Academic Senate re UCRP
Primer Prequal

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►AC minutes, July 23, 2003:

Sr. Vice President Mullinix

Update on Bargaining. UPTE has gathered enough signatures to hold an election in the early fall for the professional and technical titles. Union organizers may not solicit support in the workplace nor use any university resources for that purpose. Agreement has not been reached with the librarians. The problem is their desire to have the same salary scale as faculty. This is the case at the CSUs. Negotiations with the UAW for graduate student assistants are moving forward.

VERIPS. Given the status of the UCRP, this would not be a good time to implement a VERIP program.

UCRS Contributions. The university continues to monitor the capital markets. These are improving slightly and are ahead of the benchmark but they have not yet reached the 7.5% target. (For contributions not to resume, they would have to meet a 15% target.) With respect to the Health Sciences retirement compensation, any plan that would include some amount of funding from UCRP would not likely receive the support of the Regents.

Finance. In an effort to increase the debt capacity of the university, the Regents approved a new financing structure

►From UCFW 2002-03 Annual Report:

UCRP. The Committee heard reports on the state of the University of California Retirement Plan (UCRP). Since 1990, neither UC nor its employees have been required to make contributions to UCRP, but because of the negative stock market returns, contributions now appear likely to resume within the next five years. The UCFW Chair has officially asked TFIR to consider strategies for the resumption of employer and employee contributions. TFIR will also be monitoring events at the National Laboratories in case any changes in UC's contractual relationship should have potential impacts on UCRP.

►From UCFW Minutes January 2004:

I. Executive Session

Action: Following an Executive Session, UCFW drafted and adopted, by unanimous vote, the following resolution on current or future changes to the University of California's Retirement Plan:

> "The University Committee on Faculty Welfare (UCFW) categorically opposes any change in the University of California's Retirement Plan (UCRP) that would reduce the benefits, including benefits related to future service credit, of current employees. Such a reduction would represent a serious breach of faith with current employees who came to the University of California relying on the provisions of UCRP, and would likely result in litigation. In addition, UCFW has grave reservations about any proposal to provide new employees with pension benefits that are different from those given to current UC employees."

II. Joseph Mullinix, Sr. Vice President-Business and Finance

VERIP. Within the next several weeks, the Office of the President will clarify in an emphatic statement that no VERIP will be offered in the current or next fiscal year. Since VERIPS are an additional cost to the UCRP, and there is a desire on the part of UCOP to delay employee contributions as long as practical, it is also unlikely that a VERIP will be offered in the subsequent period.

Revisions to UCRP. Because the University's retirement plan is becoming increasingly expensive and is of the greatest benefit to those who earn substantial service credit over an extended period of employment, the Office of the President has begun to explore alternative plans for all or some categories of new employees (i.e. younger and/or shorter-term employees) that may be more attractive for them. There are no plans to make any significant changes in the existing Plan for current employees.

►Council minutes January 2004:

UCFW Resolution on UCRP, UCFW Chair Ross Starr:

An administrative task force is looking at possibly revising the UCRP to provide less expensive alternatives to the current defined benefit plan. Nothing concrete has been proposed, and UCOP will be consulting with UCFW on this issue. UCFW's resolution opposes any changes in the UCRP that may reduce future benefits of current employees. The resolution was not brought to Council for action, but to inform Council's discussion with Sr. Vice President Mullinix.

►From UCFW minutes of February 2004:

VII. Proposal to Restructure the UC Retirement System
-Endorsement of Final Draft Resolution for Academic Council
Ross Starr, UCFW Chair
Robert Anderson, TFIR Chair
Joe Mullinix, Sr. Vice President-Business and Finance
Judy Boyette, Asc. VP-HR&B

Issue: Should UCFW ask the Academic Council to adopt the Committee's Resolution on Current and Future Changes to the University of California's Retirement Plan (UCRP). The UCFW Chair introduced the Resolution to the Academic Council in January, but only as an informational item.

Discussion:

-Sr. Vice President Mullinix reported that there was no current plan to restructure the UCRP in a way that would reduce the benefits of current employees. He assured the Committee that if Administration were to begin a consideration of restructuring the UCRP, the UCFW would be immediately informed. Several areas where there might be changes include retirement provisions for new UC employees and the institution of a funded plan for retiree health. As the ratio between active and retired employees changes, this will become a substantial cost for UC. Some thought has also been given to making adjustments to the buyback provisions in order to provide more flexibility.

