



Voluntary Separation Incentives as a Tool for Fiscal Savings & Workforce

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Introductions



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Topics To Cover

- **Workforce issues for CCDs**
- **What are they and how are they used**
- **Approaches to analysis, design, communication, implementation**
- **California case study**
- **Texas case study**
- **Does and don'ts/lessons learned**

Workforce Issues Facing Colleges

Economy/Labor Market

- According to a recent National Bureau of Economic Research working paper, **when a state's minimum wage increases by 8%, enrollment at 2 year institutions drop over 4% and remain lower for a least the next 5 years**
- According to Community College Research Center, Columbia Univ, **enrollment spiked in the wake of the financial crisis of 2008**, when over a million new students who had lost their jobs came to community colleges to further their education and retrain.
- As the economy and the labor market started to recover **around 2011, many of students went back to work**, and community college enrollment started to drop

Workforce Issues Facing Colleges

Fluctuating/Declining Enrollment

- **Decline continued over the next decade**, and then took a **steeper dive during the COVID-19 pandemic**. Fortunately, enrollment data from spring 2023 suggest that **students are starting to come back to community colleges**, though total numbers are well below pre-pandemic levels.
- Community college **enrollment has plummeted by nearly two-fifths since 2010**, a staggering decline in a sector with the potential to offer the greatest value in American higher education.
- **Enrollment in public two-year colleges dropped from 7 million in fall 2010 to 4.5 million in fall 2022**, according to data from the National Student Clearinghouse Research Center.

Workforce Issues Facing Colleges

Impacts on budgets/college workforce

- Community colleges receive **much less funding** per student than public four-year institutions
- Serve a **greater proportion of students who are underrepresented in higher education** and may need additional programs/resources
- **Fluctuating staffing needs** due to enrollments/budgets
- **Reorganization and restructuring** needed
- **Hiring** for the skills needs of today
- **Online education** – competition from private college



What is an Incentive?

- A **one-time offer** that encourages eligible employees to separate or retire from a College earlier than they normally would.
- Incentive increases separation/retirement rate beyond natural attrition.

Why Do Colleges Offer Incentives?

- ① Achieve budget, fiscal, and cash flow savings
- ② Opportunity to reorganize departments or programs
- ③ Revitalize the workforce for new skills and demands
- ④ Reduce # of top-of-the-salary-schedule employees
- ⑤ Mitigate the impact of future layoffs or other cuts
- ⑥ Meet mutual needs of labor groups and administration

Types of Retirement Incentives

- 1. Tax-Deferred Retirement Plan:**
IRC 403(b) most common; also 401(a)
- 2. Cash Severance Payment:** Paid out over less than 2 years
- 3. Through Retirement System:** Extra service credit/age when or if available
- 4. Retiree Healthcare Benefits**
- 5. Option of Both**
Can be problematic with IRS if giving a choice between taxable and non-taxable benefit — “Constructive Receipt Rule”
- 6. Early Notification**
Not an incentive, but typically a stipend to notify college earlier in the year of plans to retire. Allows for HR and budgetary advantages
- 7. Yearly MOU Benefit**
Annual incentive benefit built into contract to be provided annually to some or all employees in a group

Tax-Deferred vs. Standard Cash Incentive

	Tax-Def	Cash
Fully-Flexible Plan Design	✓	Limited
Tax-Deferred Distribution Options	✓	N/A
IRA or 403b/457 Rollover Options	✓	N/A
Flexible Plan Funding over 5 Years	✓	Upfront 1-Time Funding
Multiple Benefit Types (% of pay, fixed dollar...)	✓	One-time Payout Only
Ongoing Participant Support & Administration	✓	College Burden
Ineligible Deferred Compensation Rules	Don't apply	Subject to penalties
Participant Taxes	Paid on ongoing benefits as received	Paid upfront (lump sum)
Required Payroll Taxes	N/A	✓

Analysis Methodology

Total Compensation Differential between Retiring Employee and Replacement Employee



Current Natural Attrition



Future Loss in Natural Attrition



Separation Incentive Cost



Retirement Healthcare Cost



Savings due to Non-Replacements



Net Savings (Cost)

