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UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
TASK FORCE ON INVESTMENT AND RETIREMENT (TFIR)
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October 31, 2011

ROBERT ANDERSON, CHAIR
ACADEMIC COUNCIL

RE: Governor Brown's Twelve Point Pension Reform Plan

Dear Bob

Following circulation of the Governor's Twelve Point Pension Reform Plan, the Senate Task Force on Investments and Retirement (TFIR) discussed the proposed reforms, and prepared the attached document: "*TFIR's Comments in Response to the Governor's Pension Reform Plan*"; TFIR would like to post this document on the TFIR section of the Senate's web site, and hopes that you will place a link to the document on the main page.

The goals of the TFIR statement are 1) to let Senate faculty know that the Academic Senate is engaged in discussions with the administration concerning the proposed reforms, 2) to document that much of what the Governor proposes is already incorporated into UC policy; 3) to indicate that there are some issues about which to be seriously concerned; and 4) to emphasize that TFIR looks forward to engagement with UC and State leadership to ensure that neither the university nor the faculty's welfare are harmed.

The University needs to place a high priority on maintaining the Regents' historic independence in the management of the UC retirement system. That independence and management has contributed to UC's unprecedented growth and success. It has also provided substantial savings in retirement funding for the State over the last two decades, and has already produced and enacted a plan for moving forward without creating the sort of doomsday scenarios that plague public employee pension plans.

We look forward to assisting the Academic Senate and advising the administration in ensuring the success of UCRP.

Sincerely,

Shane White, UCFW TFIR Vice Chair

Copy: UCFW
TFIR
Robert May, Chair, HCTF
Jim Chalfant, Chair, UCPB
Martha Winnacker, Executive Director, Academic Senate

TFIR’s Comments in Response to the Governor's Pension Reform Plan

On Thursday, October 27, 2011, Governor Brown announced his Twelve Point Pension Reform Plan: (http://gov.ca.gov/docs/Twelve_Point_Pension_Reform_10.27.11.pdf). The Academic Senate's Task Force on Investment and Retirement (TFIR) has reviewed the Governor's plan and offers the following observations and concerns.

The retirement plan of the University of California has for decades already included several aspects of the Governor's twelve-point pension reform plan. The university has for many years:

- calculated retirement benefits using a three-year average of compensation, to avoid pension spiking (point 4);
- calculated retirement benefits based on regular recurring pay, again to avoid spiking (point 5);
- limited post-retirement employment to approximately 860 hours (less than the 960 proposed by Governor Brown in his point 6);
- generally avoided retroactive pension increases (point 8); and
- generally prohibited employee purchase of service credits (except in very special circumstances that serve the best interests of the University) (point 10).

We are pleased that the Governor advocates these long-standing features of the UC retirement system as part of his efforts to reform the State's retirement systems.

The University of California has also long recognized that pension reform is necessary to address future costs of the UC retirement plan. Several years ago, the University of California began a process resulting in a pension reform plan adopted by The Regents in December of 2010. Actions taken are similar to several other points included in the Governor's twelve-point plan. The Regents increased retirement ages for new employees, with some modest numerical differences from the Governor’s proposal (point 3), increased the employee contribution to the retirement system, but by less than proposed by the Governor (point 1), and reduced the employer’s contribution to retiree health costs (point 12). The University also is considering pre-funding the retiree health benefit, using both employee and employer contributions, along with having recently made substantial increases in contributions to UCRP.

The time and effort invested in the development of the University's pension reform plan has generated substantial experience about the issues and options for pension reform. These internal university discussions have identified several areas in which the Governor's pension reform plan would not serve the best interests of the university. For example, a "hybrid" retirement system combining a defined contribution plan with a defined contribution plan (point 2) was rejected because it was not the most effective plan to help recruit and retain an outstanding faculty. In particular, the University’s analysis showed that a hybrid plan would not aid in retention of faculty and staff during their most productive years, unlike the defined-benefit plan that remains the cornerstone of UC's retirement benefits. Similarly, the linkage of the university's retirement plan with Social Security was found to be too complicated to implement and also not effective in recruiting and retaining the diverse work force needed by the university. Finally, competitive total remuneration is essential to retaining the excellence of the university, and for evaluating new proposals concerning retirement benefits; increases in employee contributions to the retirement system or decreases in benefits would generate a corresponding need to increase salaries to offset benefits reductions, thus negating any potential financial savings. UC's experience demonstrated that the unique characteristics and workforce-related needs of the university must drive reform, and that policies chosen primarily for their role in reducing costs can have adverse consequences that are more operationally detrimental, or costly, than the costs they were designed to avoid.

It has been suggested that the pension reform plan is intended to include the University. Hence, it is critical that the University engage in substantial conversations with the Governor and the legislature to ensure that UC's excellence is not inadvertently compromised by the Governor's pension reform efforts, and to share with the Governor the considerable expertise gained during UC's recent reform. The members of TFIR look forward to engaging with UC leadership and the Governor to ensure that we serve the best interests of both the State and University.

TFIR recognizes that the provisions of benefit plans should be adjusted as circumstances change. Equally important, however, is that those adjustments do not bring further erosion in the competitiveness of total remuneration for UC faculty and staff. TFIR will continue to monitor any adjustments proposed by the Governor, the Legislature, or the University, and analyze their consequences for total remuneration and their role in preserving the University's excellence. Changes cannot be solely designed to reduce costs; proposals must be accompanied by analysis and consideration of their collateral deleterious impacts.