April 28, 2010

Harry C. Powell
Professor of Pathology
Chair, UC Systemwide Academic Senate
1111 Franklin St., 12th Floor
Oakland, CA 94607

Dear Harry:

RE: TFIR RECOMMENDATION TO ASSURE ADEQUATE FUNDING FOR UCRP

At UCR, the members of Planning and Budget (P&B) and the Committee on Faculty Welfare (CFW) reviewed the UCFW/TFIR recommendation to assure adequate funding for UCRP, which updates a May 2009 recommendation (also endorsed by Council) and proposed that, absent state funds, the University could provide the employer contribution to UCRP by issuing Pension Obligation Bonds (POBs). CFW recognizes that the solutions to addressing the unfunded actuarial liability fall into two general classes: putting more money into the system, or taking less out. The tentative recommendations of the Post-Employment Task force largely focus upon the latter. CFW agrees with the UCFW/TFIR recommendation that reducing future benefits will not solve the funding problem because the funding problem exists now, and the impact of reduced payouts for future employees, and even current employees, won’t accrue for years or decades. In principle, the proposal of Pension Obligation Bonds (POBs) is a more reasonable and effective solution.

CFW does recognize, however, certain risks and disadvantages of POBs. First, there is the financial risk associated with any bond. Additionally, CFW recognizes that, by taking on this bond obligation, this will add to the total bond liability and reduce funds available for other UC bond-funded projects, such as building construction. Finally, CFW is aware of the potential political consequences of taking action like this on ever prevailing upon the State Legislature to assume its moral obligation to fund UCRP.

In view of the fact that the recommendation is largely a concept paper rather than a detailed proposal, CFW would support further study and development of the recommendation with more financial detail. Ideally, CFW would like to see the State Legislature accept its moral obligation, thus obviating the need for POBs. Yet, CFW also recognizes that the unfunded liability continues to grow while we wait, perhaps in vain, for the legislature to alter its position. Less-than-ideal solutions may be required.

With regards to the issue of bonds, the UCR committee on Planning and Budget supports in principle the issuance of Pension Obligation Bonds by UC so long as they are a part of a
comprehensive long-term proposal to restore fiscal integrity to UCRP. As part of this support, P&B requests that a detailed plan for long-term restoration be provided for review by campus and system-wide Academic Senate committees. This plan should include, but not be limited to, the total dollar value of the POBs to be issued, date of issuance, length of the term, approximate interest rate, taxable or tax exempt status, restart of UC employee contributions, a more accurate estimate of the dollar value of contributions to be realized from federal contracts and grants relative to the date POBs are to be issued. This detailed plan should be completed as quickly as possible since further delay exacerbates the problem and could render POBs a less effective remedy. Note that members of P&B prefer, if at all possible, for the State to issue the POBs to fund UCRP and, thus, shoulder the investment risk, not UC.

Sincerely yours,

Anthony W. Norman
Distinguished Professor of Biochemistry and Biomedical Sciences; and Chair of the Riverside Division

CC: Martha Kendall Winnacker, Executive Director of the Academic Senate Sellyna Ehlers, Director of UCR Academic Senate office