University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
September 8, 2010

I. Announcements and Updates

- *James Chalfant, UCPB chair*

Chair Chalfant welcomed UCPB members and reviewed the charge of the committee. UCPB makes recommendations to the Academic Council on a broad range of policy issues affecting planning and budget and may also initiate its own studies and policy reviews. The committee strives to take pro-active positions on policy matters, rather than simply reacting to issues before it. UCPB members have the opportunity to engage in a serious way with high level administrators to help shape policy and advance shared governance. Members are encouraged to participate actively and take on extra duties as assigned. Typically, one or more executive sessions are scheduled at each meeting to give members the opportunity to discuss issues off the record. Time also will be reserved for individual member updates about local concerns and issues. The chair has convened UCPB for a special September meeting to discuss a single topic, the report of the President's Task Force on Post-Employment Benefits.

II. Consultation with the Academic Senate Leadership

Senate Chair Daniel Simmons welcomed UCPB members and thanked them for their service to the Senate. The Council is looking to UCPB for thoughtful and informed views about the PEB crisis and the Steering Committee's recommended options for benefits redesign. Standing committees and divisions should submit formal opinions about the recommendations in time for the November 22 Academic Council meeting, although it will be helpful to receive preliminary comments in October. All members are encouraged to become familiar with the issues to help promote informed discussion on their campuses.

In September, the Regents will act on proposals to set UC Retirement Program (UCRP) contribution levels for 2011-12 and to amortize UCRP's current unfunded liability over a longer time (30 years) than required by current policy (15 years). The Regents are expected to increase UC's employer contributions to 7% beginning July 1, 2011 and 10% beginning July 1, 2012, with the employee contribution rising to 3.5% on July 1, 2011 and 5% on July 1, 2012. In addition, the President is expected to introduce the Steering Committee's options for benefits design, before recommending a specific plan to them in November. The Regents will call a special December meeting to take action on the recommendations.

Chair Simmons asked UCPB to consider a recommendation from the Council about the future of the university and an alternative statement from the UCLA division. The Council recommendation calls for downsizing UC by reducing the number of employees, including faculty, though attrition; instituting a moratorium on construction not essential to safety or the core academic needs of a campus; and requiring Chancellors to identify a stable source of funding for any new program and specify its impact on existing programs. President Yudof has asked the Senate to consider their implications of these recommendations for enrollment and class size, faculty workload and quality, student-faculty ratios, graduate education, and faculty diversity.

Council is convening a Special Senate Committee on the Future of the University, which will be chaired by immediate past Senate Chair Harry Powell and include faculty members who served on the working groups of the UC Commission on the Future. The goal is to build on the experience and knowledge developed in the working groups and produce a coherent five-year strategic plan for the University.

Although not immediately relevant to UCPB, one of the biggest topics before the Senate this year is an investigation into ways UC can improve the community college transfer function, including closer alignment of lower division major requirements across campuses. The Senate wants to improve the transfer process, but also is concerned that the problem has not been defined clearly.

Differential fees will continue to be an issue for the Senate and UCPB. Although the Senate has voiced repeated opposition to differential fees by campuses or major, and the Commission on the Future did not recommended pursuing them, some campuses are still asking for the flexibility to set differential fees. Chair Simmons said UC has, in effect, already privatized some of its professional schools with high fees and differential pricing models.

He asked that when UCPB submits a recommendation, report, or letter to Council, the transmittal letter state in its first paragraph what action, if any, the committee wants Council to take. Transmittal letters for informational reports should state that no action is proposed. When a standing committee requests that Council take action, it should also draft a proposed motion to accompany its letter or report, so Council can debate the proposed action and make amendments, if any, to the motion rather than to the committee's report or letter.

Associate Director Todd Giedt noted that the Senate now asks faculty to use the Senate's "SWABIZ" corporate booking portal at Southwest Airlines to book air travel to Senate meetings. Santa Barbara travelers without access to Southwest should continue to use UCLA Travel.

