CHAIR, ACADEMIC SENATE
RIVERSIDE DIVISION
UNIVERSITY OFFICE BUILDING, RM 225

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February 1, 2016

Dan Hare, Chair, Academic Council
1111 Franklin Street, 12th Floor
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RE: New UC Retirement Plan Effective July 1, 2016

Dear Dan,

Executive Council discussed the new retirement plan the UC is considering adopting as a result of the budget negotiations with the State. Because of the shortness of the review period, only the committees of Planning & Budget and Faculty Welfare were asked to opine on this important issue. I attach their detailed responses.

The general opinion was that the proposed plan would present a significant deterioration of the benefits package we will offer to all new hires starting July 1, 2016. Combined with the recent total remuneration study, this provides a compelling argument that with this adoption the UC will further diminish its competitiveness; it will also have long-range negative effects on the University's ability to meet its mission of excellence in research, teaching and service. Added to this was the concern that the creation of a new retirement tier was agreed to without appropriate consultation with the Senate.

The reviewing committees also had a variety of specific concerns listed in their reports. Here I will state some additional recommendations stemming from Council's discussions:

- There was no rationale for selecting a lustrum as the time for providing the opportunity for switching plans. Council suggests that this period be determined through a quantitative evaluation of the advantages and disadvantages for faculty.

- It is unclear whether the default enrollment choice (the DB + DC supplement) is the most advantageous for the faculty. Council suggests that this be determined quantitatively as a function of the period at the end of which faculty may change plans (see item above). Once this is determined, Council suggests that this be regularly re-evaluated to account for possible economic changes.

- There is concern that the Administration will react to the decrease in benefits by increasing off-scale salary compensation, leading to an increase of instances of salary compression and inversions, and the associated further deterioration of the UC salary scales. Council calls on Academic Council to reinitiate the discussion with the Administration on the need to revise the salary scales across the system.

Sincerely yours,

J Wudka

Jose Wudka
Professor of Physics & Astronomy and Chair of the Riverside Division

CC: Hilary Baxter, Executive Director of the Academic Senate
Cherysa Cortez, Executive Director of UCR Academic Senate Office

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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.

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COMMITTEE ON FACULTY WELFARE

January 25, 2016

To: Jose Wudka
Riverside Division Academic Senate

From: Jennifer Hughes, Chair
Committee on Faculty Welfare

Re: Retirement Options Task Force (ROTF) Report

1. Background

In the post-World War II period, defined benefit (DB) retirement plans were widely used by major corporations and certain institutions such as universities. These plans were a means of attracting and retaining employees. Many public bodies such as K-12 schools and government also used such plans. Over time, these plans fell into disfavor with both corporations and state and local governments for different reasons. For corporations, DB plans meant that the companies were assuming the pension risk. Since company and industry competitiveness may diminish over time, companies increasingly preferred to switch to defined contribution (DC) retirement plans; these shifted the pension risk to individuals. Companies and their employees typically both made contributions to their retirement plans. The resulting funds were invested and provided the employees with income on their retirement. How much they would receive depended on the success of the investments; the risk was shifted entirely to the employees.

Private firms were subject to the risks of the business cycle and long-term shifts in their competitiveness and the competitiveness of their industry. Thus the automobile and the steel industries, for example, found themselves subject to intense competition from overseas suppliers, with many driven into bankruptcy by obligations they could no longer afford, including pension obligations. This was not the problem of state and local governments. Rather, they increased over time their pension obligations without funding them properly. In addition they facilitated retirement at early ages and established systems subject to manipulation. Many employees could increase their final salaries by working overtime in their final year and not taking sick days that were due them, thereby spiking their pensions. The failings of state and local governments have begun to come due in recent years, with cities like Vallejo and San Bernardino in California, unable to pay their obligations, forced into bankruptcy. Moreover, even for cities remaining solvent, pension obligations have begun to account for a substantial share of their budgets, reducing or eliminating funds for other important public services.

In this context, the California state legislature and governor have become extremely hostile to defined benefit programs. Without a full understanding of the intense competitiveness that exists among leading universities, they have sought to limit pension benefits to University of California faculty. In 2015, When UC President Napolitano sought to restore some of the cuts the state had made during the financial crisis that began in 2008, she and the governor formed a 2-person committee to negotiate critical portions of the UC budget. The governor made some modest additional resources available to UC in return for President Napolitano's agreement to make a few concessions, most notably on limiting the traditional defined benefit pension received by UC faculty. To live up to this agreement, President Napolitano appointed the Retirement Options Task Force to prepare options for a new UC retirement plan with the same defined benefit cap as that of state employees, whose cap (the PEPRA cap) is currently $117,020 and increases only with inflation. The ROTF gave her its plan on December 15, 2015, and she made it public on January 15, 2016 with a request for feedback by February 15. She will decide on the details of the plan later in February, in time to present it to the Board of Regents in time for its March meeting and implementation for new UC hires on or after July 1, 2016.

<u>2. Core elements of the new UC pension plan</u>

According to the ROTF plan there are 2 options. The precise consequences of either option depend on a series of assumptions, but both plans would result in a dramatic reduction in faculty compensation. The following descriptions of the 2 plans is taken from a blog by Michael Meranze, Prof. of History at UCLA:

1) The first (Plan A) is a hybrid plan. In it, an employee would participate in the Defined Benefit Plan offered by UCRP (with benefits calculated on income up to the PEPRA cap) with a Supplemental Defined contribution Plan (with University contributions) on income between the PEPRA cap and the Federal Cap (now about $265,000). Employees who choose Plan A would continue to vest after 5 years (as is the case now) and would continue to contribute the same amount annually to their pension as do employees hired before July 1, 2016. Once in Plan A you would be committed to Plan A. Plan A is proposed as the default choice. It is important to note that the Defined Benefit portion of this proposal would operate under the conditions imposed on the 2013 tier—who already had a later retirement age than earlier hires.