-Asc. Vice President Boyette noted that it was Administration's aim to provide retirement programs that are valued by both the faculty and staff, and to aid in recruitment. She asked that if UCFW were to decide to take its Resolution to the Academic Council, it be acknowledged that the Administration has represented to the Committee that it has no intention of changing the retirement benefits of current employees.

Action: In a straw vote, UCFW was in unanimous agreement to table the Committee's Resolution on Current and Future Changes to the University of California's Retirement Plan for the present, but to alert the Academic Council of the Committee's concern.

►The May 2005 UCFW minutes discuss UCRP, but only in terms of normal cost calculations and the Treasurer's reporting; contributions did not arise.

►From June 2005 UCFW minutes:

The following issues were suggested as priority discussion items for the 2005-06 UCFW:
-Systemwide Parking Policy
-Campus Childcare Facilities for Faculty
-Course and Faculty Evaluations
-Faculty Liability Related to Student Records
-Faculty Housing
-Faculty Salaries
-Deals that the Health Care Providers make with UC Medical Centers – continuing to include an option to allow UC employees to be treated at UC medical centers
-Restart of Contributions and a Policy on Employer's Contribution to the UCRP
-Pension Reform/Restructuring
-Funding of Faculty Benefits from grants/extramural monies
-Continuing Discussions with IR&C on the Implementation of the Electronic Communications Policy

►UCFW minutes, October 2005:

I. Consultation with UCOP – Business and Finance

- Joe Mullinix, Senior Vice President

REPORT: Senior Vice President Mullinix reported to the committee on the following issues:

UC National Laboratories: The University's contract for Lawrence Berkeley National Laboratory was renewed in April 2005 for a five-year term, and the contract for Lawrence Livermore National Laboratory (LLNL) has been extended until December 2007, with no major changes reported in either contract. UCOP presumes that the Department of Energy (DOE) will release the draft request for proposals (RFP) for LLNL in the next six to nine months, and expects it to be similar in structure to the RFP for the Los Alamos National Laboratory (LANL). The LANL contract expires in May 2006 and the DOE is expected to announce the winner of the competition on December 1, 2005. Senior Vice President Mullinix detailed the requirements of the LANL RFP, including the formation of the limited liability corporation (LLC), Los Alamos National Security (LANS). LANS is a separate legal entity made up of the University of California, Bechtel, the Washington Group and BWXT, and will be the official employer of all LANL employees. At present, no predictions are being made as to the future of LANL due to the uncertain outcome of the competition.

Discussion: Members engaged in a discussion concerning the LANS governing board and executive committee, and understandings surrounding the health and retirement benefits structure for pre- and post-LANS employees.

University Treasurer Search: The search is currently underway, with the assistance of an executive search firm.

University of California Retirement Program (UCRP): The Regents have established a subgroup to gain expertise on UCRP in order to decide (1) when to resume contributions; and (2) to consider planning options for future University employees who join UCRP. Regarding resuming contributions, planning estimates presume sometime in 2007, with a gradual phase-in approach in two-year increments. Options for new hires may include a pure defined contribution or pure defined benefit plan for some or all new employees, and/or a combination of both. Senior Vice President Mullinix reported that the Regents are also addressing broad philosophical questions in this study, including the effects such plans could have on the recruitment of new faculty. Also, the University Treasurer's office will present a report on the University's 2007 benefits plans to the Regents in November, which UCFW is interested in obtaining.

Faculty Salaries: Senior Vice President Mullinix and Associate Vice President Boyette will present a ten-year plan on faculty salaries in the near future.

