Current Proposal to Re-balance Compensation: Clarifications

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Chair, University Resources Policy Committee
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Term Usage

Compensation: Salary + TIAA-CREF Retirement Benefit

Current Retirement Benefit:

11% first $9,000 salary + 15% thereafter

FICA Deductions:

6.2% Social Security on salary up to $106,800 +
1.45% Medicare on total salary

Re-balancing procedure:

Current compensation redistributed
dollar-for-dollar as:

New salary = 10/11 Current Compensation
New Retirement Benefit = 1/11 Current Compensation

Ex. Old Compensation = $ 100,000 + $ 14,640 = $ 114,640
New Compensation = $ 104,218 + $ 10,422 = $ 114,640

Financial Outcomes of Re-balancing

Base Salary	$ 60,000	$ 100,000	$ 150,000
Extra FICA tax – Purdue (cost)	$ 184	$ 323	$ 94
Extra FICA tax- Employee (cost)	$ 184	$ 323	$ 94
Salary Increase	$ 2,400	$ 4,218	$ 6,491
Retirement Reduction	($ 2,400)	($ 4,218)	($ 6,491)
Additional Tax Burden (est.)	20%?	24%?	30%?
Extra salary re-deferred to TIAA (est.)	1% lower interest	1% lower interest	1% lower interest

Implications of Proposed Re-balancing

Budget reducer? No, marginally more costly.

More competitive for new hires? Salary increase reduces retirement benefit; extra tax burden plus lower investment yield if re-deferred to TIAA = reduced net compensation. (Attractive to a subset?)

Provides a choice? Yes, but limited options.

Employ for new hires only? Reconsider other alternatives after state funding and internal cost savings become clearer?

So how do affected faculty & staff feel about the proposal, now that the financial implications are clearer?