



November 5, 2015

## **UC task force considering pension cuts**

A communication from the Council of UC Faculty Associations (CUCFA)

A UC task force appointed by President Napolitano is charged with developing a new UC Retirement Plan (UCRP) Tier 2016 for faculty and other employees hired after June 30, 2016. Under consideration are reduced benefits within UCRP and a full defined contribution alternative instead of the defined benefit UCRP. The task force is preparing a report and recommendations to be delivered to President Napolitano in the first part of December. If you are concerned about a further erosion of compensation at UC, please contact task force members and your Academic Senate officers and key committee representatives to make your views known about reductions in pension benefits. Individuals to contact are listed at the end of this message [1]. The description that follows reviews the issues and the views of the Council of UC Faculty Associations. Our main points are that:

- \* The long-term quality of the University must be prioritized above the short-term considerations of one-time funding and the political pressures of the moment.
- \* To avoid further erosion in the quality of the University, competitive total remuneration for faculty and staff must be maintained.
- \* Maintaining a defined benefit pension system best serves the interests of employees and of the University. There is no outside pressure on the University to adopt a full defined contribution alternative, and we oppose such an offering.

### **BACKGROUND**

During the winter and spring of this year, President Napolitano and Governor Brown met as the "Committee of Two" to negotiate a budget plan for UC. Their agreement [2] was reached privately and without any semblance of shared governance. Following that, elements of the Committee of Two agreement were included by the legislature in the 2015-2016 State budget ultimately passed by the Senate and Assembly and signed by the Governor.

Among other things, the President's agreement with the Governor calls for UC to lower the UCRP Covered Compensation Limit (CCL) so as to be consistent with the 2012 California Public Employees Pension Reform Act (PEPRA) that applies to other State employees but not to UC. It would thereby reduce the pension benefits of UC employees hired after June 30, 2016 who will have salaries above the PEPRA cap at any time before they retire. UC has been using the IRS cap, which is currently at \$265,000, while the PEPRA cap is currently \$117,020 (both are periodically adjusted for inflation). The task force is considering a defined contribution supplement for such Tier 2016 employees to compensate for some of their loss in benefits.

The agreement with the Governor also calls for UC to offer new employees a full defined contribution plan as an alternative to UCRP, which is a defined benefit plan. In general a defined benefit plan is more advantageous to both the institution and to long-term employees. A defined contribution plan may benefit some short-term employees.

While the reduction in the CCL to the PEPRA cap is a priority of the Governor, the full defined contribution alternative appears to have been injected into the agreement by the Office of the President.

In exchange for these permanent changes to the UCRP, the agreement with the Governor calls for UC to receive one-time funds of \$436M paid out over three years for the purpose of reducing the UCRP unfunded liability.

In contrast to the agreement in the Committee of Two, The budget bill for 2015-2016 carries the force of law, and it does not include large parts of the agreement with the Governor. It commits only to \$96M to be paid in 2016 on the condition that UC implement the CCL reduction to the PEPRA cap for employees hired after June 30, 2016. In particular, it makes no mention of the need for a defined contribution alternative.

\$436M in one time funds is far less than the \$2.7B in ad hoc contributions to UCRP that UC has made since 2010 to pay down the unfunded liability that should have been paid by the state. The state's ongoing obligation to cover pension costs associated with state-funded faculty and staff is \$424M per year and growing. A one-time contribution of \$436M would have only a minor impact on the time for UCRP to reach fully funded status. The Council of UC Faculty Associations believes that it would be a grave error to reduce employee total remuneration and thereby sacrifice the long-term quality of the University for this small amount of short-term money.

#### TASK FORCE

The task force [3] is currently busy analyzing ways to implement a defined contribution supplement to UCRP to compensate Tier 2016 employees for reduced UCRP defined benefits due to a reduced CCL. It is also analyzing structures for and impacts of a full defined contribution alternative offering. While the task force will report on their analysis of various choices, as of this writing, it is uncertain whether they will have sufficient agreement to make actual recommendations to the President, especially on the point of whether or not to offer the full defined contribution alternative.

A major theme in the task force is the tension between maintaining total remuneration and realizing cost savings. Many argue that you cannot have both.

The possibility of having different plans for different employee groups has been discussed in the task force. It has been reported that there is little if any support for that in the task force at the moment.

The timeline is not precise, but the current plan is for the task force to complete a report by the first part of December and deliver it to the President before the end of the fall terms. Following that, there will be a period of expedited Senate review. So far, it has not been stated when that will begin and end. The retirement plan changes will be an action item for the Regents in March. They could be a discussion item for them in January. If approved, Tier 2016 will be implemented starting July 1, 2016.