UCFW PRINCIPLES REGARDING PROPOSED BENEFIT CHANGES

SUMMARY

The Regents and the Office of the President (UCOP) are considering restarting employer and employee contributions to the University of California Retirement System (UCRS) Defined Benefit Plan (DBP) effective July 1, 2007, and making changes in that plan that would apply to new employees hired July 1, 2007. In addition, they are considering making changes in retiree health care. To date, no specific proposals have been presented to the University Committee on Faculty Welfare (UCFW) for its consideration. UCFW's position is that the consideration of changes should be guided by the following principles:

1. In any benefit changes, there must be no deterioration in UC's competitive position in total remuneration. In other words, if a benefit is reduced, or an additional employee contribution is required, cash compensation needs to be adjusted upward to fully compensate for the reduction in the value of the benefit. This upward adjustment in salary needs to be in addition to matching the annual increase in cash compensation offered by competing institutions.
2. For faculty, the relevant group of competitors consists of leading research universities nationwide. For other employee groups, different competitors may be relevant.
3. UCFW strongly favors phasing in UCRS DBP contributions soon, in order to keep the UCRS DBP fully-funded. ***Note to UCFW members. TFIR is not unanimous on this point. Dan Mitchell will present an alternative view for consideration by UCFW.***
4. UC has traditionally provided better benefits than the typical competitor. In the absence of a convincing argument that UC would benefit by altering the mix of benefits and cash compensation, the default position should be that UC continue to offer better benefits than the typical competitor.
5. Mercer has determined that the typical competing university offers faculty a defined contribution plan (DCP) with a 10% employer contribution and a 4% employee contribution. The pension plan offered to UC faculty should be no less generous than that of the typical competitor. In addition, UC should require employee contributions no higher than that of the typical competitor. This implies that, for current faculty, the normal cost (16% of covered compensation) of the UCRP DBP should be split into an employer contribution of at least 10% and an employee contribution of at most 6%. For faculty newly hired after the effective date of plan changes, UCFW strongly favors retaining the current UCRS DBP unchanged. If the plan is made less generous, it should have a normal cost of at least 14% of covered compensation, with an employer contribution of at least 10% of covered compensation and the balance covered by employee contributions. Any reduction in normal cost should be achieved by slight reductions in age factors and/or a slight increase in the age at which the current age factors apply, rather than a reduction in the cost-of-living increases (COLAs).
6. The current UCRP DBP has powerful effects in retaining employees in mid-career and encouraging employees to retire in their early sixties. No change from the current DBP to a DCP or a hybrid DBP and DCP should be made until the

effect on mid-career retention and retirement decisions, and the consequences for UC's budget and intellectual mission, have been carefully studied.

7. While the focus of these principles is on faculty benefits, the same principles apply to the benefits for other employees.
8. UCFW supports the phasing in of employer and employee contributions to the UCRP DBP beginning July 1, 2007, in order to retain fully funded status.
9. UCFW feels strongly that it is unrealistic to implement the proposed changes in UCRP for new employees by July 1, 2007.
10. It is essential that, in any DBP, the total (employer plus employee) contributions going into the plan be the same percentage of covered compensation for each employee. Different employee groups, especially those exclusively represented by unions, may have a different mix of employer and employee contributions, but these must total the same percentage of salary.
11. Current retirees and active employees close to retirement need to be protected from any changes in retiree health care benefits.
12. If there are reductions in retiree health care for employees who are currently far from retirement, these reductions must be accompanied by cash salary increases to active employees to compensate them for the reduction in the value of their retiree health benefits.

DETAILS

The Regents and the Office of the President (UCOP) are considering restarting employer and employee contributions to the University of California Retirement System (UCRS) Defined Benefit Plan (DBP) effective July 1, 2007, and making changes in that plan that would apply to new employees hired July 1, 2007. In addition, they are considering making changes in retiree health care. To date, no specific proposals have been presented to the University Committee on Faculty Welfare (UCFW) for its consideration. UCFW's position is that the consideration of changes should be guided by the following principles:

