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Assembly of the Academic Senate, Academic Council
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

February 6, 2004

JOSEPH P. MULLINIX
SENIOR VICE PRESIDENT
BUSINESS AND FINANCE

C. JUDSON KING
PROVOST AND SENIOR VICE PRESIDENT
ACADEMIC AFFAIRS

Subject: UC Health Sciences Faculty Retirement Proposal - Formal Review

Dear Joe and Jud:

In response to your November 12 request for the Senate's comments on whether a defined contribution retirement plan should be implemented for the health sciences faculty or whether no change should be made at this time, I specifically asked for comments from the University Committee on Faculty Welfare (UCFW) and from those Divisions with health sciences faculty.

The members of the University Committee on Faculty Welfare were in unanimous agreement that any decision on this proposal should be based on the opinions of the health sciences faculty and academic units, since other UC faculty and employees would not be affected by the proposed change.

Both in their response letters, and again at the January meeting of Council when the proposed defined contribution retirement plan was discussed, all of the Divisions with health sciences faculty expressed their opposition to the proposed plan with the exception of the Berkeley Division. Among the reasons cited were the lack of departmental resources necessary to implement the plan, and the sentiment among many of the health sciences faculty that this is not an equitable solution. This view is shared by the Chairs of Medical School Faculty Executive Committee who, in a recent meeting, discussed the proposal and reached the unanimous decision that no change should be made to the current retirement plan. The chief reason given was that "it is an inadequate plan that does little to fix the current inequities in the UCRP for faculty in the Health Sciences." (I refer you to Dr. Edward Robinson's January 9, 2004 letter, which is appended to the enclosed UCI Divisional response.)

As you know, last year the Academic Council recommended by a vote of 16 to 1 that the defined benefit coverage for health sciences faculty be supplemented by a defined contribution plan, which would be paid by the funding source and initially set at 7%, for all salary not covered by the defined benefit plan. Since that time, however, there have been changes in the tax law and in planned UC benefits that would significantly increase the pre-tax defined contributions that the IRS will allow faculty to contribute towards their retirement. As noted by UCFW Chair Ross Starr, allowable contributions to the 403(b) plan have been and continue to be expanded. In addition, UC is planning to introduce a 457(b) plan that has the same contribution limits as the 403(b) plan, and recent tax law changes will allow maximum contributions in

each plan to apply separately. By 2006, total voluntary tax deferral will be \$30,000 annually for those under age 50 and \$40,000 for those age 50 and over. These changes reduce the need for a compulsory defined contribution plan for the health sciences faculty.

Discussions by the Medical School Faculty Councils make it clear that at least some of the health sciences faculty have the perception that the current retirement benefits from UCRS are not equitable, a position with which UCFW strongly disagrees. Since the only way that these perceived inequities are likely to be reduced or eliminated is to have increased defined benefits from UCRS for the health sciences faculty, and since UCRS is not significantly over-funded at present and the Regents are therefore unlikely to allow the UCRS to incur increased liabilities, I don't feel there is any way, in the near term, to resolve this lack of agreement regarding equity in retirement benefits for the various faculty members.

In summary, given the strong sentiment from the health sciences faculty not to change their current retirement plan as proposed, and the impending increased options for voluntary tax deferred retirement savings, the Academic Council recommends that the proposed mandatory 7% defined contribution plan for the health sciences faculty not be implemented at this time. Options having no or minimal impact on the UC retirement plan, but which have terms that the health sciences faculty may find more favorable than those currently proposed, should continue to be explored.

Thank you for giving the Academic Senate an opportunity to review and comment on this important issue. For more detailed information on the Senate's perspective, please see the attached comment letters.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry", written in black ink.

Lawrence Pitts, Chair
Academic Council

encl. Comment Letters (7)

cc: Ellen Switkes, Asst. Vice President-Academic Affairs
Michele French, Executive Director-HR&B
Jill Slocum, Coordinator-Health Sciences Compensation

Ross Starr, Chair
University Committee on Faculty Welfare
rstarr@weber.ucsd.edu

Assembly of the Academic Senate
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Oakland, CA 94607-5200
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January 12, 2004

**LAWRENCE PITTS, CHAIR
ACADEMIC COUNCIL**

Subject: UCFW's Response on the Health Sciences Faculty Retirement Proposal, a Defined Contribution Retirement Plan for Health Sciences Faculty

Dear Larry:

UCFW has reviewed the proposed Health Sciences Faculty Retirement Proposal, including a defined contribution retirement plan for UC's Health Science's faculty. The following views represent the consensus of UCFW based on discussion at the committee meeting of January 9, 2004.