Projected over 10 years incentive savings vs. natural attrition



Incentive Design Options

Benefit Levels

Resignation or Retirement

Eligibility Requirements

Implementation Timeline

Employee Groups

Minimum Participation/Opt-outs

Benefit Distribution

Funding Options

SAMPLE BENEFIT ILLUSTRATION

BENEFIT ILLUSTRATION

Prepared on: XXXXX, 20XX

Faculty
Sample District

Prepared for: Sample Employee

Voluntary Separation Incentive Plan

VSIP Level of Benefit

75.00% of Final Pay

Assumption Table

Resignation Date:	6/30/2023
Participant Birthdate:	6/30/1963
Participant Age @ Resignation:	60.00
Final Pay*:	\$100,000.00
Beneficiary Birthdate*:	6/30/1963
Beneficiary Age @ Resignation:	60.00

Projected VSIP Benefit Payout Amounts

Option 1 (Lifetime):	\$328.80	
Option 2 (Joint & Survivor):	\$281.75	
Option 3 (Lifetime or 10-Years):	\$323.70	
Options 5-15 (Fixed-Term Payments)*:		
Option #	Years of Payment	Monthly Payment
5*	5	\$1,271.55
6*	6	\$1,078.35
7*	7	\$942.15
8*	8	\$839.55
9*	9	\$760.05
10	10	\$696.90
11	11	\$645.15
12	12	\$602.40
13	13	\$566.40
14	14	\$535.80
15	15	\$509.40

CASE STUDY:

Grossmont Cuyamaca CCD (San Diego Area)

Situation at Grossmont Cuyamaca CCD

- 2 campuses serving **approximately 25,000 students**
- **Large salary increases** awarded to faculty by the Board in prior year
- **Enrollment was declining**
- Reliance on **deficit spending**
- **Reserve was low**
- **Salaries/benefits were large percentage of the budget**
- **District covers 100%** of health benefits including family

Situation at Grossmont Cuyamaca CCD

- New chancellor saying **finances not sustainable and then pandemic hit**
- **State budget drastically changed for 2020-21**
 - *January proposed budget projected \$5.6 billion in surplus and \$21 billion in reserves*
 - *May Revised budget projected \$54 billion budget shortfall*
- **Started to look at budget reductions, freezing positions and Early Retirement Incentives**
- District had **previously offered retirement incentive in 2011-2012**



Goals of the Incentive

- 1. Budget savings**
- 2. Reduce the percentage of salaries and benefits**
- 3. Reduce employees at the top of the salary schedule**

How Did We Approach the Incentive?

Analysis occurs to determine savings/plan design	July and August
Board approves opening window	August 23
Enrollment window opens	August 24
Enrollment window closes	October 2
Board approves/cancels Incentive	October 27
District announces whether plan goes forward	October 228
Employees retire/resign from District employment	December 18
Employees retire from retirement system	December 31
Incentive payments commence	February 1

Plan Assumptions

Eligibility Requirements	Age 55 with 5 years of District service
Benefit Levels	85% of Final Pay Spend Amount Benefit
Replacement Salaries	<p>10 Month Faculty: \$75,373 (Provided by the District)</p> <p>11 Month Faculty: \$76,961 (Provided by the District)</p> <p>Academic Management: 88.90% of Base Salary (Step B)</p> <p>Classified Non-Management: 84.55% of Base Salary (Step B)</p> <p>Supervisors: 88.90% of Base Salary (Step B)</p> <p>Classified Management: 88.90% of Base Salary (Step B)</p>
Adjunct Faculty	<p>10-month adjunct hourly rate: \$78.75</p> <p>11-month adjunct hourly rate: \$58.90</p>
Health Care Costs	<p>Active Employee: \$18,112</p> <p>Pre-65 Retired Employee: \$18,112</p> <p>Post-65 Retire Employee: \$0</p> <p>Health Care COLA: 5.00%</p>
PARS Plan Funding	5.5-Year Annuity

Projected Fiscal Impact

Employee Group	Projected Savings in Current Year* (2020-21)	Projected Savings in Year 1 (2021-22)	Projected Savings in Year 2 (2022-23)	Projected Savings in Year 3 (2023-24)	Projected Savings in Year 4 (2024-25)	Projected Savings in Year 5 (2025-26)	TOTAL
10 Month Faculty	\$324,345	\$423,985	\$258,325	\$257,843	\$252,466	\$368,422	\$1,885,387
11 Month Faculty	\$172,004	\$125,558	\$22,448	\$22,441	\$22,853	\$51,457	\$416,760
Academic Management	(\$9,150)	(\$21,797)	(\$28,311)	(\$31,815)	(\$32,736)	(\$16,979)	(\$140,787)
Classified Non-Management	\$874,364	\$722,783	\$612,196	\$495,921	\$526,867	\$551,403	\$3,783,534
Supervisors	\$141,512	\$178,050	(\$40,312)	(\$45,465)	(\$45,830)	(\$23,979)	\$163,976
Classified Management	(\$8,771)	(\$21,137)	(\$28,674)	(\$30,168)	(\$18,316)	(\$6,220)	(\$113,286)
TOTAL	\$1,494,304	\$1,407,442	\$795,672	\$668,757	\$705,304	\$924,104	\$5,995,584

