UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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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

November 2, 2022

MICHAEL DRAKE, PRESIDENT
UNIVERSITY OF CALIFORNIA

Re: Recommendation to Change Default Retirement Choice Option

Dear President Drake:

At its October 26 meeting, the Academic Council endorsed the attached letter and request from the University Committee on Faculty Welfare Task Force on Investment and Retirement (UCFW-TFIR). The request is to change the default pension option from "Pension Choice" (Defined Benefit) to "Savings Choice" (Defined Contribution) for all new UC employees (hired after July 1, 2016) who join the 2016 UC Retirement Plan (UCRP) tier.

As you know and as the TFIR letter explains, new employees who join the 2016 UCRP tier default to "Pension Choice" 90 days after hire unless they actively choose "Savings Choice," and eligible employees who make an initial "Savings Choice" selection have the option to switch to "Pension Choice" between 5 and 10 years of service ("Second Choice"). TFIR's modeling found that Pension Choice is the best choice for employees who remain employed at UC for a long career, while Savings Choice is the best choice for those who leave UC employment before 10-20 years, depending on compensation level and age. It found that the default "Pension Choice" is not the ideal financial first choice for most newly hired UC employees, especially junior faculty without tenure. As retirement choices tend not to be top of mind for new hires, TFIR suggests an alternate default approach that will be more appropriate.

Thank you for considering this request. Please do not hesitate to contact me if you have additional questions.

Sincerely,

Susan Cochran, Chair
Academic Council

Cc: Vice President Lloyd
Academic Council
UCFW
TFIR
Campus Senate Executive Directors
Executive Director Lin

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UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
Terry Dalton, Chair
tdalton@uci.edu

Assembly of the Academic Senate
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

October 24, 2022

SUSAN COCHRAN, CHAIR
ACADEMIC COUNCIL

RE: UCRP Default Option

Dear Susan,

The University Committee on Faculty Welfare (UCFW) heard with interest a recommendation from our Task Force on Investment and Retirement (TFIR) to change the default option for new faculty hires in the 2016 UCRP Tier from Pension Choice to Savings Choice. As you recall, political agreements and state political pressures led to Public Employees' Pension Reform Act (PEPRA) and the creation of the 2016 UCRP Tier. In that tier, eligible new hires may select from either the defined benefit plan (Pension Choice) or the defined contribution plan (Savings Choice). Those who make no selection are defaulted into Pension Choice. Those who chose the Savings Choice but wish to change to Pension Choice may do so in accordance with IRS and UCRP rules. Data consistently reveal that 1/3 choose Pension Choice, 1/3 choose Savings Choice, and 1/3 make no election at all and so are defaulted into Pension Choice.

As detailed in the enclosed, TFIR created a model to help inform new hires of the financial consequences of this initial choice. When considered together with retention data, it is clear that most new hires eligible to make this choice would benefit more financially with the Savings Choice. Given the consistent election trend, TFIR and UCFW recommend that UC begin formal processes to change the default from Pension to Savings Choice.

Thank you for your attention to this important matter.

Sincerely,

Terry Dalton, UCFW Chair

Encl.

Copy: UCFW
Monica Lin, Executive Director, Academic Senate
James Steintrager, Academic Council Vice Chair

Sept. 26, 2022

Terry Dalton
Chair, UCFW

RE: Retirement Plan Choice defaults

Dear Terry,

TFIR spent most of last year analyzing the choice of retirement plan that new UC employees must make within the first 90 days of their UC employment. This work was started in response to the new "Second Choice" option that allows employees who chose "Savings Choice" (a pure defined contribution retirement plan) to switch to Pension Choice (a mixed defined benefit/ defined contribution plan) during a window from the 5th through 10th year of UC employment. TFIR has published our analysis and Excel modeling tool at: https://senate.universityofcalifornia.edu/resources/pension-choice-model.html. We believe that this modeling tool and associated description are very useful for new employees. We therefore request that you ask UC Human Resources to include links to our tool on their communications to new employees.

Our analysis shows that Pension Choice is likely the best choice for those that remain employed at UC for many years, while Savings Choice is very likely the best choice for those that leave UC employment before 10 -20 years. Second Choice almost always lies between Pension Choice and Savings Choice, but it is very close to Savings Choice for those who leave UC early and very close to Pension Choice for those who stay for more than 30 years. Thus Second Choice represents a good compromise plan for new employees who cannot forecast how long they will stay at UC, allowing them to switch to Pension Choice in the event that they do remain at UC. This is particularly true for Assistant Professors, who face an uncertain tenure decision that might require them to leave before 10 years of UC employment. Many staff may plan to remain at UC for only a few years, similarly. Pension Choice is not a good alternative in such cases.

As you know, roughly one third of new employees passively choose Pension Choice due to the default into that plan after 90 days. While we recognize that this was likely a good default option before Second Choice became available, it is no longer a good default choice. TFIR would therefore like to propose that the default for new UC employees be changed to Savings Choice. We think that our proposed change would be beneficial for all employee groups. However, we also see no impediment to having one default option for faculty and another for staff. Certainly, the University should consult staff groups widely before making this change. We recognize that a separate process exists for represented staff.

We are not yet prepared to recommend that a Second Choice decision to switch to Pension Choice also become the default, but we think this should be studied, including consulting UC Legal. The obvious time for switching from Savings to Pension for an Assistant Professor would be the date of the positive tenure decision, though of course faculty may still leave UC shortly after a positive tenure decision. Such faculty could simply act to over-rule the default option. For other employees, the switch date could perhaps be after 6 years of employment. For all employees, these defaults can be over-ridden. A new employee who wants to start in Pension Choice immediately can choose that during the first 90 days after they are hired, and a new employee who wants to stay in Savings Choice can choose to opt out of the Second Choice switch anytime before the default switch date, should that become the default.

David Brownstone
Chair, TFIR