III. Post-Employment Benefits Briefing

- *James Chalfant, UCPB chair*

Issue: Members reviewed slides providing an overview of the key PEB issues, including the problems facing the UC Retirement System, their impact on the UC budget, and proposals for benefits redesign recommended by the President's Task Force. Chair Chalfant was a member of the Task Force's Finance Team and a member of the group of faculty and staff who wrote the Dissenting Statement that was sent to the President with the main Task Force report. Senate Vice Chair Robert Anderson, who also contributed to the Dissenting Statement, was present, as were UCFW-Task Force on Investment and Retirement Chair Helen Henry and UCFW Chair Joel Dimsdale, both of whom joined the meeting by phone.

Report: Chair Chalfant noted that UCRP has a large and growing unfunded liability because there have been no contributions to the Plan for nearly 20 years. Even with the market downturn in 2008-09, UCRP would be more than 100% funded, had the Plan's full "normal cost" been contributed over the past 20 years. "Normal cost" refers to amount that must be invested now, to cover the future benefits liability accrued as a result of employees' additional service credit in the current year. Normal cost is currently equal to 17.6% of covered compensation. The Regents' funding policy requires additional contributions to amortize the deficit in the plan. UCRP's total liability also grows by an additional 7.5% annually, because 7.5% is the expected rate of return on investments for actuarial calculations such as the Plan's normal cost.

The Regents' funding policy is to fund UCRP's full normal cost along with any amortization costs. The resumption of contributions is a step toward this goal, but is thus far insufficient to keep the plan healthy and meet the policy. Under the current contribution ramp-up plan, UCRP will run a structural deficit of nearly $1.7B in 2010-11, the actuarial value of its assets will continue to decline, and the total unfunded liability for pensions and employee health could grow to $40B by 2014. (The entire UC budget is $19B.)

UCPB should consider the TF recommendations in the context of the total remuneration study (TRS) released in mid-June, which shows that total remuneration for UC faculty (cash, current benefits, and retirement benefits) is already 6% below market. The Senate has emphasized that competitive total remuneration is its top budget priority and has warned that UC quality will decline if the University is not competitive in recruiting and retaining the best faculty and staff. Although the TRS is based on methodologies UC has accepted for years, some administrators now claim that the study is flawed because it does not account for an alleged "uncompensated investment risk" assumed by the employer.

The Task Force report proposes changes to pension and retiree health benefits. They would apply to both current and new employees, gradually reduce UC's contribution to retirees' health premiums to 70%, and push back the age eligibility for full health-plan subsidy from age 50 with 20 years of service to age 65 (still with 20 years of service). There is a grandfathering clause that locks in the current retiree health benefit if one's age plus years of service equals 50. The proposed changes to retiree health are less controversial than the pension design options.

The report recommends offering new employees a different pension benefit under a new UCRP Tier, starting in 2013. It puts forward two tier options (A and B), although there are really three on the table (Option C is discussed in the Dissenting Statement). Options A and B are designed to "integrate" with Social Security, taking Social Security benefits into account in seeking to provide a particular level of income replacement after retirement that is roughly the same across all levels of HAPC. Options A and B also would also establish one contribution percentage on earnings up to the Social Security Covered Compensation amount (currently about $60K), and a higher one on earnings above that amount.

Current employees would receive benefits for past service under current plan provisions and would be given a choice, beginning with the date of implementation, between having their future service occur under the new tier or contributing at a higher rate to retain current plan provisions for future service accrual. Under any New Tier plan, the maximum age factor would be attained at age 65, rather than age 60.

