



J. Daniel Hare
Telephone: (510) 987-9303
Fax: (510) 763-0309
Email: dan.hare@ucop.edu

Chair of the Assembly of the Academic Senate
Faculty Representative to the Regents
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

February 12, 2016

PRESIDENT JANET NAPOLITANO
UNIVERSITY OF CALIFORNIA

Re: Report and Recommendations of the Retirement Options Task Force

Dear Janet:

Academic Senate divisions and committees conducted an expedited review of the report of the Retirement Options Task Force (ROTF) and its recommendations for a new retirement plan affecting UC employees hired on or after July 1, 2016 that caps pensionable income at the PEPRA limit (the “2016 tier”). Ten divisions and four systemwide committees (UCPB, UCFW, UCAADE, and CCGA) provided comments and analysis of the options in the Report. A summary follows, and all comments are enclosed.

Senate reviewers clearly understood that no active employees would be directly affected by the new options; thus, no comments can be ascribed to self-interest. Instead, all respondents focused upon the impact of the options on the future of the University of California.

The University of California has been described as an amazing social mobility machine by the *New York Times*. Access and quality play equal roles in earning such distinction, and the Senate faculty commenting on the options presented in the report recognize that they are the latest in a series of compromises to quality, each of which threaten the University’s continued excellence. The quality of a UC education is a direct reflection of the quality of the UC faculty who provide that education. The quality of the faculty in turn depends upon the ability of the campuses to compete worldwide for the best faculty, and the ability for campuses to compete successfully at recruitment and retention requires competitive compensation for those faculty members.

The Senate is therefore deeply concerned about the impact of the 2016 tier on the future of the University of California. Senate divisions are unanimous that the agreement to adopt the PEPRA cap and any retirement plan in response to the PEPRA cap will significantly reduce the value of UC’s retirement benefit for future employees, and greatly undermine UC’s ability to make the competitive offers necessary to recruit and retain outstanding faculty members.

The Senate is also dismayed by the process that led to the decision to adopt the PEPRA cap, in exchange for \$436 M in Proposition 2 funds paid to UCRP over three years. Senate divisions are unanimous that the decision was made in haste and without the expected and necessary consultation. The divisions note that the consultation that has followed the decision has been

limited and ineffective, as the details of the Task Force deliberations were kept secret until mid-January. As several divisions point out, consultation with the Senate over a greater length of time could have led all to better understand the potential impact of the PEPRA cap and the possible ways those impacts might have been mitigated. Instead, the cap was adopted before its impact could possibly be known.

The ROTF report shows that the PEPRA cap is a blunt instrument with many unintended and negative consequences for the University beyond those relevant to the funding of UCRP. Indeed, several divisions and systemwide committees either could not endorse the ROTF recommendations or recommended that the Academic Senate oppose the agreement to adopt the PEPRA cap and a new retirement tier in exchange for \$436 M. These committees and divisions feel that the funds contribute little to the funded status of UCRP, and are not worth the long-term damage the PEPRA cap is likely to do to the quality of the University. However, most divisions and committees also reviewed the report under the assumption that the adoption of the PEPRA cap is a *fait accompli*, leaving them with no option but to analyze the options in the context of which might be least harmful to the University. The following summarizes their concerns and recommendations about Options A and B, and other details of the ROTF proposals, and their implications.

Most divisions concluded that the ROTF was given an impossible task to 1) preserve total remuneration for the faculty, 2) ensure the continued viability of UCRP by paying off the unfunded liability (UAAL), and 3) generate significant savings. Only the second goal likely will be achieved, largely because it was already met by the adoption of the 2013 tier and subsequent UC funding and borrowing decisions. The other two goals are clearly inconsistent; the first cannot be met through the recommendations in the report, and the third is possible only if we understand savings to be logically equivalent to benefits cuts. There are no inefficiencies to be exploited in the current plan that would create savings. Only reductions in benefits and therefore the competitiveness of UC's total remuneration can generate savings.

The report recommends that UC offer new employees a choice of two plans: under Plan A, employees would be covered by a Defined Benefit (DB) plan up to the PEPRA limit, plus a supplemental Defined Contribution (DC) benefit that includes an additional, fixed employer/employee contribution equivalent to 10%/7% of pay on income over the PEPRA limit. Under Plan B, employees would be covered by a stand-alone DC plan with an employer/employee contribution of 10% /7% up to the Internal Revenue Code (IRC) limit.

Plan A: All respondents recognize the fundamental flaw with Plan A articulated in the ROTF report. For employees whose salary crosses the cap in mid-career, the DC supplement contributions would be too little and too late to fully compensate for the effects of the PEPRA cap compared to the 2013 tier. The most effective DC contributions are ones made early in the career that take advantage of compounded growth. In addition, UCRP can provide a more generous annuity than would be commercially available when purchased by an individual using accumulated balances in a DC plan, because it provides a pension to the entire population of UC employees, averaging over various experiences for longevity and the like. Most reviewers recognized that because the supplement cannot fully compensate for the adverse effects of the PEPRA cap, Plan A would not be effective in continuing to encourage employees to stay with the University throughout their academic career, nor to retire at a targeted age. In particular, the reduced retirement benefits under Plan A may not be a sufficient inducement to decline outside

offers in mid-career, and the reduced retirement benefits might also require faculty and staff to work beyond age 70 to secure sufficient income in retirement.

Nevertheless, if Plan A is adopted, a majority of the divisions agreed with the minority opinion in the ROTF report that the “UAAL surcharge” should be paid by the employer on salaries both below and above the PEPRA cap, up to the IRC limit. To collect such a surcharge only on salaries below the PEPRA cap to generate “savings” was correctly seen as fiscally irresponsible, because the “savings” are illusory and represent no more than borrowing from UCRP at an interest rate of 7.25%, exactly the opposite of UC’s prudent borrowing to pay down the UAAL.

Plan B adopts a full DC plan with a 10% employer, 7% employee contribution up to the IRC limit. Additionally, the employer fund source would pay a UAAL surcharge to UCRP to pay down the unfunded liability. The surcharge would apply up to the IRC limit, providing an additional reason to adopt the minority position concerning Plan A; the Task Force noted the value in holding employer cost constant across the two options, which would only be achieved if the Plan A surcharge applied to the current definition of covered compensation, up to the IRC limit.

Modeling done for the ROTF report also showed that projected income replacement in retirement under the 2016 tier will be insufficient to compensate for the PEPRA cap relative to the 2013 tier. Several divisions remarked that DC plans have one attribute, “portability,” that is well-understood. Once provided, the employer DC contribution belongs to the employee who does not “forfeit” the contribution if she leaves before vesting. Consequently, there is less of an incentive for employees to decline outside offers in early- or mid-career. The second, less understood attribute of DC plans is the combination of investment and longevity risks taken on by employees. Several divisions remarked that such risks were not analyzed in the ROTF report. As with Plan A, Divisions predicted that employees choosing Plan B also would work beyond age 70, not only because retirement income was significantly lower than the 2013 Tier but also because there was no incentive to retire at a targeted age, as is the case under traditional, uncapped DB plans.

Default Plan: Most divisions agreed with the ROTF recommendation to make Plan A the default plan, because it was generally seen as the better plan. Responses from the Riverside Committee on Planning and Budget and others suggested that an Assistant Professor would optimally choose Plan B at hire and then take advantage of the “Second Choice” (below) at the tenure decision. On the other hand, the Berkeley Committee on Budget and Interdepartmental Relations recommends Plan B as the better choice at hire for Assistant Professors and goes farther to recommend Plan B as the default, noting that setting Plan A as the default benefits the University through forfeitures of faculty members who leave UC within five years and gives the appearance of exploitation.

Second Choice: The ROTF recommends that employees who choose Plan B should be offered a second choice to switch to Plan A after five years. The divisions and committees were generally in favor of offering this second choice to anyone choosing Plan B, but most favored making the second choice available to faculty at the time of tenure (7 – 8 years after hiring). It is anticipated that the option to offer the second choice at different times for different segments of employees will be incorporated into the request for the necessary Private Letter ruling from the Internal Revenue Service if more than one plan is adopted. The ROTF reviewed modeling results only for the second choice at five years; however, it would be prudent to review at least one additional model for a choice at eight years to understand how three additional years of DC contributions

under Plan B interacts with three fewer years of UCRP service credit in Plan A to provide income replacement at retirement.

Retirement Counseling: Several divisions remarked upon the new complexities and uncertainties inherent in these new plans and pointed out the need for far more convenient and competent retirement counseling. This could require substantial counseling at the time of hire in order for new Assistant Professors to be properly informed of the options and their consequences.

Health Sciences Faculty: Faculty from several campuses with health sciences strongly support the recommendation in the ROTF report to consider the unique concerns of the health sciences faculty in developing a competitive retirement benefit by a new working group. There is concern that the 2016 tier could have a particularly harmful effect on the recruitment and retention of faculty on the Health Sciences Compensation Plan, because those faculty tend to begin careers later in life, at salaries that are already close to the PEPR cap. As UCSF noted, they also often bring with them substantial personal debt from student loans, making it difficult to take advantage of supplemental savings opportunities.

The ROTF was directed not to change the definition of “covered compensation.” Health Sciences faculty therefore are concerned that Plan A or any other DB plan that does not fully compensate for the PEPR cap will result in an uncompetitive retirement for Health Sciences faculty. Like all faculty, they will receive only service credit once their “covered compensation” exceeds the PEPR cap for the calculation of their UCRP benefit. But, unlike other faculty, much of the compensation of health science faculty is in the form of negotiated and self-generated “Y” income that is not covered compensation.

Total Remuneration: Nearly all committees and divisions thought it would be a mistake, even irresponsible, to consider changes to UC retirement benefits without considering the impact on total remuneration. Recent analyses released only on the evening of February 5 show that for all faculty, both Plans A and B reduce the value of the “DB/DC” retirement benefit—12% and 7%, respectively—below that of the 2013 tier. We know from the 2014 Total Remuneration study that the value of the retirement benefit in the 2013 tier was already 2% below UC’s Comparison 8 group of institutions and that UC benefits no longer make up for a competitive gap in cash compensation. The 2016 tier will only compound the competitive shortfall. Mirroring the results in the Task Force Report and in the Guide that the Senate distributed, the net impact of the 2016 tier would be to reduce total remuneration by another 1% or so, had these plans been in effect in 2014.

Undoubtedly UC will need to increase cash compensation under the reduced benefits of the 2016 tier to preserve competitive total remuneration. This shifts the cost of compensating for reduced benefits to discretionary portions of the operating budgets of the campuses, and to individual departments within campuses. Divisions noted that because the campuses differ in their resources available to pay higher salaries, the campuses would diverge in their abilities to provide a UC-quality education to their students. This is a direct result of replacing benefits, which are paid according to systemwide formulas, with off-scale increments to salaries, requiring individual negotiations. This represents further undermining of the traditional academic personnel process in determining salaries for UC faculty.

Equity: Several divisions noted that they expect to need to offer significantly higher salaries at hiring in order to successfully recruit their top candidates. Without such *ad hoc* remedies to the

reduction in retirement benefits then, several divisions are concerned that there will be substantial disparities in the total remuneration of individuals with similar expectations within departments based on their date of hire. Such disparities are likely to harm morale. UCAADE, in particular, is concerned about establishing a two-tiered system precisely when several campuses are seeking to increase their rates of hiring of women and underrepresented minority faculty members. UCAADE also fears that the 2016 tier could exacerbate existing systemic financial disparities by race, ethnicity, and gender, and further impair UC's ability to recruit and retain diverse faculty. Reviewers also noted that campuses will react to the 2016 tier by increasing off-scale salaries, further exacerbating the problems of salary inversion and compression.

Alternative Plans: Several divisions expressed dissatisfaction with the two options presented by the ROTF and asked to see and evaluate alternatives. The ROTF noted the power of growth by compound interest, and how important it is to invest DC supplements early to effectively compensate for the PEPPRA cap. Unfortunately the ROTF had insufficient time to fully study and appreciate these effects before developing the proposal for new DC supplements. Initial modeling by Vice-Chair Chalfant and myself after the ROTF disbanded suggests a viable alternative to Plan A, in which employer and employee contributions would be made to a supplementary DC plan on the first day of hire and on the first dollar earned, irrespective of one's salary below the cap. Our modeling suggests that such a scheme might be more effective at mitigating the effects of the cap compared to plans that start contributions to a DC supplement only after the cap is exceeded.

One division expressed support for a "graded" option, in which the employer contribution increases with length of service on a graduated schedule (for example, 8%-10%-12%) as a means to encourage long service at the University. The ROTF did consider such options, but concluded that the relatively small reward for longer service would have little impact on retention. For example, an additional 2% increase in an employer contribution after ~10 years of service on a salary of \$100,000 would be only \$2,000, far below what might be expected to be the difference between a professor's current salary and that of an outside offer. Designs with graded options also exacerbate the problems with the supplement in Plan A, that the largest contributions are made late in one's career, when they have the least time to grow through compounded interest. Any retention effects ought to be weighed against the inefficiency of providing the largest contributions—on a percentage basis and in absolute dollars—to faculty who are closest to retirement and arguably least likely to leave UC, in many cases.

The Task Force also considered scenarios in which a select group of employees (faculty) would be offered the supplemental benefit; however, the Task Force decided that it would be simpler and fairer to apply any supplemental benefit to all groups of employees with individuals over the PEPPRA limit, rather than to a particular group. It would be quite difficult to decide where to draw the line to separate any definition of faculty from other academic employees, based on perceptions of importance to the University's mission. No support was expressed for bifurcation of the workforce in the Senate review process.

Long-term viability of UCRP: Under either option, the long-term viability of UCRP is among the least of the Senate's concerns, as long as the UAAL surcharge is collected on all salaries up to the IRC limit for all plans. The assessment of the UAAL surcharge on the employer funding sources for employees choosing the DC plan largely eliminates any consequences for UCRP from those employees' choices. In fact, modeling of the trajectories of the UAAL show that all

trajectories are driven largely by the borrowing authorized by the Regents last year, and plan designs impose relatively minor differences in when the UAAL would be retired.

It is clear from the models presented in the ROTF report that adopting a 2016 tier will not have a significant impact on the retirement of UCRP's unfunded liability, nor will it generate significant savings. Adopting the plan will likely cost the University more, if a full accounting is undertaken, whether from higher salaries, increased retention costs, or the need to replace faculty who are lured away by better offers. Several divisions concluded that there seems to be no financial justification whatsoever for the proposed changes.

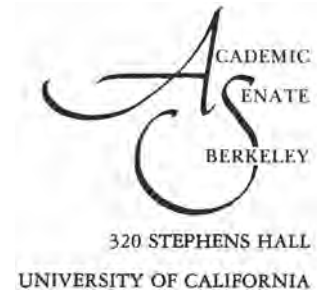
Instead, the options in the 2016 tier have the potential to substantially alter the relationship between future faculty members and the University by reducing the value of UC benefits in the recruitment, retention, and renewal of world class faculty. We do not wish to see UC become a stepping stone to a better institution rather than a university where faculty invest their lives and careers. In summary, the new options required by the PEPRA cap received no positive support and the unanimous conclusion is that the ability of UC to recruit and retain future faculty members of the same quality as current faculty members will be harmed by these options.

Sincerely,



J. Daniel Hare, Chair
Academic Council

Cc: Academic Council
Executive Vice President Nava
Senate Director Baxter



February 5, 2016

J. DANIEL HARE, Chair
University of California Academic Senate

Subject: Response of the Berkeley Division of Academic Senate to the Retirement Options Task Force Report

Dear Dan,

At its January 25, 2016 meeting, the Divisional Council of the Berkeley Division of the Academic Senate (DIVCO) discussed the Report of the Retirement Options Task Force (ROTF), informed by the comments of the Division's Committee on Faculty Welfare (FWEL), its Committee on Budget and Interdepartmental Relations (BIR), and by comments submitted by individual faculty. The comments of FWEL and BIR are attached.

At the outset, DIVCO wishes to express its appreciation for the hard work of the ROTF and also for the great work you and Vice Chair Chalfant did in providing additional information and analysis.

Executive Summary

DIVCO's principal points are:

1. It is imprudent and potentially fiscally irresponsible to change a key component of remuneration without considering all components.
2. Assuming the University of California wishes to remain excellent, which means being competitive for top faculty, the proposed changes to the pension program will inevitably result in *raising* the University of California's *total* remuneration expense for faculty. Conversely, were total remuneration expense to stay flat or decline, the consequence would be an erosion in UC's competitiveness and consequent deterioration of the quality of education and research upon which the California people and economy depend.
3. In the long run, the proposed changes will have additional adverse consequences *vis-à-vis* the status quo, including the loss of both the "golden handcuffs" (*i.e.*, making it easier to retain faculty) and the "golden handshake" (*i.e.*, encouraging timely and predictable retirements).
4. If the current pension plan (the 2013 Tier) cannot be continued (as regrettably seems likely), DIVCO favors the following:
 - a. Plan A should be adopted and the majority of DIVCO favor it being the default.

- b. The Berkeley campus is ambivalent as to whether Plan B should be an option; it is judged to be the inferior plan except for those who will be UC employees for only a short period.
 - c. If Plan B is offered, employees who elect it should have the option to switch to Plan A. The case for having the option to switch at five years is sensible, but, additionally, assistant professors should have the option to switch at the time they receive tenure as well. If it is infeasible to have both options for any individual, then, for assistant professors, the option should only be exercisable at time of tenure.
 - d. The Unfunded Actuarial Accrued Liability (UAAL) surcharge should be on all covered compensation.
 - e. Because, in many instances, the defined contribution (DC) supplement will be paid too late in an individual's career to earn sufficient return (compounding), some contribution to the DC plan should occur before individuals hit the PEPRA cap. Plan A should be augmented or revised accordingly.
5. The Berkeley Division objects in the strongest possible terms to the lack of consultation prior to the tentative agreement to accept the PEPRA cap and the limited period for consultation subsequent to the release of the ROTF report. The processes that have led us to this point are wholly inconsistent with UC's norms of shared governance. With respect, the President should understand that such actions alienate the faculty, to the peril of the University, and erode their trust and confidence in her.

Additional Details

If the University of California is to continue to provide California with the kind of educated workforce and cutting-edge research that the state's 21st-century economy requires, then UC must be able to recruit and retain the best faculty; the faculty who not only help to fuel California's innovation-based economy through their research, but who also bring that research immediately into the classroom, along with their great depth of knowledge, thereby ensuring our students are at the forefront of their fields and, thus, more competitive for top jobs and top professional and graduate schools. Recruiting and retaining the best faculty means that UC will have to offer total remuneration that is competitive *vis-à-vis* other institutions.

Unfortunately, as has been well documented, UC's total remuneration seriously lags its competitors. This is especially a problem given the high cost of living in the areas in which so many UC campuses are located. It is incumbent upon UCOP and the Regents to address this problem unless they wish to see the world's greatest university system descend into mediocrity.

Against that background, it is difficult to comprehend why we should be contemplating replacing our current pension program with one that is inferior with respect to attracting and keeping the best faculty. To be sure, if there were simultaneously a credible plan to raise salaries and address other deficiencies in total remuneration, then one could contemplate changing the pension program; but there is no such overall plan at this time. It is, at best, imprudent to change one component of total remuneration in isolation; indeed, it is arguably irresponsible.

The Berkeley Division's view is that the most sensible course of action is for the Regents to delay accepting a change in the pension plan until the time that there is a full assessment of total faculty remuneration that can address the issue of overall competitiveness, as well as the overall expenses and liabilities associated with any remuneration strategy.

The Berkeley Division notes that if total remuneration is not to erode further, then the proposed change in the pension program will almost surely mean the University's compensation expenses will be greater than they would be under the current program. As the ROTF report observes, the amount of savings UC realizes from the new pension plan will be, at best, modest. But because the new plan will result in many faculty having a far lower replacement income in retirement than the current plan, shifts market risk from UC to the faculty, and shifts longevity risk from UC to faculty, the new plan is far less attractive than the current plan; hence, other parts of compensation will have to increase by a far greater amount than they would have otherwise to prevent any further erosion in total compensation. To reiterate, the Regents need a careful and comprehensive study of and strategy for *total* remuneration before making such a consequential decision for the University.

As noted in the ROTF report, it is likely that UCRP's investment portfolio will outperform the average faculty member's portfolio. Additionally, because an individual's risk considerations are different than UCRP's, a prudent individual will necessarily follow a more conservative investment strategy than UCRP, which further reduces replacement income at retirement. It is a well-known result in economics that an organization like UCRP can take advantage of the law of large numbers to absorb risk and, moreover, that efficiency dictates that the party better able to absorb risk should do so. All of this indicates that a well-managed defined-benefit program is a far more effective and efficient way of providing retirement income than a DC plan.

Long run, the change in the pension plan will generate other additional costs. Under the current plan, mid-career faculty are "golden handcuffed" to the University. This helps the University retain its best faculty against raids from other universities. Without those golden handcuffs, the amount of increased salary necessary to win such retention battles will be all the greater. At the end of one's career, the current plan is a "golden handshake": there is no financial incentive to remain on the faculty well into old age. In contrast, with DC plans, the incentives to continue to work can be great, especially if the market is experiencing a downturn. Beyond the academic and intellectual benefits of ensuring a constant refreshing of the faculty, there is a cost component: under our salary ladder, older faculty's compensation is significantly greater than younger faculty's. If we drive up the average age of the faculty steady state, we increase our wage bill steady state. Finally, many other institutions have found that they sometimes need to induce older faculty to retire by buying them out; the golden handshake avoids that quite costly problem (having, *e.g.*, to pay a faculty member an extra year of salary as a buyout at the end of her career—an action that, by the way, swamps the savings that abandoning the current plan yields).

Concerning the two plans put forward by the ROTF: as noted, there are many reasons to view a defined-benefit (DB) plan as superior to a DC plan. For this reason, DIVCO prefers Plan A to Plan B because Plan A retains a significant DB component (the 2016

Tier). Various analyses indicate that Plan A is better for individuals than Plan B, except for those individuals who will have very short careers at UC. Consequently, many on DIVCO favor making Plan A the default. There was, however, a minority view, summarized in the BIR report (see its point #4), that Plan B should be the default, at least for assistant professors.

If offered, some individuals will initially elect Plan B, especially if the length of their employment at UC is uncertain (*e.g.*, assistant professors). Because being in a better plan will help *vis-à-vis* retention (the “golden handcuffs”) and the DB component helps somewhat with timely retirement (the “golden handshake”), it would be desirable to get long-term employees who initially elect Plan B into Plan A, which correspondingly makes providing an option to switch from B to A desirable. Because many assistant professors will not want to switch until they know whether they will earn tenure, we recommend that assistant professors be allowed to switch at the time of their tenure decision. If it is not feasible to have the switch be contingent on tenure, then the time at which an individual can switch should be close to the normative time for tenure (*e.g.*, in her or his sixth year of employment).

As discussed in the FWEL report (see its point #7) and also in the ROTF report, not applying a UAAL surcharge to all covered compensation is a false economy: it represents borrowing at a prohibitively high rate. We note that UCFW’s TFIR also questions not applying the UAAL surcharge to all covered compensation.

A problem with the way in which the DC supplement under Plan A is structured is that contributions to the DC plan start only once an individual’s salary exceeds the PEPPRA cap. For many faculty members, this will occur in the second half of their career. Consequently, those contributions will be invested for a relatively short time before retirement, leaving a retirement account that is relatively small. For example, for the considered rates of return between 4.5 and 7.25%, a 30-year investment is worth between two to three times a 15-year investment. As the analyses in the ROTF, as well as your guide with Vice Chair Chalfant reveal, this means that, even under Plan A, many faculty will have a far lower replacement income in retirement than they would under the 2013 Tier. This can be partially ameliorated by having contributions made to the DC supplement from day one of employment. UCFW endorses a “retirement readiness” contribution to a supplemental DC plan on the order of 6% (3% employer and 3% employee) to commence at time of initial hire.

There are issues with an additional 3% employee contribution, given that many assistant professors are struggling to get into high-priced housing markets and often carry non-trivial amounts of student debt. But the 3% employer contribution or similar seems well worth exploring. Of course, this could make Plan A *more* expensive than the current pension plan if the 3% is on top of the 14% contribution to UCRP to fund the 2016 Tier component, which again calls into question the wisdom of abandoning the current plan. All of this suggests that, as UCFW observes, additional analysis is warranted and various modifications to Plan A should be considered. Yet another argument for why having the Regents make a final decision within a month or so is premature.

Shared Governance

The University of California has a long and proud tradition of shared governance. It is wholly inconsistent with that tradition that President Napolitano simply agreed with Governor Brown that the PEPRA limit would be applied to new hires without any review or input from the Academic Senate. The Berkeley Division has previously noted its dismay and disapproval of that decision by President Napolitano—a decision that has shaken many faculty members' confidence in her. The abbreviated review period for this critical and complex issue, especially given open questions about overall remuneration, is also wholly inconsistent with shared governance. Consultation without effective time for evaluation and analysis is not true consultation.

A Final Thought: Maintaining a Great University

It is easy in many instances to dismiss faculty complaints about changes to remuneration as their simply acting in their self-interest. That does not apply in this instance: no current faculty member is directly affected by this change; the pension plans of those currently employed will be unchanged. Moreover, if the faculty were motivated solely by self-interest, then they might even favor the deal the President struck: although a trivial fraction of what is needed to close the unfunded liability, \$436 million is better than nothing. For existing faculty, anything that appears to shore up UCRP is in their narrow self-interest.

But the faculty care deeply about the future of a university to which many of them have devoted their entire careers. Making remuneration worse for *future hires* jeopardizes the excellence of the University. In the long run, California's economy is dependent on the highly skilled labor force and the direct and indirect spillovers (agglomeration economies) that come from having leading universities. Moreover, if the quality of UC slips, it will cease to be the amazing social mobility machine it is (and for which it was recently recognized by the *New York Times*); a second-rate system will not produce graduates with the depth of understanding and cutting-edge knowledge that will make them competitive for the best jobs or best graduate and professional schools.

The best and most economical way to preserve a University of California system that, through its excellence, keeps California prosperous is not to accept the PEPRA cap, but rather to preserve the 2013 Tier. Should that battle be lost, then we strongly urge President Napolitano to choose the options in the ROTF report that are most consistent with recruiting and retaining the best faculty. Furthermore, we strongly urge her to consider additional measures to make sure that our total remuneration package will permit us to recruit and retain the best.

On behalf of the Divisional Council,



Benjamin E. Hermalin
Chair, Berkeley Division of the Academic Senate
Schneider Distinguished Professor of Finance & Professor of Economics

Enclosures (2)

Cc: R. Jay Wallace, Chair, Committee on Budget and Interdepartmental Relations
Mark Gergen and Caroline Kane, Co-chairs, Committee on Faculty Welfare
Aimee Larsen, Manager, Committee on Budget and Interdepartmental Relations
Anita Ross, Senate Analyst, Committee on Faculty Welfare

January 21, 2016

CHAIR BENJAMIN HERMALIN
BERKELEY DIVISION OF THE ACADEMIC SENATE

RE: Retirement Options Taskforce Proposals

Thank you for providing us with the opportunity to comment on the recommendations of the Retirement Options Task Force. We see two broad areas of possible concern related to the recommendations: the effect of any such plans on the financial stability of the University of California (UC) system and that of the UC Retirement Plan, and the effect on competitiveness in overall remuneration for newly hired faculty and in retaining faculty. We agree with the view of J. Daniel Hare and James A. Chalfant, Chair and Vice Chair, respectively, of the UC Academic Senate, who state that the financial stability of UC and UCRP is not likely to be significantly affected by the plans proposed. In any case, effects of this kind fall outside the purview of our committee. Thus we focus on the potential impact of the proposed plans on newly hired faculty, on overall remuneration, on readiness for retirement, and on the competitiveness of UC in recruiting and retaining faculty.

The issue of competitiveness is severe, and we have grave concerns about the effect of the proposed plans on the future quality of UC faculty. This effect is likely to be most acute at Berkeley, given the confluence on our campus of various factors, including extreme competition with other institutions, pre-existing shortcomings in salary and non-salary compensation relative to that of our competitors, and the inflexibility of existing policies for setting and adjusting salaries. We urge the Academic Senate leadership to stress the potential for irreparable damage to Berkeley posed by these changes, and the need for major changes in Berkeley's approach to determining salary and non-salary compensation in response, if we are to attempt to minimize this damage and maintain Berkeley's excellence.

More specifically, we would emphasize the following points.

1. The Task Force was given very tight constraints on possible plans. Given these constraints, it appears that there is no way to modify the details of the proposed plans that would result in significant improvement to the overall competitiveness of Berkeley in recruiting and retaining faculty. Thus working within these constraints, any changes designed to mitigate the potential damage to Berkeley will need to come from policies for salaries and other forms of compensation.
2. The proposed plans will weaken Berkeley's competitiveness in two distinct but related ways. The first is by significantly reducing the overall retirement benefits of newly hired

faculty relative to the current 2013 tier (which already represents a reduction in benefits compared to those accruing to faculty hired before July 1, 2013). The second is by eroding incentives for faculty to remain at Berkeley in the face of outside offers, an effect that will be particularly salient and strong for mid-career and senior-level faculty. These channels call for distinct but related responses.

