UNIVERSITY OF CALIFORNIA

Steven W. Cheung
Chair, Assembly of the Academic Senate
Faculty Representative, UC Board of Regents

Academic Senate

Office of the President
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Oakland, CA 94607

senate.universityofcalifornia.edu

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May 9, 2025

Nathan Brostrom
Executive Vice President and Chief Financial Officer

Re: Recommended Changes to UCRP Funding

Dear EVP Brostrom,

At its April 30, 2025 meeting, the Academic Council endorsed several recommendations regarding UC Retirement Plan (UCRP) funding put forward by the University Committee on Faculty Welfare (UCFW) and its Task Force on Investment and Retirement (TFIR).

Council recognizes the seriousness of the financial challenges facing the University, including existential threats to federal funding sources and broader budget uncertainty. In this context, Council supports the views of UCFW and TFIR' that emergency pauses to extant UCRP funding decisions are a prudent and necessary response, and adoption of a more realistic UCRP investment rate of return is warranted. Specifically, Council endorses the following three recommendations:

1. Maintain the UC employer contribution at 14.5% for the coming fiscal year, rather than proceeding with the scheduled 0.5% increase.
2. Halt the planned transfer of $800 million from the Short-Term Investment Pool (STIP) to UCRP in the current year.
3. Increase UCRP's assumed rate of return to 7.0%, as supported by long-term historical returns and recommended by Segal in its 2019 Experience Study.

Council concurs that while it is essential to remain committed to the long-term goal of restoring full funding for UCRP, these emergency measures are justified to avoid harming UC's core missions of teaching, research, and public service. The University must preserve its capacity to serve students, sustain research, and support faculty and staff during this period of financial duress.

Sincerely,

Steven W. Cheung
Chair, Academic Council

Encl.

cc: Academic Council
UCFW Chair Pardo-Guerra
TFIR Chair Hollenbach
Senate Division Executive Directors
Senate Executive Director Lin

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UNIVERSITY COMMITTEE ON FACULTY WELFARE
Juan Pablo Pardo Guerra, Chair

UCFW TASK FORCE ON INVESTMENT AND RETIREMENT
Jill Hollenbach, Chair

April 11, 2025

ACADEMIC COUNCIL
Steve Cheung, Chair

RE: Recommendation that the Academic Senate Support Changes in Pension Funding

Dear Chair Cheung,

The University Committee on Faculty Welfare, upon the recommendation of its Task Force on Investment and Retirement ("TFIR"), asks the Academic Council, to endorse and convey the following changes in pension funding. Two of these changes are temporary, emergency measures to better enable the University of California ("UC") to minimize what would otherwise be permanent (or at least long-lasting) harm from a threatened loss of funding from the federal government. Our hope is that much of this loss of funding will be temporary. We think the third change is warranted on its own terms.

Two changes involve reversing previous decisions to make additional contributions to the pension fund this year. **First, we recommend that the Employer Contribution remain at 14.5% for the coming year.** The scheduled increase is pursuant to a plan adopted by the Regents in November 2023 to increase the Employer Contribution from 14% to 18% of covered payroll over an eight-year period in 0.5% increments. Even at the old 14% rate, the Employer Contribution plus the Employee Contribution (8% for employees in the 1976 tier, 7% for others) was more than sufficient to cover the Normal Cost (currently 20% according to the 2024 Segal Pension Valuation report), which is the actuarial expected cost of new pension liabilities incurred in a period. The goal of the increase is to pay a significant amount above Normal cost to eliminate the Unfunded Actuarial

Accrued Liability ("UAAL") over a long span of time. Finally, we note that increasing the employer contribution rate will cost the campuses approximately $180 million for each one percent increase.

Second, we recommend that the Regents reverse the decision to transfer $800 million from the Short Term Investment Portfolio (STIP) to UCRP this year. The STIP pool was created in 1976 to enable UC entities to invest short-term cash balances. The investment return is quite low as is typical for cash accounts. A transfer from the pool to UCRP is treated as a loan by the campuses, which are assessed a small sum to repay the loan plus interest. Similar to the previously approved increase in the employer contribution, the funds to repay STIP have a high opportunity cost in the current environment.

We continue to stress that it is very important to follow a plan to restore full funding. If nothing else, the fact that the UAAL grows at 6.75% each year means that the campuses are borrowing at that rate to finance current spending, if contributions do not exceed Normal Cost. However, the exact point in the future to reach full funding is less of a concern. The Plan can easily meet each year's pension obligations, for many years to come, without taking painful steps to adhere to a path that may no longer be optimal. We are recommending these decisions be reversed because we expect UC will need these resources to minimize the harm from a threatened loss to federal funding. Reducing undergraduate and graduate enrollment would inflict a permanent harm on our students and on society. Cutting back on research would inflict both permanent and long-lasting harm. Reducing staff will have devastating effects on people. These harms are largely non-financial, they go to the heart of what we do as a university, and many are irreversible. Our two recommendations inflict a purely short-term financial harm that can and will be reversed.

Our third recommendation is to increase the assumed earning rate of the fund to 7.0%. Despite the current uncertainty, this is the rate recommended by Segal in the 2019 Experience Study (the old rate was 7.25%). The Regents instructed Segal to assume a 6.75% rate of return. This instruction, which had no empirical basis, significantly and needlessly increased the UAAL. While annual returns vary, the average yield of the fund over a long period of time is greater than 7.0%. Our historical simulations also show that a simple passive investment strategy (similar to the current Blue and Gold portfolio) also has a long-term average yield greater than 7.0%. We would make this recommendation even in the absence of budget problems, but the fact that it will reduce annual contributions required under the Regents funding policy, by using a more realistic assumption, makes it all the more sensible.

Sincerely,

Juan Pablo Pardo Guerra, UCFW Chair
Jill Hollenbach, TFIR Chair

Cc: Ahmet Palazoglu, Academic Council Vice Chair
Monica Lin, Academic Senate Executive Director
Nathan Brostrom, Chief Financial Officer