1. In any benefit changes, there must be no deterioration in UC's competitive position in total remuneration. In other words, if a benefit is reduced, or an additional employee contribution is required, cash compensation needs to be adjusted upward to fully compensate for the reduction in the value of the benefit. This upward adjustment in salary needs to be in addition to matching the annual increase in cash compensation offered by competing institutions. UCFW's Task Force on Investment and Retirement (TFIR) has asked, and Mercer and UCOP have agreed, that for any proposed changes, Mercer will present to the Regents an analysis of the effect on the value of the benefits using the same methodology used in Mercer's evaluation of current benefits, and the same set of sample employees based on UC's demographics, computed as if we were in the steady state, i.e. as if all UC employees had been enrolled in the new plans since their dates of hire.
2. For faculty, the relevant group of competitors consists of leading research universities nationwide. For other employee groups, different competitors may be relevant.
3. Because of the rapid increase in the stock market over the 1980's and 1990's, the UCRS defined benefit plan (DBP) has retained fully-funded status without the need for employer or employee contributions since 1990. However, barring extraordinarily favorable future investment returns, contributions will need to resume within the next few years. UCFW strongly favors phasing in contributions soon, in order to keep the UCRS DBP fully-funded.
4. UC has traditionally provided better benefits than the typical competitor. There is no economic theory or empirical finding that indicates that all competing employers should offer the same mix of benefits and cash compensation; indeed, Mercer has indicated that in their studies for other employers, they have found that employers competing for employees within a given market typically offer significantly different mixes of benefits and cash compensation. No argument has been presented to UCFW that it is in UC's interest to alter the *mix* of benefits and cash compensation to more closely match the mix offered by the typical competitor. In the absence of a convincing argument that UC would benefit by altering the mix, the default position should be that UC continue to offer better benefits than the typical competitor.
5. Mercer has determined that the typical competing university offers faculty a defined contribution plan (DCP) with a 10% employer contribution and a 4% employee contribution. Since normal cost for the UCRS defined benefit plan (DBP) is approximately 16% of covered cash compensation, and no employee

contributions are currently required, the UCRS DBP currently is roughly equivalent to a DCP with a 16% employer contribution and no employee contribution. In this respect, the value of the UCRP DBP to faculty exceeds that of the typical competitor's pension plan by 6% of covered cash compensation. However, as employer and employee contributions are phased in, UC's competitive position in total remuneration will deteriorate unless salary increases matching the required employee contributions are phased in at the same time; these salary increases must be in addition to the amount necessary to match increases in cash compensation at competing universities.

6. The pension plan offered to UC faculty should be no less generous than that of the typical competitor. In addition, UC should require employee contributions no higher than that of the typical competitor. If, for example, UC required an employee contribution 2% higher than the typical competitor, this would be equivalent to a 2% shortfall in cash compensation. However, the salary comparison methodology used by the California Post-Secondary Education Commission (CPEC) and the Legislature in setting goals for faculty salaries does not take benefits into account, and it is thus extremely unlikely that the Legislature would fund the additional cash salary to compensate for the higher employee contribution.
7. According to the Mercer survey, the typical competing university's faculty pension plan has a total cost of 14% of covered compensation, split into a 10% employer and 4% employee contribution. Since benefits cannot and will not be reduced for current employees, this implies that, for current faculty, the 16% normal cost of the UCRP DBP should be split into an employer contribution of at least 10% and an employee contribution of at most 6%. For faculty newly hired after the effective date of plan changes, there are essentially two defined-benefit options:
    a. The current UCRS DBP with a normal cost of 16% of covered compensation, split into a 10% employer contribution and a 6% employee contribution. UCFW strongly favors this option.
    b. A slightly less generous DBP with a normal cost of 14% of covered compensation, split into a 10% employer contribution and a 4% employee contribution. If this option is chosen, UCFW strongly opposes any reduction in the provisions for cost-of-living increases (COLAs). Reducing the COLAs would be a less visible reduction than reductions in the age factors or an increase in the age at which the age factors top out, but it would have very adverse consequences on retirees with the misfortune to live into their eighties and nineties. UCFW strongly believes that any reduction in normal cost of the UCRS DBP should be achieved through slight reductions in the age factors and/or raising the age at which employees become eligible for the current age factors.
8. The current UCRP DBP provides employees with strong incentives to retire in their early sixties. DCP's do not provide any incentive for timely retirement. TFIR has presented to Mercer and UCOP anecdotal information suggesting that faculty at universities with DCP's are retiring a decade or more later than are UC faculty. If the changes in UCRP resulted in a substantial postponement of faculty

retirement, it would have very serious effects on UC. Older faculty are, on the whole, paid substantially more than younger faculty, so postponement of retirement would have a very substantial adverse impact on UC's operating budget. While faculty in a few disciplines seem to get better as they age, and some individual faculty remain intellectually vigorous well into their eighties, we believe that postponement of faculty retirement into the seventies and beyond would have a very deleterious overall effect on the intellectual vigor of the University of California. No change from the current DBP to a DCP or a hybrid DBP and DCP should be made until the effect on retirement decisions, and the consequent impacts on the UC budget and intellectual vitality, have been carefully studied.