2) The Second Plan (Plan B) is a Defined Contribution Plan with both the employee and University contributing up to the Federal Cap. Again, the amount that the employee would contribute would be the same as Plan A. Employees who chose Plan B at hiring would be allowed to switch to Plan A after 5 years of employment (this would be a one-time opportunity).

Accompanying the ROTF report received by members of the Academic Senate was "A guide to reviewing the recommendations of the Retirement Options Task Force" written by the two UC faculty members who were members of the Task Force, Dan Hare and Jim Chalfant, Chair and Vice Chair of the (systemwide) Academic Senate. In their report, they note that "the Task Force was limited to working within a small universe of options bounded by a ~8-10% employer contribution, a ~4-6% employer-paid UAAL surcharge (to reduce the underfunding of UCRP), and a 7% employee-paid contribution. All of the proposed plans would allow limited variations around this small range of parameters. The more generous the plan, the less feasible it is from a budgetary perspective; the cheaper the plan, on the other hand, the less competitive UC will be for recruitments and retentions of faculty necessary to maintain the University's excellence. Moreover, the combined contributions from employees and the University for cheaper plans will fall short of the amount required to achieve retirement readiness."

Consequences of the new retirement plan

The UCR Faculty Welfare committee believes that the Plan was forced on President Napolitano by a governor who fails to appreciate the importance of the University to the culture and economy of California. The committee takes into account the following considerations in reaching its position on the Plan:

1. Negotiated in secret by the President of UC and the Governor, the plan marks a definitive break with the principle of shared governance. The faculty is being asked for its views on implementation of a basic policy decision that was made without its participation. A decision of this magnitude must have extensive faculty input. We are being consulted only about the implementation of an unwise policy whereas we must have input on the policy itself if shared governance is to be meaningful.
2. We are now at a critical turning point in the future of UC. UC now lags its comparison 8 universities by about 12% in total compensation. We note that much more than earlier generations, new UC faculty members face extremely high housing costs and many arrive burdened by student debt. We should be doing everything possible to eliminate the gap with the comparison 8. The new retirement plan widens the gap to disastrous dimensions. Consider the following example: Two years ago a UCLA humanities professor was recruited by Princeton. The Princeton salary offer was 50% higher than his UCLA salary; that is a measure of the underpayment of UC faculty members. In addition, when he pointed out to Princeton the UC defined benefit pension, it offered to compensate by paying him an additional $20,000 yearly salary for the next 10 years, providing him additional cash he could put into a retirement fund. He ultimately decided to stay at UCLA (even with a salary offer $9,000 below that of Princeton), but is much more likely to have opted for Princeton without the existing defined benefit plan. Some of his faculty colleagues with similar outside offers were similarly swayed by the existing DB plan.
3. At present the average UC faculty member retires in his/her mid to late 60s. With the new plan reducing retirement benefits, it is likely that average retirement will be pushed back considerably, perhaps by about 10 years. And many faculty members will find themselves unable to afford retirement. Faculty renewal is an important factor in maintaining UC's excellence and the new system will surely undermine it.
4. The logic underlying the shift away from DB plans in the private sector and in state and local governments does not hold for UC. With some police and firemen able to retire in their 40s and clerical workers at 55, and strategies to spike their pensions in the final year of work, and often lacking funded pension plans, public employees' retirements often put a great burden on local government budgets. These conditions do not prevail in the case of UC, and the competitive conditions facing private firms are quite different from those facing UC.
5. The change in the pension plan means that UC will institutionalize unequal pay for equal work. Two professors step 3, for example, presumably with equal professional qualifications, will receive different total compensation if one was

hired before July 1, 2016 and one after that. If UC is successful in increasing the representation of women and minorities in its faculty, moreover, then their compensation would be lower on average than that of their male/white counterparts.

6. The presumed savings to the state are unlikely to materialize since UC will be absolutely uncompetitive without materially higher salaries and retention offers. Alternatively, the quality of UC will diminish sharply along with the compensation of its faculty. We note as well that operating multiple kinds of pension plans simultaneously will increase their administrative cost, further diluting or even eliminating any possible savings from the new plan.
7. California will suffer. UC makes great contributions to the state in fields like agriculture, industry, technology, the environment and health care. Moreover, it is attractive to individuals concerned with affordable college education for their children and with firms seeking to attract well-educated employees with the same concerns.
8. Shifting the burden and risk to UC employees of managing their retirement money has no legitimate justification. In general, firms have done so to increase their profitability and to minimize their risks by shifting them to their employees. There is no principled reason for the state to do the same.
9. From the standpoint of UC, there is a small and temporary benefit in increased funds from the state that the governor (but not the legislature) has promised, but a permanent diminution in its faculty compensation and competitiveness vis-à-vis other educational institutions. As Prof. Meranze notes "The three year state contribution (to UCRP) addresses only a very small amount of the unfunded liability. And according to the Task Force, establishment of the new (retirement) tier will speed up the elimination of the unfunded liability minimally if at all. In fact, under certain scenarios the elimination of the unfunded liability might be faster under the 2013 tier (with borrowing) than under most of the 2016 options."
10. UC has been trying to move away from above-scale compensation and back to the formal salary scale as much as it can. There is much to be said for this as a matter of "equal pay for equal work" and equal qualifications. The new pension plan, unfortunately, promises to shred these efforts. Since deans and provosts will be unable to offer improved pension plans, they will have to resort to ever-larger salary offers to attract and retain faculty.

In view of these considerations, we believe that the Academic Senate should firmly oppose the secretly negotiated pension plan as incredibly harmful to the future of the University of California.