

Decision Item #29: ELIMINATE TEACHER EMERITUS RETIREMENT PROGRAM (TERP)

Background:

The Teacher Emeritus Retirement Program (TERP) was initiated by the District in the early 1980's as an early retirement incentive program. It was intended to promote early teacher retirement, resulting in teacher turnover and lower overall salaries for the District. The program provides retirees with a retirement payout for three years following retirement.

The program operates as a Memorandum of Understanding (MOU) under the Collective Bargaining Agreement with MTI. The current MOU runs concurrent with the Teacher's Collective Bargaining Agreement for 2001-2003.

Specifically, the MOU outlines the following important guidelines of the program:

- The program is completely voluntary
- Only teachers defined in MTI's "Teacher" Collective Bargaining Agreement with the District are eligible to participate in TERP
- Teachers must enroll by signing an agreement form with the District by February 15 of the year the retiree wishes to begin participation in TERP, with the termination of the individual teacher contract effective at the end of the school year. TERP payouts commence October 1 of the same year.
- Eligibility for a teacher to participate requires the participant's age and total service to the District to total an eligibility factor of at least 75, or total service to the District of at least 30 years
- Compensation under TERP is considered a retirement benefit and is paid monthly by the District to the teachers for the duration of a teacher's participation in the program
- Compensation is calculated as the sum of 19% of the eligible retiree's highest annual salary per year. The District pays eligible retirees this amount for three years.
- Eligible retirees can elect between a payout distribution method of cash or a flexible spending account under Section 125 Plan for Payouts.

Our review of this program indicates TERP no longer serves the purpose intended as no evidence can be found linking the program to promotion of early teacher retirements.

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Expenditures: Recent historical payouts for the TERP program:

Year	Total TERP Dollar Payout	Average Retiree Payout
1998-1999	\$1,258,833	\$ 9,394
1999-2000	\$1,565,035	\$ 9,968
2000-2001	\$1,597,898	\$10,050
2001-2002	\$1,940,779	\$10,378

Expenditures for this program are based on the number of eligible retirees participating in the program each year and the highest annual salary earned by the participant. While it is difficult to predict the number of teachers deciding to retire each year, it is likely that salaries will increase annually. This will increase the average annual payout, creating a long-term upward trend in total dollar TERP payouts.

Revenues: No revenues are generated for the District under TERP

FTE: Recent historical retirees participating in TERP are as follows:

Year	Number of TERP Eligible Retirees
1996	34
1997	56
1998	44
1999	57
2000	58
2001	72

Anticipated Savings: Elimination of this program would likely need to be phased out over at least a 3 year time frame to accommodate those who have already chosen to participate in TERP and will be provided benefits over three years as outlined in the program guidelines. A decision to eliminate the program after February 15, 2002, and before February 15, 2003 would result in no new TERP payouts starting with 2003 retirees. Year 2000 TERP retirees would still be eligible for TERP payments through September, 2003. Year 2001 TERP retirees would be paid through September 2004. Year 2002 TERP retirees would be paid through September 2005. Under this scenario, District realization of savings would begin in October 2003 with reduction of approximately 1/3 of the average payout since no new retirees would enter the payout pool. However, 2 years of retirees would still exist in the payout pool from existing 2001 and 2002 retirees. Beginning October 2004 the savings would be an additional 1/3 of the total payout, with the remaining 1/3 savings beginning October 2005 when all TERP payouts would no longer be in effect.

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Anticipated Savings: Conservatively calculating savings at 2001-2002 TERP payout levels of \$1,940,779 annually, anticipated savings estimates are:

Year	Total TERP Dollar Payout	Savings
2002-2003	\$1,940,779	\$ 0
2003-2004	\$1,293,853	\$ 646,926
2004-2005	\$ 646,926	\$1,293,853
2005-2006	\$ 0	\$1,940,779

Savings years above are stated October through September each year, equivalent to the TERP payout schedules. Potential savings would begin in October 2003, thus for the District budget year 2003-2004, savings would be slightly less than stated here, and savings would extend into the 2006-2007 year through September 2006.

Elimination of this program may yield additional savings opportunities for the District. Long-term savings may be achieved in Human Resources when this program no longer requires administration. Short term salary savings may occur in the year the District announces discontinuation of TERP as teachers close to retirement qualifying for TERP may elect to retire earlier in order to participate in TERP. This could result in new teachers hired at lower salary levels to replace retirees at higher salary levels.

Student Impact: NA

Strategic Priorities: NA

Board Priorities: NA

Effectiveness: This program was intended to serve the District, not the teachers, through overall cost savings generated through teacher turnover. This program may encourage some teachers to retire earlier, thus creating District salary savings due to turnover. However, there is no early retirement age window for the program that limits program participation to only those that choose to retire early. Over time, this program has evolved to result in additional District costs, instead of District savings as intended. Elimination of this program would have long-term positive financial impact for the District.

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**Redundancies or
Availability of the
Service Elsewhere:**

Teacher retirees already receive retirement benefits at retirement through other programs. This additional benefit was intended to serve the District, not the teachers, through overall cost savings generated through teacher turnover. The current plan serves as an added teacher retirement benefit, rather than a program benefiting the District through savings as a result of early retirements. As a result, elimination of this program to teachers will be perceived as taking away a teacher benefit. It is not clear whether teachers will feel inclined to seek employment at another school district as a direct result of elimination of TERP.

Service Delivery: No impact.