The aim of providing a successful tax deferred retirement plan on UC Health Sciences faculty salary not currently covered by a retirement plan is a significant desirable goal. It would enhance net lifetime compensation of the Health Sciences faculty, improving UC's competitive ability to attract, retain, and reward capable faculty. The challenge is to arrange a plan in a manageable convenient form.

The Committee has several comments.

1. The decision whether to implement the Health Sciences Faculty Retirement Proposal should be based on the views of the Health Sciences faculties and academic units. Funding is from their funding sources. The benefits are theirs. There is virtually no spillover to the financial interests of other UC faculty or of UC employees outside of the Health Sciences.

2. The proposed DC plan conveys to all participants the benefits of tax deferred retirement investment. These benefits are analogous to those of the 403(b) retirement plan. In general, by deferring compensation and taxation, invested and reinvested money can grow more rapidly than is possible in taxable investment. This is the appeal of the tax-deferred defined contribution retirement plan. Many faculty and academic units may find that the required contributions cut into current cash flow requiring a financial adjustment to accommodate the plan. That is the disadvantage.

The burden of increased compulsory retirement plan contributions may be felt acutely when --- eventually --- UCRP basic plan contributions are resumed. There are no active plans now for contribution resumption, but it is prudent to assume that they will resume eventually.

3. Within the Health Sciences faculties, then, net attractiveness of the plan depends on funding source and personal financial condition. The proposed defined contribution plan --- in order to provide tax deferral and the benefits noted in section 2 above --- needs to be compulsory.

a. Faculty funded on outside grants are clear beneficiaries. Grants can typically provide the defined contribution without interfering with personal or departmental cash flow.

b. Faculty and departments funded on clinical income and other (non-grant) funding sources may find that the defined contributions reduce current salary income (but not reduce total compensation) or cut into current departmental operating funds. This may require a financial adjustment that is difficult and unwelcome, despite the advantages of tax-deferral.

Faculty currently participating in the voluntary 403(b) plan can mitigate the effects of the proposed compulsory defined contribution plan on current personal cash flow by a corresponding reduction 403(b) contribution. This has the effect of maintaining current cash flow, but then the proposed defined contribution retirement plan would represent no increase in retirement income.

4. In the time since the Health Sciences Faculty Retirement Proposal was initially put forward, there have been developments in the tax law and in planned UC benefits that create alternatives to the proposed compulsory defined contribution plan as a means of providing tax-deferred retirement income.

a. Allowable contributions to the 403(b) plan have been and continue to be expanded. In 2004, they are \$13,000 annually for those under age 50 and \$16,000 annually for those 50 and over. In 2006 and thereafter, they are scheduled to be \$15,000 for those under age 50 and \$20,000 for those age 50 and over.

b. In addition to the 403(b) plan, UC is planning to introduce a 457(b) plan in late 2004. This plan is formally similar to the 403(b) plan. Contribution limits are the same as for the 403(b) plan. Recent innovations in the tax law allow contribution limits to the 457(b) plan and 403(b) plans to apply separately. Thus total voluntary tax deferral by 2006 will be \$30,000 annually for those under age 50 and \$40,000 for those age 50 and over.

c. The innovations in 4a and 4b above allow significantly expanded individual voluntary tax deferred retirement savings. This reduces the need for the compulsory defined contribution plan in the Health Sciences Faculty Retirement Proposal.

Thanks are due to consultants from UCOP and to UCFW members from the Health Sciences for contributing helpfully to the UCFW review of the Health Sciences Faculty Retirement Proposal.

Yours truly,
/s/Ross M. Starr, UCFW Chair



Office of the Academic Senate

4000 Mesa Office Building
Irvine, CA 92697-1325
(949) 824-2215 FAX

VIA E-MAIL

January 12, 2004

Lawrence Pitts, Chair
Academic Senate
c/o Executive Director María Bertero-Barceló
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

RE: Health Sciences Faculty Retirement Proposal

Dear Larry:

Recommendations resulting from UC Irvine's review of this proposal were mixed. The only Senate committee commenting on this proposal, the UCI Council on Faculty Welfare, found it a modest improvement on the current compensation plan and endorsed it.

