UNIVERSITY OF CALIFORNIA **ACADEMIC SENATE**

MEETING OF THE ASSEMBLY OF THE ACADEMIC SENATE

February 10, 2016

MINUTES OF TELECONFERENCE MEETING

I. ROLL CALL OF MEMBERS

Pursuant to the call, the Assembly of the Academic Senate met on Wednesday, February 10, 2016. Academic Senate Chair J. Daniel Hare presided and called the meeting to order at 10:00 am. Senate Director Hilary Baxter called the roll of Assembly members and confirmed a quorum. Attendance is listed in Appendix A of these minutes.

II. MINUTES

ACTION: Assembly approved the minutes of the December 9, 2015 meeting as noticed.

III. ANNOUNCEMENTS BY THE CHAIR

- **J. Daniel Hare**

Senate Chair Hare noted that the main purpose of today's meeting is to acquaint Assembly members with the report and recommendations of the President's Retirement Options Task Force (ROTF), the results of the systemwide Senate review of the report, and the contents of an Academic Council letter now being finalized, which summarizes the views of Senate divisions and systemwide committees.

IV. REPORTS OF STANDING COMMITTEES

A. Academic Council

- **J. Daniel Hare, Chair**

Retirement Options Task Force: As part of the budget agreement with the state, UC agreed to implement a new pension tier for UC employees hired on or after July 1, 2016 that includes a cap on pensionable salary aligned with the state's Public Employee Pension Reform Act (PEPRA), in exchange for $436 million in Proposition 2 funds paid to UCRP over three years. The agreement also allows UC to offer a supplement to the PEPRA cap to select groups of employees. President Napolitano assembled a Task Force to advise her about the design and implementation of a new tier that will meet these requirements and also preserve the competitiveness of UC retirement benefits and the financial sustainability of UCRP. Four Senate representatives served on the Task Force. The recommendations for the 2016 tier were released for Senate review on January 15, and comments are due February 15. The Senate chair and vice chair also collaborated on a Guide to Reviewing the Report that focuses on key points.

The Council letter summarizes comments submitted by Senate reviewers, and notes that the comments cannot be ascribed to self-interest because reviewers understood that no active employees would be directly affected by the new options. Senate divisions were unanimous that the agreement to adopt the PEPRA cap and any retirement plan in response to the cap will significantly reduce the value of UC's retirement benefit for future employees and undermine the ability of UC campuses to make the competitive offers necessary to recruit and retain outstanding faculty members. Reviewers were also concerned about the impact of the 2016 tier on the future of UC, noting that the quality of a UC education is a direct reflection of the quality of the faculty who provide that education. Reviewers expressed concern that the decision to adopt the cap was made in haste and without the expected and necessary Senate consultation.

Divisions noted that the ROTF was given an impossible task – to preserve total remuneration, protect the viability of UCRP, and generate significant saving. Only the second is likely to be achieved through the current recommendations, largely as a result of past actions such as the adoption of the 2013 tier and subsequent UC funding and borrowing decisions. They noted that the only way to achieve savings is to reduce benefits.

The Council letter summarizes the divisions' analysis of the recommendation to offer new employees a choice of two plans. Under Plan A, employees would be covered by a Defined Benefit (DB) plan up to the PEPRA limit, plus a supplemental Defined Contribution (DC) benefit that includes an additional employer/employee contribution equivalent to 10%/7% of pay on income over the PEPRA limit. Most divisions recognized that for employees whose salary crosses the cap in mid-career, the DC supplement under Plan A would be too little-too-late to fully compensate for the effects of the cap compared to the 2013 tier. Plan A would reduce the faculty's incentive to stay at UC throughout their career, or to retire at an appropriate age, as faculty may need to work beyond 70 to achieve sufficient retirement income. A majority of the divisions agreed that under Plan A, the "UAAL surcharge" should be paid by the employer on salaries both below and above the PEPRA cap, up to the IRC limit, to help support the UCRP funding policy. Under Plan B, employees would be covered by a stand-alone DC plan with an employer/employee contribution of 10%/7% up to the Internal Revenue Code (IRC) limit. Divisions understood that the projected income replacement under Plan B would be insufficient to preserve competitive total remuneration, and would reduce the incentive for employees to decline outside offers in early- or mid-career and retire at a targeted age.

Most divisions agreed with the ROTF recommendation to make Plan A the default option, and several opined that the length of time for faculty who choose Plan B to make a second choice to Plan A should be 7-8 years later (compared to the 5 years recommended in the report) to allow faculty to change at the tenure point. UC will be requesting a Private Letter Ruling from the IRS about the possibility of offering a second choice at different times for different segments of employees.

