

Faculty Representative Dan Hare
Remarks to the Board of Regents
March 2016

Thank you, Chair Lozano for the opportunity to speak to the Regents on behalf of the Academic Senate. Today, you will consider changes to the retirement options for employees hired on or after July 1, 2016. Before we get into the details of the options later this morning, I would like to describe how the proposed changes could have more than financial implications for the future of UC. The proposed changes also could affect the relationships between the faculty and staff and the institution, as I indicated back in September. Today, I would like to elaborate upon how the relationships between employees and the University of California may change under the new retirement options.

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, but the Senate faculty commenting on the options presented in the Retirement Options Task Force Report recognize that they are the latest in a series of compromises to quality, each of which threatens 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 retirement benefit is a component of compensation in the form of deferred compensation. UC's current defined benefit plans encourage long service because the value of retirement benefits forfeited makes it economically unattractive for faculty and staff to leave UC in mid-career. It takes quite a salary elsewhere to offset this effect. The current defined benefit plans also encourage timely retirement because of the way that they build retirement income late in one's career. It was both because of the encouragement of long service and timely retirement that only a defined benefit plan was proposed during the Post-Employment Benefits work that was concluded in 2010 and implemented in 2013. Those conclusions were based upon a defined benefit plan capped at a salary level seldom approached by ladder-rank faculty – The IRC limit currently \$265,000. The Defined Benefit Plan actually worked to encourage retention, because the resignation rates of faculty prior to retirement for faculty average only about 1.3% per year, over the past 10 years and are surprisingly consistent across campuses.

By contrast, full Defined Contribution plans neither encourage long service, nor encourage retirement at any particular age. Once paid, the "employer" contribution to a Defined Contribution plan belongs to the employee and is kept if the employee leaves the University. Also, unlike a DB plan, rational behavior for an employee with a DC plan is to work for salary as long as possible and avoid spending personal retirement accounts for as long as possible.

You now have before you an option with Defined Benefit Plan option that is capped far lower. As a result, mid-career faculty members may find that their smaller Defined Benefit is now too low to justify rejecting outside offers for even modest salary increases elsewhere. Although we welcome the efforts of the President to make the supplement to the proposed Defined Benefit plan under the PEPRA cap more competitive for faculty than was proposed by the Retirement Options Task Force, please recognize that the supplement is portable after five years and therefore may play only a small part in the retention battles to come.

The proposed capped DB plan even with a DC supplement, as well as the proposed full DC plan both may provide insufficient retirement income to induce late-career faculty to retire at an appropriate time. This sets the stage for the potential changes in the behavior of faculty as a result of changes in the retirement plans offered to them. What might we expect?

You might expect a greater rate of turn-over of Assistant Professors. For an Assistant Professor who either may not know if he will be granted tenure, or for another if she is not prepared to commit to spend a full career at UC or to live for decades in California, then a rational choice may be to choose the DC plan at the time of hire, then take advantage of the “Second Choice” to choose Option A after tenure is granted. This will provide new Assistant Professors a seven-year period to evaluate the potential University Campus and community while the University uses that same seven-year period to evaluate the performance of those Assistant Professors. Of course, if things don’t work out on either side, or if an outside offer is attractive, then the Assistant Professor simply can take their DC contributions and start over elsewhere. We risk spending a lot of money on start-up packages for faculty who do not spend an entire career at UC.

You might expect greater mobility of mid-career faculty. The UC faculty are a highly mobile work force. To be a world-class institution, we recruit from all over the world. The mobility of those who come to California from out-of-state or from other countries to accept our offers is self-evident. Without the “golden handcuffs” of the uncapped DB plan of the 2013 tier, we might expect many of our future colleagues to demonstrate their mobility once again if they receive the right offer.

You might expect a greater emphasis on salary rather than benefits in recruiting and retention. There might have been a time about 10 years or so ago when the value of the benefits that UC provided partially offset UC’s low salaries for faculty. As you learned last July, from Regent’s Item C10, that became no longer true after the adoption of the 2013 retirement tier and changes to UC’s health plans. The proposed retirement options are less valuable than the 2013 tier for many faculty members, so there will need to be an even greater emphasis on offering competitive salaries to future faculty members than in the past.

Faculty will work longer before retiring. As you recall from my September presentation, the average starting age for assistant Professors is 36, so they will have only 29 years of service at a targeted retirement age of 65. It will be a challenge for them to retire comfortably before Age 70, especially so if they make poor decisions in the management of their DC retirement benefits or suffer through long periods of low returns from equity investments. It is not obvious that an older average age of faculty and a lower rate of renewal of faculty is in the best interest of the institution.

These are all ways in which UC will be different after adopting the new proposed retirement options. In many ways, retirement plans are like the tax code, because both are designed to reward some behaviors and not others. I hope that I have given you an idea as to how the new retirement options are likely to change the relationships between new employees and the University of California, and I hope that you all are prepared for those changes.

Chair Lozano that concludes my remarks.