#### DEFINED BENEFIT (DB) vs. DEFINED CONTRIBUTION

In a DB plan, such as UCRP currently is, employees and the employer make contributions to the retirement fund. It is invested for the long run, and employees are guaranteed set retirement benefits. Risk is spread widely. In a DC plan, the contributions of the employee and the employer are held in an account in the individual employee's name, and invested with management by the employee. At separation or retirement, the employee's benefit is based on whatever is in the account at that time. While the DC plan has the advantage of portability, all the risk is born by the individual employee.

The Council of UC Faculty Associations holds the position that, on balance, a DB plan such as UCRP is better for both the institution and the employee. DB retirement funds allow long-term investment strategies that produce superior returns relative to funds in DC accounts. So for the same level of retirement benefit, a DB plan requires less in contributions from the employee and the employer. A professionally managed DB fund will produce better long-term returns than most employees will obtain through their individual decisions. In a DC plan, the individual bears the longevity risk, i.e. the risk that the account will be depleted before death. In the DB plan, this risk is spread over the population and the fund need only account for the average longevity. The institution benefits from a DB plan because both faculty and staff quality are enhanced. It is less expensive to maintain competitive total remuneration in a DB plan, and a DB plan rewards long employment and employee development.

Thus the discussion of pension issues is a discussion about the quality of the University. The University is its people: students, staff, and faculty. The quality of each is strongly dependent on the quality of the others. To the extent that the discussion of pension issues focuses on cost savings, it becomes a discussion about how much more the University is going to cut quality than it already has as a result of diminished State support. The Council of UC Faculty Associations maintains that the quality of the faculty and staff depend upon competitive remuneration with a defined benefit pension plan that encourages excellent employees who know their jobs, understand the institution, and are committed to its public mission. We oppose a full DC alternative that would undermine the quality of the University.

If you share our concerns about the decreases in total remuneration and the quality of the University that could follow from a DC supplement that does not adequately compensate for a reduction in the CCL or from a full DC alternative to UCRP, please contact task force members and your Academic Senate officers and key committee representatives listed below.

## COMMITTEES

In addition to the task force, which has the members listed below, there are several Academic Senate committees that will have influence in the decision process. Members of the task force and the other relevant committees sorted by campus can be found here [1].

### 2016 RETIREMENT BENEFITS OPTIONS ADVISORY TASK FORCE [3]

This is the new task force appointed by President Napolitano.

Members of the task force, sorted by campus (not all campuses have a member on the task force):

#### UCD:

James Chalfant, [jchalfant@ucdavis.edu](mailto:jchalfant@ucdavis.edu), Universitywide Academic Senate Vice Chair, Professor of Agricultural and Resource Economics

Lori Lubin, [lmubin@ucdavis.edu](mailto:lmubin@ucdavis.edu), UCFW Vice Chair, Professor of Physics

David Lawlor, [dlawlor@ucdavis.edu](mailto:dlawlor@ucdavis.edu), Vice Chancellor and Chief Financial Officer

#### UCLA:

Shane White, [snwhite@dentistry.ucla.edu](mailto:snwhite@dentistry.ucla.edu), Professor of Dentistry

Michael Fehr, [mfehr@library.ucla.edu](mailto:mfehr@library.ucla.edu), Computer Resource Specialist

UCM:

Deidre Acker, [deidre.acker@ucop.edu](mailto:deidre.acker@ucop.edu), Systemwide UC Staff Advisor and Ombudsperson

UCR:

Dan Hare, [daniel.hare@ucr.edu](mailto:daniel.hare@ucr.edu), Universitywide Academic Senate Chair Professor of Entomology

Maria Anguiano, [maria.anguiano@ucr.edu](mailto:maria.anguiano@ucr.edu), Vice Chancellor for Planning and Budget

UCSB:

Greta Carl-Halle, [greta@cs.ucsb.edu](mailto:greta@cs.ucsb.edu), Business Officer

David Marshall, [david.marshall@ucsb.edu](mailto:david.marshall@ucsb.edu), Executive Vice Chancellor

UCSD:

Pierre Ouillet, [pouillet@ucsd.edu](mailto:pouillet@ucsd.edu), Vice Chancellor and Chief Financial Officer

UCSF:

David Odatto, [David.Odatto@ucsf.edu](mailto:David.Odatto@ucsf.edu), Associate Vice Chancellor and Chief Administrative Officer

UCOP:

Rachael Nava, [Rachael.Nava@ucop.edu](mailto:Rachael.Nava@ucop.edu), chair of the task force, Executive Vice President and Chief Operating Officer, UCOP

#### FOOTNOTES

[1] <http://cucfa.org/2016-ucrs-tier-decision-contacts/>

[2] Page 28 of <http://www.ebudget.ca.gov/2015-16/pdf/Revised/BudgetSummary/HigherEducation.pdf>  
and  
<http://budget.universityofcalifornia.edu/framework-summary.html>

[3] <http://ucnet.universityofcalifornia.edu/compensation-and-benefits/2016-retirement-benefits-advisory-task-force/index.html>