- a. We urge the Academic Senate leadership to move quickly to compile data comparing effects of the proposed plans on total remuneration, using Berkeley-specific competitors, such as the Comparison 8 universities (or ideally an expanded list weighted more toward Berkeley's private university competitors). Such data will be crucial for informing discussions about the impact of the new pension plans on Berkeley's competitiveness. We infer that this effect will be severe. UC already lags its competitors (in the Comparison 8) in overall compensation by 10%, based in part on retirement benefits given to newer faculty by the current 2013 tier (according to the 2014 total remuneration study). As the Task Force concedes, Plans A and B will significantly reduce benefits relative to the 2013 tier under every scenario presented.
 - b. We urge Academic Senate leadership to advocate plans for significant improvements in non-salary compensation at Berkeley, including housing supplements and tuition credits.
 - c. We urge Academic Senate leadership to advocate changes in policies for determining salaries for faculty at Berkeley, going forward. In many cases, it may be necessary to modify current policies for setting salaries at the time of appointment (by, for instance, approving 10% supplements over the salaries offered by peer institutions, rather than matching such salaries, as is our practice at present.) Further measures that might be necessary include significant modifications of the system-wide salary scales to increase step sizes, particularly for mid-career faculty (e.g. Associate Professor I - Professor VI), as well as improved, Berkeley-specific procedures for regular (and accurate) market-based adjustments, particularly in promotions and in cases for advancement across the thresholds at Professor, Step VI and at Professor, Step IX.
 - d. Finally, we note that defined contribution plans are often thought to incentivize faculty to remain in service longer than they otherwise might, in order to ensure adequate retirement benefits. Some of our private peers counter this tendency by offering large cash incentives to faculty to retire at an appropriate career stage. Under the new retirement benefit arrangements, Berkeley may need to consider similar programs to ensure its ability to renew the faculty ranks on a continuous basis.
3. The Task Force proposal calls for faculty to have a one-time option to revise their initial choice between Plans A and B after five years. A major rationale for offering an opportunity to switch is to allow faculty to opt into Plan A, which favors those expecting to hold a long-term position at Berkeley, once they have had enough time to reasonably

expect a long career here. Presumably Assistant Professors are a main target for this choice. In almost all cases, however, Assistant Professors will not be in a position to commit to a long career at Berkeley after only five years. We advise that the time at which this revision can be made be moved later to coincide better with the time at which most faculty hired initially as Assistant Professors can be expected to complete the tenure process. Five years is particularly short given that many Assistant Professors now take advantage of active service–modified duties status and tenure clock stoppages. Thus we advise moving the option to revise to eight to 10 years after appointment, or perhaps not specifying a time limit or otherwise offering a flexible option to change.

4. We recommend changing the default option from Plan A to Plan B. Plan A disadvantages Assistant Professors who might not receive tenure or younger faculty who for other reasons might not expect long service at Berkeley. These might also be the faculty least likely to evaluate and weigh retirement plans carefully, or even to make an initial choice. Thus setting Plan A as the default plan seems to benefit the university (through the forfeit of UC contributions should the faculty member resign within five years) at the expense of such faculty, and gives the appearance of exploitation.

These reflections capture our initial reactions to a complex set of proposals whose effects we are likely to be grappling with for many years to come. Given the potential magnitude of those effects, it is a matter of great regret to us that the basic parameters of the new retirement plans were fixed without consultation with the Academic Senate.



R. Jay Wallace
Chair

RJW/al

January 21, 2016

**TO: BENJAMIN HERMALIN, CHAIR
BERKELEY DIVISION OF THE ACADEMIC SENATE**

Re: Retirements Option Task Force Report

Dear Ben,

UC FWEL discussed the Retirement Options Task Force (“ROTF”) Report at a January 19 meeting. We find much to object to in the Report. The process leading to the Report violates the principle of shared governance. The proposals provide inadequate retirement income security to faculty in Tier 2016. The system they propose replaces an efficient system for providing retirement income security with an inefficient system, creating new sources of cost not present under the existing system, and shifting risks that exist under any system from the University to employees. The reduction in the value of the pension benefit will significantly weaken Berkeley in recruiting and retention of faculty unless this reduction in total remuneration is offset by a significant increase in salary.

FWEL makes the following recommendations:

- 1) We think the process leading to the Report is a sufficiently egregious violation of the principle of shared governance to justify a general meeting of the Academic Senate to determine if the UC Berkeley Faculty as a collective body wants to officially express dissatisfaction over the process to the President.
- 2) While we expect it is too late to reverse the decision, if the decision to impose the PEPPA cap on the defined benefit (“DB”) is open to being reversed, then it should be reversed. The Report makes it clear this was a mistake. Even in the most generous form, the new pension system provides less retirement income security to an employee whose compensation is subject to the cap at equal or greater cost to the employer. Much of the political impetus for the change has been organized around dealing with the unfunded liability, but the proposed changes actually reduce the contributions to be made by the University to address the unfunded liability, making the problem worse, unless the minority position reducing the level of the employer contribution to below 10 percent of covered compensation is adopted. The minority position on this point is untenable, for lowering the employer contribution makes the pension benefit even less competitive, and exacerbates the problem with the majority proposal, which is that it provides inadequate retirement income security to people in the 2016 Tier. Meanwhile the \$436 million offered by the Governor is not guaranteed, and will cover only around four percent of the unfunded liability.
- 3) Turning to the proposals themselves, for most faculty members Plan A dominates Plan B by providing greater retirement income security. But the proposed supplement is inadequate to provide sufficient retirement income security. The

proposed supplement is a 10 percent employer contribution and 7 percent employee contribution for covered income above the PEPRA cap. Most junior faculty hired at Berkeley will be hired at a salary below the cap and then over their career their salary will rise to above the cap. Not making supplemental retirement contributions in a faculty member's early below-cap years makes it impossible for a faculty member to accumulate sufficient savings for retirement during his or her career to achieve income security in retirement. Under the old DB plan this was not an issue because the benefit was based on a faculty member's highest average compensation. To illustrate, persona "C" in the Report will have retirement income of around 50 percent to 60 percent of their highest average compensation under Plan A, as compared to just below 80 percent under Tier 2013, assuming they start at age 36 and retire at age 70. Only 30 percent of their retirement income is secure in the 2016 Tier DB plan. The balance of their retirement income is subject to market risk and annuity risk under the supplemental DC plan.

New faculty hires at Berkeley already find it difficult to afford a home in the Bay Area. Under this proposal, in addition to having a large mortgage and little savings, new faculty also will face the prospect of having an insecure income on retirement that is a fraction of their salary at retirement. Many senior faculty who face an insecure financial future should they retire are likely to choose to continue to work, occupying a position that could be occupied by a younger person. Once they do retire they are unlikely to be able to afford to remain part of this community. These changes—senior faculty defer retirement, and when they do retire they no longer participate in our community—will change Berkeley for the worse in fundamental respects. Meanwhile, Berkeley falls further behind its competitors in the compensation it can offer new faculty.

It is absolutely essential that some mechanism be created to make an additional employer supplemental contribution for junior faculty, whose current salaries are below the PEPRA cap, to provide income security in retirement comparable to income security now provided to faculty. Hopefully this mechanism will be designed in a way that raises the cost of leaving Berkeley at mid-career while encouraging retirement at end of career.

More than a sufficient balance in a retirement account is necessary to provide a secure retirement. It is also essential that UCRP be tasked to work with other financial intermediaries and providers of financial products to create a product as comparable as possible to a DB plan in protecting an employee from investment risk and annuity risk while providing returns comparable to the returns earned by UCRP. There is no such product today.

- 4) FWEL had mixed views on whether Plan B should be retained as an option. We recognize Plan B is not targeted at Berkeley faculty. Most faculty who come here hope to spend their career here. Certainly, this is something we as a University want to encourage. Moreover, allowing the option creates complexity for new hires and invites regret over the option selected. And we note that allowing the

option increases plan costs. If getting rid of Plan B could be a source of savings that could be used to enhance the supplemental benefit, then everyone on the committee would favor this instead. But we recognize employees who do not plan to work at the University for the five-year vesting period will benefit from having this option. And the option may help to recruit new faculty who do not trust the University to keep its pension promise, or who have an optimistic view about their ability as an investor.

- 5) We strongly agree with the position that the default should be Plan A for Plan A provides better income security for most employees.
- 6) We agree with the decision to allow an employee who chooses Plan B a one-time option to switch to Plan A. We understand the reason for making this option available after five years of employment to be that this is when the right to a pension vests under Plan A. For faculty it might seem more appropriate to make the option available after seven or eight years, not five years, so the option coincides with the tenure decision. But a faculty member who is not confident he or she will get tenure might still want to exercise the option after five years. A simple example will illustrate why. Assume an employee with \$100,000 covered compensation who plans to retire at age 65. To keep it simple, assume the employee plans to work at the University for one more year. If the employee chooses to be covered by Plan A for year six, then they will get a right to a \$2,500 annual pension, adjusted for inflation, to start at age 65. If the employee chooses to remain in Plan B, then they will get \$17,000 in a tax-deferred account. The small annuity may well be more valuable than the money in a tax-deferred account. Thus we would like to keep this option open after five years. But we also understood many faculty members who select Plan B may not appreciate the value of a small annuity, and will not think about exercising the option until they get tenure. We propose providing an option in year five and then again in the tenure year. If this is determined to be too costly administratively or financially, then we would set the option in the tenure year on the view this is when most faculty are likely to make the decision to switch.
- 7) We strongly agree with the minority position in the Report that the UAAL surcharge should be on all covered compensation. The majority proposal not to impose the UAAL surcharge on covered compensation in excess of the PEPR cap is inexplicable other than as a way to produce a plan that reduces benefits costs to campuses without a further reduction in the value of the benefit offered to employees in the Tier 2016. These are false savings. As the Report notes, this is basically a decision to borrow money that is not paid to reduce the deficit at 7.25 percent.



OFFICE OF THE ACADEMIC SENATE
ONE SHIELDS AVENUE
DAVIS, CALIFORNIA 95616-8502
TELEPHONE: (530) 752-2231

February 8, 2016

DAN HARE, CHAIR

Academic Council

Re: Retirement Options Taskforce Report

The Retirement Options Taskforce Report was forwarded to all standing committees of the Davis Division of the Academic Senate, including the school and college Faculty Executive Committees. Responses were received from the Committees on Faculty Welfare, Undergraduate Council, and Emeriti; as well as the College of Biological Sciences, College of Letters and Science, College of Agricultural and Environmental Sciences, School of Medicine, School of Nursing, School of Veterinary Medicine and Graduate School of Management. Responses were also collected from individual faculty through an online Web Forum. The responses were compiled and the main points are presented below; original responses are attached for your reference and consideration.

The Division in particular appreciates the unique perspective provided by the Emeriti Committee; as stated in their response, they are “intimately acquainted with the University’s standards and workings, its strengths and weaknesses, and [are] deeply committed to its welfare and its continuing greatness. Also, there is almost no self-interest in the recommendations other than seeing the University of California remain the best public university.”

Also, the Davis Division acknowledges the dedicated effort and work provided by the members of the Retirement Options Task Force (ROTF). The ROTF report is a comprehensive analysis and assessment of the advantages and disadvantages of the different plans and the percent of contributions by employees and the University of California. Although the ROTF members provided a creative solution to try to improve benefits within the parameters they were given, the general consensus of the Davis Division, based on the collected responses, is that the proposed retirement benefits are still substantially inferior to those in the 2013 tier.

To maintain its status as the premier public university system in the world and one that fuels the economy of California, the University of California (UC) needs to be strategic in attracting and retaining top faculty and staff. The proposed 2016 retirement plan tier reduces total compensation and UC’s competitiveness in recruitment and retention. The reduction in retirement benefits under the 2016 tier represents progressive erosion in total remuneration. The comparisons to the UCRP 2013 tier made in the report demonstrate a significant reduction in retirement benefits; importantly, the 2013 tier is already a significant reduction from the 1976 tier. Furthermore, the 2014 Total Remuneration study for general campus ladder rank faculty commissioned by UCOP showed that faculty remuneration is already below peer institutions.¹ It

¹ <http://compensation.universityofcalifornia.edu/total-remuneration-ladder-rank-faculty-2014.pdf>

is a myth that UCRP is too generous; its above-market position in the 2009 Total Remuneration study was due mainly to the contributions holiday. UC put the plan on a sustainable footing by restarting contributions to the plan and with the 2013 tier. There is simply no reason to undertake further reductions in the pension benefits the University provides. Doing so guarantees that UC will not be able to recruit and retain the best faculty and staff.

The Davis Division has a number of areas of concern, all grounded in the fundamental problems described above:

1. **Loss of the Competitive Advantage of UC:** The most critical impact of the loss of market competitiveness is the inability to recruit and retain world-class faculty.
 - a. **Recruitment of Faculty:** The 2016 retirement tier slated to start on July 1, 2016 will weaken our ability to recruit new faculty. The retirement benefits offered by UC provide leverage in recruiting top candidates. The decrease in retirement benefits provided under the 2016 tier will lessen our ability to highlight retirement benefits as a major strength of UC compared to other institutions. The following statement by an Assistant Professor who joined UC Davis in 2014 states it well:
*"I chose to come to UC Davis because of many factors, including the excellent base salary and benefits. I had several other excellent offers, including offers from Ivy League institutions. I would not have chosen to come to UC Davis had the university not offered competitive salary and benefits, including the pension plan...I am strongly opposed to the proposed changes to the pension benefits and I am very concerned about **how the proposed changes would negatively impact the ability of UC schools to recruit and retain top quality faculty and staff in the future.**" (emphasis added)*
 - b. **Recruiting Faculty from Underrepresented Groups:** *"UC and our campus in particular are trying to increase the representation of women and minorities in our faculty. These faculty would be hired under the 2016 tier, which has significantly reduced benefits over the 2013 tier. As a result, their total remuneration would be significantly lower on average than that of their male/white counterparts, unless they receive larger salaries to compensate for reduced benefits. Therefore, the new pension plan could significantly worsen inequities."* Professor of Physics.
 - c. **Retention of Faculty:** The proposed new retirement tier will have a significant negative impact on the retention of faculty. There is already concern that UC faculty remuneration is below peer institutions, as documented in the 2014 Total Remuneration study. Retirement benefits are an important part of faculty remuneration, and the erosion of retirement benefits with the 2016 tier will make it harder to retain successful, mid-career faculty, particularly because retirement benefits will decline for the professor rank under all three options. Given that the most successful and highly-paid faculty members stand to lose the most under the new tier, they will be the most likely to leave mid-career. Another assistant professor who recently joined UC Davis says *"...I recently chose to come to UC Davis over other very good offers, and the UC pension plan was a significant consideration. Furthermore, and perhaps more significantly, I see the UC*

*pension plan as a very strong incentive to stay at UC Davis throughout my career. I believe that the proposed changes will make it more difficult to hire the best new faculty, but **even worse will be the effect on our ability to retain our best faculty.***" (emphasis added)

- d. **Widening of Salary Gaps.** There is concern that the loss in retirement benefits will result in negotiations for higher starting salaries during faculty recruitment to compensate for inferior benefits. Larger retention packages may also need to be negotiated for top faculty to make up for deficiencies in retirement benefits. Similarly, attempts to recruit senior top faculty from other institutions will require higher salaries. These considerations also demonstrate that faculty members' responses to the new retirement benefits tier will reduce or eliminate any savings to UC from its adoption of the new tier; the cost will simply be in salaries rather than in retirement benefits.
- e. **False Economy for the University.** A former chair of the Davis Division Academic Senate comments: *"Faculty will not have an incentive to stay after they hit their retirement cap and this will happen right at the time of career that one is starting to think about retirement. UC will become even more of a feeder institution for our competitor institutions than we are now. ... The powers that be may think 'who cares' because we can replace them with lower paid faculties, but the new faculty consume more resources with respect to start-up funding in STEM, need to refresh/remodel space and buildings to be attractive to new faculty, and the need to devote time to establishment of their careers. They are a net consumer of resources until they become established and garner grants, contracts and gifts that provide overhead to the institution. With this policy, right when they become net contributors we cap their retirement salaries and push them away. We would need to massively fix the salary scales to remain competitive. Thus it is not clear what problem this policy and low salary cap actually fixes."*

The false economy extends beyond faculty to staff: *"I have to express my grave concerns about the proposed changes in the UC pension plan. One key reason why UC has become a world renowned institution is because it has been able to hire and retain faculty **and staff**. One key reason of been able to retain faculty **and staff** is because of UC pension plan."* Professor and Department Chair (emphasis added).

- f. **Delayed Retirement:** Faculty who do choose to stay at UC will defer their retirement date, partially because of the change in the retirement age at which they obtain the maximum "age factor" compared to the 1976 tier, and partially because they will not be able to afford to retire based on their UC retirement benefits. The result will be a faculty comprised of new, inexperienced faculty and end-career faculty, without the balance of high productivity mid-career faculty.
- g. **Morale:** There will be increased faculty dissatisfaction and decreased morale resulting from the disparities in compensation. Years of budget cuts and requests to do more with less support have taken their toll on faculty morale. The

proposed 2016 retirement tier erodes faculty benefits and total remuneration, and further highlights the lack of state support for the UC system. This contributes to a climate where faculty members are often not provided adequate support. In turn, faculty members who are not supported and valued by UC will not support and value UC. Morale effects will reinforce the financial incentives the new tier will create for productive mid-career faculty to leave UC.

2. **Unintended Consequences:** Concurrent changes within UC benefits may result in other unintended consequences as follows:
 - a. **Quality of healthcare provided by UC Care:** There is an ongoing discussion about consolidating health benefits within UC Care, primarily provided by the UC medical schools. Compromised ability to recruit and retain the best faculty will also affect these medical schools and the caliber of the health care providers that they are able to hire, impacting the quality of healthcare provided by UC Care.
 - b. **Limited Retirement Counseling Services available within UC:** Centralization of Retirement Administration Service Center (RASC) has further limited the retirement counseling available to UC employees, at a time when more individual retirement preparation and responsibility will be needed with the 2016 tier. Indeed, retirement counseling may be necessary *at hiring* for new faculty to be able to understand the implications of their choice of pension options at a time when starting salaries and start up packages are more important than the distant concept of retirement. Payment of student loans, the purchase of a home, or the cost of raising a family along with startup funds for research are primary concerns for new faculty. Failing to address needs for retirement counseling at hiring could, ultimately, strengthen the incentives for productive mid-career faculty to leave UC in order to compensate for earlier planning issues.
 - c. **Restrictions of Investment Options in Retirement Savings Program:** The defined contribution plans (DC Supplement or DC Choice) allow some recovery of retirement benefits compared to the Defined Benefit plan which is restricted to the Covered Compensation Limit. However, in September 2014, UC enacted numerous changes to the investment fund line-up for the Retirement Savings Program, reducing available plans for investment and increasing the cost of continuing to participate in some plans. Future changes to the Retirement Savings Program could occur independently of shared governance oversight and could greatly impact the future value of defined contribution plans.
3. **Concerns Regarding Process:** A fundamental concern regarding this plan is that the original agreement was forged by the “Committee of Two” outside established UC processes. UC President Napolitano over-stepped her defined scope of responsibility by entering this agreement: there was no oversight by UC Regents. This process is widely viewed by the faculty as a “deal” made by President Napolitano and Governor Brown outside the governance structure of UC and not adhering to the shared governance principles of UC. There was no opportunity for meaningful input from the Academic Senate. Both the miniscule period allotted to consultation and the fact that the new plan was a “done deal” even before the consultation was requested represent an

unprecedented erosion of the basic tenets of shared governance. This agreement institutes a permanent detrimental change in exchange for a one-time \$436 million payment, insufficient to recover the future cost associated with this agreement, and does not provide any long term commitment from the state of California to UC. While it is recognized that the President has to be able to make decisions, it is also a fact that the quality of decisions can be substantially strengthened by consulting with knowledgeable members of the University community who can help avoid serious unintended consequences. The Davis Division strongly recommends that the Senate leadership meet with President Napolitano to discuss how such a violation of shared governance, specifically on matters that could jeopardize the long term future of UC, can be avoided in the future.

Which option presented is best? Both Plan A and B were considered and while neither plan is desirable, it was suggested that Plan A may be less harmful than Plan B as it still includes a defined benefit component. The Davis Division would like to reiterate, however, that there is no support for having only a defined contribution plan. Other options should be considered. Even though there was a widespread assumption that clinical faculty would prefer using a defined contribution plan as it is vested after only one year and is highly portable, the clinical faculty who participated in the meetings found this option much less attractive than the current UC retirement plan. No one expressed support for this option. Similarly, within the School of Nursing the faculty consensus is that there is no support for a defined contribution only plan.

Action Items: Recommendations to consider before implementing any changes to the retirement benefits:

- Total remuneration studies of competitive salary ranges must be performed regularly for faculty and staff in order to keep University of California's salaries comparable to competitor institutions
- There must be a commitment from the President to raise faculty salaries in the UC system to the levels paid by competing institutions. This will be particularly important if retirement benefits will be further reduced.
- Likewise, retention of outstanding staff requires salaries that are comparable to such positions in industry.
- The Academic Senate expects extensive consultation when issues of high importance for the future of UC arise.

Sincerely,



André Knoesen, Chair
Davis Division of the Academic Senate
Professor: Electrical and Computer Engineering

Enclosures

Faculty Welfare Committee Comments on the Retirement Options Task Force Report

The members of the Faculty Welfare Committee want to acknowledge the dedicated effort and work provided by Retirement Options Task Force (ROTF) members in being tasked with a job working under a very short timeframe and being given unrealistic and restrictive parameters for devising a plan. The ROTF report is a very comprehensive analysis and assessment of the advantages and disadvantages of different plans and the percent contributions by employees and UC. The ROTF members provided a creative solution to try to improve benefits within the parameters they were given and the report is very honest in acknowledging that even with the application of “fixes”, the proposed retirement benefits are still woefully lacking.

In addition to jeopardizing the future of UC, a fundamental concern originating with this plan is that the original agreement was forged by the “Committee of Two”. UC President Napolitano over-stepped her bounds in this agreement in that there was no oversight by UC Regents or adherence to the shared governance principles of UC. The one-time payout of \$436 million is insufficient to recover the future cost associated with this agreement. This agreement institutes a permanent detrimental change in exchange for a one-time payment and does not provide any long term commitment from the state of CA to UC.

It is recognized that the President has to be able to make decisions; it is also a fact that the quality of her decisions can be substantially strengthened if she consults with knowledgeable members of the University community who can help avoid serious unintended consequences. It is recommended that the Senate leadership meet with President Napolitano to discuss how such a violation of good governance can be avoided in the future. If the discussion does not lead to increased consultation, then other options, such as a vote of no confidence, should be considered.

The 2016 tier change in retirement benefits represents progressive erosion in faculty compensation and benefits. The comparisons in the report are made to the UCRP 2013 tier, demonstrating a significant reduction in retirement benefits; however, the 2013 tier is already a reduction from the previous 1976 tier. Furthermore, UCOP’s own study showed that faculty remuneration is below peer institutions and while retirement benefits were historically positioned above market, the 2013 tier retirement benefits are now below market. UC Davis has the lowest faculty remuneration among the UC campuses, placing it at a further disadvantage.

The most critical impact of the loss of market competitiveness is the inability to recruit and retain high quality faculty. Highly reimbursed staff and administrators will be positioned to negotiate supplemental retirement agreements even beyond the Internal Revenue Code limit; however, this avenue of negotiation would not be available to faculty. The loss of retirement benefits will result in new faculty negotiating for higher starting salaries and start-up packages to compensate for inferior benefits. This will cause greater disparity and stratification between incoming new (junior) faculty and established more senior faculty. However, as incoming salaries progress over time, the CCL cap will have a greater restricting effect on retirement compensation. This will start to impact 2016 tier faculty during mid-career, when they are most productive and susceptible to recruitment by other institutions. The 2016 tier does not promote career longevity at UC. As a result, UC will bear the cost associated with hiring,

supporting, and mentoring new faculty, but will not gain the benefit of retaining these faculty throughout their careers. Faculty who do choose to stay at UC, will defer their retirement date, partially because of the change in retirement age compared to the 1976 tier and partially because they will not be able to afford to retire based on their UC retirement benefits. The result will be a faculty comprised of new, inexperienced faculty and end-career faculty, without the balance of high productivity mid-career faculty. There will be increased faculty dissatisfaction and decreased morale resulting from the disparities in compensation. Inability to attract ladder-rank faculty may further promote the hiring of temporary adjunct instructors, which is a trend already occurring at UC and other universities. The research, teaching, and service missions of UC and the stature of UC as a leader in a variety of fields will be undermined.

Concurrent changes within UC benefits may result in other unintended consequences. One, there is an ongoing discussion about consolidating health benefits within UC Care, primarily provided by the UC medical schools. Compromised ability to recruit and retain the best faculty will also affect these medical schools and the caliber of the health care providers that they are able to hire, impacting the quality of healthcare provided by UC Care. Two, the defined contribution plans (DC Supplement or DC Choice) allow some recovery of retirement benefits compared to the Defined Benefit plan which is restricted to the CCL. However, in September 2014, UC enacted numerous changes to the investment fund line-up for the Retirement Savings Program, reducing available plans for investment and increasing the cost of continuing to participate in some plans. Future changes to the Retirement Savings Program occur independently of shared governance oversight and could greatly impact the future value of defined contribution plans. Three, centralization of Retirement Administration Service Center (RASC) has further limited the retirement counseling available to UC employees, at a time when more individual retirement preparation and responsibility may be needed with the 2016 tier. In fact, retirement counseling may be necessary for new faculty to be able to understand the implications of their choice of pension options at a time when starting salaries and start up packages are more important than the distant concept of retirement. Payment of student loans, the purchase of a home, or the cost of raising a family along with start up funds for research are primary concerns for new faculty.

Of the two ROTF options, the Faculty Welfare Committee recommends Option A – Hybrid Approach. Option B - Pure Defined Contribution Approach shifts the investment risks to the faculty and promotes short term employment rather than encouraging loyalty. We also recommend that the University's contribution of 4% to reduce the Unfunded Actuarial Accrued Liability (UAAL) be applied to the entire wage base not just to the Covered Compensation Limit (CCL) of \$117,020. Note that in Option B the entire wage base is \$265,000, the Internal Revenue Code limit. The justification for the difference between the plans was to achieve cost savings. However, UAAL has to be paid from some source, and therefore, the cost savings are not real.

In summary, the plans proposed in the ROTF report appear to be the best solution for a bad agreement between UCOP and the State of California. The fundamental problem is the agreement between UCOP and the State of California. The long term effects of 2016 tier are numerous and detrimental. The cost savings are minimal, if any, and do not outweigh the negative impact. We agree with the recommendation to treat faculty and staff equally to avoid further segregation, but also recognize that

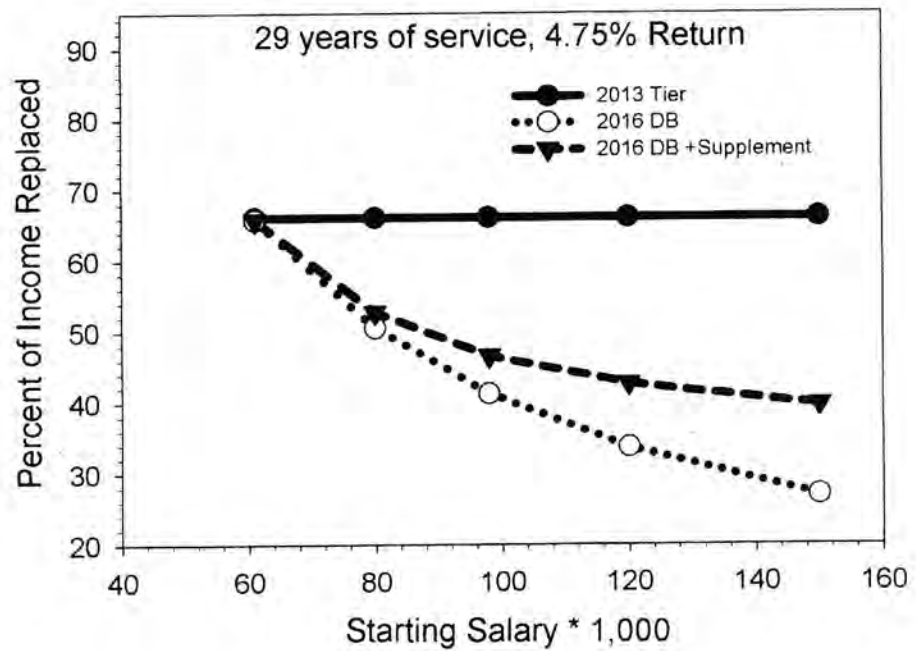
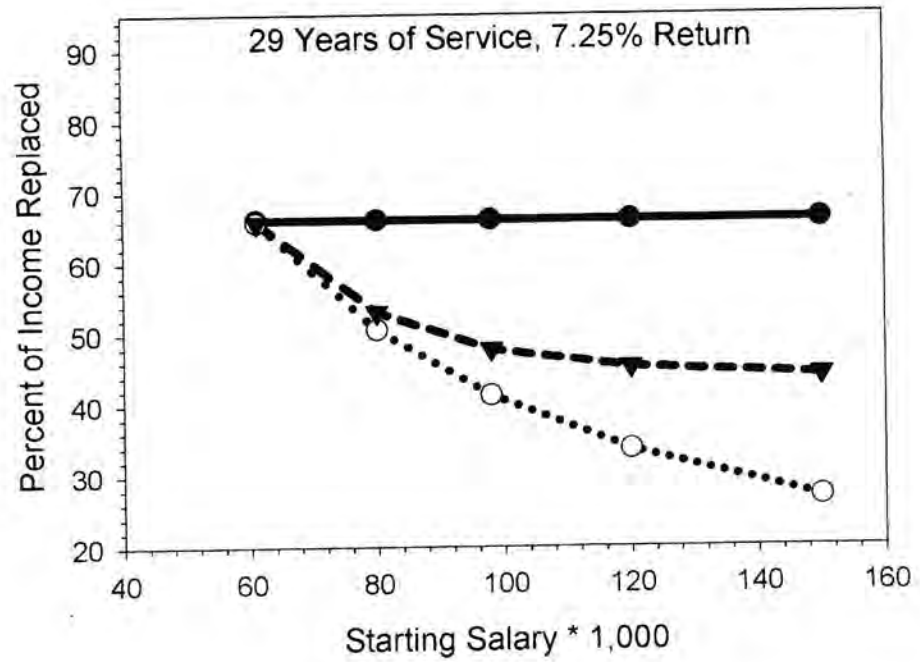
many staff positions are unionized and the unions may be able to negotiate improved benefits for their members. Although much attention has been directed to the UAAL, the budget agreement does not address the unfunded liability. Based on the graph on page 57 of the report, it would seem that equal or greater resolution of UAAL is obtained from 2013 tier through borrowing from STIP and excluding State funding. All other 2016 tier projections include borrowing and State funding. Sadly, the primary goal of the budget agreement was cost savings, but projected cost savings appear minimal.

