Retirement Issues Report, 9/23/21, Amended

1. Retirement Offer

NYU has announced a permanent retirement program, details at https://www.nyu.edu/about/leadership-university-administration/office-of-the-president/office-of-the-provost/academic-policies-procedures/tenured-faculty-retirement-program.html .

Eligibility requirements:

1. Your age plus years of continuous, full-time service equals or exceeds 70 on your retirement date; and
2. Your years of continuous, full-time service equal or exceed 10 on your retirement date; and
3. You are at least age 67 and not older than age 69 on your retirement date for option A. Slightly different eligibility criteria for options B and C.

For year 2021-22, it also allows participation of faculty at age 70 or above.

Three retirement options:

Option A: receive additional 2x of base salary;

Option B: 50% teaching load reduction for one year while paid full salary; or

Option C: work two years at 50% load, salary paid 100% in first year and 75% in second year.

You must vacate your NYU apartment at retirement (usual rules). At retirement, you can withdraw all money at TIAA. This withdrawal can be a transfer to an IRA account and then it does not have a tax consequence.

Evaluation: Only option A is worth discussing.

Negatives: 2x salary seems low to have a significant impact, especially since you have to vacate faculty housing. Additionally, NYU plans to give the retirement bonus during a year that the faculty also receives regular salary, multiplying taxable income by 3x, almost certainly putting the faculty at the highest tax bracket, and increasing tax liability. We will ask NYU to give faculty the option to draw the 2x bonus money over 2 years after retirement so that faculty is likely to stay in the same tax bracket as when working.

Positives: You may have a lot of non-academic things to do that you have postponed for a long time and feel like this is the right time to do them. You may be ready to retire anyway.

Special issue for those of age 70 and above. The program appears to include you only this year. It is possible that the offer will not be there for over 70 age next year. You have to guess that probability and act accordingly.

Footnote. In the previous academic year, NYU offered a retirement program with a 1x bonus, also allowing 70+ age faculty to participate. Participation was small, possible reading to NYU increasing the bonus to 2x now.

2. High Fees for Accounts at TIAA

In January 2021, NYU has instituted new fees paid by us on our retirement accounts held TIAA. There were no (explicit) fees earlier. These fees are over and above any fees that mutual funds have. NYU fees are 2.5 basis points per $ of assets held in your account per year, paid quarterly. For those of you not in Finance, this amounts to $250 per $1,000,000 of assets per year. Some universities, for example Stanford, do not have such fees at all. Other universities have a fixed administrative fee per participant. For example, Columbia charges $44 per participant per year.

The administrative costs of these retirement accounts are relatively small and do not justify the fees charged by TIAA at NYU. We have brought this issue at the NYU Retirement Committee, and we will keep bringing it up until it is changed through a renegotiation of NYU with TIAA. In the meantime, to avoid some of these fees, one possibility is to take as much money as you can out of the NYU TIAA plans and "rollover" them into an IRA account at a discount broker such as Fidelity, Schwab, or Vanguard among others. The money at your retirement account at TIAA is divided between your contributions and NYU's contributions. All your contributions can be withdrawn out of NYU TIAA plans and into an IRA plan of your own.[1] Crucial detail: If you are over 59½, there are typically no tax consequences of moving the money out.[2] If you are below 59½ there can be severe tax consequences, so check very carefully with your tax advisor as well as with TIAA. Keep in mind that this is just an outline of possibilities, and it is not investment or tax advice.

NYU has restricted the mutual funds that are available in the retirement plans. It has excluded some of the most successful mutual funds of the last 20 years that have performed significantly and consistently much better than the best-performing mutual funds that NYU TIAA offers. Unfortunately, even though we have brought this up at Retirement Committee meetings, the NYU administrators refused to consider allowing faculty to invest in a larger set of mutual funds. IRA accounts have significantly fewer restrictions than NYU TIAA accounts in terms of investment choices. This is an additional reason to move your contributions out of TIAA and into an IRA if you are over 59½. Again, keep in mind that this is just an outline of possibilities, and it is not investment or tax advice.

[1] Keep in mind that you will be able to transfer/rollover only your own contributions, not NYU's, which practically means about 50-60% of your total TIAA account. Also, you cannot take out any contributions of the section 457 plan, even though these are your contributions. [The section 457 plan is only available to faculty and administrators that have an annual compensation of over $175,000 and, unlike the regular TIAA plan, is not immediately vested, but becomes available at retirement and is subject to potential claims against NYU.]

[2] There is one exception for those who are of age 72 or older, or plan to work for NYU over the age of 72. IRAs require mandatory taxable distributions starting at age 72½, with distributions starting at about 4% of assets per year. Employer's plans, like NYU's do not require any distributions irrespective of age, as long as you keep working. So, if you plan to be working for NYU when you are over 72, you may want to keep your money at NYU to avoid the required minimum distributions of IRAs.