An updated total remuneration analysis released last week confirmed that both Plans A and B would compound the competitive shortfall outlined in the 2014 Total Remuneration study. Senate reviewers noted that UC would need to increase cash compensation to preserve competitive total remuneration under the reduced benefits of the 2016 tier. Reviewers were also concerned that creating a two-tier pension system with significantly different benefits will harm equity and morale, could exacerbate existing financial disparities by race and gender, and could further impair UC's ability to recruit and retain diverse faculty. There were also concerns that the 2016 tier could be particularly harmful to the recruitment and retention of faculty on the Health Sciences Compensation Plan, because those faculty tend to begin careers later in life, at salaries that are already close to the PEPRA cap. The Council letter notes that any plan adopted should apply equally across the board to all employee groups for the sake of simplicity and fairness.

Several divisions asked to review alternative plans. There was no time to develop formal alternatives; however, initial modeling suggests there is a viable alternative to Plan A involving additional employer and employee contributions to a supplementary DC plan beginning on the first day of hire and on the first dollar earned, irrespective of one's salary below the cap, to take advantage of the significant power of compound interest.

The 2016 tier will not have a significant impact on UCRP's funded status or generate significant savings; instead it will cost UC more from higher salaries and increased retention costs, and has the potential to change the relationship between UC and its world class faculty.

Discussion: It was noted that the PEPRA cap will apply to all employees, including members of the Senior Management Group. It was noted that it may be possible to modify or add to the options in the report, but unlikely for any delay to the decision or implementation timeline. Assembly members encouraged Senate leaders to request additional modeling of alternatives to Options A and B and their benefits and costs, particularly what level of additional salary and or DC supplement might bring the 2016 tier into more competitive alignment with the 2013 tier. It was noted that alternatives with higher DC contributions may help mitigate the damage, but none are likely to make the 2016 tier as competitive as the 2013 tier; moreover, there is limited time to develop more acceptable models.

Several Assembly members urged the Senate to reject the plan and express its dissatisfaction through a formal Memorial. It was noted that the 2016 tier will not produce savings, but will increase overall costs for the University, push the additional costs associated with making up the PEPRA cap to the campuses, shift total remuneration from benefits to salary, and increase the funding disparity between campuses. It was noted that the Regents' new UCRP funding policy is already addressing the problems created by the earlier contribution holiday, and UC should encourage the state to live up to its full obligation to UCRP. It was also noted that the Senate should consider the potential consequences of a full rejection of the mandate, as the Legislature expects UC to adopt the PEPRA cap as a measure of fairness to other state employees subject to the PEPRA legislation.

MOTION: The Berkeley Division introduced a motion for an Assembly resolution regarding the imposition of the PEPRA cap on the University and the discontinuation of the current pension plan. There was a vigorous discussion about the wording of the resolution. Several friendly amendments were made and accepted. The motion was seconded.

ACTION: A roll call vote was taken, and the resolution passed unanimously, with one abstention, as follows.

Resolution of the Assembly of the Academic Senate of the University of California

WHEREAS:

Through its path-breaking research and providing the state with a high-skilled workforce, the excellence of the University of California system plays a well-documented and vital role in keeping the California economy thriving; and

That excellence is also critical to providing access for all segments of California's society to a cutting-edge education that makes them competitive for the best jobs and the best graduate and professional schools, thereby aiding social mobility and the goal of a more just society; and

That excellence remains dependent on the ability of the University of California to attract and retain the best faculty; and

That ability is dependent on offering faculty total remuneration that is competitive *vis-à-vis* other institutions; and

As documented in the Retirement Options Task Force (ROTF) report, the analysis of Professors Chalfant & Hare, UCFW's report, UCPB's report, and the Divisions' reports, the proposal to accept the Public Employees Pension Reform Act (PEPRA) cap and to adopt either pension plan put forth in the ROTF report means offering an inferior pension plan to new employees *vis-à-vis* the current pension plan (the 2013 Tier), thereby reducing the value of that component of their remuneration,

BE IT RESOLVED THAT:

The Assembly rejects the imposition of the PEPRA cap on the University of California and the discontinuation of the current pension plan in the absence of any plan or program to fund or to provide compensating increases in total remuneration, so as to prevent harming the mission of the University of California by eroding its ability to recruit and retain the best faculty.

IT IS FURTHER THE ASSEMBLY'S SENSE THAT:

As documented in the reports of the Divisions, the cost of providing such compensating increases, as well as other resulting costs, could well exceed any savings resulting from adopting either pension option offered in the ROTF report (including factoring in the $436 million that has been offered by the State), which argues that, at the very least, further analysis and planning are warranted prior to their possible adoption to ensure that the University does not pursue an action that is costly and damaging.

V. UNIVERSITY COMMITTEE ON FACULTY WELFARE REPORT [None]

VI. SPECIAL ORDERS

A. Consent Calendar [None]

VII. REPORTS ON SPECIAL COMMITTEES [None]

VIII. PETITIONS OF STUDENTS [None]

IX. UNFINISHED BUSINESS [None]

X. NEW BUSINESS [None]

The meeting adjourned at 12:00 pm
Minutes Prepared by: Michael LaBriola, Academic Senate Analyst
Attest: J. Daniel Hare, Academic Senate Chair

Attachments: Appendix A – Assembly Attendance Record, Meeting of February 10, 2016