9. The current UCRP DBP provides a strong incentive for faculty in mid-career to remain at UC, rather than move to a competing institution. No change from the current DBP to a DCP or a hybrid DBP and DCP should be made until the effect on mid-career retention has been carefully studied.
10. In a DCP, investment risk is born by the employee; in a DBP, investment risk is born by the employer. At a superficial level, this could make a DCP seem a preferable option from the point of view of the employer. However, there are powerful counter-arguments:
    a. Risk is two-sided. In UCRP, UC is at risk if investment returns fall short of the actuarial assumption of 7.5% annual return, but UC stands to benefit if investment returns exceed the actuarial assumption. Indeed, the fact that investment returns substantially exceeded the actuarial assumption in the 1980s and 1990s allowed UC to eliminate all contributions to UCRP for over 15 years. If UC moves to a DCP, it foregoes the possibility of reaping the benefit of higher than assumed investment returns. The actuarial assumption of 7.5% annual return is relatively conservative, and it is more likely that future returns will exceed this assumption than that they will fall short.
    b. The Regents and the Treasurer have carefully designed UCRP's investment strategy. In a DCP, many employees will make bad choices of investments. The most common error is likely to be making choices that are too conservative; an employee investing the bulk of his/her DCP assets in the UC Savings Fund over the course of his/her career is guaranteed to have insufficient funds in retirement. Other employees may adopt very risky, undiversified strategies. Still others may frequently shift their funds to whichever asset class performed best in the previous quarter or year. Employees who make bad investment decisions will have insufficient funds to live well in retirement. In addition, employees who find their accumulations insufficient to retire, whether because of bad investment choices or unfavorable overall market conditions, are likely to postpone retirement beyond the point at which their productivity exhibits significant decline.
11. While the focus of these principles is on faculty benefits, the same principles apply to the benefits for other employees. In particular,

a. no change from the current DBP to a DCP or a hybrid DBP and DCP should be made for new non-faculty employees until the effects on mid-career retention and retirement timing decision have been carefully studied. Many non-faculty jobs require great expertise that can only be acquired through a career of UC employment.
b. any reduction in benefits needs to be immediately compensated for by an increase in cash compensation, in addition to matching the annual salary increases offered by the relevant competing employers.

12. UCFW supports the phasing in of employer and employee contributions to the UCRP DBP beginning July 1, 2007, in order to retain fully funded status. The information needed to do this is in hand, and it is entirely realistic for the Regents to commit to this by June 30, 2006.***As noted above, Dan Mitchell will present an alternative view on the restart of contributions for consideration by UCFW.*** However, UCFW feels strongly that it is unrealistic to implement the changes in UCRP for new employees by July 1, 2007. As noted above, UCFW has not been presented with any specific proposals for changes in the plans. A careful analysis by Mercer of the effect of proposed changes on mid-career retention and retirement timing decisions will take a considerable time. Once specific proposals are prepared, they will need to be carefully reviewed by UCFW and other Academic Senate committees, and they will need to be bargained with the unions representing UC employees. In order to deal with the budgetary and labor relations issues, at least a year will be needed between the decision and its effective date. It is inconceivable to us that the Regents can make a good decision on this by June 30, 2006, the effective deadline if the changes are to take effect July 1, 2007.
13. We anticipate that employee unions will bargain over the level of employee contributions to the UCRP DBP (for current employees) and to either the UCRP DBP or some new plan (for employees hired after the effective date of the change). It is essential that, in any DBP, the total (employer plus employee) contributions going into the plan be the same percentage of covered compensation for each employee. If, for example, union A negotiates a lower employee contribution on behalf of its members, then the employer contribution on behalf of its members would have to be increased to maintain the same total contribution. Otherwise, the lower employee contribution enjoyed by union A's members would effectively be paid for by other employees, who are not represented at the table when UC bargains with union A.
14. The Regents and UCOP are considering changes in retiree health care benefits that would shift more of the cost of those benefits to retirees. Current retirees and active employees close to retirement need to be protected from these changes.
15. Just as the UCRS DBP provides value to active employees during the working years, as they accumulate a pension benefit, so retiree health benefits provide a quantifiable benefit to active employees. Any reduction in retiree health care benefits must be accompanied by cash salary increases to active employees to compensate them for the reduction in the value of their retiree health benefits; these increases must be in addition to the amount needed to match the annual

increase in salaries offered by competitors, and the increases to compensate employees for the restart of employee contributions to the UCRS DBP.

