



August 3, 2016

President's Waypoint: Exploring an Early Retirement Incentive.

Since the College Planning Council (CPC) retreat July 21, 2017, the exploration of the College's participation in a Supplemental Early Retirement Plan (SERP) has been a hot topic of conversation. The Board of Trustees also discussed it at yesterday's Board retreat with a positive first review of the idea. A final decision will be made at the August 11th meeting. You will soon be receiving a survey, asking for your opinion about the SERP idea. In essence, a SERP provides an incentive for long-term employees to retire earlier than they may have without the plan. The forthcoming survey and the information attached to this Waypoint have been reviewed by the CPC, which includes representatives from each of our employee groups: the Academic Senate, the Instructors' Association, the Classified School Employees' Association, and the Advancing Leadership Committee.

Why a SERP?

In order to understand why the College is considering a SERP, it is important to understand the financial situation that the College is experiencing. On the revenue side, the College has experienced a sustained drop in enrollment (both in-state and nonresident students) over the past several years. This reduction of the College's student size has resulted in a corresponding funding reduction of \$5.8 million in revenues – for last year alone! The revenue reduction has been tens of millions since our peak enrollment in 2009-10. For 2016-17, the projected enrollment drop is estimated to produce an additional budget deficit in excess of \$4 million. Further, we project that enrollment will continue to decline into next year, continuing a significant revenue drop. There is no expectation that the College will ever grow back to the peak size. As a result, lower revenue levels are expected to be the "new normal."

Like all public entities, by law, the College must adopt a balanced budget. At SBCC, 87% of the College's expenses are in salaries and benefits. Accordingly, to stay in balance, 87% of needed budget reductions must come from salaries and benefits. Over the last several years, despite the revenue reductions, the College has not reduced expenditures. In fact, the opposite has been happening, with expenditures trending upward. The last few years, we have been deficit spending, covering with reserves. Obviously, this can't continue indefinitely. While a SERP alone will not close the College's deficit gap, it has the potential to save the College on average nearly \$1,000,000 per year over the next five years.

In the spirit of transparency and information sharing, the CPC has put together the following Frequently Asked Questions (FAQs). You will undoubtedly have additional questions, but this is a good starting point. Please feel free to ask any additional questions you might have in response to the survey you will be receiving. It is important to note that the proposed SERP must be approved by the Board of Trustees, so reference to specific SERP terms are for illustration purposes only. We are sharing information about the program to allow for as much discussion and feedback as possible.

SERP FAQs

***Why is SBCC considering a SERP?** A SERP is put in place to increase the rate of retirement in the current year by offering some form of early retirement incentive. While specific terms have yet to be determined, an illustration of SERP terms is outlined in the attached documents. By offering such a SERP, the College has the opportunity to get closer to the level of staffing required to balance the budget.

***Where do the savings come from?** Regardless of how vacancies occur, the intent is that some of the positions will not be replaced, saving salaries and benefits. This is the greatest saving from a SERP. Additionally, those positions that are replaced are done so at a lower salary placement level, again, saving salaries and benefits.

***Why not pursue layoffs?** If the College was required to layoff personnel to balance the budget, the salaries would be from lower-salaried employees as they were the last hired. This compound the problem as it would require more laid off positions to get to the budget savings required.

***How does the SERP provide for more careful planning?** If enough people take advantage of the SERP, it will allow the College to hire back some positions. This would allow for a strategic prioritization of position replacements. In contrast, simply implementing a hiring freeze and using natural attrition does not allow for strategic planning and restructuring.

***What is the last date I can apply/give notice and still be eligible for the SERP?** Should the College move forward with a SERP, the last day to make it work would be November 29, 2016. However, for faculty positions, full-time faculty must give notice by September 9, 2016 in order for their position to be considered for replacement by the Academic Senate.

***Why is it necessary for employees to give their retirement intentions so far in advance in order to qualify for the SERP?** By finding out the potential positions well in advance, departments, programs, and areas of the College will be permitted time for planning that would not otherwise be possible.

***If I am eligible and elect to participate in the SERP, will I definitely receive the SERP?** That depends. In general, SERPs are implemented when total SERP salary and benefit savings significantly outweigh total SERP costs. Accordingly, the SERPs may not be implemented if not enough people decide to retire under the SERP. If the College does not get many more retirements than through normal attrition, the SERP would not reduce College expenditures and would not make sense. When you look at the attached example scenarios, you will get an idea of the “savings with no plan” (under normal attrition) in the related column. This is the breakeven point. Below this number, the College does not make any return on the cost of the plan and would not proceed with the SERP. If the SERP is not implemented, employees can rescind their decision to retire.

***Is the SERP part of my regular retirement?** The SERP is separate from STRS, PERS, social security, or any other type of retirement benefits you may have planned for or will receive upon retirement. Therefore, the SERP payments to employees are in addition to the STRS or PERS retirement benefits you would receive upon retirement. SERP payments are part of taxable income. It is very important for each employee to seek independent professional retirement and tax advice before making the decision to participate in the SERP.

***What if everyone in my department who is eligible takes advantage of the SERP?** Wouldn't this have a negative impact on my department? The College will plan for such contingencies. This is why the long-term planning window is so valuable.

***Will this take care of all of the College's financial problems?** No, the SERP is just one tool in the toolbox. We will need to conserve in other areas as well.

***Will retirees be replaced?** A proportion of all retiring employees will be replaced, depending on need.

***If someone leaves my department and is not replaced, will that position come back in the future?** Not necessarily. With the reduction in workload from the reduction in FTES, it may not be necessary. Alternatively, restructuring or reassigning of workload may be part of the process.

***Will the SERP be offered again in 2017-18?** Because of the cost, structure, and required payback of the SERP, it will likely not be offered again in 2017-2018 or in the near future. The last retirement incentive was more than 20 years ago.

***What is Keenan's role as the plan administrator?** Keenan (our SERP consultant) will provide group orientations on the SERP, describing the plan in detail should we decide to move forward. Additionally, Keenan will offer private one-on-one counseling sessions, where you will be invited to bring your personal financial counselor and/or family member. Because retirement is a personal decision and specific to your own situation, only you can determine if a SERP is right for you. Accordingly, you are responsible for contacting PERS or STRS directly, as follows:

**CalPERS can be reached at 888 CalPERS (or [888-225-7377](tel:888-225-7377))
CalSTRS can be reached at [800-228-5453](tel:800-228-5453) or [916-414-1099](tel:916-414-1099)**

Please see the attached handouts for more detailed information about SERPs and example scenarios. If you have additional questions or concerns, please include them in your survey responses. The survey link will come in a separate email, so please watch for it, and provide your feedback about the idea!

Together Forward,