Chair Chalfant said none of the three plans is competitive. Option A is wildly uncompetitive, even with higher salaries. Options B and C could be competitive, but only with substantial salary increases. Option C is the most generous plan, based on the Total Remuneration results. It largely reproduces the current Plan, but delays the maximum age factor by five years, to age 65. The difference between Option A and Option C is only 1.7% in employer cost; employees would also contribute more, in exchange for a better pension benefit. Options B and C cost the employer the same. In comparing plans, Chair Chalfant indicated that most faculty would experience about the same benefits under Options B or C, and that the choice between the two Options matters more for employees with lower salaries. Every employee group stands to gain from either Option B or Option C, unless their salary exceeds three times Social Security Covered Compensation.

TFIR had previously recommended that UC cover the contribution gap by issuing Pension Obligation Bonds (POBs), but the Task Force is recommending that UC supplement funding to

UCRP from the operating budget with money borrowed from the University's Short-Term Investment Pool (STIP), from which UC can borrow at less than 2%. A very important aspect of the recommendations is that all three options would require the same level of STIP borrowing until 2030.

The final recommendations were largely determined by the Steering Committee, which is comprised mostly of senior administrators. The Executive Summary and full report suggest more consensus than actually existed. There was no consensus about building a pension plan around income replacement.

Discussion: The proponents of Option A appear to have started with a level of long-term employer cost (7.3%) they believe could be paid, and proceeded to develop the rest of the formulas around that. Option A and B would have a different impact on employees whose wages grow at a different rate than Social Security covered compensation. Option A is a low cost/low payout system for the lowest paid employees and a higher cost/higher payout system for higher paid employees. Option B can be characterized in the same manner, but the differences are not as great.

IV. Consultation with UCOP Senior Management

- *Lawrence Pitts, Provost*
- *Nathan Brostrom, Executive Vice President, Business Operations*
- *Dwaine Duckett, Vice President Human Resources and Benefits*
- *Randy Scott, Executive Director, HR&B*
- *Susan Carlson, Vice Provost, Academic Personnel*

Report: EVP Brostrom noted that although the Legislature and Governor have yet to pass a 2010-11 California budget, UC appears to be in a good position. The Governor and both houses support restoration of UC's temporary $305m cut from 2008-09, $51m in funding to address over-enrollment, and $14m for annuitant health costs. The May budget revision also included $355m in funding for six capital outlay projects. It was recently announced that UC will receive $106m in funds from the American Recovery and Reinvestment Act as part of a larger award to the state; however, the state may use this allotment to replace a portion of the $305m.

He said the administration's overarching goal is to develop a sustainable budget model for the University. The strategy includes maximizing funding streams, enhancing administrative efficiencies on the campuses and at UCOP, and developing a new funding model for systemwide programs. Provost Pitts added, as an example, a plan to extend the Graduate Student Health Insurance Plans (GSHIPs) to all campuses, which will reduce costs and enhance graduate student health benefits. In addition, UCOP will release a detailed list of its unrestricted expenses and funding sources to increase budget transparency.

Vice President Duckett said the PEB Task Force process has preserved the most valuable aspects of UCRP, including the Defined Benefit Plan, and despite their differences, Task Force members agreed on many points. He said any changes to UCRP will have to undergo collective bargaining; UC's labor groups are opposed to the proposed contribution schedule and any new UCRP tier. He said UC understands that it has a base pay problem and there is a growing commitment to address that problem.

Provost Pitts said the contribution schedule still leaves UC short of a sufficient level of normal cost funding, but the Task Force has successfully addressed the unfunded liability problem in its proposals for STIP borrowing and debt restructuring.

Executive Director Scott said UC employees appreciated the campus town hall meetings UCOP hosted last spring and the PEB survey, which reconfirmed the role UC's PEBs play in its talent management strategy. A robust discussion will occur over the next several months, during which UCOP hopes to close an education gap in the UC community and the general public. The President has promised to consider all three options. UC should get credit for stepping up 16 months ago to first form the Task Force and now arrive at substantive recommendations.

Discussion: Chair Simmons said that as members discuss the Task Force's recommendations and Council's recommendation for downsizing with their local faculty, they should consider the impact of the employer cost on campus operating budgets.