Emeriti Committee Comments on the Retirement Options Task Force Report

The Emeriti Committee feels that the graphs contained in *A guide to reviewing the recommendations of the Retirement Options Task Force* by J. Daniel Hare and James A. Chalfant, provide the clearest evidence of the stark reality and injustice of the Retirement Options Task Force (ROTF) recommendations. Please see the figure on page 2 which shows the impact on a highly compensated professor with a starting salary of \$140,000 who retires after 29 years of service to the University. Looking at a 7.25% annual return, with a defined benefit plan capped at the PEPRA salary limit, currently \$117,020, and a new supplemental DC benefit (Option A – Hybrid Approach), the retirement payment is less than 50% of his/her average pay for the last three years before retirement, compared to 68% under the tier 2013 program. If one considers a model of a 4.75% annual return, with the supplemental DC benefit, the percent drops close to 40%. Professors starting with lower initial salaries would receive slightly higher percentages but still much less than they would receive under the current plan. In either model (7.25% or 4.75% annual return) without the supplemental DC benefit, the retirement payment is decreased even more. These substantial decreases of payment to support faculty in their retirement years is shameful. Finally, we are dismayed with the repeated statement that this proposal will not affect current employees. This statement, only true in the fiscal sense, sadly tries to divert our attention from precisely how the proposal does affect us: in our concern for the University's future difficulty in attracting and retaining the exceptional faculty necessary to maintain the University's reputation of excellence.

While the plan will erode faculty quality broadly across the University, particular disciplinary areas such as engineering, economics, business, and medicine will be disproportionately affected because it is not unusual to hire assistant professors at \$90 – 100K per year. We believe that the Senate must make sure the Regents are aware of the faculty's concern about the potential negative impacts on hiring and retention.

The Committee is pleased to enclose and endorse a letter for the UC Davis Emeriti Association which also incorporates concern expressed by members of the UC Davis Retirees' Association. The emeriti and retirees have a unique perspective from which to evaluate the effects of the ROTF recommendations. As stated in their letter, they are "intimately acquainted with the University's standards and workings, its strengths and weaknesses, and [are] deeply committed to its welfare and its continuing greatness." Also, there is almost no self-interest in the recommendations other than seeing the University of California remain the best public university in the world.



January 31, 2016

Dear Academic Senate Colleagues on the Emeriti Committee:

We offer you the thoughts of some of the members of the UC Davis Emeriti Association's Executive Committee and representatives from the UC Davis Retirees' Association about the Retirement Options Task Force (ROTF) Report to the President that is going to be submitted to the Regents in the near future, and we make two requests.

As emeriti faculty and university retirees, we have a rather privileged position from which to view the University of California. We are intimately acquainted with the University's standards and workings, its strengths and weaknesses, and we are deeply committed to its welfare and its continuing greatness.

At the same time, we stand apart from its actions, in the same way that we stand apart from the actions of our children.

While feeling strongly about the effects of this proposed policy on the university to which we have devoted much of our professional lives, the current proposal to amend the retirement plans for University employees does not affect any of us financially. Nor is any of us involved in recruiting faculty or staff. So while we stand apart from these, we have two key points informed by experience in the UC system to offer the decision makers.

First, we believe that the keystone proposal of the Report – the one-time payment of \$436 million into the University's pension fund over the next three years in exchange for a dramatic reduction in future hires' pension benefits - needs recasting. The resultant reductions in new employee contributions may affect the future financial health of the retirement pool.

Second, we believe that reaching this "compromise" without adequate consultation with faculty deprived the University of a vital component in the University's decision-making process.

As to the benefits proposal, most employees are ill equipped to manage investment and payouts from DC accounts. It's hard enough for the pensions system's paid professionals. To do so, such responsibility should not be transferred to employees.

Our experience with hiring leads us to believe that potential hires will demand higher salaries than they now do to cover the shortfall the report's benefit proposals will impose and that the positive outcomes assumed in the report are too optimistic.

To maintain its status as one of the premier universities in the world and one that fuels the economy of California, the University of California needs to be strategic in attracting, maintaining, and retaining top faculty. In today's competitive world, top universities fully compensate excellent faculty and staff. This proposed plan effectively reduces total compensation and erodes the University's competitive edge in recruitment and retention. We are very concerned about potential loss.

What also concerns us is the perceived assault—there really is no other word—on the core principles of the University that was exemplified by the way in which this new proposal was created and is being codified. The proposal seems to have been made in secret and that it is being rushed to conclusion well before there can be reflective discussion. The issues are large, important and complicated. At the moment, there is only room for shock and anger by the faculty. The process seems guaranteed to leave a legacy of bitterness since few active faculty can take the time to understand the complexities of the proposal by the deadline.

We, who have distinguished colleagues at top-flight institutions across the nation and have heard complaints from them about decision-making processes in their institutions, have developed a special regard for the incredible advantage that the University of California has had over the years in the principle of shared governance. The process displayed in the rush approval of this report is a direct assault on that core principle. There is a real danger the UC will be put on a slippery slope leading to mediocrity.

We are unnerved by the negotiation of this deal between the Governor and the UC President with little or no apparent input from the faculty senate. While one to one chief executive negotiations can often be useful in legislative negotiations and large corporate negotiations we believe these are imperfect tools in the university world where principles of shared governance mean so much and have served so well.

In the spirit of shared governance, the Emeriti Association had input from the UC Davis Retirees' Association's representatives Tom Compton and Mike Chandler on the ramifications of this report. They contributed their voices to these concerns and in addition urged that a highly visible program be established to monitor and regularly assess the impact of total compensation plans offered by the university to its employees, which actively engages campus faculty and staff subject experts.

We urgently request that President Napolitano and the Regents defer consideration of this proposal until the current faculty and staff of the University can more fully—and wisely—consider it.

Sincerely,

Jo Anne Boorkman

Vice President

UC Davis Emeriti Association



FACULTY SENATE OFFICE
UC DAVIS SCHOOL OF MEDICINE
Phone: 916-734-9020
Fax: 916-734-9019

4610 X STREET
EDUCATION BUILDING, SUITE 3127
SACRAMENTO, CA 95817

January 29, 2016

Chair Andre Knoesen
Davis Division Academic Senate

Subject: Response to the Retirement Options Task Force Report

Dear Dr. Knoesen:

The Faculty Executive Committee (FEC) of the School of Medicine consulted with concerned faculty by encouraging participation in a Town Hall Meeting arranged by the Faculty Welfare Committee, which was held at the school's campus in Sacramento, and by featuring the Report at a General Faculty Meeting. The faculty of the School of Medicine were also encouraged to forward their opinions to the Secretary of the FEC, who compiled them with the comments made at the Town Hall and General Faculty Meetings to create the substance of this response.

No one expressed support for the new retirement plans. The reasons for this expressed by the faculty include:

- 1) The new retirement plan slated to start on July 1, 2016, will have a significant negative impact on the recruitment of new faculty and the retention of current faculty. Some faculty members pointed out that they left other universities to join UC largely because of the current UC retirement plan. Others pointed out that they were able to recruit junior faculty who had offers at prestigious institutions that included higher salaries, more start-up funding and larger research space because of our current UC retirement plan. This edge will be lost when the new plan goes into effect. In order to remain competitive, UC will need to provide larger start up packages and larger off-scale salary support to new hires, which will likely negate any of the proposed financial benefits resulting from the new retirement plan.
- 2) Even though there was a widespread assumption that clinical faculty would prefer using a defined contribution plan as it is vested after only one year and is highly portable, the clinical faculty who participated in the meetings found this option much less attractive than the current UC retirement plan. No one expressed support for this option.
- 3) The process through which this plan was adopted is widely viewed by the faculty of the School of Medicine as a deal made by President Napolitano and Governor Brown without meaningful input from the Academic Senate. Both the miniscule period allotted to consultation and the fact that the new plan was a "done deal" even before the consultation was requested represent an unprecedented erosion of the basic tenets of shared governance.

Respectfully,

A handwritten signature in black ink that reads "Martha E. O'Donnell".

Martha E. O'Donnell, Ph.D.
Chair, Faculty Executive Committee

FEC: College of Agricultural and Environmental Sciences

February 1, 2016 4:30 PM

Thank you for the opportunity to provide feedback on the Retirement Options Task Force Report. We have serious concerns about the impact of the proposed changes for the recruitment, retention, and satisfaction of faculty. We also recognize that the proposal is made within a very limited framework but this does not reduce our substantial concerns with this proposal.

Our overall concern is that this will represent a reduction in the overall compensation package for UC faculty at a time when our total compensation falls below many of our competing institutions. Perhaps more importantly, much research has shown that people typically are much more concerned about minimizing bad outcomes. So, even if the expected value of the proposed package is not a great reduction, much more variability is introduced into the plans because of the part that is tied to individual choices rather than a defined benefit. This represents a serious change.

The rest of our response will be separated into three parts, corresponding to different career stages.

For the hiring of new faculty at the junior level, the effect of the proposed changes may be slightly less, as individuals at this stage often are not thinking about their retirement plan. But this will certainly have some negative effect because of the reduction in the overall compensation.

At the mid-career stage, the proposed plan would have potentially very large negative effects. There will be negative impacts on the potential for hiring individuals at this stage as these individuals will pay attention to retirement options. Also, for outstanding faculty at this stage who have been at UC for a substantial time, the current retirement plan helps to provide a "set of golden handcuffs", which greatly helps to reduce the incentive for individuals to move to other institutions. These 'golden handcuffs' would be substantially weakened by the proposed changes and thus either greatly increase the cost of retention packages and/or lead to loss of outstanding faculty.

For very senior faculty, there is one small potential negative effect. The current plan essentially provides strong incentives for individuals to move to emeritus status after a long term of service which really does have benefits for UC. This incentive will be greatly reduced by the proposed changes – faculty may decide to 'hang on' even when they are not really contributing.

While recognizing that there really is little wiggle room given the promises made by UC Administrators, we would argue that the proposed changes to the Retirement Plans may have serious negative consequences and therefore every possible effort should be made to minimize the possible negative effects. The proposed plan could seriously impact the ability of UC to hire and retain outstanding faculty.

FEC: College of Biological Sciences

February 2, 2016 4:47 PM

The CBS FEC is deeply distressed by the new retirement options proposed by the President's office. This privately negotiated agreement is an end-run around the shared governance expected to guide important decisions in the UC System, represents a major decrease in remuneration for all new faculty, and will negatively impact our ability to recruit and maintain excellent faculty long into the future.

The benefits package that UC has historically offered is a substantial component of the total faculty remuneration. Eliminating this source of remuneration without a guaranteed plan to fund salary increases across UC will make us substantially less competitive with equivalent institutions in the U.S. and throughout the world.

Consequently, faculty in the new tier will be more readily moveable and less motivated to spend their careers at UC, so an increasing number will choose to leave. Moreover, given that the most successful and highly-paid faculty members stand to lose the most under the new retirement tier, our superstars will be the most likely to leave.. Successful senior faculty are crucial for the stability and continuity of units, and play many important leadership and service roles. Their loss will have disproportionate negative impacts on our campuses.

Implementation of the new retirement benefit tiers will also increase the cost of retention offers and replacement hires, with no clear source of revenue for these compensations. Retention offers will also be weaker and less likely to succeed. These effects on hiring and retention will probably have a disproportionate effect on a particularly important category of faculty: those that enhance campus diversity. To counter the UC brain drain, units may be forced to increase salaries with money that could otherwise fund new programs designed to attract students and research grant dollars to the UC system, thereby eroding the mission of our campuses.

Further, the new system will create a gaping disparity between existing and newly hired faculty that will adversely affect morale. This will further reduce our ability to attract the best faculty, as job candidates are sensitive to such issues when choosing institutions.

In summary, we believe the proposed changes in retirement benefits will degrade the quality of UCs and handicap our educational and research missions. Combined with the less than obvious savings to the UC budget or even to the retirement system, this act can only be viewed as a political deal – a deal that is bad both for UC and California's future.

To: Andre Knoesen, Chair
Davis Division Academic Senate

From: FEC, Graduate School of Management

Subject: Retirement Options Task Force Report.

Date: February 2, 2016

Thank you for the opportunity to provide feedback on the Retirement Options Task Force Report. The GSM faculty met on January 27 to discuss the report and other issues. The GSM/FEC wishes to offer the following comments on the Retirement Options Task Force Report, which are based on that discussion.

The committee believes that the process that led to the creation of the retirement options under consideration was problematic. It would appear that two individuals, Jerry Brown, Governor of California and Janet Napolitano, President of the University of California (albeit, presumably with the assistance of their staffs) alone struck a deal that will lead to sweeping changes in the retirement benefits available to the thousands of faculty and staff at the University of California. This process seems to be at odds with the principle of shared governance that is supposed to guide policy formation at the university.

The committee also believes that the changes in retirement options wrought by the deal between Governor Brown and President Napolitano will amount to a reduction in benefits for many faculty and staff at the university, which will make it increasingly difficult to attract and retain high quality faculty and staff. These problems will be particularly acute in units where salaries are below market and more generous benefits packages serve to counterbalance lower salaries.

Preamble: The decision to reform the retirement system was taken more or less by a committee of two: the governor and the president of the university. President Napolitano called a task force with 13 members composed of faculty, staff and administrators, and they were charged with “developing options for new plans or supplemental plans that would support the University's continued excellence, remain competitive enough to recruit and retain high-quality employees, and ensure the continued financial stability of UCRP.”

In return for the proposed changes in the retirement system, UC received or is receiving \$436,000,000 for three years and a promise to provide more state support in return for adopting the new retirement system. The academic senate and the faculty association have lamented the lack of faculty consultation.

The College of Letters and Science has the following concerns:

1. Lack of consistent consultation in the process of developing the plan, even if it is in fact too late to make any changes; where is the avenue at the present for any recommendations for changes, adjustments, reconsiderations?
2. Salary information was excluded from the models showing that, in fact, the Tier 2016 Plan is comparable to peer institutions. When [they ran the models to](#) compare this Tier 2016 program to peer institutions (p.60), they purposely excluded data that show unequivocally that our salaries are much lower than those of peer institutions (p. 64, on average 10-12%, but this also varies by UC campus and date of hire). This clouds the true bottom line of how competitive UC retirement income will be compared to these peer institutions. Does the actual retirement income for a parallel position (e.g., Full Professor) exceed the market median of our peer institutions as well? We suspect not.
3. The report states that “most future University employees will retire with salaries below the new limit on covered compensation (CCL)” (p. 4). Although this may be true for staff employees, who outnumber faculty by 3.5 to 1, this will not be true for most, if not all, academic senate members. The table on p. 13 anticipates the average STARTING salary of assistant professors at UC to be nearly 100k. How are these individuals retiring 20-30 years+ later only making 17k more?
4. There is concern that this new system may have a serious impact on recruiting and retention. UC defined benefits system has always been an important factor in recruitment and retention precisely because UCs’ salaries are below comparable institutions. This change could have a debilitating effect on recruiting and keeping the best faculty and staff hired after the new retirement system begins. The proposed Tier 2016 model is clearly not as attractive as retirement plans offered to faculty and staff currently employed by UC. These reduced benefits could discourage top hires after 7/1/16 from staying long

term at UC and encourage them to seek positions at competing universities. This could result in increased costs for retention, recruitment, and start-up packages.

Benefits of the proposed plan:

- Having two plans to choose from, one which benefits short-term employees more (immediate vestment), and one that benefits long-term employees more.
- The flexibility to move from Plan B to Plan A within 5 years.

Recommendations to consider before implementing the plan:

- Clarification on the assumptions about salaries and forecasts of future earnings;
- There must be a commitment from the president to raise faculty salaries in the UC system and make them comparable to parallel institutions;
- Likewise, retaining outstanding staff, requires salaries that are comparable to such positions in industry;
- Remuneration studies should have regular updates for both faculty and staff in order to keep UC's salaries comparable to parallel institutions
- UC's Academic Senate should have been consulted from the beginning about this radical change in the university's benefit system.
- Is there anything we can do at this point to stop this change from going into effect?

FEC: School of Veterinary Medicine

February 3, 2016 4:59 PM

February 3, 2016

To: Andre Knoesen, Chair

Davis Division of the Academic Senate

From: School of Veterinary Medicine Executive Committee

Subject: Response to the Retirement Options Task Force Report

The School of Veterinary Medicine Executive Committee discussed the Retirement Options Task Force Report on January 21 as part of our monthly meeting. We also sent the report to Department Chairs and requested input from the faculty. There was a clear lack of support for the retirement options outlined in the Task Force Report. The following concerns were raised by the faculty:

1. Recruitment and Retention of Faculty. The 2016 retirement plan will weaken our ability to recruit new faculty. The retirement benefits offered by UC provide leverage in recruiting top candidates. The decrease in retirement benefits provided under the 2016 retirement plan will lessen our ability to highlight retirement benefits as a major strength of UC compared to other institutions. There is also concern that the 2016 retirement plan will have a negative impact on faculty retention. There is already concern that UC faculty remuneration is below peer institutions. Retirement benefits are an important part of faculty remuneration, and the erosion of retirement benefits with the 2016 retirement plan will make it harder to retain successful, mid-career faculty. As faculty move forward in their careers, their retirement benefits are progressively penalized under the 2016 plan as increases in salary move past the covered compensation limit. This removes an incentive for productive faculty to maintain their careers at UC Davis.

2. Morale. Years of budget cuts and requests to do more with less support have taken their toll on faculty morale. The 2016 retirement plan represents erosion in faculty compensation and benefits, and further highlights the lack of state support for the UC system. This contributes to a climate where faculty members are often not provided adequate support.

3. Process. There is frustration with the manner in which Governor Brown and President Napolitano made a deal, which will have a major impact on thousands of UC faculty and staff, without adequate input from the Academic Senate. This goes against the principles of shared governance. There is also concern that faculty were only provided a few weeks to review the 94

page Task Force Report and provide comments. Many faculty members simply did not have enough time to study this document and understand the details of the 2016 retirement plan. The short review time gave the impression that faculty input was not really desired. Important decisions need to be made to control costs and maintain financial stability of the retirement system, and faculty would like the opportunity to provide meaningful input to guide these decisions.

4. Widening of Salary Gaps. There is concern that the loss in retirement benefits will result in negotiations for higher starting salaries during faculty recruitment to compensate for inferior benefits. Larger retention packages may also need to be negotiated for top faculty to make up for deficiencies in retirement benefits. This could further increase salary disparity between faculty members.



BETTY IRENE MOORE SCHOOL OF NURSING AT UC DAVIS
TELEPHONE: (916) 754-2145
FAX: (916) 734-3257

UC DAVIS HEALTH SYSTEM
4610 X STREET, SUITE 4202
SACRAMENTO, CALIFORNIA 95817

February 1, 2016

Andre Knoesen
Chair, Davis Division Academic Senate

Subject: School of Nursing Response to Retirement Options Task Force Report

Dear Chair Knoesen:

Members of the Betty Irene Moore School of Nursing Faculty Executive Committee reviewed the report on 2016 retirement options, and solicited comments from our faculty at large during our January faculty meeting.

The consultation period was notably brief, but long enough to reach a consensus that the proposed 2016 retirement tier will almost certainly be harmful to recruitment efforts at our school. This is a very important concern, as our new and still actively growing school has higher than typical faculty recruitment goals.

The potential impact of the new retirement options on staff and faculty retention is also a concern. We believe that while neither Plan A nor Plan B is desirable, Plan A may be relatively less harmful than Plan B because it still includes a defined benefit component. This is the consensus view across senate and federation faculty in all faculty series at the School of Nursing. No one voiced support for a defined contribution only plan.

It appears that since consultation is only occurring after a political decision has already been made, we can only try to mitigate the expected negative impact of these retirement options on future recruitment and retention. Given this, we strongly urge the Academic Senate to request that UC conduct regular market studies of competitive salary ranges, and make necessary salary band adjustments going forward to compensate for the impending loss of UC's previously competitive benefits package.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sheryl L. Catz".

Sheryl L. Catz, PhD
Chair, Faculty Executive Committee
Betty Irene Moore School of Nursing

Undergraduate Council

February 4, 2016 8:23 AM

*UC has been put in essentially an impossible situation. For 20 years no one contributed to the retirement fund, and if nothing were done beyond re-starting contributions it would go bankrupt in about 20-25 years (barring stock-market miracles). Under current conditions UC cannot renege on pensions without facing catastrophic litigation. It has to lower benefits to future employees (and has also asked for and gotten a small infusion of cash from the state).

This creates a very serious long-term problem, however. The UC's defined benefit system is already disastrously out of step with developments in our political economy, because the pension model offers "salary replacement" rather than permitting the families of academics to accumulate capital. This makes UCRP a severe disincentive to seek employment at UC--over the (multi-generational) long term, working at a university using a defined contribution plan with employer pre-tax participation (such as the TIAA-CREF system) will be far more financially rewarding to the employee. In the past the relatively generous income replacement provided by UCRP was attractive; but the two new tiers will be substantially less attractive even than the (already obsolete) original plan.

Unfortunately, at this point we cannot shift to a defined contribution plan, as that would bankrupt UCRP in short order. So we are locked into an outdated and less eligible incentive structure.

It seems that the only way out of this situation in the long term is to bring UC salaries up to a level that makes them almost competitive with a defined contribution plan like TIAA-CREF, so that UC employees can save enough over and above UCRP to close the capital accumulation gap. In effect, this amounts to the hope that we can take a "soft landing" approach to getting rid of an outdated compensation model, while hoping that the erosion of our ability to compete for outstanding faculty is not severe.

In short, this plan appears to be a sane response to an insane situation.

*The new retirement plan seems highly likely to decrease the competitiveness of UC in the future recruitment and retention of new employees. The proposed A and B plans are perhaps the best that can be achieved in a bad situation. The extent to which the 2016 plan will influence the future quality of the UC and its value to California is unclear, but it seems very likely to be detrimental.

It is unacceptable that the OP did not engage with and consult the Senate more completely (at all?) during the negotiations on retirement benefits, because these negotiations concern aspects of faculty welfare that are of significant importance. Being provided a complex report on January 15 and asked to provide insightful post hoc comment by February 4 suboptimal.

As has been noted, this proposal is the outcome of the intersection of much problematic economic and political history and approaching demographic shifts.

Unfortunately, this is but one more example of the devaluation of the University of California, and the master plan for education in the State.

Faculty Inputs received via Web Forum:

"I am a new faculty member who joined UC Davis in 2014. I chose to come to UC Davis because of many factors, including the excellent base salary and benefits. I had several other excellent offers, including offers from Ivy League institutions. I would not have chosen to come to UC Davis had the university not offered competitive salary and benefits, including the pension plan. My case illustrates firsthand that UC Davis competes with other top universities to attract and retain faculty. Because of this, I am strongly opposed to the proposed changes to the pension benefits and I am very concerned about how the proposed changes would negatively impact the ability of UC schools to recruit and retain top quality faculty and staff in the future. I am also disappointed in the fact that these proposed changes are happening with little transparency, and with little time for faculty to provide input." Assistant Professor of Microbiology and Molecular Genetics

"I am very disappointed in the proposed change to the pension plan. I recently chose to come to UC Davis over other very good offers, and the UC pension plan was a significant consideration. Furthermore, and perhaps more significantly, I see the UC pension plan as a very strong incentive to stay at UC Davis throughout my career. I believe that the proposed changes will make it more difficult to hire the best new faculty, but even worse will be the effect on our ability to retain our best faculty." Assistant Professor of Microbiology and Molecular Genetics

"I strongly oppose the change in retirement options. This will further erode our competitiveness for recruiting and retaining faculty." Professor of Molecular and Cellular Biology

"UC and our campus in particular are trying to increase the representation of women and minorities in our faculty. These faculty would be hired under the 2016 tier, which has significantly reduced benefits over the 2013 tier. As a result, their total remuneration would be significantly lower on average than that of their male/white counterparts, unless they receive larger salaries to compensate for reduced benefits. Therefore, the new pension plan could significantly worsen inequities." Professor of Physics

"I have read the report of the committee as well as the responses posted to the ASIS web site. Here are my concerns. This is a false economy for the University. Faculty will not have an incentive to stay after they hit their retirement cap and this will happen right at the time of career that one is starting to think about retirement. We will become even more of a feeder institution for our competitor institutions than we are now. Several years ago UCLA did a great report on their growing role as a "minor league" institution with respect to the level of raiding of top faculty by our competitor institutions. The powers that be may think "who cares" because we can replace them with lower paid faculties, but the new faculty consume more resources with respect to start-up funding in STEM, need to refresh/remodel space and buildings to be attractive to new faculty, and the need to devote time to establishment of their careers. They are a net consumer of resources until they become established and garner grants, contracts and gifts that provide overhead to the institution. With this policy right when they become net contributors we cap their retirement salaries and push them away. We would need to massively fix the salary scales to remain competitive. Thus it is not clear what problem this policy and low salary cap actually fixes.

