UCRIVERSIDE | UNIVERSITY OF CALIFORNIA | Academic Senate

Committee on Planning & Budget

January 21, 2016

To: Jose Wudka
Chair, Riverside Division Academic Senate

Fr: Kenneth Barish 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.