One member asked why UC faculty and staff are in the same retirement system. UC's main focus should be recruiting and retaining excellent faculty, so it could make sense to have separate plans for faculty and staff. EVP Brostrom said the idea of segmenting faculty and staff did not make it through the Task Force process, but he said faculty are UC's most valuable human asset and some staff groups are closer than faculty to their market peers. The market is also shifting, according to EVP Brostrom; there is a national trend within UC's staff comparison groups in the public and private sectors to shrink benefits. This trend is not accounted for in the Total Remuneration Study, so these differentials may be changing as we speak. Chair Chalfant said anecdotes about market shifts should not be used to cut UC benefits. Chair Simmons said the faculty on the Steering Committee opposed segmentation, believing that the faculty position and the University as a whole are stronger if all employees are covered by in a single UCRP. This is a longstanding Senate position. Moreover, faculty depend on excellent staff to achieve their teaching and research mission. Some non-represented staff and faculty groups feel similarly left behind. Option A is equally uncompetitive for faculty and staff across the board. Vice Chair Anderson added that Option A provides a substantially smaller pension benefit to both faculty and staff and could grievously harm the University. Options B and C include essentially the same contribution and benefit for faculty. The decision then, should be based in part on which plan is better for recruiting and retaining staff.

Members agreed that UCOP needs a strategy to sell the plan to Sacramento. It was noted that UC should use, not criticize, the Total Remuneration Study to help make the case to the state and the public that the pension design options are modest plans justified by UC's competitive needs. Moreover, it is a poor strategy to connect the cost of retirement benefits to the cost of instruction. Provost Pitts said UCOP intends to look at the TRS but that even Option C is 26% below comparison institutions. He stated his view that the study and its methodology are not always relevant or applicable to the reality of UC's situation, the new plan designs, and the goal of ensuring adequate post employment compensation for long serving employees.

V. Consultation with the UCOP Office of Finance

- *Peter Taylor, Executive Vice President & Chief Financial Officer*
- *Maria Anguiano, Associate Director, Office of the Chief Financial Officer*

Issue: EVP Taylor and Associate Director Anguiano joined UCPB to discuss options for reducing UCRP's unfunded liabilities, financing contributions to amortize the unfunded liability and achieve fully funded status, the mechanics of borrowing from STIP, and the pros and cons of pre-funding retiree health.

Report: UC needs to find a way to achieve a 100% Annual Required Contribution level for UCRP and manage the $12.4B (in undiscounted dollars) contribution gap between 2011 and 2021. The first step, increasing amortization of the liability from 15 to 30 years and ramping up contributions, will reduce the liability by $6.7B. Next, implementing either new tier Option A or B will reduce the gap by an additional $1.3B. The remaining challenge then is to address the final $4.4B gap while remaining cognizant that attempting to solve the problem in a short amount of time is probably unrealistic. Other approaches will help achieve full funding by 2038. These include refinancing UC's debt profile, which is heavily front-loaded, and using the resulting cash flow to pay a portion of the pension expenses; and second, borrowing from the Short Term Investment Pool (STIP) and using incremental interest (above 2.5% and below 4%) generated in STIP to fund UCRP. It is better to borrow internally than to issue pension obligation bonds. If UC fails to make the required contribution to UCRP, it is effectively borrowing from UCRP at 7.5%. STIP currently has $9B in funds; borrowing from STIP at 2% and funding UCRP with a 7.5% return is a good investment. UCOP is studying exactly how much STIP money campuses need to meet obligations.

He also noted that if there is no state budget by early October, UC will be forced to issue low cost commercial paper to fund payroll until a state budget is passed. If there is no budget by December, UC may have to tap into STIP to meet these obligations.

Discussion: The STIP idea is creative and has clear advantages over Pension Obligation Bonds. The original proposal from the Academic Senate emphasized the importance of borrowing to accelerate the pace of making contributions to UCRP, so that outside funding sources would also resume contributing, but there is agreement that using a cheaper source of borrowed funds is the rational approach.