The second big problem I have with this proposal is that it is being presented as the solution to the retirement pool funds shortage. High salaries at retirement were not the cause of the reduced revenue issue for the state's retirement funds. The massive incompetent (at best) or outright fraudulent (at

worst) behavior by banking and financial institutions caused the massive loss in revenue suffered by pension funds, not the folks paying into those funds. To believe that a cap on income used for retirement calculations will solve fraudulent behaviors by financial institutions is ludicrous. To place the responsibility for detecting fraudulent activity in the hands of employees is equally ludicrous and will foster continued fraud. I would hope the UCOP and the Governor would bring the same level of scrutiny, leadership and zeal they are bringing to the global warming crises to the crises of greed by financial institutions that just as negatively impacts state citizens and come up with a solution that better serves the broader needs of the state and UC.” Professor and former Davis Division Academic Senate Chair

“I have to express my grave concerns about the proposed changes in the UC pension plan. One key reason why UC has become a world renowned institution is because it has been able to hire and retain faculty and staff. One key reason of been able to retain faculty and staff is because of UC pension plan. As chair of a large department (>70 faculty, >600 people on the pay roll), numerous times over the past 14 years I was informed by faculty that they had plans to leave. However when they looked at all the pros and cons of accepting a position elsewhere, it was the UC pension plan that kept them at UC. If the UC defined benefit pension plan moves toward a defined contribution plan, the ‘golden handcuffs’ situation will break down and I predict an sharp increase in faculty turn-over, in particular of faculty members who are heavily courted by other institutions. UC faculty salary has not kept up with the salaries offered at other peer institutions but our pension plan stands out as one of the most attractive one. A loss of the UC pension as we know of it today will not only be a loss for faculty and staff but become a loss to the entire UC system, the state of California and all the students as UC will lose it competitiveness in attracting and retaining the best.” Professor and Department Chair

"I am deeply concerned that the proposed changes will diminish our ability to attract the best new faculty. UC salaries are well below those of most of our competitors, but up to now I have been able to argue to potential recruits that our benefits package at least partially compensates. In particular, the stability of a defined benefits package is very attractive to many people who do not enjoy having their retirement income dependent on the vicissitudes of the stock market. I am also concerned about the effect of a two-tier system on faculty morale and cohesiveness. How are our departments going to deal with the consequences of a situation in which older faculty have what is clearly a better benefits package than younger ones?" Professor of Physics

“As the report of the Retirement Options Task Force demonstrates, the Task Force recommendations, if adopted, would be harmful to future employees and to the quality of the University. The Task Force chose to accept the constraints that were placed upon it by the President. Those constraints were largely the result of the Committee of Two negotiations between President Napolitano and the Governor, which led directly to the structure of the deal being offered to the University in the budget bill. It is now evident that the status quo is better for the University than the terms of the deal. It is also the case that Committee of Two negotiations were a serious violation of shared governance. The Task Force Report provides no rationale for its assumption that the University accept the harmful terms of the deal. For these reasons, I recommend that the Academic Senate reject the Task Force recommendations and support maintaining the status quo.” Professor of Physics, Emeritus

“I am strongly opposed to the proposed change in the University Retirement Program. I believe the current UCRP program is a fundamental aspect of the academic quality that the UC System has sustained for many decades and, thus, if it is largely removed, the university is likely to suffer a

significant long-term decline. I will try to explain this dire forecast. Our remuneration is generally thought to consist of two parts, salary and retirement (plus other important, but smaller benefits). Recent studies have suggested that our retirement benefits may be slightly greater than those of some of our comparison universities, while our salaries are significantly lower than those of the same. One argument has been that we should reduce the retirement benefits and increase salaries, but I note there is no proposal being put forward which would do this. Thus, if retirement benefits are reduced, our total remuneration will decline to levels that are markedly lower than our comparison institutions. I doubt that our salaries will be significantly raised subsequently as the political forces seem opposed to providing state funds to support higher salaries. The state has not funded our retirement, so basically we are being told to reduce our retirement benefits to free up additional funding for the university so that it can educate additional students and/or do with still fewer funds from the state. Although this situation seems dire, I have a greater concern. The traditional retirement program offered two important benefits to the university, other than the retirement payments to its faculty. First, it provided an anchor that retained many excellent faculty who saw that other universities could not attract them with higher salaries because they stood to lose enormous retirement benefits. Perhaps that is not a benefit for faculty, but it was a benefit for the UC system that helped us, as a university, withstand periods of budget stringency when many might otherwise have been tempted to leave. Second, UCRP was structured so that each of us had incentive to continue being as productive as possible for as long as we remained in the university because our retirement income was tied to our highest three year average salary, which generally occurred at the end of our careers. Certainly our merit and promotion process helps achieve the same, but I believe the incentive of the UCRP structure was also an important factor as well. I fear we will lose all of these. I cannot understand how it is that the President seems to have made the decision to change the retirement system unilaterally, or how the Regents could approve the same. Something is amiss. Equally amiss, we are all standing around and doing nothing. It must be that I am misunderstanding the situation. I hope so.” Professor of Agricultural and Resource Economics

“I DO NOT approve!!! Pages 44 and 45 show a significantly reduced retirement income for new employees! Any move to a defined contribution plan is simply not wise!! Defined contribution was rejected by the academic senate for employees hired from 2013 onward for good reasons. Primarily the risk is much lower for defined benefit. Even the proposed defined benefit + defined contribution plan falls short by about 30% of the 2013 plan. This plan seems like short-sighted thinking any way you look at it!” Professor of Chemical Engineering and Material Science

“I see no redeeming features to these retirement recommendations and justification for such changes is at best weak. As a de facto salary cut for incoming faculty vis-à-vis existing faculty, these “options” can only negatively impact the quality of future UC faculty and our ability to realize our mission. Already, faculty recruitment cannot keep up with increased enrollment, we are struggling to meet gender and URM balance and our best faculty are readily enticed to other institutions. These issues will be severely exacerbated if the proposed changes are adopted. I strongly urge the Davis Division to reject these recommendations outright.” Professor of Microbiology and Molecular Genetics



Office of the Academic Senate
307 Aldrich Hall
Irvine, CA 92697-1325
(949) 824-2215 FAX

February 5, 2016

Dan Hare, Chair, Academic Council
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

RE: Retirement Options Task Force Report to the President

Dear Dan:

At its February 2, 2016 meeting, the Irvine Division Senate Cabinet reviewed the Retirement Options Task Force Report to the President and both council and assembly responses. Both the Council on Faculty Welfare, Diversity and Academic Freedom (CFW) and the Council on Planning and Budget (CPB) reviewed the report and identified some concerns. In addition, the Irvine Divisional Senate Assembly Meeting of January 28, 2016 was devoted to a presentation and discussion of the report that generated additional comments. There was extensive discussion about the content, context, and implications of this report for the future of the University of California throughout our review.

I would like to say at the outset that I would be remiss if I did not articulate the level of disappointment and depth of passion expressed from all quarters about the negative impact that the imposition of the PEPRA cap has on the future of the UC. As has been pointed out repeatedly, the negotiation process that led to its inclusion into the Budget Framework Initiative was done without any senate consultation and the compressed time frame for comment on the proposed alternatives is not in line at all with the principles of shared governance. Since the entire context for this response is one of stewardship – no one weighing in on the proposal is directly affected by it – the repeated calls to reject the PEPRA cap must not be seen as reactionary but rather as thoughtful considerations of the long-term impact this change will bring to bear on this world-class institution. The initial agreement to lower the Cap contains no directive on lowering the total remuneration of UC employees. The constraints on the ROTF coupled with the addition of 10,000 new students over the next three years, without any commitment from the legislature to fund them fully, lead the Senate to perceive the entire environment for faculty as one of downward pressure. Total remuneration will fall; important incentives for retention and competitive recruitment will be undermined; and the capacity of the work environment will be sorely tested.

The comments below summarize in more detail the primary concerns identified in the discussions and reviews of the report.

Competitiveness

The requirement that the new retirement plan be competitive can be measured in two fundamental ways. If the plan itself is held up to plans at the 'comparison 26' institutions, it still fares well as a measure of percentage of salary returned in retirement; but in terms of its impact on total remuneration within the system no analysis was provided. As the system wide study on total remuneration was not available at the time of the writing of the report, the ROTF report is in effect incomplete and should be reconsidered in light of that study when it is completed and made available. On page 52 of the report the author's state that "[i]n summary, the Task Force concluded that none of the DC plans considered provided a benefit comparable to the UCRP 2013 Tier at a comparable cost." The implications for total remuneration here are clear and the forthcoming study should establish the extent of decline.

There appears to be complete agreement from every responding unit that, without other compensatory measures, the total DC plan or the lowered DB Cap, even with the DC supplement, will adversely affect recruitment, particularly at more senior positions, and in the Professional and Medical Schools. These changes will also undermine retention, and conversely, push more faculty and staff into later retirements. An unintended consequence of this change is the fact that as more concerted efforts get underway to diversify the faculty, new faculty will be recruited at a lower compensatory level than the current faculty. Many Senate members voiced concern that the retirement differential generated by this plan will in effect create a wage differential between current and new faculty, and because of the timing, will amplify the current inequity in the faculty profile.

PEPRA Cap

According to data presented on page 57 of the report, if the 2013 tier (including borrowing) were kept, the UAAL would be eliminated as fast as or faster than any of the proposals on the table. The implication here is that the current change is driven more by an ideological agenda rather than a fiscal imperative. For example, the option to retain the current DB plan but eliminate the UAAL at a faster rate was never an option for the task force. In addition, the PEPRA Cap paints with an exceedingly broad brush. An argument has been made by several faculty that, particularly at the Medical campuses, the negative impact on recruitment will have severe consequences for the health and welfare of the population of California. The employees of the University of California form an extraordinarily diverse population with an equally diverse range of job titles, responsibilities and compensation. It is hard to imagine that this reduction will be felt equally; our analysis indicates that Senate faculty members are almost universally affected and that within that population the negative impact varies widely.

Savings

There were varying recommendations on how the redistribution of savings beyond servicing the UAAL should be prioritized. The three options considered included providing additional contributions to the UAAL, raising faculty salaries, and reducing student fees. More to the point, grave doubts were expressed as to whether there would be any tangible savings for three reasons: 1) Recommended changes to the plan, if implemented would reduce or eliminate savings, 2) fiscal assumptions are based on very optimistic rates of return, and 3) upward pressure on salary during future recruitments as an offset to lower retirement benefits will absorb, in an ad-hoc way, any savings.

Terms of the Proposal

The PEPR Cap was the only change to the current retirement plan articulated in the BFI, yet the proposal provided a “Plan B” defined contribution plan. As there was no call for the articulation of a defined contribution (DC) plan, many Senate members here surmise that inclusion was driven by internal demand. One concern articulated was that the inclusion of the DC plan would open the door for the future elimination of the defined benefit (DB) plan altogether. In weighing the two options several recommendations were put forward. In the ROTF proposal, for newly recruited employees who opt for the DC plan, a transfer to the DB plan would be available during the window of the first five-years. The Senate at Irvine aligns with the universally expressed recommendation that the transfer window be tied not to the vestment cycle, but to the tenure cycle and be expanded to eight years. Faculty recommend that employer contributions percentage be the same for both plans; the employer needs to be dis-incentivized to steer employees toward plans that are in the employer’s and not the employee’s best interests. The implication of this recommendation is that the distribution of employer contribution in the DC supplement to the DB plan would need to be in-line with the rest of the components – the DB plan and the “Plan B” total DC plan. As the DC supplement was the driving force behind generating any savings, the savings would then be reduced or eliminated. One alternative that deserves to be highlighted here is the Council on Planning and Budget’s suggestion that employer contributions be at varying rates tied to years in the system – a high contribution early in the appointment may be an effective offset to the reduced return at retirement; an elevated employer contribution for employees between the ages of 50 and 60 may reproduce the same retention effect as the current plan.

Absent from the proposal is any discussion of retirement health benefits tied to the current DB plan. Of particular concern, there is no articulation as to whether there is any provision for retirement health benefits in the DC plan. While it may be argued that the health benefits are a separate issue, they are intimately tied to the DB plan and a negative impact on the current health plan only adds to the keenly felt downward pressure on faculty compensation, and by extension their value to the enterprise.

Also absent from the proposal is a risk analysis that sheds some light on the potential burdens on faculty/staff and the university if the assumed long-term average rate of return on the stock market is lower than expected. A risk analysis is clearly warranted here since the main motivation of the proposed changes is to shift retirement risk onto the employee.

Conclusions

The depth of this response was clearly limited by the compressed timeframe of the process. However the feedback expressed here does point to many areas that require deeper consideration. The process as a whole feels rushed and incomplete, especially as no total remuneration study was included in the report or available to the ROTF. Because of the ideological forces driving this change, the Irvine Senate urges the Office of the President to approach this change as being part of a longer term dynamic of negotiation. The governor/legislative financial commitment has only been articulated for the next year while these changes will have a permanent downward impact on the quality of this institution if remedial measures are not implemented. Politically, the debate appears to be one about access vs. quality. We look to our leadership to continue the fight for quality and to dismantle this false dichotomy between these two measures of success.

The Irvine Division appreciates the opportunity to comment.

Sincerely,

A handwritten signature in cursive script that reads "Alan Terricciano".

Alan Terricciano, Irvine Division Senate Chair

Attachments: CFW Memo
 CPB Memo

c: Hilary Baxter, Executive Director, Academic Senate

February 1, 2016

ALAN TERRICCIANO, CHAIR
ACADEMIC SENATE – IRVINE DIVISION

Re: Systemwide Review of the Retirement Options Task Force Report to the President

At its meeting on January 26, 2016, the Council on Faculty Welfare, Diversity and Academic Freedom (CFW) reviewed the *Retirement Options Task Force Report to the President*.

This report was written by the Systemwide Task Force appointed by President Napolitano to explore retirement options as a result of the 2015/2016 budget agreement between the University, the Governor, and the Legislature. As part of the agreement, the State will provide \$436 million to help pay for the University of California Retirement Plan (UCRP) unfunded accrued actuarial liability (UAAL) in exchange for changes in retirement benefits for employees hired on or after July 1, 2016. The President charged the Task Force “...to ensure that UC retirement benefits continue to be competitive in the context of our total remuneration package and that the University of California Retirement Plan remains financially sustainable.”

Given various constraints on the funding that could be provided by UC, two plans were proposed. Plan A creates a new UCRP tier (the 2016 Tier) with a covered compensation limit (CCL) of \$117,020. It is supplemented by a defined contribution plan that could pay up to the Internal Revenue Code (IRC) limit of \$265,000. Plan B is a defined contribution plan for eligible pay up the IRC limit of \$265,000. Members of Plan B would not participate in UCRP 2016 and would not receive any benefits from UCRP; instead, their retirement benefits would be based on their (and UCI’s) contributions to the DC plan. This new structure is expected to provide an average annual cash savings of \$15 million. More importantly, results of analyses performed by the Task Force show that, although proposed DC plans may be more valuable early on due to the effect of compounding, the proposed plans would reduce the value of benefits provided to employees in their late 50s and older under most cases considered (e.g., see pp. 29, 44, 45, and 46 of the task force report).

The Council strongly felt that shared governance was overlooked: consultation was very limited and the Senate was granted an inadequate amount of time to digest and reflect upon the proposed measures. Members also found that the whole process was rushed and that information essential to properly assess the impact of proposed options on total remuneration was lacking. Moreover, the Council thought that an analysis of the impact on recruitment and retention should be completed before further evaluating retirement options.

Given the limited time the Council was given to reflect on the proposed options and the lack of information provided to allow for a substantive and informed evaluation, the Council offers the following comments:

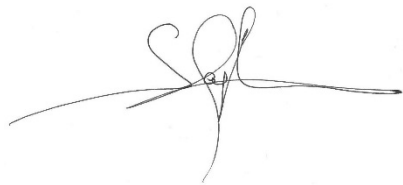
1. The Council recommends that the President ask for an additional year to properly evaluate changes to retirement options and their impacts on total remuneration and recruitment/retention. Moreover, the task force report should document the potential impacts

on faculty and the University under the current UCRP regime and under the proposed plans if the market value return is lower than the assumed 7.25% per year. A risk analysis is warranted since the primary motivation of the proposed changes is to shift retirement risk from the University to retiring faculty.

2. The Council recommends that the President aggressively pursue a statement of intent from the Governor and the Legislature to continue contributing to UCRP during the next two budget years and beyond.
3. Some Council members suggested rejecting the proposed plans. The green curve on the figure shown on page 57 of the report suggests that even without the proposed changes and without state funding, the projected UAAL (shortfall) of UCRP would go to 0 by the year 2043.
4. The Council recommends exploring a larger window of opportunity to make a change from Plan B to Plan A, following the first five years of service, to allow sufficient time for at least one year post-tenure, and to consider the impact of stopping the tenure clock.
5. The effects on the healthcare benefits of retirees have not been fully resolved. Would employees who select Plan B lose health benefits that would continue to be provided under UCRP Tier 1976 and Tier 2003, as well as under Plan A?
6. Members are concerned that defined contribution plans would make it easier in the future for junior faculty to leave UC and reduce the incentive that senior faculty have to stay at UC since their retirement benefits would be reduced under the proposed plans.

CFW appreciates the opportunity to provide input.

Sincerely,

A handwritten signature in black ink, appearing to read 'Saphores', with a long horizontal line extending to the left and a vertical line extending downwards.

Jean-Daniel Saphores, Chair
Council on Faculty Welfare, Diversity, and Academic Freedom

c: William Parker, Chair-Elect
Academic Senate

Natalie Schonfeld, Executive Director
Academic Senate

January 28, 2016

ALAN TERRICCIANO, CHAIR
ACADEMIC SENATE – IRVINE DIVISION**RE: Retirement Options Task Force Report**

At its meeting of January 27th, 2016, the Council on Planning and Budget (CPB) reviewed the Retirement Options Task Force Report to the President, released on January 15th, 2016.

CPB recognizes that the proposed changes to retirement benefits reflect the general trend of shifting financial risk of retirement plans from the employer to the employee. These changes do not so much mirror the PEPRA cap as they use that cap as a benchmark for where the shift in risk should begin. In fact, the invocation of the PEPRA cap is more ideological than real in terms of costs, and the new tier will not result in substantial savings for the university. The proposed option A plan, while doubtless not as robust as the current tier, retains many of its benefits. Option B, while riskier, does not deviate drastically from option A or the current tier in terms of projected benefits and may, in fact, yield more in the long run. According to the projections provided in the appendices of the ROTF report, the shift will be from a plan well above the median and close to the very top in relation the comparator institutions to plans that will still be somewhat above the median, possibly in the upper quartile – as far as retirement benefits *alone* are concerned.

We would emphasize that while the charge of the ROTF may have been to focus narrowly on retirement benefits, these benefits are embedded in – and must be considered in terms of – the larger pictures of total remuneration and institutional quality. One impact of the proposed new retirement benefits tier will be further regression in terms of total remuneration for faculty hired on or after July 1st, 2016 and subject immediately or eventually to the PEPRA cap limitation. According to the predictive models, this decrease in total remuneration will hold across both options in the new tier. The 2014 study of faculty remuneration indicated a 12% lag in cash compensation relative to the Comparison 8 universities with a 10% lag in total remuneration overall (see page 64 of the report). Given that retirement is approximately 10% of total remuneration and the 2016 tier reduces retirement benefits by some 20%, we will be lagging by 12% in total remuneration. For this reason, the proposed changes ought to focus the attention of the Office of the President on salaries and the need to address the gap with our comparators, which are also our competitors.

CPB feels that the new retirement tier is unlikely to harm competitiveness notably when it comes to the recruitment of assistant professors and other affected early-career groups, but more likely to have significant downsides at mid-career, both in terms of recruitment and retention. For example, while assistant professors may concentrate on salary, course load, and other immediately tangible benefits and they may discount consideration of retirement benefits when choosing whether to join the University of California, we have every reason to think that those in the mid-career associate and full ranks do consider retirement benefits when considering whether to change institutions. The benefits offered in the current retirement tier to mid-career faculty act as an incentive to those potentially joining the UC system and as a disincentive to those who might otherwise leave (the “golden handcuffs” effect). In particular, the portability of DC plans

eases the costs of exiting the system. In addition, both the DC/DB supplement plan (option A) and the straight DC plan (option B) may end up delaying retirement for financial reasons. We strongly advise that the Office of the President explore features that increase the university's ability to recruit, retain and renew a high quality, research-intense faculty by enhancing retention at mid-career and beyond and encouraging retirement at an appropriate time. Such features include, for example, increasing the employer percentage contributed to a DC plan once the employer has reached the age of 50 or 55 and then decreasing the percentage again after 65.

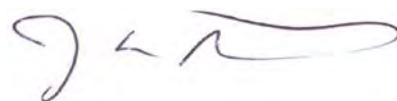
We do not underestimate the reputational factor when it comes to recruitment and to employee satisfaction, and we hope that Office of the President can do everything possible to ensure that the currently proposed change is not seen to be – and is not in fact – just the latest step in a downward trend. We would point out that retirement benefits are not the only benefits that the UC system offers its employees. To take an important example, adding health benefits to the picture mitigates the ROTF reported percent cut in retirement benefits. That the overall benefits picture in the UC system will remain good, if not ideal, will need to be clearly communicated.

A couple of further points remain. First, it is not clear what happens to health benefits for those retiring under option B. While the assumption appears to be that all long timers will either choose, default to, or ending up switching to option A, the apparent uncertainty for those retiring under option B strikes us as an important oversight. Second, we are concerned about limiting the window to switch from option B to A to the fifth year of employment. This timing coincides neither with normative time to tenure – receipt of tenure being the most obvious moment at which one might make the switch – nor to the actual range of times at which tenure is achieved. A window that remains open for something like years 5 to 10 of employment strikes as more sensible and fair. Finally, we are not convinced by arguments made by some task force members that suggest a larger percentage of contributions be applied to paying down the UAAL. We understand that increased contributions would decrease the interest cost of the unfunded liability, but the impact on the size of UAAL appears to be marginal. Moreover, there is no mention of the source of the additional funds to provide these contributions. If such funds are available, we think that they would better used to improve faculty compensation.

In sum, CPB is deeply concerned about how the proposed changes might negatively impact the recruitment, retention, and timely retirement of faculty. We contend that the mission of the university as a research institution depends on the quality of its faculty and that in such an institution education and research are inseparable. Any impact on faculty quality will ultimately impact the quality of pedagogical experience and student choice. We hope that the necessary time and effort are allowed to attune the proposed changes to our long-term institutional goals and to ensure that the relatively narrow focus of the ROTF be placed with the larger picture of remuneration, quality faculty, and top-tier research.

The Council appreciates the opportunity to comment.

On behalf of the Council,

A handwritten signature in purple ink, appearing to read 'James Steintrager', with a stylized flourish at the end.

James Steintrager, Chair

c: Natalie Schonfeld, Executive Director
Thao Nguyen, CPB Analyst

February 5, 2016

Dan Hare, Chair, Academic Council
Jim Chalfant, Vice Chair, Academic Council

Systemwide Senate Review: UCLA Academic Senate Response to the Proposed 2016 Tier Pension Plans

“The University of California is preeminent in educating the state’s young people, in enhancing research and scholarship in every discipline, in fostering economic growth, medicine, the arts, its athletic and other programs. Simply put, UC is the gold standard. Together, we must ensure that this standard is upheld.”

President Janet Napolitano, University of California

Despite the extremely constrained time frame allowed to Campus Divisional Senates to review the proposed changes to the UC pension system, UCLA has carefully examined the Report of the Retirement Options Task Force in Senate Committees, Faculty Executive Committees and in a campus Town Hall meeting. In addition, the Senate Executive Board (assisted by appropriate Committee Chairs) discussed the proposal at several meetings. As a result of these analyses and discussions, we have reached the unavoidable conclusion that the proposed pension presents a serious threat to the long-term quality of the University.

Process

The proposed 2016 Tier Pension Plan is the result of the State Budget Framework negotiated between President Napolitano and Governor Brown. In these negotiations, the President agreed to accept the PEPPRA Cap to calculate future pensions. Unfortunately, as the Academic Council and UCPB noted, this Budget Framework was shaped without the normal practices for Senate consultation and shared governance.¹ As a result, the President agreed to a revamped Pension Tier before faculty and staff could do the analysis necessary to determine its long-term implications. In our view, the proposed 2016 Tier Pension Plan demonstrates the dangers of proceeding without shared governance principles and genuine consultation. We understand the realities of immediate political pressure. But to our minds one important role of shared governance is to ensure that the long-term interests of the University prevail over immediate politics. Mobilizing the benefits of shared governance could have prevented an agreement with such potentially damaging effects. We think it is important that the Academic Council reiterate the principle that shared governance results in better informed decisions.

Compounding this, the Retirement Options Task Force was given a circumscribed assignment that made their work impossible. Divisions were given only two weeks to respond—insufficient time to provide the detailed assessment needed for a proposal with momentous implications for our university. Moreover, we were expected to respond to the proposal absent critical information—an updated total compensation study and modeling to present actual outcomes—that would be necessary to allay our reasonable concerns about the proposal’s long term negative implications. Finally, we were presented with a remarkably narrow set of options in responding to the recommendations of the ROTF. The overall process effectively foreclosed a wide range of alternatives and policy options that could have been developed from the considerable resources provided by faculty within UC earlier in the process. ***Although we acknowledge the efforts of the ROTF, we think that this is such a potentially destructive proposal that we are tempted to reject it altogether. However, in light of your request, we respond below with our specific concerns.***

¹ http://senate.universityofcalifornia.edu/reports/documents/MG_JN_SenateConsultation.pdf

Response to the ROTF

The ROTF proposes that the 2016 Tier allow hires on or after July 1, 2016 to choose between two plans: a blended Defined Benefit (DB) UCRP/Supplemental Defined Contribution (DC) plan or a stand-alone Defined Contribution (DC) plan. The PEPPRA cap represents the maximum salary that can be used to calculate pension benefits for the UCRP DB plan.

The Pension Option Task Force did a commendable job in meeting its charge to provide information and analysis in spite of the deficiencies of the proposed plan. The ROTF was charged to consider the following objectives:

Competitiveness: by all measures the options provided do not meet the objective of maintaining competitiveness. It is clear that the 2016 Tier reduces Total Remuneration significantly. The analysis conducted by ROTF proves that the proposed 2016 Tier is a benefit cut to replacement retirement income and an approximate 10% cut in Total Remuneration from the 2013 Tier.

In addition to the 2016 Tier, investment risk is being moved to the employee which is the same as reducing the competitiveness of Total Remuneration. This is true for the DB/DC Supplement even more so for the stand-alone DC plan. Further, increased risk is also borne by the UC as discussed below in terms of recruitment and retention of quality faculty.

Barring a dramatic increase in other forms of compensation—which would increase the financial strains on the University as well as being less efficient economically than the present pension system—compensation for a significant number of future employees will be reduced. These benefit cuts will make UC less competitive in the recruitment and retention of quality faculty.

Sustainability: it is clear that the proposal does not improve sustainability. UCRP is already stable and increased contributions from the University and employees as well as borrowing by UC have already reduced the unfunded liability in significant ways. Continued borrowing at low interest rates (either internally from STIP or externally as long as rates are low) can reduce the liability even further. On the basis of the ROTF calculations (see page 57 of the Report) it is unclear that the transition from the 2013 Tier to ANY of the proposed 2016 Tier configurations will enable the University to pay down the unfunded liability more quickly. Even if we accept all the assumptions in the report, the UAAL surcharge collected from both plans toward the unfunded liability will have little impact on UCRP until 20 years in the future. Uncertainty surrounding projections 30 years into the future suggests that UCRP unfunded liability should not drive current policy.

Operational Savings: it is likely that there will be no operational savings for many years, if then. Indeed, efforts to retain faculty, especially mid-career faculty at the peak of their productivity, will likely require far higher salaries to avoid the decimation of this critical university resource.

There is no clear argument how this proposed plan financially addresses the deficiencies of the current pension system which is already paying down the unfunded liability. In fact, the new plan has little impact on the financial health of UCRP with relatively minor help from temporary cash infusions promised from the State.

The ROTF did establish two important tenets that should be applauded: The first is that the employer contributions, including paying down the unfunded liability, must be equivalent for both the DB UCRP/DC blended plan and the stand alone DC plan to ensure that employers do not pressure employees to

choose one plan over the other. The second is that there be a choice of plan at the moment of hiring and a “second choice” (i.e. the ability to switch from one plan) at a point further into the employees’ University career. We discuss the actual implementation of this latter proposal below.

Implications

We conclude that the 2016 Tier will weaken the ability to recruit and retain future faculty and the renewal of current faculty, ultimately damaging the quality of the university and its efforts to employ more diverse faculty and staff.. Below we list a few of the negative consequences for faculty that will result from this plan:

- Once in place, this proposal will create a two-tier caste system with different compensation structures among faculty in the same departments and schools. The proposed plan will be unfair to diverse faculty as women and underrepresented groups are more likely to be hired in the future. Overall, the proposed plan will undermine the continuing efforts of the university to diversify the faculty.

“CODEO fully advocates future hires at UCLA (and other campuses) to encompass proportionally more women and under-represented minorities (URM) and members of other diverse groups than has been in the past. A reduction of benefits...creates a two-fold timeline of all faculty (and staff) benefits whereby newly hired women, URM and others are relegated to ‘second class citizenship.’ ...The University of California should be working towards equality and inclusion not the exacerbation of present injustices.” [Letter from Chair Thornton, Committee on Diversity and Equal Opportunity to Estrada, February 2, 2016]

- The 2016 Tier does not adequately address the distinctive needs of faculty in the Health Sciences Compensation Plan.

“The changes will disproportionately affect HSCP faculty, whose covered compensation is determined only by X and X’ proportionately less than the general faculty. HSCP faculty will be universally affected by the cap and harder hit because they enter the work force later, allowing fewer years of service. [Letter from Chair Kang of the Faculty Executive Committee, School of Dentistry to Estrada, February 1, 2016]

“Many faculty [of the School of Medicine] shared comments that included a concern for the recruitment of new faculty, the impact of the proposal on the competitiveness of the University in a market in which many institutions are recruiting physicians as scientists and clinicians, and the unfair nature of the new proposal that selectively and adversely affects young faculty members. ...A majority of our faculty felt that the proposal would simply drive new hires to other organizations.” [Letter from Chair Schiller of the Faculty Executive Committee, School of Medicine to Estrada, February 2, 2016]

- Already behind our competitors in total compensation, new faculty will now take an even deeper and substantial cut. The extent of this damage is not quantifiable given the lack of current information on Total Remuneration.

