Current Proposal to Re-balance Compensation: Clarifications

Prof. Morris Levy
Chair, University Resources Policy Committee
University Senate, March 22, 2010
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 = \( \frac{10}{11} \times \text{Current Compensation} \)
- New Retirement Benefit = \( \frac{1}{11} \times \text{Current Compensation} \)

Ex. Old Compensation = $100,000 + $14,640 = $114,640
New Compensation = $104,218 + $10,422 = $114,640
# Financial Outcomes of Re-balancing

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