This decision depends upon the employee's salary. The switchover point is reached when the retirement benefits provided by the Prior Plan Option equal those provided by one of 11%-12% plans. These switchover points are as follows:

If Salary is less than \$72,000 per year, choose the Prior Plan Option

rather than the 11% plan.

If Salary is less than \$48,000 per year, choose the Prior Plan Option rather than the 11.5% plan to be implemented in 2005.

If Salary is less than \$36,000 per year, choose the Prior Plan Option rather than the 12% plan to be implemented in 2006.

The following table provides numerical data as a function of employee salary. The first column lists the employee salary, S. The second column gives the amount of retirement benefits that would have been contributed by the University under the old TIAA-CREF program. The third column lists the retirement benefits contributed by the University under the current 7-11 plan. The fourth column gives the benefits that will be obtained from the Prior Plan Option, and the fifth column gives the benefits under the 11% plan.

Salary (\$)	TIAA-CREF(\$)	7-11 (\$)	Prior Plan (\$)	11% Plan (\$)
25,000	3,470	2,289	3,220	2,750
30,000	3,970	2,839	3,720	3,300
35,000	4,470	3,389	4,220	3,850
40,000	4,970	3,939	4,720	4,400
45,000	5,470	4,489	5,220	4,950
50,000	5,970	5,039	5,720	5,500
55,000	6,470	5,589	6,220	6,050
60,000	6,970	6,139	6,720	6,600
65,000	7,470	6,689	7,220	7,150
70,000	7,970	7,239	7,720	7,700
75,000	8,470	7,789	8,220	8,250
80,000	8,970	8,339	8,720	8,800
85,000	9,470	8,889	9,220	9,350
90,000	9,970	9,439	9,720	9,900
95,000	10,470	9,989	10,220	10,450
100,000	10,970	10,539	10,720	11,000
110,000	11,870	11,539	11,720	12,100
120,000	12,970	12,739	12,720	13,200
130,000	13,970	13,839	13,720	14,300
140,000	14,970	14,939	14,720	15,400

The final portion of the class action lawsuit deals with appropriate compensation for financial damages suffered by OSU employees for the 10.5 year period between 1993 and 2003. We first determine the magnitude of this debt at the present time using Judge Morris' report as the basis for the determination.

Principal balance

100% of the class members were harmed by the switch to the 7-11 program, which we contend constituted breach of contract by the University. Judge Morris has estimated the total yearly damages to the 1350 class members (data from Ann Matoy's office) who were still active in 2003 to be \$818,100. In addition, many faculty and staff retired or resigned at some point between 1993 to 2003. These individuals were also damaged. The report by Foster-Higgins commissioned by the University in 1992, lists the total number of faculty and A/P staff as being 2,787 at this time (see Evaluation of Task Force Report, Foster-Higgins, dated February 7, 1992). Therefore, 1437 faculty and A/P staff members resigned, retired, or died at some point between 1993 and 2003. We will compute the damages to each of these groups separately.

If we take Judge Morris' \$818,100 figure for the 1350 class members who are still active to be correct, it is a simple matter to compute the accumulated damages over the 10.5 years period since the 7-11 program was implemented. TIAA-CREF has provided the average percent increase in all TIAA-CREF investments over this period. This percentage is 7.36%. Since retirement funds are paid into TIAA-CREF accounts on a monthly basis, it is appropriate to compute the total monetary damages to the 1350 class members who are still active as being the accumulated total of \$68,175 invested per month at 7.36% interest compounded monthly. The resulting balance on July 1, 2003, is \$12,901,989. With the recent proposal by President Schmidly to "stop the bleeding", this debt will cease to increase on July 1, 2003. Therefore this is the final magnitude of the debt to currently active faculty and A/P staff if amortization or payment of this debt begins on July 1, 2003. If amortization or payment is delayed until January 1, 2004, the magnitude of the debt will increase to \$13,376,688 because of the continuing interest at 7.36%.

In the absence of data, we may assume that the 1,437 retired class members served an for an average period of time equal to half of the 10.5 years, or 5.75 years. Thus, the total debt owed to this group of 1,437 class members is approximately

$$(\$12,901,898/2) \times (1437/1350) = \$6,866,677.$$

The total debt as of July 1, 2003 is, therefore, \$19,768,666.

Amortization of Debt

To assist the University in paying this debt to its employees, we have advanced the following plan to President Schmidly and requested that he present it to the OSU Board of Regents for their consideration:

Oklahoma State University can retire the above debt without the necessity to provide the entire \$19,768,666 at one time. The debt owed to currently active faculty members can be amortized at 7.36% interest over the expected lifetime of members of the class as they retire. This period is approximately 15 years. The annual payment required to amortize a \$12,901,898 principal balance over a period of 15 years is \$ 1,448,937

Recompense to faculty and A/P staff who are no longer active is more of a problem. In principle, the \$6,866,677 debt would have be paid immediately since these employees are

already retired. However, we have suggested that it would be acceptable to pay this debt over a period of five years. If this principal balance is amortized at 7.36% over five years, the required yearly payment is \$ 1,690,893.

Thus, the total debt to OSU employees could be retired by payments of \$ 3,139,830 per year for the first five years followed by payments of \$ 1,448,937 per year for an additional 10 years.

The longer the University delays in making these payments, the worse the "black hole" will become.

I will continue to keep you informed of events as they occur.