“All options presented in the ROTF report would represent profound cuts to replacement income for retirees. The most recently available study of UC remuneration indicates that our faculty are underpaid relative to the Comparison 8 universities (12% lag); that this gap used to be reduced somewhat with respect to total remuneration (10% lag) because of our prior relatively generous

pension benefits before the restart of UCRP employee contributions (ROTF Report, p. 64). Unless accompanied by substantial improvements in other aspects of compensation (i.e. salaries), the proposed reduction in retirement benefits will further cut the total remuneration of faculty. The current options presented in the ROTF report clearly fail to satisfy President Napolitano's basic charge of maintaining competitiveness in the context of our total remuneration package." [Letter from Chair Sweeney of the Faculty Welfare Committee to Estrada, February 2, 2016]

- Mid-career faculty may find that forfeiture of lesser future retirement benefits (a current factor in enhancing retention) is insufficient to justify rejecting outside offers. As a result, there is a greater likelihood that ladder faculty will be recruited away, particularly faculty that select the stand-alone DC plan because of increased portability.
- Late career faculty may find the smaller retirement benefit an insufficient incentive to retire. This outcome may be especially likely for faculty who choose the stand alone DC plan because that plan would not provide as much income replacement, on average, at age 65 as the DB UCRP/DC combined plan. Furthermore, at difficult times, such as recessions, when UC might especially benefit from retirements, ladder faculty with tenure would not be able to afford to retire, resulting in fewer openings for new hires that would renew and diversify the ladder faculty.

Recommendations

We note that there are ways to improve the ROTF plan that may come closer to achieving the charge to that committee: maintain competitiveness and not add to the UCRP unfunded liability.

1. In light of the concerns identified by the ROTF and the UCLA division, we ask that President Napolitano reconvene the Retirement Options Task Force with a single charge: **To complete the analytic work and modeling needed to evaluate and cost out options that will fulfill the original charge to ROTF to maintain competitiveness of the university.** The following suggestions should be considered in this new assessment:
 - a) Competitive total remuneration should be the primary metric to evaluate the progress toward the goal of competitiveness.
 - b) Study options such as retirement readiness supplements to the proposed 2016 Tier to make the plans competitive in terms of Total Remuneration.
 - c) The DC Supplement to the combined plan starts too late and applies to a smaller portion of earnings. We suggest the ROTF examine augmenting the DC supplement with an earlier and larger retirement readiness payment starting at hiring (as recommended by TFIR). This will address the issue of the gap between the 2016 capped DB whole with respect to the 2013 tier.
 - d) A separate concern for ladder faculty is the timing specified for employees who want to switch from the 100% DC to the combined plan. The ROTF should consider the timing of the second choice as well as the plan to allow buy back service to individuals who switch to the blended DB/DC plan.

We also recommend that employees should be counseled about the risks and benefits associated with various plans. At this point the DC vehicles have not been identified or the associated fees.

Conclusion

As noted by our Committee on Faculty Welfare:

... we share President Napolitano's commitment to keeping UC retirement benefits competitive in the context of our total remuneration package, yet it is clear that this will not be the case under the options presented in the ROTF Report. These options, as currently structured, would be very bad news for the health of the University. The exceptional quality of a UC education relies heavily on the exceptional quality of the UC faculty. All currently proposed options would reduce total remuneration and thus impair the UC's ability to recruit and retain its distinguished faculty [and strengthen its efforts to diversify the campus]. This will erode the quality of the UC education that past cohorts of Californians have enjoyed the UC's international reputation in research and scholarship, and UC's considerable contributions to economic growth in the State of California. The contribution to the California economy by UC should not be underestimated or taken for granted. We urge you to ask the President to consider other options that will maintain UC's competitiveness for future faculty. [Letter from Chair Sweeney of the Faculty Welfare Committee to Estrada, February 2, 2016]

The Executive Board urges you to read through the individual committee responses.

Please feel free to contact me should have any questions.

Cordially,



Leobardo F. Estrada
Chair, Academic Senate
Los Angeles Division

cc: Hilary Baxter, Executive Director, Systemwide Academic Senate
Jim Chalfant, Vice Chair, Academic Council
Michael LaBriola, Principal Policy Analyst, Systemwide Academic Senate
Linda Mohr, Chief Administrative Officer, UCLA Academic Senate
UCLA Academic Senate Executive Board Members

Attachments to UCLA Academic Senate Response to the Proposed 2016 Tier Pension

Faculty Welfare Committee, Chair Megan Sweeney, February 2, 2016

Council on Planning and Budget, Chair Francesco Chiappelli, February 2, 2016

Committee on Diversity and Equal Opportunity, Chair Russell Thornton, February 2, 2016

David Geffen School of Medicine, Faculty Executive Committee, Chair Gary J. Schiller, February 1, 2016

School of Dentistry, Faculty Executive Committee, Chair Mo Kang, February 1, 2016

Henry Samueli School of Engineering and Applied Science, Faculty Executive Committee, Chair Benjamin Williams, January 30 2016

February 2, 2016

Professor Leo Estrada
Chair, UCLA Academic Senate

Re: Faculty Welfare Committee's Response to the Retirement Options Task Force Report to the President

Dear Professor Estrada,

In exchange for a \$436 million contribution to the University of California Retirement Plan over a three-year period, President Napolitano agreed to substantially reduce the cap on "pensionable pay," used to determine the level of pension benefits for employees hired after June 30, 2016. To compensate for the large reduction in pension benefits imposed on many future employees by the new cap, the President appointed a Retirement Options Task Force (ROTF) to explore options for a new supplemental benefit for retirees. She charged the ROTF with ensuring "... that UC retirement benefits continue to be competitive in the context of our total remuneration package and that the University of California Retirement Plan remains financially sustainable."

The ROTF submitted their report to the President on December 15, 2015. The President released the report to the Academic Senate on January 15, 2016, with the Senate given only 30 days for review. The UCLA Faculty Welfare Committee discussed the ROTF report at a special January 27th meeting. Before discussing the content of the report itself, we must note the brief Academic Senate review period for this report and the lack of faculty involvement in the original decision to impose the new cap on pensionable earnings. Neither reflects UC's spirit of shared governance.

All options presented in the ROTF report would represent profound cuts to replacement income for retirees. The most recently available study of UC remuneration indicates that our faculty are underpaid relative to the Comparison 8 universities (12% lag), but that this gap was reduced somewhat with respect to total remuneration (10% lag) because of our relatively generous pension benefits (ROTF Report, p. 64). Unless accompanied by substantial improvements in other aspects of compensation (e.g., salaries), the proposed reduction in retirement benefits will further cut the total remuneration of faculty. The current options presented in the ROTF report clearly fail to satisfy President Napolitano's basic charge of maintaining competitiveness in the context of our total remuneration package.

Declines in total remuneration will impair our ability to recruit and retain the highest quality faculty for which the UC is renowned. Over time, reduced compensation will induce many faculty to sever their relationship with UC, and more immediately, will cause many leading candidates not to accept a UC offer. The reduction in pension benefit will also reduce the attractiveness of retirement relative to continuing to draw a salary from active service for UC faculty. This will impair the University's ability to renew its faculty ranks with freshly-trained cohorts of new PhDs.

The proposed cap on pensionable earnings will affect the majority of newly-hired faculty. The ROTF projected that more than 90% of ladder rank faculty hired during the 2013-14 academic year would exceed the cap by age 60 if they remain with the University (p.13, ROTF Report). The vast majority of health sciences faculty is also projected to exceed the limit by age 60. Most faculty retire at age 65 or older, and thus the actual share of faculty hitting the cap if they remain with the University is expected to be even higher than the figures presented in the ROTF Report.

To compensate for the proposed cap on pensionable pay for future UC faculty, higher employer contributions than those currently proposed would need to be implemented, beginning at the time of hire. Determining the increased employer contributions needed to remain competitive in the context of our total remuneration package requires specific information about the impact of the proposed pensionable earnings cap on total remuneration. Unfortunately, we were not provided with this essential information in time for our review. To be useful and valid, these estimates must be made in the context of realistic predictions about market returns. We are concerned that projections assuming a 7.25% return, as presented frequently in the ROTF report, are overly optimistic.

We strongly reject both Option A and Option B in the ROTF report as currently structured, as both fail to maintain a competitive level of total remuneration. We do have several recommendations about the general structure of these proposals, however, as we move forward with any future consideration of changes to UC pension benefits.

- Should the proposed cap on pensionable pay take effect, retirement benefits need to be supplemented to maintain the competitiveness of total remuneration. The problem with the currently proposed Options A and B in the ROTF report is that they offer too little, too late. Employer contributions would need to be considerably higher and to start earlier (preferably at the time of hire). To maintain competitiveness, these contributions also likely need to be supplemented by salary increases.
- If faculty are offered a choice between a supplemented defined-benefit plan and a fully defined-contribution plan, we support the idea that faculty be able to change their minds mid-stream. But any limits on the timing of this decision should keep the tenure review clock in mind. For this reason, the currently proposed five-year window seems too short. Seven or eight years seems more appropriate.
- Whether a plan of the structure of Option A (supplemented defined benefit) or Option B (defined contribution only) is preferred by an individual faculty member is a complex issue, and will depend on factors such as levels of risk aversion, future market performance, and length of service at UC. Employees should be offered extensive counseling about the risks and benefits associated with various plans, if there are choices to be made. We note, however, that the introduction of a defined contribution option removes past incentives for loyalty and shifts investment risk from employer to employee.
- If plans with structures similar to Option A and Option B are offered, the Option A like-model (defined-benefit plan) should be made the default, on the basis that the default plan should be the one that is most protective of employees and carries less risk.

In closing, we share President Napolitano's commitment to keeping UC retirement benefits competitive in the context of our total remuneration package, yet it is clear that this will not be the case under the options presented in the ROTF Report. These options, as currently structured, would be very bad news for the health of the University. The exceptional quality of a UC education relies heavily on the exceptional quality of the UC faculty. All currently proposed options would reduce total remuneration and thus impair the UC's ability to recruit and retain its distinguished faculty. This will erode the quality of the UC education that past cohorts of Californians have enjoyed, the UC's international reputation in research and scholarship, and UC's considerable contributions to economic growth in the State of California. The contribution to the California economy by UC should not be underestimated or taken for granted. We urge you to ask the President to consider other options that will maintain UC's competitiveness for future faculty.

Sincerely,

A handwritten signature in blue ink, appearing to read "Megan Sweeney", with a stylized flourish at the end.

Megan Sweeney
Chair, Committee on Faculty Welfare

cc: Members of the Committee on Faculty Welfare
Linda Mohr, CAO, Academic Senate
Annie Speights, Committee Analyst, Committee on Faculty Welfare

February 2, 2016

Leobardo Estrada
Chair, UCLA Academic Senate

Re: Retirement Options Task Force Report to the President

Dear Professor Estrada,

The Council on Planning and Budget (CPB) reviewed the Retirement Options Task Force Report to the President at its meeting on January 25, 2016.

CPB members lament that this initiative is the product of the “committee of two”, lacking consultation with the Academic Senate, and setting a bad precedent by not adhering to shared governance, given none of the stakeholders were involved in the decision on the future of the University.

There is unanimous agreement that this is an ill-conceived deal and should be rejected. Because of the PEPR cap, there will be catastrophic consequences for the University.

Members realize that during budget negotiations, there was never a clear argument given how this plan (financially) addresses the deficiencies of the current system, which is already paying down the unfunded liability. In fact, it seems to have little to no impact on the financial health of the UCRP, with relatively little help from the cash injections promised from the State. All agree that neither plan is good enough for the faculty.

How will UC remain competitive, attract and retain top talent? There are serious flaws in the new plan for recruiting mid-career faculty, who have traditionally been attracted to the UC based on the “gold-plated” retirement plan. There is a lack of attention paid to the faculty welfare, recruitment, and hiring strategies. We particularly call out the lack of thought given to assistant professor hires, who will be given an option to change plans only after 5 years, before tenure and its associated job security, when they would be unlikely to change plans.

It is evident that neither the DB plan alone nor the DB + DC plan after 5 years will ever, for any new faculty or staff hired after July 1, proffer to the employee the same replacement income at age 65, compared to the 2013 tier. To achieve parity, said employee would need to have a salary 6-10% (depending on the models) higher than what the salary scales are now offering. We realize that this parity will never be attained, when we consider the recent history of faculty and staff pay raises (cf., this year’s 1.5% + 1.5% - far from the minimum projected 6% to attain parity for new hires).

Recruitment of excellent faculty will become more challenging, perhaps even impossible, when our salaries and retirement cannot keep pace with those of our competitors. In general, it would be critical to emphasize that future retentions and recruitments will depend on the combination of salaries and pension benefits and unless the salaries go up, pension benefits cannot be cut.

By reducing the overall retirement benefits to new employees, UC will be substantially decreasing the size of a very important chip on the bargaining table when trying to retain post-career and mid-career faculty years down the road. Especially with the portable plan B option, this has the potential to cause many of the most successful mid-career faculty to leave for other opportunities (e.g. chair positions), thereby lowering rankings of UC schools and departments substantially, even though the effects may not be seen by current administrators while they are still active.

UC's defined benefit retirement program is one of the pillars that set UC above other state institutions in attracting the highest quality academic talent to its universities. Slashing the current DB program even further could potentially undermine UC's reputation and long-term research quality in this regard.

Members recognize that we are living in times of artificially suppressed near-zero inflation rates for nearly one decade following financial events in 2008; it is reasonable to assume that a period of inflation will come. The hard cap amount of the new program does not appear to allow for annual inflation readjustment. Will there be inflation adjustments? Any such caps (even for the existing tier DB retirement programs) should be inflation/COLA-adjusted. Why should an employee be limited to a cap that was put in place during economic times many years before without regard to inflation or changes in buying power in the intervening years? Moreover, we should seek guarantees that the pension plan for those in the pre-2016 cohort will indeed be preserved.

Thank you for the opportunity to review the report. If you have any questions for us, please do not hesitate to contact me at fchiappelli@dentistry.ucla.edu or via the Council's analyst, Elizabeth Feller, at efeller@senate.ucla.edu or x62470.

Sincerely,



Francesco Chiappelli, Chair
Council on Planning and Budget

cc: Susan Cochran, Vice Chair, Academic Senate
Joel Aberbach, Immediate Past Chair, Academic Senate
Linda Mohr, Chief Administrative Officer, Academic Senate Office
Elizabeth Feller, Committee Analyst, Council on Planning and Budget
Members of the Council on Planning and Budget

February 2, 2016

Professor Leo Estrada
Chair, UCLA Academic Senate

Re: Committee on Diversity and Equal Opportunity's Response to the Retirement Options Task Force Report to the President

Dear Professor Estrada,

The Committee on Diversity and Equal Opportunity (CODEO) opposes the proposed University of California pension plan for hires after July 1, 2016. We consider it unjust and to have profound implications for the diversity and overall quality of future faculty and professional staff. Moreover, as far as we can ascertain, it will do little if anything to improve the financial well-being of the current plan, and may even damage it. That the proposed plan was seemingly negotiated in secrecy is particularly problematic for CODEO. The Committee's charge is to represent diverse peoples often excluded from the decision-making process and always underrepresented in it, peoples typically suffering disproportionately the consequences of a lack of transparency of the University of California (UC) and its campuses.

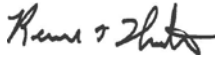
We consider the current defined benefit (DB) plan greatly superior to the proposed defined contribution (DC) plan, as the former guarantees specific, higher benefits whereas the latter does not and also carries greater investment risks. The UC retirement plan has been an important cornerstone for recruiting quality faculty, which is particularly important in the high cost-of-living state California where salaries of the flag-ship UC system are lower than comparable universities. Salary issues and, therefore, benefit issues are of particular concern in more expensive areas of the state such as Los Angeles and San Francisco-Berkeley.

CODEO fully advocates future hires at UCLA (and other UC campuses) to encompass proportionally more women and under-represented minorities (URMs) and members of other diverse groups than has been the case in the past. A reduction in benefits will make recruiting more difficult and, undoubtedly, impact the overall quality of all faculty (and staff) including those considered "diverse." That this will occur creates a two-fold timeline of benefits whereby newly hired women, URMs and others are disproportionately relegated to "second class citizenship." The implications of this are profound. Profound also are the implications for the retention of this new group of faculty (and staff) whereby UC will be less able to compete in the retention market as well as the hiring one. Indeed, CODEO's data indicate URMs are less likely than others to be retained at UCLA. (At least one division has not retained a single URM during the past five years!)

Thus, CODEO strongly opposes the proposed plan. Acceptance of it will be detrimental to all future recruitment and retention, but particularly to the recruitment and retention of women, URMs and other diverse people. That a "second class" of citizenship will be created is of great concern, as is the likelihood that this group will include disproportionately those who UCLA and UC profess to target in the future, at least in part, to alleviate inequities of the past. That the new plan was developed "in secret" and without adequate consultation further disenfranchises those represented by CODEO. Those represented are already profoundly disenfranchised from the

opportunities and rewards of the University of California and the decision-making structures and processes whereby they are allocated. The University of California should be working towards equality and inclusion not the exacerbation of present injustices.

Sincerely,

A handwritten signature in black ink, appearing to read "Russell Thornton".

Russell Thornton,
Chair, Committee on Diversity and Equality Opportunity

cc: Members of the Committee on Diversity and Equal Opportunity

Linda Mohr, CAO, Academic Senate

Annie Speights, Committee Analyst, Committee on Diversity and Equal Opportunity



FACULTY EXECUTIVE COMMITTEE
DAVID GEFFEN SCHOOL OF MEDICINE AT UCLA
CENTER FOR THE HEALTH SCIENCES
10833 LE CONTE AVENUE
BOX 951722
LOS ANGELES, CALIFORNIA 90095-1722

Telephone: (310) 794-2111
Facsimile: (310) 794-2119

February 1, 2016

Leobardo F. Estrada
UCLA Academic Senate
BOX 951408, Murphy Hall, 3125
Los Angeles, CA 90095-1408

Dear Professor Estrada,

Thank you for the opportunity to respond to the proposed pension plan proposal which is under consideration by President Napolitano, on behalf of the Faculty Executive Committee for the David Geffen School of Medicine at UCLA. Members of the Faculty of the School of Medicine have been advised of the new retirement benefits options that were developed as a result of the budget agreement between UC and state leaders, which included nearly \$500 million to help pay down UC's pension liability. In exchange of this pension funding, Gov. Brown and Legislature required UC to align pension-eligible pay for future employees with that of state employees. The default option of a PEPR-capped defined-benefit plan plus a defined-contribution supplement for earnings above the cap is distinctly inferior for new hires in the School of Medicine. Starting with a defined-contribution benefit for a period of five years will also be disadvantageous, and will seriously affect recruitment of faculty to large institutions that have a more generous pension program. Future employees will note the cap, and, given the income potential of physician-hires for the School of Medicine, will simply seek employment in the same community, from other large medical enterprises.

A poll was taken in order to determine the sentiment of the faculty of the School of Medicine. The majority of the faculty felt that the proposal was adverse, and voted against supporting the new retirement tier. Many faculty members shared comments that included a concern for the recruitment of new faculty, the impact of the proposal on the competitiveness of the University in a market in which many institutions are recruiting physicians as scientists and clinicians, and the unfair nature of the new proposal that selectively and adversely affects young faculty members. Particularly bothersome is the effect on recruiting physician faculty in an era of consolidation of healthcare into large organizations. In the Los Angeles area, several institutions are positioning themselves to be dominant in both delivery of care, and in clinical science and research. A majority of our faculty felt that the proposal would simply drive new hires to other organizations.

I appreciate, on behalf of the Faculty Executive Committee of the School of Medicine, to have the opportunity to present our sentiments to the Academic Senate.

Respectfully,

A handwritten signature in black ink, appearing to read "Gary J. Schiller".

Gary J. Schiller, M.D.
Chair of the Faculty, DGSOM Faculty Executive Committee (FEC)
Professor of Medicine
David Geffen School of Medicine at UCLA

cc: Alon Avidan, MD, MPH, Vice Chair of the Faculty (DGSOM Faculty Executive Committee)
Jonathan S. Jahr, MD, Past Chair of the Faculty (DGSOM Faculty Executive Committee)



MEMORANDUM

DATE: February 1, 2016

TO: Dr. Leo Estrada
Chair, Academic Senate
UCLA

FROM: Mo Kang 
Chair, FEC
UCLA School of Dentistry

RE: Proposed changes in UCRP 2016 tier

Dear Dr. Estrada,

In light of the proposed changes in the UC Retirement Plan (UCRP) 2016 tier, the FEC of the UCLA School of Dentistry (SOD) would like to share their grave concerns on the proposed changes that will impact the future of our school and its faculty. The following points summarize our concerns:

- We feel that the proposed changes are not a trivial matter, but will have a major damaging effect on faculty welfare, along with very significant ramifications in recruitment and retention of outstanding faculty members.
- The changes in the retirement plan will further dampen the competitiveness of the UC, wherein faculty compensation is already significantly less than our peer comparators.
- The proposed plan will reduce the incentive for mid-career faculty to remain at UCLA, compromising retention of our most productive and successful faculty.
- It will drastically reduce income replacement for senior faculty, making timely retirement unaffordable, bad for the employee and the school.
- It will also complicate relations and create equity issues among faculty hired under different UCRP tiers, affecting school climate and environment.
- The changes will disproportionately affect Health Sciences Compensation Plan (HSCP) faculty, whose covered compensation is determined only by X and X', proportionally less than general campus faculty. HSCP faculty will be universally affected by the cap, and proportionally harder hit, because they enter the workforce later, allowing fewer years of service.
- A defined contribution (DC) choice has an inherently lower return rate and consequent compounding growth, providing a reduced benefit to the employer, and less efficient use of the employers' dollars.
- The portability of a DC plan also works against faculty retention.
- The proposed DC Supplement for faculty salary above the PEPRA cap will be ineffective, because it will activate too late, and is simply too little. To have a meaningful impact, a DC supplement should be activated upon hire, and should be substantially increased in amount.

The FEC of the UCLA SOD share the general campus faculty concerns that these proposed changes in UCRP will cause irreparable damage to the future of our dental school and the UC; and therefore strongly oppose enacting the proposal as written.

January 30 2016

TO: Leo Estrada, Chair, Academic Senate

FROM: Benjamin Williams,
Chair, HSSEAS Faculty Executive Committee

RE: HSSEAS FEC Comments on Retirement Task Force Report

The Faculty Executive Committee (FEC) of the Henry Samueli School of Engineering and Applied Science (HSSEAS) has discussed the Retirement Options Task Force (ROTF) Report to the President and collected comments via email discussions.

First of all, the FEC appreciates the difficult work of the ROTF within the impossible constraints imposed on it from above. However, the FEC was dismayed at the extremely short timeline provided for review of this very complex and lengthy document (nearly 100-pages), which prevented discussion at a regularly scheduled meeting. This is especially true given the dramatic effect the proposed changes will have on faculty compensation and benefits. The manner that this deal was reached is not in keeping with the principles of shared governance.

In short, both of the proposed options appear to be a “bad deal,” both for the UC as a whole, as well as specifically for the faculty of HSSEAS. The analysis shows that both a pure defined contribution (DC) and hybrid defined contribution and defined benefit (DB) options result in significant reductions in the percentage of retirement income compared to the 2013 plan. For the hybrid plan, it is likely that most faculty in HSSEAS will reach the PEPRA cap for salary (\$117K in 2016) by mid-career or earlier, thus eliminating the benefit of future salary increases on retirement benefits. This will have serious implications in our ability to retain high performing mid-career faculty and fend off competing offers – there will be less incentive to stay. If a pure DC model is adopted, then retirement contributions are be completely portable, giving a faculty member even less incentive to stay at UCLA.

The proposed retirement plan changes effectively reduce total compensation, which will either reduce our competitiveness with other universities, or must be made up through increased salary. A recent study of university-wide compensation (<http://compensation.universityofcalifornia.edu/total-remuneration-ladder-rank-faculty-2014.pdf>) already finds that our current total remuneration is on average 10% lower than market. The School of Engineering competes with industry and top-tier private universities for faculty – both of which often offer generally higher salaries (in some fields dramatically higher). The proposed reduction will make this task that much more difficult. Furthermore, even though the proposed changes do not directly affect current faculty, there may be a negative effect of creating a “two-

tiered" system between current faculty and new hires, which may degrade the overall climate within departments.

If the proposed changes in the retirement plan are in fact unavoidable, we urge steps to preserve the competitiveness of overall compensation for new employees. For example, this might take the form of additional employer contributions to the DC or hybrid-DB/DC plan, which can mitigate the effect of the lower PEPRA cap, as described in the provided document "Guide to reviewing the recommendations of the ROTF."

Please feel free to contact me if you have any questions regarding this memo.

Sincerely,

A handwritten signature in cursive script that reads "Benjamin Williams".

Benjamin Williams
Chair, HSSEAS Faculty Executive Committee
Associate Professor
Department of Electrical Engineering
UCLA

UNIVERSITY OF CALIFORNIA, MERCED

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

OFFICE OF THE ACADEMIC SENATE
CRISTIAN RICCI, CHAIR
senatechair@ucmerced.edu

UNIVERSITY OF CALIFORNIA, MERCED
5200 NORTH LAKE ROAD
MERCED, CA 95343
(209) 228-7930; fax (209) 228-7955

February 4, 2016

DAN HARE, CHAIR, ACADEMIC COUNCIL

Re: Retirement Options Task Force Report

The Retirement Options Task Force (ROTF) Report, a fact sheet/FAQs, and a guide to reviewing the report were distributed to the Merced Division of the Academic Senate standing committees and the three School Executive Committees. Responses were received from the Committees on Faculty Welfare and Academic Freedom, Diversity and Equity, and from the Committee on Academic Planning and Resource Allocation. Committee comments are appended to this cover memo.

At its February 1 meeting, the Merced Divisional Council discussed the ROTF Report and endorsed Diversity and Equity's recommendation to reject the proposals made by the Task Force, in particular, the proposal to create a Defined Contribution Plan (please refer to page 2).

We appreciate the opportunity to opine.

Sincerely,

A handwritten signature in black ink, appearing to read "Cristian Ricci".

Cristián Ricci, Chair
Division Council

CC: Division Council
Faculty Welfare and Academic Freedom
Diversity and Equity
Committee on Academic Planning and Resource Allocation
Hilary Baxter, Executive Director, Systemwide Academic Senate
Fatima Paul, Interim Director, Merced Senate Office

UNIVERSITY OF CALIFORNIA, MERCED

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

ACADEMIC SENATE, MERCED DIVISION
COMMITTEE FOR DIVERSITY AND EQUITY
TANYA GOLASH-BOZA, CHAIR
tgolash-boza@ucmerced.edu

UNIVERSITY OF CALIFORNIA, MERCED
5200 NORTH LAKE ROAD
MERCED, CA 95344
(209) 228-4369; fax (209) 228-7955

January 29, 2016

To: Cristián Ricci, Chair, Division Council

From: Tanya Golash-Boza, Chair, Committee for Diversity and Equity

A handwritten signature in cursive script that reads "Tanya Golash-Boza".

Re: Retirement Options Task Force Report Comments

The Diversity and Equity Committee recommends that the Academic Senate reject the proposals made by the Retirement Options Task Force, particularly the proposal to create a Defined Contribution plan – which was not even required by the Budget Act.

Current UC faculty Senate members have a defined benefit plan, where we are *guaranteed* a pension in retirement. A defined contribution plan, in contrast, *individualizes* the investment risk. The presence of a strong pension is a hallmark of the benefits package offered by the University of California to present and prospective employees. It would be contrary to our interests to jeopardize our defined benefit plan.

The creation of a defined contribution option for new employees could well be the first step towards the dismantling of our pension. If we reject this small step, we can stall or perhaps prevent this dismantling from happening.

The Diversity and Equity Committee is opposed to any measure that makes conditions worse for future hires. If we do our jobs well, we can anticipate that future hires will include more women and under-represented minorities than the current faculty. It is thus an important issue of equity to avoid creating worse conditions for future hires – who are more likely to be women or under-represented minorities. Acceptance of this proposal will reduce retirement benefits for a significant portion of future employees, and that is not acceptable.

We recognize that trade-offs often need to be made. But the funding gained under this agreement is not worth the damages done to compensation nor the potential damage done to the University as whole. The Senate should oppose this proposal.

cc: Committee for Diversity and Equity
Senate Office

UNIVERSITY OF CALIFORNIA, MERCED

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

ACADEMIC SENATE, MERCED DIVISION
COMMITTEE ON ACADEMIC PLANNING AND RESOURCE ALLOCATION
MUKESH SINGHAL, CHAIR
msinghal@ucmerced.edu

UNIVERSITY OF CALIFORNIA, MERCED
5200 NORTH LAKE ROAD
MERCED, CA 95344
(209) 228-4369; fax (209) 228-7955

February 1, 2016

To: Cristián Ricci, Chair, Division Council

From: Mukesh Singhal, Chair, Committee on Academic Planning and Resource Allocation
(CAPRA)

Re: Retirement Options Task Force Report

At your request, CAPRA reviewed the retirement benefits task force report. CAPRA believes that the new retirement benefit rules will substantially reduce the retirement benefits for new hires and will significantly impact UCM's ability to recruit and retain top faculty.

cc: CAPRA Members
Senate Office

UNIVERSITY OF CALIFORNIA, MERCED

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

ACADEMIC SENATE, MERCED DIVISION
COMMITTEE ON FACULTY WELFARE AND ACADEMIC FREEDOM
RUDY ORTIZ, CHAIR
rortiz@ucmerced.edu

UNIVERSITY OF CALIFORNIA, MERCED
5200 NORTH LAKE ROAD
MERCED, CA 95344
(209) 228-4369; fax (209) 228-7955

February 4, 2016

To: Cristián Ricci, Chair, Division Council

From: Rudy Ortiz, Chair, Committee on Faculty Welfare and Academic Freedom (FWAF)

A handwritten signature in black ink, appearing to read "R. Ortiz", is placed below the "From:" line.