College of Medicine faculty who commented, however, uniformly rejected the proposal. UCI's Dean of the College of Medicine, Thomas Cesario, responded briefly that because of the State's budgetary crisis as well as the financial constraints of the University, we are obligated to remain in the current retirement plan. He believes that any additional contributions mandated by a new plan would be a financial burden that the COM would be unable to meet.

Edward Robinson, COM Representative Assembly Chair, reports that the UC Irvine Health Sciences Plan members who responded to the Executive Committee recommended no change to the plan (see attached). He also reports that, at a meeting on December 19, 2003, the Chairs of the Faculty Executive Committees from UCI, UCSD, UCLA, UCD, and UCSF, unanimously recommended no change to the current plan.

A handwritten signature in black ink, appearing to read "Abel Klein".

Abel Klein, Chair
Academic Senate, Irvine Division

Attachment

RECEIVED BY
ACADEMIC SENATE
IRVINE DIVISION
04 JAN 12 AM 10:40

College of Medicine Office of the Dean

January 9, 2004

252 Irvine Hall
Irvine, CA 92697-3950Abel Klein, Ph.D. Chair
Academic Senate of the University of California, Irvine

Dear Professor Klein,

In October 2001, following a survey conducted by William M. Mercer, Inc., a Health Sciences Task Force was convened. It included faculty and administrators from the Health Sciences programs within the UC system as well as staff from the Office of the President. It became clear from the survey and from discussions by the task force that UC is not competitive with other institutions concerning retirement benefits for its Health Sciences faculty. Moreover and more significantly, the retirement benefits for faculty within the Health Sciences are not competitive with highly compensated UC faculty in other disciplines. Therefore, to address these inadequacies in the UC Retirement Plan (UCRP), the task force recommended four alternatives to the current plan. However, in light of current fiscal challenges accompanied by losses to the overall value of the UCRP, only two alternatives are now being considered: no change to the existing plan or a mandatory defined compensation plan. If the latter plan is approved, the "Y" + "Z" components would be subject to a mandatory 7% contribution in addition to the UCRP contribution for the "X" component. Moreover, this contribution would be paid from the same source as the "Y" and "Z" components.

I am writing to inform you that on Friday, December 19, 2003, the Chairs of the Faculty Executive Committees from UCI, UCSD, UCLA, UCD, and UCSF met and discussed these issues. The chairs reached a unanimous decision that we, as Faculty within the COM, recommend no change to the current plan. The reasons are complex but I will try to highlight the major issues.

One major issue is the source of the contribution. Since the Defined Contribution must come from the same source as the negotiated salary, then this would impose an effective decrease in funds within the Clinical Compensation Plan to pay physician salaries. Thus, all faculty in the Clinical Compensation plan would take an effective pay cut to fund the retirement plan. For negotiated components from grants, since "Y" is a fringe benefit, it is a direct cost. Therefore, the increase in fringe benefit (retirement contribution) would decrease direct cost funds available for faculty research. These two facts seem onerous, especially for junior faculty.

For junior faculty in particular, the retirement plan is not very portable; however, 403b funds are. While most faculty participate in the 403b plan, Systemwide only 40% participate maximally. There is talk of instituting a 457 plan (state employees), which when combined with the 403b funds, would significantly increase the pre-tax withholdings the IRS would allow faculty at UC to contribute towards retirement. With the added options available for investing such funds, the lack of a mandatory defined contribution plan would increase the salary available for each member of the Health Sciences to contribute to their own retirement. Moreover, if a faculty member, especially a junior faculty member, leaves the UC system, the plan will likely move with them. One exception may be the 457 plan: since it is for state employees, if a member moves to the private sector the faculty member may not be able to continue contributions. Of the latter, none of the attendees were expert enough in IRS regulations to comment.

The chief reason the Chairs of the Executive Committees of the UC Colleges of Medicine recommended voting against the plan: it is an inadequate plan that does little to fix the current inequities in the UCRP for faculty in the Health Sciences.

This recommendation was forwarded to all members of the UC Irvine Health Sciences Plan for their comment and their input. The universal opinion of those faculty who responded is that the Executive Committee of the Faculty of the College of Medicine recommend a vote of "no change to the plan with a strong recommendation to re-visit the issue, perhaps re-form the task force, and determine fiscally sound yet fair alternatives." The Executive Committee of the Faculty of the College of Medicine discussed this recommendation at its January 8, 2004 meeting and unanimously agreed with the faculty recommendation,

In summary, the Faculty of the University of California, Irvine College of Medicine recommends the following: 1) no change to the current plan and 2) to reform the task force or revisit all five previously offered alternatives in 2004 or 2005. Ultimately it is imperative that the UC system proposes a fair and competitive retirement compensation plan for its entire Health Sciences faculty.