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February 14, 2006

RANDY SCOTT, EXECUTIVE DIRECTOR
HUMAN RESOURCES AND BENEFITS – POLICY AND PROGRAM DESIGN

RE: Proposals for Resumption of Contributions to UCRP Presented to UCFW 2/10/06

Dear Randy,

I am writing to report to you the comments of the University Committee on Faculty Welfare on the proposals for the resumption of contributions to UCRP that were presented to UCFW at its most recent meeting on Friday, February 10.

To begin, the Committee asked me to express its appreciation to the Office of the President for the consideration it is now giving to UCFW's recommendation that when contributions eventually rise to a level sufficient to cover the full 16% normal cost of the plan, contributions from employees should be no higher than 6% of their cash compensation, with contributions from the employer covering the remaining 10%. UCFW continues to believe that such proportional contributions are more consistent both with the past practices of the University and with the current practices of our competitors than is the 8% - 8% split initially proposed by OP.

If the endpoint of the process is going to be proportional contributions of 10% and 6%, UCFW asks the Office of the President to consider whether intermediate stages in this process should not be equally proportional. For example, in years in which the employer contribution is 5%, a proportional contribution from employees would be 3%. If the University contribution is 3%, a more appropriate contribution from employees would be 2%.

UCFW has grave misgivings about OP's current proposal to require equal contributions from employer and employee until employee contributions reach 6%, while leaving responsibility for paying for the last 4% of UCRP's normal cost on the employer alone. If the past and future practice of the University has been and will be to pay the larger share of the retirement plan's normal cost, then we might be setting a dangerous precedent and sending a mixed message to employees if we depart from this practice on an allegedly temporary basis beginning in 2007.

Even more importantly, if employee contributions are raised to 3% or 4% in 2007 and 5% in 2009 as currently planned, the take-home pay of UC employees will decline in each of those years, according to the figures provided by Mercer Consulting, even if the catch-up pay increases contemplated by The Regents are added to their pay. Before the Office of President commits the University to this step, UCFW would like to offer again the first recommendation that it made on this subject in January, which was that "In any benefit changes, there must be no deterioration in UC's competitive position in total remuneration. In other words, if a benefit is reduced, or an additional employee contribution is required, cash compensation needs to be adjusted upward to fully compensate for the reduction in the value of the benefit."

We began the current academic year with the news that the current cash compensation of UC employees is 15% behind the pay offered by our competitors. It now appears that UC take-home pay is in great danger of falling even further behind that offered by competitors over the next five years. UCFW recommends that the Office of the President needs either to reduce the speed with which the proposed increases in contributions are implemented, or to find additional ways to fund the salary increases that will be needed to make these increased contributions affordable for employees.

Sincerely,

Raymond Russell

Raymond Russell, Chair
University Committee on Faculty Welfare

Copy: UCFW
UCFW Task Force on Investment and Retirement

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To: **Members of the Academic Senate**

From: **John Oakley, Chair, Academic Council**

Date: **May 25, 2006**

Re: **Academic Council Memorandum on the Resumption of Contributions to the University of California Retirement Plan**

The purpose of this memorandum is to provide Senate members with information about plans to resume contributions to the UC Retirement Plan (UCRP) in July 2007, and to make them aware of the role played by representatives of the Academic Senate in making this decision.

UC's Retirement Plan is one of the most valuable rewards of working at UC. UCRP is a "Defined-Benefit Plan," in that it promises to pay employees a fixed percentage of a defined base salary after they retire. For UCRP, this base is referred to as the HAPC, which is the Highest Average Plan Compensation over a consecutive 36-month period. Not all forms of compensation qualify as "Plan Compensation." For example, summer salary is excluded. In addition, there are inflation-indexed IRS limits that, as of January 1, 2006, limit total qualifying plan compensation to $220,000 and that cap the annual pension payable by a defined-benefit plan at $175,000.