Re: Retirement Benefits Task Force Report

At your request, FWAF reviewed the retirement benefits task force report. Taking into account both our discussions and those at UCFW, FWAF's position is as follows:

First, the secrecy of the negotiations between Governor Brown and UC President Napolitano, combined with the unreasonably short review period for such a complex issue, showed a marked lack of respect for the spirit of shared governance.

The various options put forth by the task force essentially ensure that any new tier that is created will significantly disadvantage new employees. Furthermore, in the absence of a corresponding increase in salary, this will cause the UC to fall even further behind our comparator institutions, harming our ability to recruit and retain top faculty.

If some version of the recommendations of the task force are to be implemented, FWAF strongly encourages the terms to be flexible and generous to mitigate the negative effects on recruitment and retention.

While we recognize that the process is probably already approved to move forward, our committee strongly urges President Napolitano to review and reassess this action in the near future to determine its impacts on hiring and retention and cost-savings.

Lastly, FWAF is pleased to endorse the memo submitted to you by the Committee for Diversity and Equity on January 29, 2016.

cc: FWAF members
Sean Malloy, UCFW Representative
Division Council members
Senate office



CHAIR, ACADEMIC SENATE
RIVERSIDE DIVISION
UNIVERSITY OFFICE BUILDING, RM 225

JOSE WUDKA
PROFESSOR OF PHYSICS AND ASTRONOMY
RIVERSIDE, CA 92521-0217
TEL: (951) 827-5538
EMAIL: JOSE.WUDKA@UCR.EDU

February 1, 2016

Dan Hare, Chair, Academic Council
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

RE: New UC Retirement Plan Effective July 1, 2016

Dear Dan,

Executive Council discussed the new retirement plan the UC is considering adopting as a result of the budget negotiations with the State. Because of the shortness of the review period, only the committees of Planning & Budget and Faculty Welfare were asked to opine on this important issue. I attach their detailed responses.

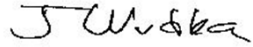
The general opinion was that the proposed plan would present a significant deterioration of the benefits package we will offer to all new hires starting July 1, 2016. Combined with the recent total remuneration study, this provides a compelling argument that with this adoption the UC will further diminish its competitiveness; it will also have long-range negative effects on the University's ability to meet its mission of excellence in research, teaching and service. Added to this was the concern that the creation of a new retirement tier was agreed to without appropriate consultation with the Senate.

The reviewing committees also had a variety of specific concerns listed in their reports. Here I will state some additional recommendations stemming from Council's discussions:

- There was no rationale for selecting a lustrum as the time for providing the opportunity for switching plans. Council suggests that this period be determined through a quantitative evaluation of the advantages and disadvantages for faculty.
- It is unclear whether the default enrollment choice (the DB + DC supplement) is the most advantageous for the faculty. Council suggests that this be determined quantitatively as a function of the period at the end of which faculty may change plans (see item above). Once this is determined, Council suggests that this be regularly re-evaluated to account for possible economic changes.
- There is concern that the Administration will react to the decrease in benefits by increasing off-scale salary compensation, leading to an increase of instances

of salary compression and inversions, and the associated further deterioration of the UC salary scales. Council calls on Academic Council to reinitiate the discussion with the Administration on the need to revise the salary scales across the system.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J Wudka".

Jose Wudka
Professor of Physics & Astronomy and Chair of the Riverside Division

CC: Hilary Baxter, Executive Director of the Academic Senate
Cherysa Cortez, Executive Director of UCR Academic Senate Office



Committee on Planning & Budget

January 21, 2016

To: Jose Wudka
Chair, Riverside Division Academic Senate

Fr: Kenneth Barish 
Chair, Committee on Planning and Budget

Re: Review of the ROTF Report to the President

The Committee of Planning and Budget (CPB) has reviewed and discussed the Retirement Options Task Force report to the President.

The Committee noted that the task force recommended plan represents a significant reduction in retirement benefits, and thus total remuneration, for employees without achieving an acceleration in funding the unfunded liability of UCRP despite the injection of \$436M of state funds. CPB does not fault the task force, but rather the report clearly illustrates the strength of the 2013 tier design. While we comment on the recommendations of the task force below, we stress that the University would be better off with the current plan than any of the new proposed plans even if the University would forgo the new state funds.

CPB comments on Retirement Options Task Force report to the president:

- 1) The models provided in the report make clear that the proposed 2016 tier will negatively affect the vast majority of new faculty hires as well as many hires in other segments of the UC workforce. The Committee, thus, supports the introduction of a supplemental DC plan (for all employees) to help mitigate the effects.
- 2) The Committee suggests that the new DC plan and DC supplement include options that are directly tied to UCRP so that the same performance can be achieved.
- 3) The Committee endorses giving new employees the flexibility to select the 10% DC choice plan given that (1) only partially mitigates the effects and it may best serve certain segments of the UC workforce. We do this reluctantly, as the design of the 2013 tier incentivizes retention during mid-career and retirement at a mutually advantageous age.
- 4) The Committee feels strongly that the employer contribution should remain constant across all plans (without exception) to ensure that there is no incentive to the employer to direct an employee to choose one plan over another.

- 5) The Committee feels strongly that the employer contribution should include a “UAAL surcharge” across all offered plans.
- 6) The Committee strongly recommends for the 5.2% slated for “cashflow savings” in the 2016 UCRP tier option to instead be used to bring down the UAAL. The rather moderate “cashflow savings” (estimated to be \$15M/year over the first 15 years), would have a measurable effect in reducing the UAAL. The “savings” is, in effect, borrowing at a relatively high interest rate of 7.25% (the expected average growth of UCRP). It would also bring symmetry to the options being proposed and relates to point 4 and 5 above.
- 7) The Committee endorses the proposal to allow employees who selected the DC plan to switch to the DB+DC plan after an initial period. We suggest that that period can be different for different work segments and for that to be 7 or 8 years for faculty.
- 8) The Committee concludes that the best plan for a new faculty member is to start with the DC plan and switch to the DB+supplement plan at the choice period as the initial DC plan will then have time to grow before retirement and would more than compensate for the decrease in service time. If this becomes the norm, the cost-of-choice estimate for the second choice of 0.7% may be low, which could affect the normal cost of the plan. (This underscores the speculative nature of the predictions, especially when employee choices are presented.) We note that a redirection of the “cashflow” savings discussed in (6) could, at least in part, be used to compensate.
- 9) The Committee notes the importance of competitive total remuneration all UC workforce segments. The 2014 faculty remuneration study indicated that retirement benefits are close to market value as the more generous plan design is offset by lower than market cash compensation. Given the reduction in retirement benefits proposed, new faculty would need to be given higher salaries to receive competitive total remuneration. We are concerned that the comparison in the report with 26 comparative institutions is misleading as it does not take the different salaries into account. We look forward to seeing an updated remuneration study and suggest for the Senate to clearly point this out before the comparison is misconstrued.
- 10) The Committee notes that there are several factors that may explain why the 2016 UCRP+supplement plan compares poorly to the 2013 tier, including: (1) extraction of any “cashflow” savings; (2) limited time for supplemental DC funds to grow; (3) loss of subsidy from short term employees (less than 5 years) as they are more likely to select the DC plan; (4) assumption that funds will be converted to an annuity at retirement which earns a lower interest rate.¹ The latter may vary by plan (e.g. someone with a DB plan may be more likely to incur the risks of leaving the DC component in investments with higher growth potential). The Committee notes that the report is missing a quantitative analysis enumerating

¹ We note that p43 of the report (section III.g) states “For purposes of comparing DB and DC benefits, the DC account balance is assumed to earn the investment return from current age to age 55, and is then converted to an annuity based on 4.75% conversion rate, as requested by the Task Force.” Jim Chalfant confirmed that this is a misstatement, and that the age of retirement (if over 55) is used for the model calculations. If that is not the case, it is the calculations may underestimate the benefits of a DC plan.

each of these different factors, without which a critical appraisal of the plan cannot be made.

- 11) The Committee notes that the proposed supplemental plans fall well short of ensuring retirement readiness. Should this come to pass, additional retirement ready incentive plans should be devised for the long term health of the University and its employees.

In summary, the Committee finds that the proposed plan represent a significant reduction in benefits without accelerating the reduction in the UAAL. However, if a PEPRA cap must be adopted, the Committee supports the introduction of a supplemental DC plan for option A, the introduction of a DC choice option, and a second choice option. The Committee calls for two modifications to the plan: (1) redirection of option A cashflow savings to fund the UAAL and/or strengthen the competitiveness of the plan, and (2) change the second choice option to 8 years for faculty. The Committee further notes: (1) the proposal fails to detail the a quantitative analysis enumerating each of these different factors that lead to the significant reduction in benefits, (2) an updated total remuneration study is needed to quantify the effect of the benefit costs to overall competitiveness, and (3) the 0.7% cost of second choice estimate may be low. Assuming a version of the plan is adopted, the Committee urges for additional retirement ready incentive plans to be developed.



COMMITTEE ON FACULTY WELFARE

January 25, 2016

To: Jose Wudka
Riverside Division Academic Senate

From: Jennifer Hughes, Chair 
Committee on Faculty Welfare

Re: **Retirement Options Task Force (ROTF) Report**

1. Background

In the post-World War II period, defined benefit (DB) retirement plans were widely used by major corporations and certain institutions such as universities. These plans were a means of attracting and retaining employees. Many public bodies such as K-12 schools and government also used such plans. Over time, these plans fell into disfavor with both corporations and state and local governments for different reasons. For corporations, DB plans meant that the companies were assuming the pension risk. Since company and industry competitiveness may diminish over time, companies increasingly preferred to switch to defined contribution (DC) retirement plans; these shifted the pension risk to individuals. Companies and their employees typically both made contributions to their retirement plans. The resulting funds were invested and provided the employees with income on their retirement. How much they would receive depended on the success of the investments; the risk was shifted entirely to the employees.

Private firms were subject to the risks of the business cycle and long-term shifts in their competitiveness and the competitiveness of their industry. Thus the automobile and the steel industries, for example, found themselves subject to intense competition from overseas suppliers, with many driven into bankruptcy by obligations they could no longer afford, including pension obligations. This was not the problem of state and local governments. Rather, they increased over time their pension obligations without funding them properly. In addition they facilitated retirement at early ages and established systems subject to manipulation. Many employees could increase their final salaries by working overtime in their final year and not taking sick days that were due them, thereby spiking their pensions. The failings of state and local governments have begun to come due in recent years, with cities like Vallejo and San Bernardino in California, unable to pay their obligations, forced into bankruptcy. Moreover, even for cities remaining solvent, pension obligations have begun to account for a substantial share of their budgets, reducing or eliminating funds for other important public services.

In this context, the California state legislature and governor have become extremely hostile to defined benefit programs. Without a full understanding of the intense competitiveness that exists among leading universities, they have sought to limit pension

benefits to University of California faculty. In 2015, When UC President Napolitano sought to restore some of the cuts the state had made during the financial crisis that began in 2008, she and the governor formed a 2-person committee to negotiate critical portions of the UC budget. The governor made some modest additional resources available to UC in return for President Napolitano's agreement to make a few concessions, most notably on limiting the traditional defined benefit pension received by UC faculty. To live up to this agreement, President Napolitano appointed the Retirement Options Task Force to prepare options for a new UC retirement plan with the same defined benefit cap as that of state employees, whose cap (the PEPRA cap) is currently \$117,020 and increases only with inflation. The ROTF gave her its plan on December 15, 2015, and she made it public on January 15, 2016 with a request for feedback by February 15. She will decide on the details of the plan later in February, in time to present it to the Board of Regents in time for its March meeting and implementation for new UC hires on or after July 1, 2016.

2. Core elements of the new UC pension plan

According to the ROTF plan there are 2 options. The precise consequences of either option depend on a series of assumptions, but both plans would result in a dramatic reduction in faculty compensation. The following descriptions of the 2 plans is taken from a blog by Michael Meranze, Prof. of History at UCLA:

- 1) The first (Plan A) is a hybrid plan. In it, an employee would participate in the Defined Benefit Plan offered by UCRP (with benefits calculated on income up to the PEPRA cap) with a Supplemental Defined contribution Plan (with University contributions) on income between the PEPRA cap and the Federal Cap (now about \$265,000). Employees who choose Plan A would continue to vest after 5 years (as is the case now) and would continue to contribute the same amount annually to their pension as do employees hired before July 1, 2016. Once in Plan A you would be committed to Plan A. Plan A is proposed as the default choice. It is important to note that the Defined Benefit portion of this proposal would operate under the conditions imposed on the 2013 tier—who already had a later retirement age than earlier hires.
- 2) The Second Plan (Plan B) is a Defined Contribution Plan with both the employee and University contributing up to the Federal Cap. Again, the amount that the employee would contribute would be the same as Plan A. Employees who chose Plan B at hiring would be allowed to switch to Plan A after 5 years of employment (this would be a one-time opportunity).

Accompanying the ROTF report received by members of the Academic Senate was “A guide to reviewing the recommendations of the Retirement Options Task Force” written by the two UC faculty members who were members of the Task Force, Dan Hare and Jim Chalfant, Chair and Vice Chair of the (systemwide) Academic Senate. In their report, they note that “the Task Force was limited to working within a small universe of options bounded by a ~8-10% employer contribution, a ~4-6% employer-paid UAAL surcharge (to reduce the underfunding of UCRP), and a 7% employee-paid contribution. All of the proposed plans would allow limited variations around this small range of parameters. The more generous the plan, the less feasible it is from a budgetary perspective; the cheaper the plan, on the other hand, the less competitive UC will be for recruitments and retentions of faculty necessary to maintain the University's excellence. Moreover, the combined

contributions from employees and the University for cheaper plans will fall short of the amount required to achieve retirement readiness.”

Consequences of the new retirement plan

The UCR Faculty Welfare committee believes that the Plan was forced on President Napolitano by a governor who fails to appreciate the importance of the University to the culture and economy of California. The committee takes into account the following considerations in reaching its position on the Plan:

1. Negotiated in secret by the President of UC and the Governor, the plan marks a definitive break with the principle of shared governance. The faculty is being asked for its views on implementation of a basic policy decision that was made without its participation. A decision of this magnitude must have extensive faculty input. We are being consulted only about the implementation of an unwise policy whereas we must have input on the policy itself if shared governance is to be meaningful.
2. We are now at a critical turning point in the future of UC. UC now lags its comparison 8 universities by about 12% in total compensation. We note that much more than earlier generations, new UC faculty members face extremely high housing costs and many arrive burdened by student debt. We should be doing everything possible to eliminate the gap with the comparison 8. The new retirement plan widens the gap to disastrous dimensions. Consider the following example: Two years ago a UCLA humanities professor was recruited by Princeton. The Princeton salary offer was 50% higher than his UCLA salary; that is a measure of the underpayment of UC faculty members. In addition, when he pointed out to Princeton the UC defined benefit pension, it offered to compensate by paying him an additional \$20,000 yearly salary for the next 10 years, providing him additional cash he could put into a retirement fund. He ultimately decided to stay at UCLA (even with a salary offer \$9,000 below that of Princeton), but is much more likely to have opted for Princeton without the existing defined benefit plan. Some of his faculty colleagues with similar outside offers were similarly swayed by the existing DB plan.
3. At present the average UC faculty member retires in his/her mid to late 60s. With the new plan reducing retirement benefits, it is likely that average retirement will be pushed back considerably, perhaps by about 10 years. And many faculty members will find themselves unable to afford retirement. Faculty renewal is an important factor in maintaining UC's excellence and the new system will surely undermine it.
4. The logic underlying the shift away from DB plans in the private sector and in state and local governments does not hold for UC. With some police and firemen able to retire in their 40s and clerical workers at 55, and strategies to spike their pensions in the final year of work, and often lacking funded pension plans, public employees' retirements often put a great burden on local government budgets. These conditions do not prevail in the case of UC, and the competitive conditions facing private firms are quite different from those facing UC.
5. The change in the pension plan means that UC will institutionalize unequal pay for equal work. Two professors step 3, for example, presumably with equal professional qualifications, will receive different total compensation if one was

hired before July 1, 2016 and one after that. If UC is successful in increasing the representation of women and minorities in its faculty, moreover, then their compensation would be lower on average than that of their male/white counterparts.

6. The presumed savings to the state are unlikely to materialize since UC will be absolutely uncompetitive without materially higher salaries and retention offers. Alternatively, the quality of UC will diminish sharply along with the compensation of its faculty. We note as well that operating multiple kinds of pension plans simultaneously will increase their administrative cost, further diluting or even eliminating any possible savings from the new plan.
7. California will suffer. UC makes great contributions to the state in fields like agriculture, industry, technology, the environment and health care. Moreover, it is attractive to individuals concerned with affordable college education for their children and with firms seeking to attract well-educated employees with the same concerns.
8. Shifting the burden and risk to UC employees of managing their retirement money has no legitimate justification. In general, firms have done so to increase their profitability and to minimize their risks by shifting them to their employees. There is no principled reason for the state to do the same.
9. From the standpoint of UC, there is a small and temporary benefit in increased funds from the state that the governor (but not the legislature) has promised, but a permanent diminution in its faculty compensation and competitiveness vis-à-vis other educational institutions. As Prof. Meranze notes “The three year state contribution (to UCRP) addresses only a very small amount of the unfunded liability. And according to the Task Force, establishment of the new (retirement) tier will speed up the elimination of the unfunded liability minimally if at all. In fact, under certain scenarios the elimination of the unfunded liability might be faster under the 2013 tier (with borrowing) than under most of the 2016 options.”
10. UC has been trying to move away from above-scale compensation and back to the formal salary scale as much as it can. There is much to be said for this as a matter of “equal pay for equal work” and equal qualifications. The new pension plan, unfortunately, promises to shred these efforts. Since deans and provosts will be unable to offer improved pension plans, they will have to resort to ever-larger salary offers to attract and retain faculty.

In view of these considerations, we believe that the Academic Senate should firmly oppose the secretly negotiated pension plan as incredibly harmful to the future of the University of California.



OFFICE OF THE ACADEMIC SENATE
9500 GILMAN DRIVE
LA JOLLA, CALIFORNIA 92093-0002
TELEPHONE: (858) 534-3640
FAX: (858) 534-4528

February 4, 2016

DAN HARE, Chair
Systemwide Academic Senate

SUBJECT: Retirement Options Task Force Report

Dear Dan:

The San Diego Division convened an Ad Hoc committee to discuss the Retirement Options Task Force Report (ROTF) on January 29, 2016, with further discussion in Senate Council on February 1 and the Representative Assembly on February 2. The Ad Hoc committee, Senate Council, Representative Assembly and other comments from standing Senate committees and Senate members highlighted serious concerns about the effects the ROTF proposals will have on the future of the University. In particular, given the already documented lag in salaries at the University of California, further diminishing the retirement benefits is expected to negatively impact our ability to hire and retain the quality faculty required for institutional excellence. If such a change to the retirement system is absolutely necessary, then it is essential to meet the system's obligations in a manner that will not have such debilitating effects on total compensation. While the preservation of the competitiveness of overall compensation and retirement benefits was cited as a key priority, the report does not present options to mitigate the negative impact the proposed changes in retirement benefits will have on future employees. For this reason, the San Diego Divisional Senate does not endorse the proposed plans. Building and maintaining a strong faculty is essential to the University of California's fundamental missions of teaching, research, and public service. Ideally, the Divisional Senates would be allowed more time to assess the proposed plans and synthesize alternate options. However, in light of the brief review period and the implementation timeline the President negotiated with Governor Brown, our observations and suggestions on improvements to the Task Force proposals are summarized below.

Recruitment, Retention and Renewal

It is essential that the University weigh the long-term consequences we are accepting for a one-time infusion of \$436 million of Proposition 2 funds. Looking to the report, the Proposition 2 funds plus the projected savings from the new retirement tier do not appear to significantly impact the timeline for paying down the current unfunded liability in the UCRP. It is incumbent on UC leadership to press the argument that now that staff and UC are making substantial contributions to UCRP, that the state government should begin to make regular contributions as well. Further, any savings will not materialize in the first year of implementation, as they require hiring of future employees. The University is being asked to make a permanent change in exchange for a short-term promise of aid with no other guarantees of additional support in the future. The University's outstanding reputation for educating students and generating groundbreaking research depends on the quality of its faculty. Though UC may be able to attract excellent faculty at the beginning of their careers with market rate salaries, the

ability to retain the best senior faculty and recruit the most promising and accomplished researchers will be severely diminished. The long-term consequence of an inferior benefit package will place the financial burden of enriching start-up and retention packages upon the already anemic UC institutions, departments, and programs. These long-term costs will lead to other forms of debt that are unsustainable.

To secure the legacy of the UC system, it is essential that UC remain a destination and not become a waypoint for stellar educators and researchers on their way up the academic ladder. Implementing this tier without any corresponding increases to benefits in other areas will place the UC system at a significant disadvantage by enabling other institutions with alternate compensation structures at their disposal, such as higher base salaries or childcare benefits, to court valuable faculty away.

Finally, one of the great benefits of the current (2013) DB plan is that it creates strong financial incentives for mid-career employees to remain at UC (retention), and provides no financial incentive to stay beyond 40 years of service (renewal). The Option A and Option B plans of the 2016 tier encourage retention much less for highly compensated employees and provide much weaker financial incentives for renewal. A DC-plan employee under the 2016 tier will find it financially attractive to remain at UC beyond 40 years of service.

Impacts to Health Sciences Faculty

A significant element of the Ad Hoc discussion focused on the impacts the proposed third tier will have on Health Sciences faculty. Health Sciences faculty constitute roughly 40 percent of UC San Diego's faculty members. These faculty work under a very different compensation structure than faculty on general campuses. The Ad Hoc noted that there was insufficient data regarding the impact on Health Sciences faculty and what sources of their salary would factor into their pensionable income. In fact, the Task Force referenced these issues only once on page 64 of the report. For such an enormous fiscal experiment to be conducted without careful modeling of its effects on such a large portion of the employee population seems ill advised. Health Sciences faculty salaries are likely to reach the PEPRA cap earlier than other faculty and without any additional data, it appears that the existing tier three proposals will disproportionately disadvantage these faculty.

The Ad Hoc would like to see a more detailed discussion of the impacts on Health Sciences faculty members and potentially a delay of the implementation of tier three until the consequences are more fully understood. Health Sciences will have a broader cohort of employees who spend only a short time at the University and will therefore benefit from the one-year vesting and portability of the more flexible DC-only Option B plan. A positive benefit is welcome, and these short-term employees make important contributions to the University.

The San Diego Health Sciences Faculty Council (HSFC) has generated their own response that specifically addresses the impacts to Health Sciences and presents three suggestions to address those impacts. The HSFC response is included with this letter for your review. We strongly urge you to read and consider the suggestions from the HSFC.

Choice/Default Plan

Between Option A and Option B, the Ad Hoc is in favor of Option A being the default. The Ad Hoc recommends maintaining the vesting period for Option A at five years, but supports providing flexibility in the opportunity to switch from Option B to Option A. The general strategy of allowing a switch at the time of attaining tenured status may provide an extra incentive to remain at UC. Given that time to tenure varies significantly, all employees should be allowed to convert to Option A at any time between the start of year 5 and year 10. It must be noted, however, that the window for revising the choice from Option A to Option B may result in an adverse selection effect, where the population in the DB plan may be disproportionately long-term career employees with few short-term employees, leading to a significant increase in the normal cost of the DB plan.

Increased DC Contributions / Earlier DC Contributions

The Ad Hoc committee felt that the DC component of the proposed plan could be modified to incentivize loyalty of long-term employees. It was suggested that an incentive to aid in retaining individuals could be to increase employer contributions to DC plans at regular intervals. For example, for every 10 years of service, the employer contribution to the DC plan could be increased by a percentage point. More work would need to be done to structure such increases, but there is research that confirms that structuring incentives in this way is effective. Alternatively, employer contributions to the DC plan could be started while a faculty member was still under the PEPPRA cap in order to take advantage of the positive effects of compounding interest. Additional institutional matching funds early in the career of an employee would have the greatest impact on maintaining a level of retirement benefits consistent with current plans, thus preserving the retirement component of total remuneration. Such a change could increase the cost to UC, but it could also be structured to be cost neutral.

Additional Suggestions

Measuring Competitiveness

The ability for UC to compete for the best faculty has steadily been declining due to reductions in benefits and a persistent lag in salaries. The proposed new tier will strike an especially strong blow to an already weakened total compensation package. Because the changes to the retirement plan will significantly impair the positive effect of the benefits on promoting hiring and retention, it is essential that UC generate additional incentives for employment offers and retention packages. With the reduction in retirement benefits and the increased reliance on DC plans, the Division strongly recommends a reassessment of the total compensation package. The University needs other tools at its disposal to counteract the decreased leverage that will result from the implementation of the third retirement tier.

Specifically, we recommend that a new salary and benefits analysis be conducted immediately to provide a better sense of our competitiveness using current salaries offered to new hires at the assistant level and the new benefits system. We also suggest examination of alternate forms of support, possibly in the form of child care assistance and educational benefits, which could mitigate the damage to the total compensation package that will be caused by the decrease in retirement benefits. This course of action would be consistent with the Task Force's key priority of preserving the competitiveness of the total remuneration package.

Additional Support for Retirement Planning

Regardless of the final form of the tier three plan, the Ad Hoc recommends that additional support be provided to help new faculty fully understand the tier three structure. This support should assist new employees in understanding the details of the plan, should provide a calculator to allow them to model different scenarios, and should maximize their ability to take advantage of the alternate savings structures.

Equity

Overall, the third tier will result in a reduction of benefits that will see new employees bearing the cost of the unfunded liability accumulated by the first and second tier retirees. In the absence of any clearly articulated plans to mitigate the impact the third tier will have on overall compensation, the implementation of this tier will result in very noticeable institutional inequities.

It has repeatedly been noted that the tier three plan will not affect anyone who is currently charged with devising or approving this plan. We understand the assertion that the retirement plans of existing employees are secure. What is of most concern to us is the health of the faculty community as a whole, including our future colleagues. These Senate reviews are the only opportunity for faculty to advocate on behalf of their future colleagues who will bear the cost of this plan. Additionally, it was noted that as an institution we have placed a high priority on hiring a more diverse faculty to increase the representation of historically underrepresented groups within the

faculty ranks. The institutional inequality that exists for URM's is already very well documented and publicized and, though it may be unintentional, this tier three plan will clearly disproportionately affect this particular cohort that we are working diligently to expand. As such, it is imperative to ensure that the best possible options can be secured for our future colleagues and we strongly urge that the suggestions noted above to add more value elsewhere in employment packages are seriously considered and implemented in the future.

Shared Governance

Finally, the process by which this ROTF report was created and executed warrants a response independent of the issue at hand. The expedited review imposed on the Senate for this and other recent initiatives seriously undermine the concept of shared governance, a fundamental value upon which our University was founded. Salaries, benefit packages and institutional reputation are second only to the palpable morale of the faculty and staff whose efforts have made the University of California the premiere public university. The value of shared governance cannot be understated and should be carefully considered when future initiatives are pursued.

The University of California occupies an irreplaceable space in the landscape of California. The contributions of the University to the State of California, the nation, and the world cannot be understated or brushed aside when fundamental changes are proposed that threaten to undermine the quality of the teaching and research carried out by this institution. We do not dispute the need to ensure an economically efficient institution. However, these proposed changes and others have gone beyond efficient into punitive, not just to the University but to the future students and the State itself as the University is weakened, jeopardizing the quality of education and research that in turn benefits all Californians. We strongly urge the President to carefully consider the long-term implications of a change in the retirement benefits for the future of the University of California.

Thank you for the opportunity to comment on this very important issue.

Sincerely,



Robert Continetti
Chair, San Diego Division

Enclosure

cc: Hilary Baxter – Executive Director, Systemwide Academic Senate
Kaustuv Roy - Vice Chair, San Diego Division
Ray Rodriguez – Director, Academic Senate Office
Tara Mallis - Senate Analyst



Dr. Bob Carter
Professor of Surgery and Neurosciences
2015-2016 Chair, Health Sciences Faculty Council
UC San Diego

Dr. Robert Continetti
Chair, Academic Senate
San Diego Division
University of California

February 2, 2016

Dear Dr. Continetti:

As you know, in the past month, the UC Retirement Options Task Force released their report [1]. We met to discuss the issues surrounding the report as a Health Sciences Faculty Council on February 2, 2016. We have concern that certain issues related to Health Sciences Faculty are not adequately addressed in this new report. As the Task Force noted on page 64 of the report (excerpted below), for the 7,200 members of the Health Sciences Compensation Plan (HSCP) in the University of California, UCRP 2016 **'will have a major effect on these individuals.'** Because only a portion of total HSCP negotiated salaries are considered 'eligible pay', the HSFC felt that newly recruited HSCP faculty members will substantially disadvantaged compared to clinical faculty at other non UC academic medical centers and this will affect recruitment and retention. A 'future work group' was recommended to address this issue.