/s/

W. Edward Robinson, MD, Ph.D. Chair,
Representative Assembly of the College of Medicine and Executive Committee of the Faculty of the College of
Medicine

**DAVIS
SCHOOL OF MEDICINE**

December 11th, 2003

Bruce R. Madewell, Chair
Academic Senate, Davis Division
RE: UC Health Sciences Faculty Retirement Proposal, October 2003

Dear Professor Madewell,

The Faculty Executive Committee (FEC) of UC Davis School of Medicine had met last evening and discussed the proposal on a Defined Contribution Plan benefit program that would apply a mandatory contribution rate of 7% on salary above covered compensation for Health Sciences Faculty.

As you know, UC Davis FEC reviewed the February 2003 Health Science Task Force Report earlier this year. It was the view of UC Davis FEC that ideally, the full negotiated salary; i.e., X + Y, should be treated as compensation subject to defined benefit coverage. However, we also understand that this has not been the case because of many historical reasons and that a full correction may not be feasible. Therefore, we found acceptable some of the options recommended by the Task Force as partial solutions in attempt to correct the type of inequities in defined benefit coverage of Health Sciences Faculty salaries although we also pointed out that none of the options was ideal.

As Chair of the Faculty at UC Davis School of Medicine, I wish to convey to you, UC Academic Council Chair Lawrence Pitts and Provost and Senior Vice President, Academic Affairs, C. Judson King that our Health Sciences Faculty is simply seeking an equitable compensation that does not benefit us any more than any Faculty members of other Schools and Colleges in the UC system. On that basis, the FEC of UC Davis School of Medicine finds the October 2003 UC Health Sciences Faculty Retirement Proposal fails to acknowledge the inequities identified by the Health Sciences Task Force. Furthermore, we also express our concerns regarding the possibility that the 7% contribution rate may be adjusted down even before implementation.

The Faculty Executive Committee of UC Davis School of Medicine, therefore, requests that no change to be made at all at this time and that the Academic Council and appropriate UC Administrative Offices to review and reconsider the options #3 or #5 selected by the Health Sciences Task Force at the beginning of the next academic year, 2004-2005.

Please pass these views forward to system wide Academic Senate. We trust you to represent us and to assure the voice of our Health Sciences Faculty be heard on this matter.

Sincerely yours,
/s/Hung S. Ho, M.D.
Chair of the Faculty, UC Davis School of Medicine



OFFICE OF THE ACADEMIC SENATE

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January 12, 2004

VIA EMAIL

PROFESSOR LAWRENCE PITTS, Chair
Academic Senate
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

SUBJECT: Proposed Policy for a new Defined Contribution Plan Benefit for Health Sciences Faculty

Dear Larry:

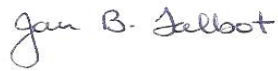
The proposed UC Health Sciences Faculty retirement proposal was transmitted to the UCSD Health Sciences Faculty Council and the Division's Committee on Faculty Welfare. The latter, owing to the complexity and long gestation period of the issue, first decided not to enter the discussion at this point. Subsequently, the committee offered its opinion on the two options; it supported accepting the 7% Defined Contribution option, acknowledging that its implementation would affect take-home salaries.

The UCSD Health Sciences Faculty Council (HSFC) discussed the policy proposal at its December meeting and, in addition, the chairs of the five UC Health Sciences Faculty Councils met in San Diego on December 19. The Chair of UCSD's HSFC has informed me that both groups came to the same conclusion. The current retirement plan is very inadequate; however, the proposed change, that of a fixed percent (up to 7%) mandatory contribution from every faculty member over all five campuses, is a "very inadequate response to the inadequacy of the current plan." It was recommended that the proposed change not be accepted with the clear understanding that the recommendation did not mean that the HSFC is happy with the current situation.

Owing to a number of timing factors, our Senate Council did not have the opportunity to discuss this specific proposal. I did, however, summarize the proposal and its history, and I asked Council members whether they would have any objections to my conveying the HSFC recommendation and sentiments to the Academic Council, especially since the policy affects exclusively our colleagues in the School of Medicine and School of Pharmacy and Pharmaceutical Sciences. There were no objections. Thus, the position of the San Diego Division on this matter is, while we are not pleased with the status quo, that there be no change to the current retirement plan.