*Current Year represents 6 months of savings

Actual Plan Retirements

Employee Group	Number of Eligible Employees	Projected Retirements	Projected Percentage Retirements	<u>Actual</u> Retirements	<u>Actual</u> Percentage Retirements
10 Month Faculty	71	12*	16.90%	5	7.04%
11 Month Faculty	12	3	25.00%	2	16.67%
Academic Management	5	1	20.00%	0	0.00%
Classified Non-Management	89	22	25.00%	24	26.97%
Supervisors	9	3	33.33%	3	33.33%
Classified Management	1	1	100.00%	1	100.00%
TOTAL	187	42	22.58%	35	18.72%

Actual Fiscal Impact

Employee Group	Projected Savings in Current Year* (2020-21)	Projected Savings in Year 1 (2021-22)	Projected Savings in Year 2 (2022-23)	Projected Savings in Year 3 (2023-24)	Projected Savings in Year 4 (2024-25)	Projected Savings in Year 5 (2025-26)	TOTAL
10 Month Faculty	\$143,043	\$143,010	\$75,968	\$81,316	\$82,851	\$127,336	\$653,523
11 Month Faculty	\$124,062	\$120,457	\$45,609	\$51,726	\$57,282	\$82,704	\$481,839
Classified Non-Management	\$1,034,543	\$938,921	\$820,248	\$666,672	\$689,695	\$689,792	\$4,839,870
Supervisors	\$158,106	\$199,607	(\$25,797)	(\$29,077)	(\$26,018)	(\$4,662)	\$272,159
Classified Management	(\$8,771)	(\$21,137)	(\$28,674)	(\$30,168)	(\$18,316)	(\$6,220)	(\$113,286)
TOTAL	\$1,450,983	\$1,380,858	\$887,354	\$740,469	\$785,494	\$888,950	\$6,134,105

Results and Lessons Learned

- Incentive **generated budget savings**
- **PARS did a great job** and were a great partner
- Very **hard to predict employee's behavior** especially during the pandemic
- **Key positions took the ERI and had no choice but to replace these positions**
- **Managers are part of the union, so had to negotiate and offer ERI**
- Had **quite a few positions that were funded with categorical and restricted funding took the ERI**, which was additional cost to the unrestricted general fund
- **Not as many faculty retired compared to the last ERI** that was offered
- **ERI was offered in December** rather than June at the end of the academic year

CASE STUDY:
Small Texas College

Situation at the College

- Student population: **5,700**
- **New president recently hired** (after 28-year predecessor)
- **Board initially divided on the plan**
- After **analysis completion and two board presentations**, they decided to open the enrollment window, knowing that they could **cancel prior to implementation if the actual enrollment outcome did not meet their objectives**
- **Primary goal was to address staffing issues:**
 - **Too many top-of-the-salary schedule** employees
 - **Significant changes in student demographics**
 - Wanted to reorganize departments by **eliminating positions and reallocating funds** to create new positions

Plan Assumptions

Plan Assumptions - Faculty	
Eligibility Requirements	Any Age with 15 years of continuous college service
Benefit Levels	75% of Final Pay Spend Amount Benefit
Replacement Salaries	\$53,129 (Based on average new hire in last 3 years) Replace faculty for 1 year with adjunct faculty rate of \$17,500
Health Care Costs	Active Cost per Employee: \$6,000 Retiree Cost Pre-65: \$5,073 ($\$845.54 \times .5 = \$422.77/\text{month}$ or \$5,073/year) Health Care COLA: 5.00%
Plan Funding	5-Year Annuity