Retirement Options Task Force Report to the President, Released January 15, 2016

VII. RELATED ISSUES

a. Compensation for Health Science Faculty

Currently, the faculty who participate in the Health Sciences Compensation Plan (HSCP)³⁶ have only a portion of their salaries as eligible pay i.e., the "base salary" (known as X and X') or the approved rate on the HSCP salary associated with a faculty member's academic rank, step and academic program. Any additional negotiated salary amounts are not included as eligible pay though this may be a sizable portion of an HSCP faculty member's salary. Consequently, the UCRP 2016 Tier CCL will have a major effect on these individuals. A future work group should address this issue.

Research into this issue bears out that in the 2003 and 2004 time frame, each of the UC Divisions gave consideration to a Health Sciences Retirement Proposal that would have established a Defined Contribution Plan benefit that would apply a 7% contribution on all salaries (Y + Z) above base pay up to the tax limits. [1-3] In that era, when mandatory contributions to UCRP were not in place and the UCRP DB plan modeled favorably versus the DC plans of non UC academic medical centers, there was ultimately insufficient interest to implement a mandatory 7% University contribution to salaries (Y+Z) above base pay. [4] However, given the new caps imposed on the DB in UCRP 2016 Task Force recommendations [1], the HSFC

felt that there would be considerably stronger support now for including Y+Z pay in the determination of eligible pay for retirement contributions for HSCP members.

Thus, the UC San Diego HSFC, by unanimous vote in quorum today, asks that you append this letter to the San Diego Division response to the Task Force Report in order to register our endorsement that:

- (1) The 'future work group' mentioned on page 64 of the Task Force report for HSCP members be appointed immediately.
- (2) That such a work group revisit the prior UC efforts to implement an HSCP retirement plan that accounts for (Y+Z) salaries above base pay when determining 'eligible pay'.
- (3) That up to date modeling be performed that demonstrates the cost and benefit of defining of eligible pay as all clinical salary (X+Y+Z) up to the tax limits.
- (4) And that ultimately, HSCP members be offered a DC option which includes X and Y and Z pay in the determination of eligible pay.

HS Faculty Council members felt that if the 2016 Tiers are implemented without modifying the definition of eligible pay, future HSCP members will be significantly impacted by the new caps and this will erode our ability to recruit and retain.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bob Carter", is positioned below the word "Sincerely,".

Dr. Bob Carter, HSFC Chair, on behalf of the UC San Diego HSFC

References

1. 2015 [[Task Force Recommendations](http://ucnet.universityofcalifornia.edu/compensation-and-benefits/2016-retirement-benefits/rotf-report.pdf)]
 - <http://ucnet.universityofcalifornia.edu/compensation-and-benefits/2016-retirement-benefits/rotf-report.pdf>
2. 2003 [[Survey of other Medical School Retirement Plans](http://www.ucop.edu/academic-personnel-programs/_files/survey.pdf)]
 - http://www.ucop.edu/academic-personnel-programs/_files/survey.pdf
3. 2003 [[Health Sciences Retirement Plan Proposal](http://www.ucop.edu/academic-personnel-programs/_files/health-sci-proposal.pdf)]
 - http://www.ucop.edu/academic-personnel-programs/_files/health-sci-proposal.pdf
4. 2004 [[Academic Senate Responses](http://senate.universityofcalifornia.edu/committees/council/acresp_dcplan.pdf)]
 - http://senate.universityofcalifornia.edu/committees/council/acresp_dcplan.pdf

Office of the Academic Senate

500 Parnassus Ave, MUE 230
San Francisco, CA 94143-0764
Campus Box 0764
tel: 415/476-1307

academic.senate@ucsf.edu
<https://senate.ucsf.edu>

Ruth Greenblatt, MD, Chair
David Teitel, MD, Vice Chair
Arthur Miller, PhD, Secretary
Jae Woo Lee, MD, Parliamentarian

February 8, 2015

J. Daniel Hare, PhD
Chair, Academic Council
Systemwide Academic Senate
University of California Office of the President
1111 Franklin Street, 12th Floor
Oakland, CA 94607-52000

Re: UCSF Review of the Retirement Options Task Force Report

Dear Dan:

The San Francisco Division of the University of California Academic Senate has reviewed the Retirement Options Task Force (ROTF) Report and now submits our comments on the proposed new UC Retirement Plan (UCRP) tier. The proposed 2016 tier limits the amount of covered compensation that can be used in calculating retirement income to the 2013 PEPRA legislation (\$117,020 in 2016), which was designed to address instability and the high cost of the California Employee's Pension System (CalPERS). The report outlines two options for addressing this obligation. First, Plan A would allow for a traditional UCRP defined benefit (DB) program up to the PEPRA cap; and institute a supplemental defined contribution (DC) plan up to the IRC limit of \$265K for UC employees after they pass the PEPRA cap. As an alternative, UC employees would be allowed to enroll in Plan B, which is a DC plan. ***On the whole, the UCSF Academic Senate finds that the proposed new tier, if implemented, would represent not a shift in benefits, but a cut to remuneration currently enjoyed by all UC employees. Therefore, the San Francisco Division cannot support these recommendations due to the negative impact that they will have in the recruitment and retention of quality Health Sciences faculty.*** These comments are based on the analysis of these recommendations within our Division, along with formal comments from three divisional committees – Academic Planning and Budget (APB), Committee on Faculty Welfare (CFW), and Equal Opportunity (EQOP). We first note the main objections to this policy, then go into greater detail on how the proposed 2016 tier will further exacerbate ongoing challenges in recruitment and hurt diversity, and finally, remark on some issues with respect to the data and modeling within the report itself.

Applying the PEPRA cap upon UCRP misses distinctions between many UC faculty and employees and State employees:

- Many UC faculty and employees are hired after extended graduate and postdoctoral training, and thus they enter the retirement system much later in life than other types of California public workers;
- Many UC faculty are hired at salaries close to or at the PEPRA cap; thus the limits of the new tier will have great impact on their retirement benefits;
- UC staff and faculty tend to have significant educational debt, which requires repayment during the first decade of UC work, making them particularly needful of defined benefit type plans.

The 2016 tier would disproportionately impact Health Sciences faculty:

- While the 2013 remuneration data shows that UC faculty salaries lag comparator institutions, the salary discrepancies for the Health Sciences are likely much greater since we must compete with employers in industry and health care sectors as well as other academic institutions. UC also does not offer the tuition benefits that are commonplace among our academic competitors. The lag in salary exacerbates the disadvantages of the new tier, since faculty will have less income to electively contribute to retirement savings.
- The aforementioned long duration of training, along with educational debt, are particularly common among Health Sciences faculty, both for clinicians and non-clinicians. In addition, staff at UCSF (and other UC medical centers) are highly specialized and often carry relative high debt loads as well, since many of them have earned graduate degrees and had post degree training.
- The savings produced by the proposed new tier would also be minimal for the Health Sciences, in which few faculty and staff are supported by State funds to UC. Health Sciences faculty and staff salaries are largely funded out of clinical income and research grants.
- Differences in the source of the employer contribution (extramural grants and clinical revenue versus 19900 funds) was apparently not modelled by the ROTF, so that the estimated cost savings for the significant UC Health Sciences employees are likely greatly overestimated (see below).

Negative Impact on Recruitment and Retention in the Health Sciences

Application of the PEPRA cap in UCRP imperils President Napolitano's stated goals of maintaining "retirement readiness" for faculty, and ensuring the "competitiveness" of UC (APB, CFW). This action would likely substantially challenge recruitment of new Health Sciences faculty, as many faculty in these fields are hired at salaries that exceed the PEPRA cap of \$117K. Candidates for UC recruitment will inevitably compare the benefits here to those at peer health science institutions, clinical organizations and industry. In addition, the new tier does not incentivize the mid-career faculty to remain at UC. With respect to the recruitment of skilled clinicians, the medical centers also have a broad mix of competitors. Besides such premier institutions as Stanford University, UC medical centers also compete with other health systems, such as Sutter Blue Health and Kaiser, for its faculty, clinicians, and highly-specialized staff. The California Health Care Almanac recently reported that the Permanente Medical Group (TPMG), which is Kaiser's physician arm, and employs over 2,600 physicians, is widely recognized to hold an advantage over UCSF in the recruitment of physicians, especially for primary care physicians.¹ As UCSF continues to expand its network in the East Bay, the implementation of the 2016 tier will only exacerbate these challenges in the recruitment of top physicians.

Within the Health Sciences, there is a high demand for faculty who have professional degrees combined with additional advanced training. For example, there are significant numbers of "research physicians" at UCSF, many of whom have earned additional graduate degrees, and/or engaged in prolonged periods of training. Once training is completed, these highly desirable faculty arrive at UCSF in mid-life, often with heavy debt burdens, which limits their ability to fully fund either a supplemental (Plan A) or sole (Plan B) DC plan. For their individual retirement plans to catch up to individuals who entered the workforce with less training, these very highly trained faculty candidates seek out employers with particularly supportive retirement plans. As noted above, these factors are much more significant for UC faculty than participants in CalPERS, and thus applying the PEPRA limit to UC faculty produces a disproportionate burden. Another distinction concerns the Health Sciences Compensation Plan (APM 670) and professional faculty in other disciplines. By in large, faculty in certain other disciplines, and especially those with ten-month appointments, can engage in rather lucrative consulting arrangements, which adds to their total remuneration. At UCSF, 12-month appointments are the norm, and heavy consulting commitments are discouraged; we want faculty to apply their efforts here and not in outside work to fund their retirements.

¹ See the [January 2016 California Health Care Almanac Issue Brief](#) from the California Health Care Foundation.

What is more, UCSF's recruitment efforts are challenged by high living expenses in San Francisco, which are in a continued upward trajectory with the influx of high-tech companies and their employees. Relatively low faculty salaries will only exacerbate the cost-of-living problem further, making it ever more difficult to recruit and retain the highest quality faculty (CFW).

Equality and Diversity

UCSF's Committee on Equal Opportunity notes that the effects of prolonged training, educational debt and the high cost of living are likely to be particularly impactful for first to college and other disadvantaged groups. California, as one of the most ethnically diverse states, should have a diverse faculty. Indeed, the UC Regents' Policy 4400, also known as the [University of California Diversity Statement](#), notes that "Because the core mission of the University of California is to serve the interests of the State of California, it must seek to achieve diversity among its student bodies and among its employees. ... Diversity should also be integral to the University's achievement of excellence." The proposed 2016 UCRP tier will only undermine diversity by disproportionately impacting recruitment of diverse faculty because of its failure to account for prolonged training and educational debt. As a group, UC's lower salaries, combined with debt, make it more challenging to save sufficient funds in either Plan A's supplemental DC plan or Plan B's DC plan to adequately finance their retirement.

Estimating the Impact of the Proposed New Tier on Cost Savings

It is useful to note that about 35 percent of all UC employees are based in the Health Sciences. Because the employer contributions to retirement funds for Health Sciences employees are largely supported by research grants and clinical revenues, not 19900 funds, the actual savings to UC that would accrue from application of the proposed new UCRP tier are likely to be much less than current models estimate. Also the use of Health Sciences comparators in assessing retirement funding options is laudable, but the comparisons are inadequate without an assessment of total remuneration, since short-comings in retirement benefits can be offset by greater compensation.

In summary, the UCSF Academic Senate cannot support the ROTF recommendations, and we encourage the President to work with the faculty and the Governor to more accurately assess savings, to consider total remuneration, the potential impact on the recruitment and retention of Health Sciences faculty and employees, and on the effort to diversify UC faculties. If a 2016 UCRP tier will be implemented in a fashion similar to that which has been proposed, the UCSF Senate reluctantly suggests marginal supplemented benefits, which may reduce the negative impact, but by no means will eliminate it. Two recommendations include introducing some kind of student loan repayment program, which can be targeted to support diversity and increasing faculty salaries. However, with respect to the latter, general faculty salary increases (like the systemwide 2015 three percent increase), are not applied equally to Health Sciences faculty because their salaries are by-in-large not funded by 19900 funds. When combining the reduction in retirement benefits with lagging salaries and cost-of-living challenges, these factors will eventually lead to a reduction in the overall academic quality of UCSF as a top university, and educators and researchers will go elsewhere.

Thank you for the opportunity to opine on these important recommendations. If you have any questions, please do not hesitate to contact me.

Sincerely,



Ruth Greenblatt, MD, 2016-18 Chair
UCSF Academic Senate

CC: David Teitel, Vice Chair, UCSF Academic Senate
Hilary Baxter, Executive Director, Systemwide Academic Senate
Encl: 3

Communication from the Academic Planning and Budget Committee

Chad Christine, MD, Chair

February 1, 2016

TO: Ruth Greenblatt, Chair of the UCSF Academic Senate

FROM: Chad Christine, Chair of the Academic Planning and Budget Committee; and Russ Pieper, Vice Chair of the Academic Planning and Budget Committee

CC: Todd Giedt, Executive Director of the UCSF Academic Senate Office

RE: Review of the Retirement Options Task Force Recommendations

Dear Chair Greenblatt:

The UCSF Committee on Academic Planning and Budget has read and considered the recommendations of the Retirement Options Task Force, and has several concerns about the proposed changes in retirement plans for UC and UCSF employees. These concerns fall into three general categories:

1. **Overall effect of the plan on retirement benefits:** With salaries that are below our comparators, for both staff and faculty, the retirement system has been one of the few remaining incentives for employment in the UC system. The 2016 tier, as proposed in the report, represents not a shift in benefits but rather a substantial cut in benefits and total remuneration in comparison the 2013 tier. Because the 2013 tier was essentially neutral, benefits-wise, relative to the UC's comparators and substantially behind salary-wise, the 2016 tier will put UCSF employees further behind in both salary and benefits. We are additionally concerned that salary increases, which have been historically difficult to institute, remain the only means to cover the gap in benefits the proposed plan creates. The existing UCRP is a well-funded and well-reasoned plan with small and resolvable deficits. The proposed plan, in contrast appears hastily considered, was not based on a full range of options, and was designed to address a fiscal problem that could be resolved by less drastic measures.
2. **Effects on recruitment and retention** – A total remuneration package that continues to fall further behind that of our comparators will limit our ability to recruit the best and brightest to UC and UCSF. Furthermore, although younger hires may be less concerned with retirement packages at the outset, the proposed 2016 tier begins to limit retirement benefits at mid-career, which is exactly the point at which many individuals reach their peak performance. As such the proposed plan increases the temptation for successful mid-career employees to leave the university, and also limits our ability to recruit mid-career individuals with proven records and abilities.
3. **Equality** – The proposed plan creates inequality among faculty and staff in at least two ways. First, new hires post 2016 will receive retirement benefits that are significantly less than those of previous hires. Such approaches do little to encourage co-operation and instead begin to drive wedges between different groups of faculty and staff. Second, the institution of the PEPRA cap will impact UC employees, and UC campuses, disproportionately. Those individuals with higher pay scales, and in particular those in law, business, economics, engineering, and health sciences, will have their benefits limited earlier and more extensively than other UC employees. This is a particular concern for campuses such as UCSF that have a high proportion of individuals on the Health Sciences compensation plan and who are already relatively disadvantaged with respect to covered compensation. The proposed plan amounts to a targeted cut to those programs (science, biotechnology, engineering, health care) that most Californians agree have helped build our vibrant economy. To support an expansion of STEM-based education while at the same time targeting faculty in these areas makes little sense.

In summary, the UCSF Committee on Academic Planning and Budget is deeply concerned about the ramifications of the recommendations of the Retirement Options Task Force should they be implemented. The recommendations as presented do not solve any existing problems in the UC Retirement Plan and rather are likely in our opinion to create new problems with recruitment, retention, and the willingness of the faculty and staff to pull together to tackle the complex problems we face in our jobs on a daily basis. We cannot support these recommendations as presented and encourage the President to work with the faculty and the Governor to devise a plan that more fairly compensates UC and UCSF employees for their often career-long efforts. The absence of such a plan will force UCSF to work with other health care campuses to find ways of plugging a new and unwarranted hole in our compensation program.

Sincerely,

Chad Christine, MD
Chair of the Academic Planning and Budget Committee

Russ Pieper, PhD
Vice Chair of the Academic Planning and Budget Committee

Communication from the Faculty Welfare Committee**Leah Karliner, MD, Chair**

February 2, 2016

TO: Ruth Greenblatt, Chair of the UCSF Academic Senate

FROM: Leah Karliner, Chair of the Faculty Welfare Committee

CC: Todd Giedt, Executive Director of the UCSF Academic Senate Office

RE: Review of UC Retirement Options Task Force Report

Dear Chair Greenblatt:

The members of the Faculty Welfare Committee have reviewed the Retirement Options Task Force report and all of the supporting documentation provided by the Office of the President and Academic Senate. Based on the information and analysis provided, the members of our committee vigorously oppose the university's agreement with the state to implement the Public Employee's Reform Act (PEPRA) cap on covered compensation. Faculty Welfare Committee members believe that the implementation of a cap will:

- Make Recruitment and Retention of Talented New Faculty and Staff More Difficult: The reduction in retirement benefits under the new tier will make it more difficult to recruit talented new faculty and staff who could receive higher compensation and benefits elsewhere. In addition, once a faculty member reaches their mid-career, the new tier does not incentivize the individual to remain with the institution. The PEPRA cap agreement is a direct threat to President Napolitano's stated goals of maintaining "retirement readiness" for faculty, and to maintaining the UC system's "competitiveness."
- Reduce Overall Faculty Remuneration: As the 2014 Faculty Remuneration Study proved, UC already lags peer institutions in terms of salary and benefits. Additionally, UC also does not provide certain benefits that our peer institutions do, for example tuition waivers for dependents. The implementation of the proposed new tier will eliminate the one bright spot in faculty compensation, retirement benefits.
- Exacerbate UCSF's Cost-of-Living Problem: Living expenses in San Francisco Bay Area are extremely high, and are in continued upward trajectory with the influx of high-tech companies and their employees. As faculty salaries remain relatively lower than those at comparable research universities, any further reduction in compensation will only exacerbate the cost-of-living problem for future faculty, making it ever more difficult to recruit and retain the highest quality faculty.
- Not be Adequate as the Additional Value Provided by the DC Supplement is Insufficient: The supplemental is not adequate to mitigate the negative effects of the PEPRA cap on recruitment, retention and timely retirement.
- Disproportionately Affect HSCP Faculty: The difference in salary coverage between this proposed tier and the 2013 tier is the largest for those faculty members with the highest starting salaries. This low retirement benefit will likely have a substantial impact on recruitments as prospective health science faculty will inevitably compare the benefits to those at peer health science institutions.
- Lead to an Overall Reduction in University Quality: When combining the reduction in retirement benefits with lagging salaries, cost-of-living challenges, all factors will eventually lead to reduction in the overall academic quality of UCSF as top educators and researchers will go elsewhere.

Thank you for your consideration of the Faculty Welfare Committee's comments. If you would like any additional information, please contact me, or Senate Analyst Artemio Cardenas at artemio.cardenas@ucsf.edu.

Sincerely,
Leah Karliner, MD
Chair of the Faculty Welfare Committee

February 1, 2016

Ruth Greenblatt, MD
UCSF Academic Senate
500 Parnassus Avenue
San Francisco, CA 94143

Re: The UC Retirement Options Task Force Report

Dear Chair Greenblatt:

The UCSF Academic Senate Committee on Equal Opportunity (EQOP) reviewed the Retirement Options Task Force Report. EQOP appreciates this opportunity to review the report and respectfully submits the following comments.

General Comments

UC has lower compensation when compared to other institutions. UCRP has helped bridge that gap to make our institutions more attractive in terms of recruitment. With these new changes, EQOP has serious concerns about the potential impacts on recruitment and retention:

- Increased faculty turnover. An appointment at UC will likely be seen as a stepping-stone to another institution with better compensation.
- Specifically for UCSF, our institution is already experiencing diminished morale due to the lack of operational excellence and unfavorable space planning. The reduction in private and adequate office space is already affecting our ability to recruit. The proposed reduced retirement package will only add to making UCSF a less desirable place to work and less competitive compared to private and more robustly funded institutions.

Impact on Underrepresented Groups

EQOP's overarching concern is that these barriers to recruitment and retention will only further amplify the pipeline issues surrounding recruitment and retention of underrepresented groups. Many faculty candidates who come from disadvantaged backgrounds will often have more educational debt and fewer family resources. Reducing retirement benefits in coupled with lower compensation and the incredibly high cost of living for some of the UC campuses such as UCSF will make it very difficult to recruit diverse faculty. The University is struggling to recruit diverse faculty; by removing one of the most attractive benefits to joining our campus, we are incrementally narrowing the pool. Thus, the proposed changes of the UCRP will have a disproportionately negative impact on future URM faculty recruitment and retention.

Thank you again for the opportunity to opine.

Sincerely,



Janice Tsoh, PhD
Chair, UCSF Academic Senate Committee on Equal Opportunity

UNIVERSITY OF CALIFORNIA, SANTA BARBARA

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

ACADEMIC SENATE
Santa Barbara Division
1233 Girvetz Hall
Santa Barbara, CA 93106-3050

(805) 893-2885
<http://www.senate.ucsb.edu>

Kum-Kum Bhavnani, Chair
Deborah Karoff, Executive Director

February 5, 2016

Dan Hare, Chair
Academic Council

RE: Retirement Options Task Force Report

Dear Dan,

The Santa Barbara Division distributed the Retirement Options Task Force Report to all Senate Councils and Committees. The following groups have sent in comments: Council on Planning and Budget (CPB), Council on Faculty Issues and Awards (CFIA), Committee on Diversity and Equity (CDE), Committee on Academic Personnel (CAP), Graduate Council (GC), Undergraduate Council (UgC), and the Faculty Executive Committees for the College of Letters and Science (L&S FEC), the College of Engineering (COE FEC), and the College of Creative Studies (CCS FEC). The Division is unanimous in its deep concern that the future of UC as a competitive institution that is able to attract quality faculty is at great risk with either option as presented. The Division finds the lack of consultation with the Academic Senate disturbing and completely contrary to the process in developing the 2013 tier when the Senate had an active role in developing a plan resulting in a complete restructuring of UCRP which lead to a more stable and healthy financial position.

All groups view the proposed options as a significant reduction in the benefits package that further deepens the current and low levels of total remuneration for UC faculty. The impact on total compensation will lessen the ability to hire quality faculty and the portability of the proposed retirement plans could make it harder to retain quality faculty. The UC benefits package has often been presented as giving UC a competitive edge for attracting highly qualified junior and mid-level faculty, particularly when salaries are not as competitive with our comparison 8 partners. Many now suggest that the proposed new options undermine, if not remove, the possibility for our campus, and the UC in general, to being competitive and able to attract quality faculty. Several groups find that the development of another plan contradicts basic concepts of equity among faculty: in other words, the proposed plan options lead to the creation of two tiers of faculty – those employed on or before 30th June 2016, and those employed after that date – who would receive significantly different benefits packages. It has been suggested that this would also greatly skew the merit system for faculty.

CPB offered a number of specific comments, concluding that: “At best, this is a much inferior pension plan.” In addition, they, and several other groups, suggest that the new plan will not lessen UC costs, nor is it likely to contribute to the overall long term stability of our current pension plans. For that reason, most reviewing groups suggest that if these plans are implemented, they will require that salaries be increased in order to attract faculty in what is an increasingly competitive academic market. CPB also states that it

“is possible that a reduction in pension benefits accompanied by an increase in salary could actually improve the efficiency of UC recruiting. This issue is difficult to study in a normal voluntary market setting because identifying causation is daunting. But, a recent natural experiment for school teachers in Illinois is consistent with this view, at least for part of the teachers’ pensions (Fitzpatrick 2014). However, this critical issue has been almost completely ignored in the Report and in subsequent discussions, therefore not adequately addressed. We urge the Retirement Options Task Force to model this possibility and determine if it helps or hurts the efficiency of UC recruiting, and at what salary increases cause improvements in efficiency.”

CPB also notes that

“as proposed, the DC plan (10% employer + 7% employee) is actually better than our competitors in the analysis. However, in the remuneration calculation models, it still provides a significantly reduced benefit over the 2013 Tier.” They further state that “without a DC supplement, the retirement replacement rate would be very low, less than 40% for the scenario below for the average faculty member. Even with the largest DC supplement, expected replacement is about 55 percent v. 78 percent (2013 Tier). Further, for the DC portion, risk is shifted from the University retirement system to the employee”

CPB also wonder if Plan B, as proposed, could mean that “the payouts for short-term employees (say, less than 10 years) are biased against the DB plan.” They point out that “DC employees can take out their entire amount (University plus employee contributions), while DB employees can only take out their own contribution. As a result, the DC plan is a better deal for short-term employees”. CPB therefore recommends that short-term employees be permitted to keep both sets of contributions “regardless of which plan they are in.” CPB wants to ensure that the overall strength of UCRP remains, and urges that the UC retain the 4% contribution to UAAL, even for those employees who are in a blended plan. Finally, CPB suggests that the 2014 Total Remuneration Study be included in the materials presented to the Regents when the new pension plan is introduced at the March 2016 meeting.

The proposed plan changes could likely deeply affect the diversity of the University of California, and our campus. The UCSB Divisional Committee on Diversity and Equity is “particularly concerned” that these pension options could lead to even greater difficulties in recruiting and retaining all women in the STEM fields, and URM faculty across all disciplines within the University of California. Further, as Graduate Council notes, it is the quality of the UC faculty that draws the best graduate students to UC, all the more so as many of our graduate student packages are becoming increasingly less competitive. Thus, a “knock-on” effect of such changes in the Pension plans is that it could become increasingly difficult to attract the best graduate students to attend UC.

CDE also commented that there was no direct discussion in the Report on increasing compensation to allow faculty to participate in the plan “without undue impact to their salaries...” Some CDE members note that the plan does not suggest an increase in other benefits, such as child care costs or legacy admission to the University, benefits that might be particularly appealing to junior faculty,” and stated that it could not support the Plans as presently written.

CFIA offered the following:

A major concern is the issue of shared governance. The negotiations between President Napolitano and Governor Brown were not in consultation with the Academic Senate. ...and [that this] does not allow or encourage careful deliberation ... and afford the opportunity to analyze unintended consequences. Both options in the Task Force report will dramatically reduce pension benefits for new hires, significantly affect future recruitment and retention efforts, likely affect the financial health of the current plans, and ultimately, erode the quality of education at the University of California.

CFIA also acknowledged the time constraints on the Task Force and wonder if the intent is for the new pension tier to operate on zero Underfunded Actuarial Accrued Liability (UAAL), “perhaps there is middle ground that can be reached with faculty’s desire for an uncapped pension plan (up to the Internal Revenue Code limit)”?

The following are specific recommendations aimed at improving the proposed plan options:

- 1) CPB and others have commented on the time to be permitted during which a switching between Plans A and B would be allowed. They state: the “Task Force recommends offering a pure DC plan (Plan B) as a replacement for the Defined Benefit (DB) plus DC supplement (Plan A). Further, it recommends that employees be able to start in Plan B and then switch to Plan A at a later date for up to five years. This is too early for junior faculty, since the window for choice would often close before a tenure decision is reached.” Several other groups had reservations about the five year window; CPB and others recommend an eight year window.
- 2) CFIA suggests that “for comparison and further analysis, CFIA would like to have seen a study of the pension formula using the Highest Average Plan Compensation (HAPC) for calculations with and without Covered Compensation Limit (CCL), and use the results to determine points where the new system can operate with little or no UAAL. By quantifying the difference, there may be a good solution that could be acceptable by faculty, President Napolitano, and Governor Brown.”
- 3) Graduate Council suggests that the proposals, if implemented, could “exacerbate salary inversion and compression at the departmental level.” They are also unclear about actual cost savings and are concerned about possible “unanticipated consequences for the merit system”. Graduate Council is also unclear about how the UC will track the impact of the proposed changes.
- 4) The L&S FEC advocates for the following:
 - i) employer contributions be set at or above 10%;
 - ii) the UAAL surcharge paid by the employer be applied to the full salary up to the IRC, not just up to the suggested \$117K salary cap;
 - iii) there should be more flexibility in switching plans and, specifically, more than one opportunity for employees to do so. If a single opportunity is provided, this should be extended at the eighth year of employment, and should be applied equally to all employees.

In addition, the L&S FEC “is as troubled by the compressed period of comment as it is about the fact that only two options were presented for consideration – neither of which provides a sufficient post-employment option to keep the University competitive.” They strongly suggest that no decision be made “until an alternate plan currently being developed by Academic Council takes shape, and, further, until this third plan has been carefully considered by the Senate”.