For your information, I also received this week a copy of our Health Sciences administration's comments on the proposal. The Health Sciences Executive Committee, whose membership includes all School of Medicine department chairs and the Dean of the School of Pharmacy and Pharmaceutical Sciences, overwhelmingly agreed with the recommendation and sentiments of the HSFC.

Sincerely,

A handwritten signature in cursive script that reads "Jan B. Talbot".

Jan B. Talbot, Chair
Academic Senate, San Diego Division

cc: D. Trauner
D. Tuzin
ChronFile

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 **MEMORANDUM**

Academic Senate Executive Office
Los Angeles Division
3125 Murphy Hall
140801

January 20, 2004

Lawrence Pitts, Chair
Academic Council

Dear Larry:

I write to give the final UCLA Divisional response to our full consideration of the *UC Health Sciences Faculty Retirement Proposal*. Upon consultation with our Council on Planning and Budget, Faculty Welfare Committee, and the entire Faculty Executive Committee of the UCLA School of Medicine, our overall Divisional response is *not* in support of the proposal.

As reported at the December Council meeting, our Division had received a positive endorsement from the Council on Planning and Budget. Also by a very narrow margin, the Faculty Welfare Committee decided to endorse the proposal but with significant hesitation. Subsequently, I emailed to you and Maria Bertero-Barcelo on January 8th that the School of Medicine Faculty Executive Committee unanimously agreed that *of the two options currently presented, NO CHANGE in the current retirement system at this time for the health sciences faculty is in the faculty's best interest*. This FEC mostly closely represents the UCLA faculty directly affected by this proposal, so taken together with the considerable debate and close margin of our Faculty Welfare Committee, I must submit that overall, the UCLA Division does not support this proposal.

I also request that in paragraph 3 of your draft letter dated January 29, 2004, to Joe Mullinix and Jud King on this topic (January Academic Council Agenda Enclosure #4), the wording be changed to reflect that UCLA is not in support of this proposal.

Thank you for the opportunity to review and comment on this important topic.

Sincerely,



Cliff Brunk, Chair
UCLA Academic Senate

Cc: Maria Bertero-Barcelo
Ajit Mal, Chair, Council on Planning & Budget
Marvin Alkin, Chair, Faculty Welfare Committee
Allen Nissenson, Chair, School of Medicine Faculty Executive Committee

Electronic Transmittal
Berkeley Division of the Academic Senate

January 12, 2004

LAWRENCE PITTS, CHAIR
ACADEMIC COUNCIL/ASSEMBLY OF THE ACADEMIC SENATE

JAN DE VRIES, VICE PROVOST
ACADEMIC AFFAIRS AND FACULTY WELFARE

Subject: UC Health Sciences Faculty Retirement Proposal

The Divisional Council and the Committee on Budget and Interdepartmental Relations reviewed the UC Health Sciences Faculty Retirement Proposal dated October 2003. I am forwarding the committee's comments with the endorsement of the Divisional Council for your consideration.

We are responding to your request for comments on the proposed policy for a Defined Contribution Plan (DCP) benefit for faculty in the health sciences. As you know, this group of faculty includes those in the School of Optometry on the UC Berkeley campus.

The Budget Committee supports all efforts to make UC Berkeley's salaries competitive [for all faculty] with those at peer institutions. At many of those peer institutions, health sciences faculty receive retirement benefits on all types of pay, whereas within the UC system, retirement benefits are limited to benefits on base salary. We regret that the state of the budget and the funding status of University of California Retirement Plan does not allow retirement benefits to be paid on all earnings of health sciences faculty, the so-called "X + Y + Z" pay. Of the two proposals now under consideration by the Academic Senate and chancellors, we strongly support the one establishing a Defined Contribution Plan benefit that would apply a 7% contribution on all salaries (Y + Z) above base pay up to the tax limits. Although some have argued that the figure of 7% is either too high or too low, we believe this figure represents a fair compromise.

We urge the University to continue to explore ways of maintaining salary equity for health sciences faculty. We hope that by accepting the option of a new DCP benefit on additional pay, the goals of seeking benefits on all earnings of health sciences faculty are not jeopardized.

While we requested comments from the chairs of the Faculty of the School of Optometry and the Faculty of the School of Public Health, no formal comments were received.

Thank you for the opportunity to comment on this proposal.

Sincerely,
/s/Ronald Gronsky, Chair
Berkeley Division

cc: Pamela Samuelson