UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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June 28, 2016

DWAINE DUCKETT, VICE PRESIDENT
HUMAN RESOURCES

Re: 2016 Pension Tier Communications and Elections Guidelines

Dear Dwaine,

At its June 22, 2016 meeting, the Academic Council endorsed the attached letter from the University Committee on Faculty Welfare (UCFW) expressing concerns about the election guidelines for faculty employees hired under the 2016 Pension Tier, as well as specific features of the communication plan for the new tier.

UCFW notes that employees hired under the 2016 Tier will have a 90-day window to choose between the Defined Benefit plan and the stand-alone Defined Contribution plan. However, the window is slated to begin on the date of hire, not necessarily the first day of work on campus, which UCFW believes provides too little time for new faculty members facing a range of choices and distractions during their transition to UC. UCFW is also concerned that faculty will not accrue service credit until they make an election, and that their initial choice during the window will be permanent.

Academic Council agrees that faculty without an existing knowledge of the trade-offs and subtleties of the pension options will need sufficient time to ruminate, and that many of these faculty, particularly those on 9-month appointments, are in a unique position relative to other University employees in terms of their transition to UC employment. We join UCFW in recommending that for faculty, the 90-day election window begin on the first day of the first term following hire; that a safe harbor account be established to ensure that faculty do not lose service credit and interest income during the pre-election period, and that new faculty hires be allowed to change their election during the 90-day window.

Finally, we encourage you to review UCFW's observations about how the decision guide and other communications vehicles for the new tier may be improved to be more inclusive and effective.

Thank you for the opportunity to opine. Please do not hesitate to contact me if you have further questions.

Sincerely,

J. Daniel Hare, Chair
Academic Council

Cc: Executive Director Schlimgen
Academic Council
Executive Director Baxter

UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
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June 15, 2016

DAN HARE, CHAIR
ACADEMIC COUNCIL

RE: 2016 Pension Tier Communications and Elections Guidelines

Dear Dan,

The University Committee on Faculty Welfare has discussed again the communications strategy for the 2016 Pension Tier, and we ask you to convey the concerns below to Human Resources for immediate action. On the advice of our Task Force on Investment and Retirement (TFIR), UCFW discussed with Human Resources the decision guide that has been prepared for new hires into the 2016 Tier. TFIR identified concerns with the guide, and they encouraged UCFW to revisit the retirement income modeler being developed for hires into the 2016 Tier. During these discussions, UCFW identified design flaws in the election window, as well as improvements to the verbiage being used to explain the new options.

First, the design flaws: New hires are given 90 days from the date of hire or entry into payroll (whichever is latter) to make their pension election- defined benefit (DB) or defined contribution (DC) plan. UCFW is concerned that, especially for faculty not fluent in finance, the complexity of the decision, when taken in consideration with other variables such as relocation and professional disruption, will cause many to make ill-informed or hasty elections. Additionally, since faculty may be hired long before they start work, this 90-day window could be confusing. For example, a new faculty member hired over the summer would have to move, ensure familial transitions, migrate professional endeavors, and negotiate with a new dean and department – on top of determining which pension election makes the most sense for his/her situation – all conceivably before the first day of class. Furthermore, faculty on 9-months appointments are not required or expected to report to duty until the first day of the fall term, and accordingly, they should not be expected to start thinking about benefits options until that day — they are simply not employees in any meaningful sense. Despite the resources to be made available from local benefits officers, Fidelity, and peers, TFIR feels strongly that the 90-day election window, for new faculty hires, should begin on the first day of the first term following employment.

Second, UCFW was surprised to learn that the elections made by new hires during their 90-day window are irrevocable. Further, service credit cannot be accrued until the election is made, and no contributions will be made to earn interest until the election is processed by the University. UCFW feels strongly that new hires should be able to change their election during the 90-day window should they learn new information or reconsider their decision for other reasons. We also suggest the establishment of a safe-harbor account for pre-election contributions to start earning interest at the earliest possible time – a practice and theory supported by the establishment of the supplement on the first-day/first-dollar premise.

Third, UCFW finds the personas in the decision guide to be overly simplified caricatures that will not help new hires reach informed decisions. Essentially, the modeled thought process is: "I might relocate, let's choose 2. I might not relocate, let's choose 1." Neither of the personas considers the expertise, or risk, associated with DC investments.

We also take exception to the casual sexism and/or stereotyping reflected in the personas: Debra is age 42 and still an assistant professor who "teaches" at UCLA whereas Madhu is age 36 and an Associate Professor who works "hard".

In addition to this document whose target audience is new hires, another document targeting faculty recruiters, such as deans and department chairs, could also be useful. UC should provide guidance to department chairs as to what to say to ladder faculty recruits, especially as relevant information varies with the type of recruit. A new PhD/Assistant professor might be advised differently than a more senior hire. The option to switch from DC to DB after tenure is the most obvious example of something of special importance to new junior (untenured) hires. On the other hand, some senior hires might already have vested DB benefits from some other university; others may have a DC plan from somewhere else (such as a TIAA-CREF account), etc. We ask for further assurance that relying on Fidelity or an internal program that combines both ladder faculty and staff recruits together when counseling new hires regarding pension elections will be adequately able to provide meaningful and personalized information. We also feel that independent financial advice might be preferable to getting advice from a compensated UC-affiliate or internal recruiter.

Fourth, TFIR was able to preview the revised retirement income modeler being developed by HR. TFIR is concerned that the modeler uses the same return-on-investment assumptions for both the DB and DC plan. They suggest, and UCFW concurs, that a better modeler would include a “fan chart” projections that illustrates the variability in returns common to DC plan performance. Simply adding a caveat to the web page may not be adequate.

Finally, we encourage UCOP to collect as much data as possible on the elections made by new hires in the 2016 Tier. Beyond the basic choice between the “pension option” and the “savings option”, informative data would also track portfolio choices in employee-managed accounts. Cross-correlated data should also be collected on the standard demographic variables (age, race, sex, marital/family status), starting salary, years since terminal degree received, and rank and step at time of hire. If a faculty member is a participant in MOP, then this data should also be cross-correlated, as well as other financial data to which UC already has access.

Having access to such detailed information will allow UC to better understand how changes in the 2016 Tier are actually going to impact the retirement income security of employees in the 2016 Tier. Rather than modeling the level of retirement income for hypothetical individuals, who are assumed to get a yield on savings comparable to UCRP, we will have data on real individuals. This data may enable UC to better argue for greater cash compensation, possibly, or for additional incentives for the recruitment of faculty who find the cost of living prohibitive, such as faculty with young children who also have significant educational debt. It may also help to identify points on which improvements can be made in the information provided to employees, the investment options, and the presentation of these options.

We also suggest developing an interview for 2016 Tier hires at the five-year mark so that the counseling given them at the time of hire can be evaluated to help assess the quality of information being provided.

Thank you for your attention to these issues of vital importance and time sensitivity.

Sincerely,

Calvin Moore, UCFW Chair

Copy: UCFW
Hilary Baxter, Executive Director, Academic Senate
Dwaine Duckett, Vice President, Human Resources