- 5) The FEC from the College of Engineering wondered if all possible revisions to the UCRP system had been fully considered. They ask if “comparisons with revised benefit tiers with caps weighted by contributions into the UCRP system or other more sophisticated mechanisms of grading the UCRP benefits more closely aligned with total pay into the system (as opposed to the highest 36 months) [have been] considered... This seems like an important avenue to explore prior to enacting an overhaul of UCRP” They also ask if “this plan is enacted, will it solve the problem? Projections into the future viability of the UCRP fund seem overly generous even in scenarios where the new tier is enacted. Does more need to be done, and if so, what future commitments from the State can UC expect? “

Thank you for the opportunity to comment.

Sincerely,



Kum-Kum Bhavnani, Chair
Santa Barbara Division

Fitzpatrick, Maria Donovan, “How Much Are Public School Teachers Willing to Pay for their Retirement Benefits?” American Economic Journal: Economic Policy (November 2015) 7(4), pp. 165-188.



1156 HIGH STREET
SANTA CRUZ, CALIFORNIA 95064

Office of the Academic Senate
SANTA CRUZ DIVISION
125 CLARK KERR HALL
(831) 459 - 2086

February 5, 2016

Dan Hare, Chair
Academic Council

Re: Retirement Task Force Options Report

Dear Dan,

The UC Santa Cruz Division has reviewed and discussed the January 15, 2016 Retirement Options Task Force (ROTF) Report to the President. Our Committees on Faculty Welfare (CFW), Emeriti Relations (CER), Planning and Budget (CPB), and Affirmative Action and Diversity (CAAD) have responded. Two of the four committees strongly opposed the options presented and favored rejecting the PEPRA cap and the associated funds offered by the State to pay down the unfunded liability of the University of California Retirement Program (UCRP). The other two noted their strong opposition to the agreement made between the Governor and President Napolitano, but operating under the assumption that the Tier III retirement is a “fait accompli”, strongly favored Plan A: UCRP 2016 Tier plus a Defined Contribution (DC) supplement, and did not at all support the adoption of Plan B: Full DC plan. The Santa Cruz Division recommends that the President delay the implementation of the ROTF recommendations in order to fully explore the impact of the new plans. Further, we recommend that the assumed 7.25% rate of return on investments be reconsidered, that the University of California continue to contribute 14% to employee retirement, and that all savings generated by changes in retirement benefits be transparently reinvested in either reducing UCRP’s unfunded liability and/or mitigating the impact of these cuts on the total compensation of new employees.

The Santa Cruz Division states its opposition to an agreement that will further erode the total remuneration of UC faculty, weaken the University’s ability to recruit and retain the top faculty, and likely increase total remuneration inequities between the UC campuses while doing little to address the unfunded liability of UCRP. As defined by “income replaced”, both plans presented in the report will provide significantly lower benefits than existing Defined Benefit (DB) plans for an average career with the University. In addition, there are a number of unintended consequences associated with the proposed changes in retirement benefits, including likely increases in the frequency and cost of faculty retentions, as well as added recruitment costs. The impact of these consequences on the operating budget of the different UC campuses has not been properly evaluated, but is likely to be substantial.

The reduction of retirement benefits that this change implies will require that campuses pay higher starting salaries and will have a disproportionately negative impact on campuses with limited resources. Campuses without the financial resources to compensate for the reduction in benefits will be at a considerable disadvantage in terms of their attractiveness to qualified faculty and staff and may not be able to compete for qualified replacements. The inability to procure sought after

academic and administrative talent would impact the overall viability of these campuses. Without central resources, this change in benefits will translate into an additional burden on campus budgets, and it is likely that UC Santa Cruz's ability to competitively hire and retain top faculty will be disproportionately compromised. To ensure that the total compensation for new faculty at all campuses remains competitive, the Division recommends that any leftover "savings" not used to fund the adopted plan or pay down UCRP's unfunded liability, be passed down to individual campuses according to need.

If a new "Tier" will be adopted, the Santa Cruz Division favors Plan A. The hybrid Plan A partially replicates a key feature of the current DB plans, providing a fixed retirement income with minimal risk. This one feature provides a sense of security that arguably keeps top faculty from seeking employment elsewhere despite the expectation of higher salary, but includes the added uncertainty of the DC retirement plan. It is clear from the report that the supplemental DC plan as proposed will be inadequate in covering much of the reduction in covered compensation created by the Public Employees' Pension Reform Act (PEPRA) cap. The proposed employer/employee contributions along with assumed rates of return fall far short of recovering the reduction in income replaced. This could partially be addressed by keeping the employer contribution at 14% on the DC supplement plan to the Internal Revenue Code (IRC) cap, and/or initiating the DC supplemental plan and supplemental contributions at the time of employment as suggested in the report.

The Division considers the full DC plan described in Plan B, to be least desirable for both employees and the University and does not support its implementation. As articulated in the ROTF Report, the full DC plan shifts the entire investment risk to the employee, and assuming less than optimal rates of return (i.e. < 7.25%), will produce a lower level of "income replaced" over the long term, and may encourage many faculty to hold off retirement well beyond normal retirement age, while delaying the hiring of junior faculty. Another possible effect is that the portability of the DC will provide little incentive for employees to remain long term, particularly on campuses that cannot significantly increase starting salaries. It is possible that certain campuses will become nothing more than a "springboard" into more well-endowed campuses of the UC system, or other universities.

Further, the Division notes that the wording in the report recommending that for employees choosing Plan B, the University direct an amount corresponding to 4% of Plan B participants' salary towards retiring the Unfunded Actuarial Liability (UAAL), might constitute a legal issue. If this wording remains, UCRP might be at risk of a legal challenge by Plan B employees, in that it implies that money put into the retirement system in their name might go into a fund to which they have no access and from which they derive no benefit. If adopted, the Division recommends that this be worded differently, so that it is clear that the 4% contribution geared towards the retirement of the UAAL is not being funded by Plan B participants.

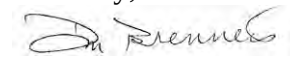
The Division also questions whether the assumed 7.25% rate of return, as used for UCRP investments, is realistic given the transformation of the global economic landscape over the last decade. Such an assumption for either the supplemental or full DC plans might encourage an insufficient level of employer/employee investment. Standard industry projections for long-term returns on investments (e.g. next 30 years) are far less favorable.

In total, a new UCRP Tier III shifts the risk of investment from the University to the employee and in the long term, will not provide cost savings to the University or its campuses. A new third tier will lower overall remuneration for staff and faculty and will create disparate classifications of campuses

and employees on each campus according to the tier of enrollment. Given these issues and the limited impact that the \$436 million State contribution will have on UCRP's unfunded liability, the Division encourages the Office of the President to consider a one-year delay in the implementation of the ROTF recommendations in order to fully explore the overall impact of the new plans and further explore alternatives.

For many decades, the University of California has been an outstanding public university that has attracted and retained world-class faculty from all over the world. The Santa Cruz Division encourages the President to take care to protect the prestigious image that the University of California has worked so very hard to cultivate, and that our faculty, employees, and emeriti (both current and future), are honored to represent.

Sincerely,



Don Brenneis, Chair
Academic Senate
Santa Cruz Division

cc: James Zachos, Chair, Committee on Faculty Welfare
Shelly Errington, Chair, Committee on Emeriti Relations
Abel Rodriguez, Chair, Committee on Planning and Budget
Miriam Greenberg, Chair, Committee on Affirmative Action and Diversity

UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

UNIVERSITY COMMITTEE ON AFFIRMATIVE ACTION, DIVERSITY, AND EQUITY
Colleen Clancy, Chair
ceclancy@ucdavis.edu

ACADEMIC SENATE
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

February 2, 2016

DAN HARE
ACADEMIC COUNCIL CHAIR

Dear Dan:

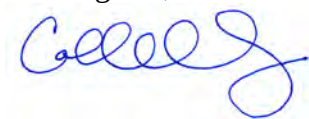
The University Committee on Affirmative Action, Diversity, and Equity (UCAADE) has discussed the proposals made by the Retirement Options Task Force. I am writing to let you know that we are troubled in particular by the proposal to create a Defined Contribution plan.

As you well know, current UC faculty senate members have a defined benefit plan, which *guarantees* a pension in retirement. A defined contribution plan, in contrast, *individualizes* the investment risk. The presence of a strong pension is a hallmark of the benefits package offered by the University of California to present and prospective employees. It would be contrary to our interests to destabilize our defined benefit plan. Moreover, the creation of a defined contribution option for new employees is a symbol of the presence of vulnerability of the pension system for existing employees.

UCAADE is opposed to any measure that makes conditions worse for future hires. We optimistically anticipate that future hires will include more women and under-represented minorities than the current faculty. It is thus an important issue of equity to avoid creating a two-tiered system that disproportionately affects the future hires that are more likely to be women or under-represented minorities. The lack of transparency and inclusion in the decision-making process is also a major concern for UCAADE and of particular and historical concern for URM and other underrepresented groups because they are so often excluded from decision-making impacting them. The development of a retirement options plan that impacts only future hires is another example.

We recognize that compromise is part of negotiation. But in this instance, the price is too high. Savings gained under this agreement is not worth the damages done to compensation, nor the potential damage done to the University as whole. Acceptance of this proposal will reduce retirement benefits for a significant portion of future employees, with an anticipated disproportional impact on underrepresented faculty. The Senate should oppose this proposal.

Best regards,

A handwritten signature in blue ink, appearing to read 'Colleen', with a stylized flourish at the end.

Colleen E. Clancy, Ph.D.
Chair, UCAADE

cc: Jim Chalfant, Academic Council Vice Chair
Hilary Baxter, Academic Senate Executive Director
UCAADE Members
Joanne Miller, Academic Senate Analyst



UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
Calvin Moore, Chair
ccmoore@math.berkeley.edu

Assembly of the Academic Senate
1111 Franklin Street, 12th
Oakland, CA 94607-5200
Phone: (510) 987-9466
Fax: (510) 763-0309

February 9, 2016

**DAN HARE, CHAIR
ACADEMIC COUNCIL**

RE: Retirement Options Task Force Recommendations

Dear Dan,

The University Committee on Faculty Welfare (UCFW) has discussed at length the recommendations of the Retirement Options Task Force (ROTF). We also benefited from the advice of our standing Task Force on Investment and Retirement (TFIR). This is a preliminary opinion because we are still missing key pieces of information such as evaluation of the impacts of the two options A and B on total remuneration for faculty and needed modeling of the impacts of some of our suggestions.

Before we relay our preliminary findings on the recommendations themselves, we are compelled to discuss the process that led to this position. The portion of the budget deal that included the retirement bargain was struck without any Senate consultation. Although UCFW and other Senate agencies have been told repeatedly that this bargain is far better than what might have otherwise been imposed unilaterally, it is difficult to condone the exclusion of the Senate from the assessment of a deal that impacts faculty welfare to such an extensive degree. California residents are eager to attend UC because they are confident they will receive the best possible education here. Much of this confidence is due to UC's history of being able to hire and keep a world-class faculty. Thus, faculty welfare and the University's appeal to California residents (and to students all over the world) are intimately intertwined. The current bargain threatens the quality of the University of California and its long-term value to Californians. It will make hiring faculty more challenging and harder to keep exceptional faculty from leaving at mid-career. The lack of retirement income security will induce some senior faculty to delay retirement, slowing replacement with younger faculty. Indeed, in the minds of many, the \$436M offered by the state in exchange for these retirement changes will be eclipsed by the cost of making competitive remuneration available after those changes have taken effect.

The truncated review period provided for an issue of such import is antithetical to the meaningful exercise of shared governance. Issuing an unedited report after 30 days serves only to reduce the effective time for evaluation and analysis. Allowing only 30 days to evaluate such a complex issue, especially given the Senate's deliberative nature, makes it difficult to provide well considered comment and advice. Not making additional data (e.g., an updated total remuneration study) available until half the review period has elapsed further exacerbates the problem.

Nevertheless, since we have been asked to "make lemonade":

- UCFW supports the ROTF recommendation to offer all employees whose salaries exceed the PEPR cap the DC supplement to the capped DB plan in option A.
- Employer contributions should be the same, regardless of plan design an employee elects, and in particular there should be a 14% employer contribution in option A on the salary above the PEPR cap up to the IRC cap.
- UCFW supports the Task Force’s majority view regarding employer contributions. As we explain below, the majority’s 10% employer contribution is inadequate to provide retirement income security. A lower contribution would have a devastating impact on retirement income security and competitiveness.
- In designing plans for employees anticipated to exceed the PEPR cap, “income replacement during retirement” and “competitive total remuneration” should be the determinative metrics. When considered together, these comparisons are made against UC’s 2013 Tier, rather than what is available to other state employees. Faculty are unlike many state employees because they start their careers much later in life. The typical faculty member starts their career at UC in their late 30s, after a lengthy graduate education and often a post-graduate education, in which there is no opportunity to begin saving for retirement.
- Thus, when we see that the proposed 2016 Tier for faculty is less generous than the 2013 Tier, and thus leaves our remuneration ever further behind that of our academic competitors, we find that the Task Force did not meet its charge to develop recommendations that maintain competitiveness.

The best option before us to narrow, but not to close, that gap is to add a “retirement readiness” contribution to a supplemental DC plan on the order of 6%. This contribution, if begun at the time of initial hire, would help to mitigate the damage inherent in the bargain. Consider: If the average faculty person begins their academic career at age 36, they will not have sufficient time to exceed the cap and begin supplemental contributions that are necessary to ensure adequate income replacement in retirement. Some have advanced a 3+3 option, but we require additional data before endorsing it and additional discussion about who would be eligible to receive it. If faculty cannot be guaranteed adequate income replacement, they will require additional (cash) incentives to retire – further eroding any hoped-for cost savings and further harming faculty renewal.

The inadequacy of the expected income replacement and retirement readiness also raises concerns about fairness across the faculty ranks. Issues of this nature are reflected in the Negotiated Salary Trial Program and the recurring concerns that arise in relation to the Health Sciences Compensation Plan. In any event, many if not all units and departments are likely to require considerable cash resources for additional cash compensation to off-set diminished retirement guarantees (the “golden handcuffs”).

Again we note that if the best faculty cannot be recruited and retained, the student demand (often cited by UC’s critics) will evaporate, and the ability of the University of California to serve the state and contribute to its economy will be gravely eroded. We therefore urge you to ask the President to consider additional measures to maintain our competitiveness (as measured against our academic peers) in consultation with the Academic Senate.

Sincerely,

Calvin Moore, UCFW Chair

Copy: UCFW
Hilary Baxter, Executive Director, Academic Senate



UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB)
Shane N. White, Chair
snwhite@dentistry.ucla.edu

Assembly of the Academic Senate
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200
Phone: (510) 987-9466
Fax: (510) 763-0309

February 8, 2016

**J. DANIEL HARE, CHAIR
ACADEMIC COUNCIL**

RE: Retirement Options Task Force Recommendations

Dear Dan,

The report from the Retirement Options Task Force (ROTF) is lengthy and complex, with an unusually brief review period. The charge to the ROTF was simple: “to ensure that UC retirement benefits continue to be competitive in the context of our total remuneration package and that the University of California Retirement Plan remains financially sustainable.”

This response is built upon prior analyses and data contained in The ROTF Report, The Senate Guide to the ROTF Report, the 2014 update of the Total Remuneration Study, prior Council memoranda, and the TFIR response to the ROTF Report. Regrettably, the review period was too short to allow further analyses or modeling. Disappointingly, the 2016 update of the 2014 Total Remuneration Study for General Campus Faculty, requested in August 2015, was only released at the end of the review period, precluding detailed analysis, or definition of the impact of the many underlying assumptions.

Essentially, a fiscally efficient and marginally competitive plan has been superseded by a less efficient and less competitive plan. This will have major impacts on the quality and competitiveness of the UC.

Whereas:

- i. Total Remuneration studies have shown that benefits for 2013 tier faculty are barely competitive to UC’s comparators, and that UC faculty total remuneration substantially lags the comparators. Any reduction in faculty benefits below the 2013 tier would mean that both the UC’s faculty salary and benefits packages would substantially lag their comparators. The recent 2016 update indicates further erosion in total remuneration for the 2016 tier (Total Remuneration 2016 update page 11). The salary and total remuneration gaps have continued to widen for a decade. Currently, there is no evidence that any work force segment is “over-benefited”.
- ii. A competitive Defined Benefit plan is inherently more efficient and efficient in delivering employee value for the UC employer dollar than a DC plan. Evaluation of data in the 2016 update and in the ROTF Report indicates that the 2016 tier will broadly represent a decrease in fiscal efficiency of the employer’s resources. A competitive DB plan also provides a number of positive incentives for appropriate workforce behavior with respect to recruitment, retention, and renewal through retirement at an appropriate age

enabled by income replacement. The importance of maintaining a competitive retirement plan for UC was noted in the 2010 Post Employments Benefits (PEB) Task Force Report and was part of the charge to the ROTF.

The current 2013 tier plan creates financial incentives for mid-career employees to remain at UC (retention), and provides minimal financial incentive to stay beyond 65 years of age or 40 years of service (renewal). In contrast, the 2016 tier less encourages retention of productive employees, and provides much weaker financial incentives for retirement and renewal. A DC-plan employee may find it financially attractive to remain employed at UC beyond their mid-60s or 40 years of service.

iii. The consequences of the failure of the 2016 tier to provide competitive retirement benefit go far beyond failures in recruitment, retention and renewal. There will be major changes in climate, new complications in employee relations, and new inequities. Otherwise identical employees who belong to different tiers will have substantial differences in total remuneration creating a caste system. The need for, and cost of, off-scale salaries will rise. Either new hires will be paid more than successful long-serving employees, creating a “loyalty inversion”, or the only new employees will be those who have been rejected by our workforce comparators and peer competitors. It will become more difficult to recruit the most talented and to address our extant need for increased gender and ethnic diversity. A perfect storm might be created; as our most valuable employees in the 2016 tier DB plan will hit their most productive middle years, they will also hit the PEPRA-like cap, and have less incentive to stay. Furthermore, their colleagues in the DC option will have complete asset portability. As they leave for competitors, the UC might lose its leading position in higher education. When they are replaced, the substantial costs of start-up packages for their replacements will be encountered.

iv. It appears that neither the fiscal, nor the workforce consequences of imposing a PEPRA-like cap on the existing UCRP DB plan were fully recognized by those who made such a plan.

v. A capped UCRP DB plan simply cannot be competitive for those affected by the cap, unless the employer adds a substantial supplement, starting from the time of hiring. Beginning a modest supplement when an employee hits the cap, as proposed in the ROTF Report, is too little and too late; the time lost for compounding interest falls far short and the modest contribution falls short. Hence, income replacement at retirement falls far short of that provided by the 2013 tier (pages 32, 33 & 83). Furthermore, differences in starting salary and in retirement age further complicate the notion of making employees whole through a small and late supplement. The cost of providing a supplement sufficient to make the 2016 employee whole in comparison to the 2013 tier is extremely high.

vi. However if a supplement of adequate size was to start at the time of hiring, it is possible that a capped DB could be competitive. It is regrettable that this has not been modeled, to date.

vii. If a competitive supplemented DB were to be offered, it would largely negate the rationale to offer a DC option. If competitive total remuneration is necessary to recruit, and retain new employees, realistic and peer-competitive salaries could negate the desire for some future employees to have portability.

viii. A DC option has been proposed in the ROTF Report, largely on the rationale that flexibility and transportability of retirement packages may help us attract the best individuals to the University. In the past, the UC has made a strong commitment to the employee; this has been reciprocated by the career-long commitments made by employees to the UC. If the University weakens its commitment to the employee, it is unreasonable to expect the employee to maintain their commitment. Long service by exceptionally high-quality employees has been a driver of the UC’s prior success.

ix. A DC option of equal employer cost to the ROTF proposed capped and supplemented DB would generally provide lesser value to most employees, unless they were intending to stay for a short time. Due to lower interest earnings, higher operating costs, limited investment vehicles, and the additional cost of conversion to a commercial annuity, DC plans provide less dollar value for the employer or employee dollar. Additionally, few active or retired employees are equipped to manage their portfolios optimally.

x. The notion that capping of an efficient DB plan, by rendering it non-competitive, could provide employer savings is deceptive, as it neglects the costs generated by the loss of competitiveness, inequities among various tiers, employee loyalty and morale, underuse of start-up packages, etc. Furthermore, any notional “savings” concept that redirects dollars away from paying the current Unfunded Actuarial Accrued Liability (UAAL) down is, in effect, borrowing at 7.25% to fund current operations.

xi. There will be considerable variation in how individual employees will be affected. Income replacement at retirement is profoundly affected length of service, starting salary and investment return rate.

xii. Health Science Compensation Plan (HSCP) faculty members, comprising approximately 3/8 of the UC faculty, who typically both enter the workforce later and will be more quickly impacted by the PEPPA cap, will be disproportionally disadvantaged. Furthermore, the current definition of covered compensation for calculating HSCP retirement benefits also proportionally disadvantages HSCP members. The 2016 tier will adversely impact operations of the UC’s 5 academic medical centers and 17 health sciences schools.

Hence, UCPB recommends that:

a) In agreement with the ROTF Report that, if a choice of plans is to be enacted, the total employer contribution should be broadly equivalent across all plans, providing no fund-source an incentive to steer employees one way or another.

b) In agreement with the ROTF Report, and as long agreed, that, if a choice of plans is to be enacted, the UAAL surcharge be collected on all salary sources, and in addition that the surcharge be collected on compensation above the cap for employees who elect the new DB plan. The surcharge is particularly important because for every dollar of UC core funds, another two are committed by other funding sources (federal grants, hospital payments, etc.).

c) In agreement with the ROTF Report, and longstanding UC practice, that all employees be treated equally.

d) In agreement with the ROTF Report and prior Senate positions, UCPB strongly recommends that the UAAL surcharge continue to be collected from all payroll funding sources. The impact of the 2016 tier on UCRP cannot be positive. However, if the UAAL surcharges are collected the effects on the size of the UAAL and its’ and pay-down timeline are relatively small. But, other more minor risks, fiscal and political remain, e.g. those of becoming an orphan plan or adverse selection, and the loss of employer contributions made on behalf of non-vested employees.

e) In agreement with the ROTF Report, it is recommended that employees be offered a choice of a (supplemented) DB plan or a DC plan.

f) If a choice of plans is to be enacted, it is recommended that employees have a choice upon hiring, and that a second choice be offered at a later time, say 5 to 7 years, in agreement with the ROTF report. This is in the interest of equity and competitive total remuneration. It is recognized that choices carry a cost, but the above considerations outweigh costs. It is also recognized that having a second choice requires that the employees

(tax-deferred) contribution be the same in both options.

g) It is recommended that the ROTF proposed supplement to the capped DB plan, when the cap is hit, must be at least 10% of payroll for the employer (7% for the employee) as recommended by the ROTF report, because even at this level, it does not make up the gap to the current 2013 tier.

h) A more substantial “retirement readiness” supplement to the capped DB plan, and starting at the time of hiring would be largely capable of making capped employees whole in comparison to the 2013 tier, which is at least of borderline competitiveness to the comparators. It is recommended that the effects of such supplements, ranging from 5 to 7% of salary, with a possible split between employee and employer, promptly be modeled for their ability to make the 2016 tier par with the 2013 tier, and for cost. Additional study is needed before decisions be made.

i) Should a DC plan choice be introduced, it must, within the above constraints, be competitive as possible. UCPB supports the majority ROTF view that a 7% employee and 10% employer contributions are the minimum and advocates for a higher employer contribution.

j) Should a DC plan choice be introduced, it must include low-cost investment vehicles designed to protect the employee from unwise or absent decisions, or even better, a vehicle that emulates desirable features of a DB plan.

k) In order to create a competitive 2016 tier, it is likely necessary for employer contributions to both the DB and DC proposals to be larger than those included in the ROTF Report. The consequences of failure to reach competitiveness were listed above and summarized below.

l) In order for the underlying assumptions in the 2016 Update of the 2014 Total Remuneration Study and their impact on the resultant data to be understood, it is recommended that the review period be extended to provide a complete analysis.

SUMMARY

Essentially, a fiscally efficient and marginally competitive retirement plan will be superseded by a less fiscally efficient and less competitive plan. The employer will get lesser bang for its buck and the employee will be adversely affected. Employees will have considerably less income replacement upon retirement. This will have major impact on the quality and competitiveness of the UC and its workforce behavior. Competitive total remuneration is essential, if UC is to attract, recruit, retain, retire, and renew its employees. The extant salary gap cannot have a benefits gap added to it. The ROTF 2016 tier proposal will dramatically reduce retirement benefits, income replacement, and impact total remuneration. This will adversely affect the individual’s welfare as well as the University’s workforce management and quality. The extant salary gap must be addressed promptly. Benefits for active and future employees must remain competitive to long-established peer comparators and cannot become further eroded. Anything less will ensure that the UC’s most valuable employees will have little incentive to stay and that the UC will only attract new employees who have been rejected by our workforce comparators and peer competitors.

Sincerely,

A handwritten signature in black ink, appearing to read "Shane N. White", with a stylized flourish underneath.

Shane N. White, Chair
UCPB

cc: UCPB
Hilary Baxter, Executive Director, Systemwide Academic Senate

From: Valerie Leppert [mailto: vleppert@ucmerced.edu]
Sent: Thursday, February 04, 2016 10:29 PM
To: Dan Hare; Jim Chalfant
Subject: CCGA comments on Retirement ...

Hi Dan,

Please find below collated comment from CCGA - I've excluded commentary you already received from the division chairs.

Sincerely,
Valerie

Comment #1 – from an Emeriti CCGA member

1. It is pretty clear that UCRP is being forced to conform to state-level reforms imposed on CALPERS and the Teachers' retirement system, which are in far worse shape than UCRP. The University retirement system was not corrupted by the unjustified enrichment of benefits of the late 1990s under Gov Gray Davis, and has not suffered as much from pension spiking by the arcane rules of union contracts and other strategies. I suspect that our underfunding -- now at about 80% of actuarial requirements -- could be dealt with by modifications in the rate at which members accrue benefits. These were bumped up around 1990, as I recall, and could be reduced a bit now. But that is, it seems, not an option that Gov Brown will tolerate. We have to suffer just like the profligate retirement systems.

2. That said, UCRP -- of which I am now a happy beneficiary -- is a very generous retirement plan. Based on my experience as Vice Provost at Berkeley for seven years, I am convinced that it was poorly designed to either attract or retain faculty -- until they entered their 50s, when it was a VERY effective retention tool. The reason it didn't work well for younger faculty was that most young faculty didn't think its defined benefit promises were credible -- they didn't think they would be there for them at retirement (and our current situation suggests their intuition was correct). Secondly, they preferred defined contribution plans, like TIAA-CREF, because they were portable, didn't involve vesting, and seemed more tangible to young faculty for whom retirement seemed a long way off.

It is odd that I could find no real discussion in the report of the DC plans that many of our competitors -- Stanford, for instance -- have long offered their faculty. How would our option B compare with them. That seems to be to be critical for any debate about the effect of the proposed changes on our competitiveness in recruitment and retention. I think UCOP paid the consultants too much for this report.

3. I haven't been able to delve into the weeds of the proposed option A to be confident I fully understand it, but its adequacy as a substitute for what we now have depends on whether DC assets and DB claims can be accumulated simultaneously, or only sequentially. That is, if someone whose earnings are below the current 117K cap are excluded from the DC program, most junior faculty will spend many years without any such assets, which, then, cannot hope to grow in value over time.

Comment #2

It seems clear from an actuarial standpoint that the university has to make some changes to its retirement system.

The proposed changes, though, seem quite draconian to me, and their effects on new faculty concern me.

- As a matter of fundamental equity, I don't like having such a starkly two-tiered system. What are the longer term social consequences? I don't know.
- Will we still be able to recruit faculty? We have been able to compensate to some extent for lagging salaries by pointing to the solid benefits offered. There's also been some incentive to stay here, once there's a good investment in this system.
- Sadly, we are not unique in this; Illinois had drastic cuts to benefits just a few years ago, and other states are considering or have implemented big changes to retirement options and pension plans. So competition may not be all that tough. The race to the bottom affects us, too. Has anyone done a comparison against other state university systems, either current or proposed plans?

Wish I had more useful to say, but maybe I should solicit comments from my dad (retired accounting professor turning 100 next week.) He is still collecting pension from San Jose State. Maybe not that much per month, but he's approaching 360 months of retirement now.

Comment #3

1) The PEPPRA cap will likely lead to faculty seeking competitive offers from other institutions when they hit the cap. This will either lead to costly retentions, or faculty who opt for early retirement and move on to a second career at other institutions. While this will impact certain Colleges (e.g. Engineering) or Departments sooner, given the average UC salary at Assistant Professor, it will ultimately hit most departments..

2) Given options A and B, I would expect a vast majority of new hires to opt for Option B. This way they vest in one year and gain a DC match (10% proposed) at the start. If they are tenured, they could switch to option A (Currently proposed at five years). I assume the service years in B also count towards A.

3) The DC plan in option A, based on analysis provided in the document and in a supporting document we received, represents a significant reduction in retirement benefits. However, much of this loss is a product of the DC match only kicking in when an employee hits the PEPPRA cap, meaning there are few years for compound interest to improve the DC contribution. If the DC match were included earlier in a faculty members career, compound interest would greatly improve the value of the DC supplement.