Like other Defined Benefit Plans, UCRP is required to maintain a pool of assets sufficient to meet the liabilities to current and future retirees that it accumulates over time. Until 1991, UC employees contributed varying amounts, which when contributions ceased were set at 2% of their pay up to the Social Security wage base and 4% above the Social Security wage base, less $19 per month. UC paid the rest.

Both UC and employee contributions to UCRP were suspended in 1991 because strong investment returns during the 1980s had increased the value of UCRP assets faster than the plan was accruing liabilities for future pension benefits, leading to a significant "overfunding" of the plan. Thanks to the bull market of the 1990s, that situation persisted until relatively recently (around 2000) when the downward slope of UCRP assets versus funding obligations took on a steeper descent. As a result, during this period, UC, its employees, and the taxpayers of the State of California have enjoyed an apparently "free" retirement pension plan. However, it was always anticipated that it would be necessary to resume contributions in the future when accrued liabilities of the plan equaled or exceeded assets. That day is close at hand.

Representatives of the Academic Senate and of the Office of the President meet regularly through a number of Senate committees, of which the most relevant to the UC Retirement Plan are the University Committee on Faculty Welfare (UCFW), and UCFW's Task Force on Investment and Retirement (TFIR). Both the Senate and the Office of the President have been sensitive to this increasing drawdown in the UCRP surplus for several years. It has been clear for some time that contributions to UCRP would soon have to be resumed to maintain viability of the retirement plan. Under normal circumstances, pension funds require continuous contributions, and both UCFW and the Office of the President agree that UCRP is now returning to the normal situation. It would be irresponsible to allow UCRP to fall significantly below 100% funded status. The Regents have adopted a mandate that UCRP's funded status be maintained in a "corridor" between 95% and 110%.

With the support of the Academic Senate, The Regents voted in March 2006 to reinstate contributions to UCRP as of July 2007. This Regental action does not specify the amount or source of these contributions. At the May Regents' meeting, just completed, The Regents took no further action on the reinstatement of contributions, in essence deferring action until the July Regents' meeting. The details of any reinstatement are subject to funding, the budget process, and collective bargaining requirements. Many represented employees work under contracts that do not expire until 2008. Contributions cannot be required of these employees in 2007 without their unions' agreement.

The actuarial "normal cost"[1] of retirement benefits that UC employees accrue every year of service is currently estimated at 16% of their covered compensation. Over time, it is anticipated that the sum of UC and employee contributions to UCRP will increase to cover the full 16% cost of accruing benefits. This "normal cost" means that continuation of the full-funded status of the plan requires that in any given year which begins with the plan funded at 100%, contributions to the plan must equal 16% of payroll *and* the plan's assets must earn a 7.5% rate of return in order for the plan to remain 100% funded at the end of that year.

Starting contributions in July 2007 allows them to be ramped up slowly – what the Office of the President and The Regents have called a "soft landing" – rather than suddenly jumping from 0% to 16% of covered compensation. If, as some stakeholders have advocated, any reinstatement of contributions were deferred until the funded status of UCRP drops to 100%, the result would be catastrophic. UC's annual payroll is $7 billion. Suddenly, about $1 billion per year in new money would have to be found solely to maintain UCRP's full-funded status, and even more if the long-term expected return on investments of 7.5% was not achieved in the prior year. And any shortfall in the needed contributions would only compound the amount needed to be contributed the following year.

Since suspension of contributions in 1991, the 2%/4% amount that employees then contributed to UCRP has been "redirected" to a Direct-Contribution plan (DC plan), which accumulates additional retirement assets in the personal account of each employee. Once employee contributions to UCRP are reinstated, it is anticipated as a first step that these funds will no longer be redirected into the DC plan, but instead will be contributed to UCRP, and will be matched by an equal contribution by

[1] The normal cost of the plan is the percentage of covered compensation that would have to be contributed each year in steady state in order to fund the benefit, given actuarial assumptions about factors such as employee retirement decisions, separations, life expectancy, future salary increases, inflation and investment returns.

the University. Employee take-home pay would not be reduced by this redirection of contributions. However, since this contribution would no longer accrue to the personal benefit of individual employees, it would reduce the value of the benefits provided to UC employees as part of their total compensation.

