OVERVIEW

Management Audit of the University of Hawaii Incentive Early Retirement Program (IER)

Report No. 03-06, May 2003

Summary

This is a report of our audit of the University of Hawaii's Incentive Early Retirement Program. This audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the office to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices and agencies of the State and its political subdivisions. The Incentive Early Retirement Program was established at the University of Hawaii in 1983 in order to save personnel costs while retaining experienced staff and creating opportunities for junior faculty. Administrative, professional, and technical personnel as well as faculty are eligible to participate. The Auditor initiated this audit of the program—as it enters its 20th year—to assess whether the program continues to fulfill the purpose for which it was intended.

We found that the incentive early retirement program is a unique university perk that fails to meet its goals and is poorly managed. Specifically, the program has resulted in $132,461 in unnecessary costs for the State by overlapping the State's Early Retirement Incentive Program in 1995, resulting in dual retirement incentives for some employees. In addition, the goal of saving personnel costs through early retirement was subverted by replacing retirees with more highly paid replacements. We found that for 34 retirees who were replaced, 22 or 65 percent of the replacements were paid higher annual salaries. Of these replacements, three were paid at least 50 percent more, and another three were paid double their predecessors' salaries at retirement.

The program also duplicates other potentially less costly part-time work options that are already open to retirees. In fact, the university encourages departments to rehire retirees as casual employees after they reached their maximum three-year IER terms. We found five IER participants whose terms had expired and who were subsequently rehired as lecturer, casual and temporary employees. Their additional terms of temporary employment ranged from eight months to six years.

Furthermore, retired faculty members are now eligible for the highest pay scale for lecturers, based on the number of credits they previously taught. At $1,490 per credit hour, lecturers can make the per-credit equivalent of some associate professors. In light of these part-time options, the continued need for the IER program becomes less evident.

In addition, Social Security regulations have made the incentive program less effective as a means to encourage retirement. Under current rules, those of retirement age can work full-time with no maximum income limits while collecting their retirement benefits. Thus, for those who choose not to retire early for financial reasons, retiring and participating in IER with a part-time salary has become a less attractive option.

In contrast, those contemplating early retirement—i.e. between ages 62 to 65—are penalized for exceeding maximum income limits. For 2003, that limit is $11,520. The benefits of those exceeding this amount are reduced by $1 for every $2 earned above the maximum. In our sample of 76 participants, all but one exceeded the maximum income

limit. Thus, for most early retirees, participation in the IER program would reduce their retirement benefits.

Another anticipated benefit of the program was shifting the university staff's age profile from mature to balanced, as recommended by the American Association of University Professors. However, we found that for tenured faculty and APT employees, the median age and years of service has not changed significantly since 1983. For tenured faculty, the median age went from 49 to 47. For administrative, professional, and technical staff, the median age increased from 40 to 43. Years of service for tenured faculty remained the same at 14 years, and increased from 11 to 13 years for APT employees.

We also found that the program is poorly managed, leaving the university administration unaware of its overall impact. The policies governing the program are vague, which has led to subjective criteria and uneven implementation. For example, we found one IER participant who was paid at 20 percent of the full-time equivalent and given the responsibility of teaching 12 credits plus minor administrative duties. Another participant was paid at 40 percent of the full-time equivalent for vague responsibilities consisting of either teaching only three credits per year or its equivalent in research or advising students.

System-wide cost data is not collected by the administration, but maintained by each department instead. This is consistent with deans' and department heads' delegated management responsibilities according to university officials. However, we contend that the university administration remains accountable for the overall results of this program.

Management is also lax in terms of the quality of the work performed under IER, with no sanctions imposed if the work is unsatisfactory. Thus, many employees view the program as a reward for past work rather than a current contract whose terms must be honored.

Recommendations and Response

We recommend that the Board of Regents assess the merits of the Incentive Early Retirement Program and consider eliminating it. However, if the board decides to keep the program, we recommend that it require closer review, including: (a) determining what types of information are significant to the success of IER and requiring that all applications include such information (e.g., anticipated cost savings from IER); (b) considering implementing post-IER evaluations to determine whether the outcomes of the program justify its continuation; and (c) monitoring overall costs and assessing whether IER has been effective in meeting its human resource needs.

The university responded that it has already initiated action to address some of our concerns and will review the merits of continuing the program. However, the university did not address any of our findings directly, but did note that it will seek to make positive use of our report.

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