VI. Consultation with the UCOP Office of Academic Personnel

- *Susan Carlson, Vice Provost, Academic Personnel*

Issue: UCPB invited Vice Provost Carlson, who joined UCOP in July, to discuss the work of a UCPB-UCAP-UCFW subcommittee on faculty salaries that met last year to review UC faculty salary data and cost scenarios for returning salaries to competiveness based on UC's Comparison 8 institutions. UCAP Chair Ahmet Palazoglu also joined this portion of the meeting by phone.

In 2007, the Regents approved a four-year plan to close the salary gap, but UCOP implemented only year one of the plan due to the financial crisis. Those data show that all the published UC salary scales lag the market considerably and that actual UC faculty salaries lag the Comparison 8. The subcommittee report was sent to Council at the end of 2009-10. It reiterates the need to improve the faculty salary competitiveness but does not advocate a restart of the four-year plan, which it calls outdated. Academic Council will review the report in September.

Discussion: Vice Provost Carlson said she welcomes the opportunity to work with UCPB to help shape a vibrant academic culture.

It was noted that UC's system of peer review and its uniform salary scales are two of the University's defining strengths and the foundation of its excellence. The increasing use of ad hoc off-scale increments for recruitment and retention has disrupted that system and threatens the relevance of the merit system, and UC excellence.

It was noted that all UC campuses follow a single academic personnel manual and salary scale, but they differ considerable in their treatment of off-scale increments and use of half-steps. The 2007-08 adjustments to the scales moved some faculty who were on a half-step back on scale. Some of those faculty perceived the adjustment as a salary cut, even as their pay rose, because they saw their off-scale differentials disappear or shrink.

It is important to restore the relevance of the scales. The APM indicates that off-scales are meant to be temporary, but in practice they become permanent. Another member commented that it will not work to only fix the scales or to only fix inequities through across the board salary adjustments. The Senate needs to clearly define its principles and goals and then take a more holistic view to find a solution.

VII. Consultation with the UCOP Office of Budget

- *Patrick Lenz, Vice President, Budget*

Report: The "Big 5" (the Governor and the Democratic and Republican leaders from each house) have been meeting daily to craft a budget agreement. Legislators voted on both a Republican and a Democratic budget plan at the end of the last session, but neither achieved the 2/3 majority needed to pass. The Governor and both parties continue to support restoration of last year's $305m cut to UC, $51.3m to fund enrollment, and $355m for capital facilities projects. UC is confident that these commitments will survive the Big 5 process. However, UC is fighting a provision in the budget that applies $65m of UC's new fee revenue to 6,400 of the 15,000 unfunded enrollments the state is responsible for. UC also continues to lobby the state to live up to its fiduciary responsibility to fund UCRP and is fighting to remove new statutory language prohibiting the state from contributing general funds to UCRP. UC is looking at new language drafted by the Legislative Analyst that includes a 30-year commitment from the state to fund UCRP at a certain level, and also includes provisions for funding in years in which the state is unable to meet the obligation.

At the Regents meeting next week, VP Lenz will outline strategic objectives and cost pressures for the 2011-12 budget. One topic will be 2011-12 enrollment and the need to resume the enrollment curtailment plan begun in 2009-10, which was not met this year.

Unless a budget is passed, the state's Controller will begin issuing IOUs at the end of September. UC can manage in the short term, but if there is no budget agreement by the end of October, it will be forced to look at options for external borrowing to meet its commitments.

VIII. Executive Session

UCPB met in executive session.

Action: The committee passed a motion to request a copy of a letter written by UCFW asking UCOP to develop a calculator that allow employees to estimate their pension benefits under the three tier options. UCPB will then vote over email on the question of supporting the letter.

The meeting adjourned at 4:00 pm
Minutes prepared by Michael LaBriola
Attest: James Chalfant