A major decision that lies before us is how the cost of the retirement plan will be shared between UC and its employees. Two important factors that will affect cost-sharing determinations are that for represented employees, reinstatement of contributions to UCRP is subject to the collective bargaining process, and for UC, funding of contributions without impairment of our educational mission depends on appropriations made by the state legislature. The Academic Senate will continue to engage the Office of the President on this important question.

A major concern of the Academic Senate, as well as The Regents and the Office of the President, is maintaining UC's ability to compete for the best employees. Consultants to The Regents have informed us that salaries paid to UC faculty and other employees are 10-15% behind those paid at comparable institutions, but the value of our fringe benefits is substantially greater than that of those at comparable institutions. The Academic Senate has taken a strong position that if any benefits are changed, there must be no deterioration in UC's competitive position in total remuneration. If a benefit is reduced, or additional employee contributions are required, additional cash compensation must be provided equivalent to the reduction in the value of the benefit or cost of the additional contribution required. In continuing consultations with representatives of the Office of the President, the Senate has repeatedly urged that the amount of any resumption of UC employees' contributions to UCRP be matched by an equal or greater increase in salaries. These salary increases need to be in addition to the increases needed to keep up with salary increases at competing institutions. Otherwise, UC's competitive position will suffer as a result of resumption of contributions to UCRP.

In November 2005, The Regents committed themselves to the goal of raising UC salaries to levels paid by our comparison institutions within the next ten years. In pursuit of this goal, The Regents hope to spread a series of "catch-up" pay increases over the same period of years in which contributions to UCRP will be on the rise. As with contributions to UCRP, The Regents' planned "catch-up" pay increases are subject to collective bargaining, for some employees, and to the vagaries of the state budgetary process, for all of us. The Academic Senate is very concerned that the "catch-up" increases indeed materialize so that resumption of contributions to UCRP will not reduce overall remuneration of employees or damage the University's competitive position. It will continue to advance this position as implementation of the resumption of contributions to UCRP goes forward.

We anticipate that employee unions will bargain over the level of employee contributions to the UCRP. UCFW and the Academic Council have informed the Office of the President that it is essential that the total (employer plus employee) contributions going into the plan be the same percentage of covered compensation for each employee. Otherwise, represented employees making reduced contributions for the same UCRP benefits would be subsidized by the higher contributions of non-represented employees, which would be unacceptable.

►From July 2007 UCFW Response to "Parsky's Party" episode:
(full report follows)

3. Plans for Restarting Contributions:

As of June 30, 2006, the funding ratio of UCRP was approximately 107.5%. Assuming that investment returns would just equal the assumed 7.5% rate, the funding ratio would have dropped below 100% in the 2008-09 fiscal year. As a result, The Regents voted to restart contributions at a low level, effective July 1, 2007, intending that they be slowly raised over several years to an 11% employer contribution and a 5% employee contribution, which would be sufficient to sustain UCRP in the long run. This split between employer and employee contributions mirrors the split that CalPERS would have if it were 100% funded. Universities which compete with UC for faculty typically make an employer contribution of about 10% of salary to a defined contribution pension plan; this gives the faculty member the choice between contributing approximately 6% of salary and having roughly the same expected pension benefit provided by UCRP, or contributing less and having a lower expected pension benefit. Because the Governor and Legislature declined to provide funding for the restart of employer contributions at this time, however, the restart of employee contributions to UCRP has also been postponed.

The markets did very well in 2006-07, and we anticipate that the funding ratio of UCRP, as of June 30, 2007, will be approximately 115%. This is very fortunate, but it is unreasonable to expect the market to continue to provide this kind of performance year after year. The one-time windfall in 2006-07 provides us with some breathing room, and contributions can probably be postponed for another two or three years. However, unless we achieve truly extraordinary investment returns going forward, contributions will eventually need to be restarted. The only question is when. The Academic Senate strongly supports restarting employer and employee contributions when needed to maintain UCRP's funding ratio above 100%.