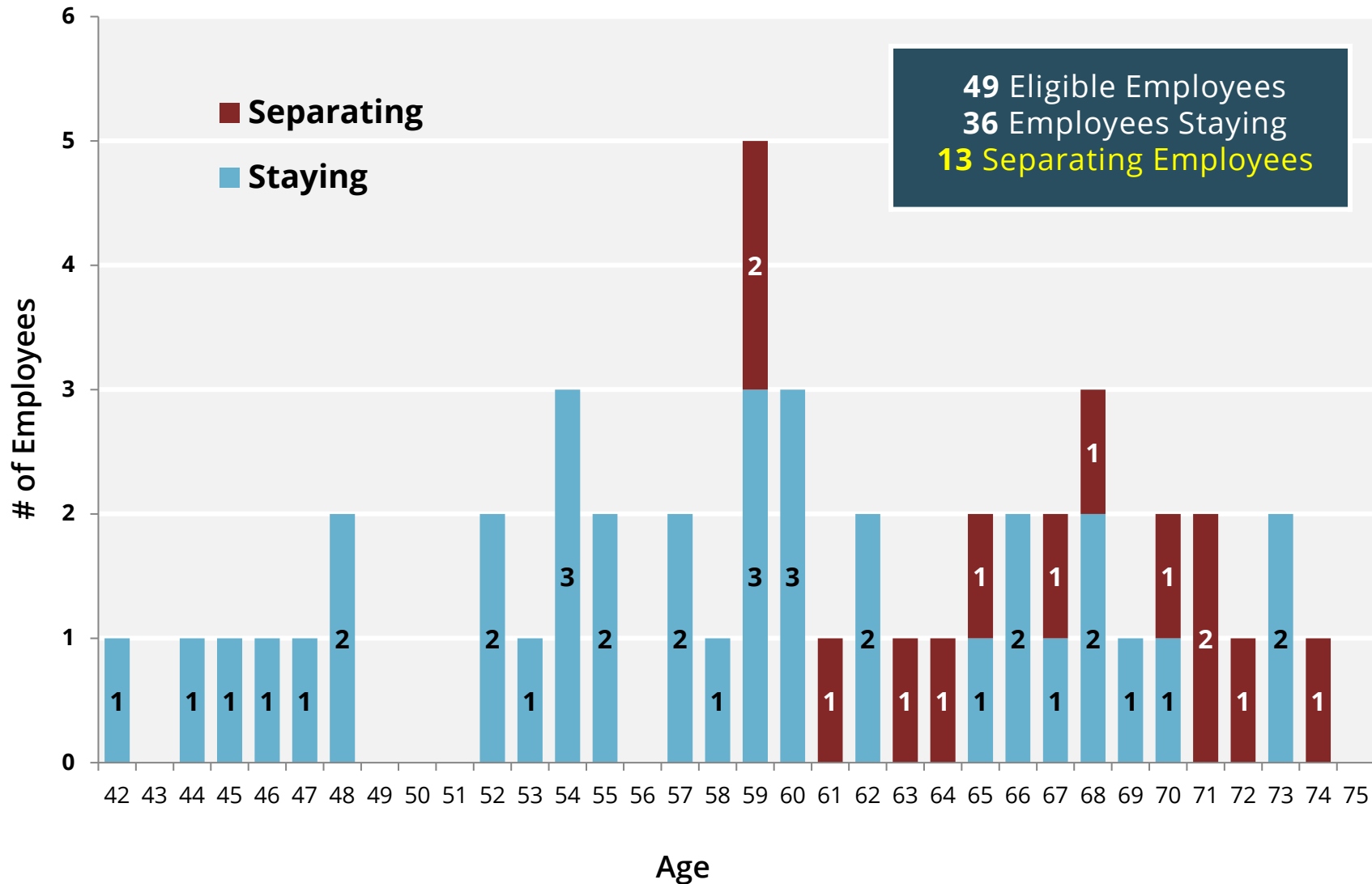


Initial Analysis

Projected Savings During Initial Analysis Phase

Employee Group	Number of Eligible Employees	Projected Separations	Projected Percentage
Faculty	50	12	24.00%
Projected Number of Non-Replacements	Projected Savings in Year 1	Projected Savings over 3 Years	Projected Savings over 5 Years
4.00	\$619,804	\$1,090,784	\$1,515,516

Plan Participation - Faculty





Post-Analysis/Results

Actual Savings

Employee Group	Number of Eligible Employees	Actual Separations	Separation Percentage
Faculty	50	13	26.53%
Actual Number of Non-Replacements	Projected Savings in Year 1	Projected Savings over 3 Years	Projected Savings over 5 Years
7.00	\$494,487	\$1,355,725	\$2,188,842

Plan Results

- **Post analysis completed after closure of enrollment window showed enrollment projections were exceeded**
- **Post analysis used to determine cash for new positions:**
 - **Funds were reallocated** to create 2 new dean positions, 1 Vice President position, 4 director positions, 1 faculty, and 3 administrative assistant positions
- **Board unanimously approved funding the plan as it met both their fiscal and operational goals**

Questions?

Thank you for attending!