April 19, 2016

To: Jose Wudka, Chair of the Riverside Division of the Academic Senate

From: Jodi Kim, UCR Divisional Representative to the Assembly of the UC Academic Senate


Chair’s Announcements:
The meeting was convened by Dan Hare, Chair of the Academic Senate, who announced that the main agenda item would be to update the Assembly members on the report and recommendations of the President’s Retirement Options Task Force (ROTF), the results of the systemwide Senate review of the report, and the contents of an Academic Council letter that summarizes the views of Senate divisions and systemwide committees. This letter is in the process of being finalized. The following updates were provided:

1. As part of the budget agreement with the state, UC agreed to implement a new pension tier for UC employees hired on or after July 1, 2016 that includes a cap on pensionable salary aligned with the state’s Public Employee Pension Reform Act (PEPRA), in exchange for $436 million in Proposition 2 funds paid to UCRP over three years. The agreement also allows UC to offer a supplement to the PEPRA cap to select groups of employees. President Napolitano assembled a Task Force to advise her about the design and implementation of a new tier that will meet these requirements and also preserve the competitiveness of UC retirement benefits and the financial sustainability of UCRP. Four Senate representatives served on the Task Force. The recommendations for the 2016 tier were released for Senate review on January 15, and comments are due February 15. The Senate chair and vice chair also collaborated on a Guide to Reviewing the Report that focuses on key points.

2. The Council letter notes that Senate divisions were unanimous that the agreement to adopt the PEPRA cap and any retirement plan in response to the cap will significantly reduce the value of UC’s retirement benefit for future employees and undermine the ability of UC campuses to make the competitive offers necessary to recruit and retain outstanding faculty members. Reviewers were also concerned about the impact of the 2016 tier on the future of UC, noting that the quality of a UC education is a direct reflection of the quality of the faculty who provide that education. Reviewers expressed concern that the decision to adopt the cap was made in haste and without the expected and necessary Senate consultation. Moreover, Divisions noted that the ROTF was given an impossible task – to preserve total remuneration, protect the viability of UCRP, and generate significant
saving. Only the second is likely to be achieved through the current recommendations, largely as a result of past actions such as the adoption of the 2013 tier and subsequent UC funding and borrowing decisions. They noted that the only way to achieve savings is to reduce benefits.

3. The Council letter also summarizes the divisions’ analysis of the recommendation to offer new employees a choice of two plans. Under Plan A, employees would be covered by a Defined Benefit (DB) plan up to the PEPRA limit, plus a supplemental Defined Contribution (DC) benefit that includes an additional employer/employee contribution equivalent to 10%/7% of pay on income over the PEPRA limit. Most divisions recognized that for employees whose salary crosses the cap in mid-career, the DC supplement under Plan A would be too little-too-late to fully compensate for the effects of the cap compared to the 2013 tier. Divisions also understood that the projected income replacement under Plan B would be insufficient to preserve competitive total remuneration, and would reduce the incentive for employees to decline outside offers in early- or mid-career and retire at a targeted age. Most divisions agreed with the ROTF recommendation to make Plan A the default option. UC will be requesting a Private Letter Ruling from the IRS about the possibility of offering a second choice at different times for different segments of employees.

4. An updated total remuneration analysis released last week confirmed that both Plans A and B would compound the competitive shortfall outlined in the 2014 Total Remuneration study. Senate reviewers noted that UC would need to increase cash compensation to preserve competitive total remuneration under the reduced benefits of the 2016 tier. Reviewers were also concerned that creating a two-tier pension system with significantly different benefits will harm equity and morale, could exacerbate existing financial disparities by race and gender, and could further impair UC’s ability to recruit and retain diverse faculty. The Council letter notes that any plan adopted should apply equally across the board to all employee groups for the sake of simplicity and fairness.

5. Several divisions asked to review alternative plans. There was no time to develop formal alternatives; however, initial modeling suggests there is a viable alternative to Plan A involving additional employer and employee contributions to a supplementary DC plan beginning on the first day of hire and on the first dollar earned, irrespective of one’s salary below the cap, to take advantage of the significant power of compound interest.

6. The 2016 tier will not have a significant impact on UCRP’s funded status or generate significant savings; instead it will cost UC more from higher salaries and increased retention costs, and has the potential to change the relationship between UC and its world class faculty.
Discussion:
1. It was noted that the PEPRA cap will apply to all employees, including members of the Senior Management Group.
2. Assembly members encouraged Senate leaders to request additional modeling of alternatives to Options A and B and their benefits and costs.
3. Several Assembly members urged the Senate to reject the plan and express its dissatisfaction through a formal Memorial.
4. It was noted that the 2016 tier will not produce savings, but will increase overall costs for the University, push the additional costs associated with making up the PEPRA cap to the campuses, shift total remuneration from benefits to salary, and increase the funding disparity between campuses.
5. It was noted that the Regents’ new UCRP funding policy is already addressing the problems created by the earlier contribution holiday, and UC should encourage the state to live up to its full obligation to UCRP.
6. It was also noted that the Senate should consider the potential consequences of a full rejection of the mandate, as the Legislature expects UC to adopt the PEPRA cap as a measure of fairness to other state employees subject to the PEPRA legislation.

MOTION: The Berkeley Division introduced a motion for an Assembly resolution regarding the imposition of the PEPRA cap on the University and the discontinuation of the current pension plan. There was a vigorous discussion about the wording of the resolution. Several friendly amendments were made and accepted. The motion was seconded.

ACTION: A roll call vote was taken, and the resolution passed unanimously, with one abstention, as follows.

Resolution of the Assembly of the Academic Senate of the University of California

WHEREAS:
Through its path-breaking research and providing the state with a high-skilled workforce, the excellence of the University of California system plays a well-documented and vital role in keeping the California economy thriving; and
That excellence is also critical to providing access for all segments of California’s society to a cutting-edge education that makes them competitive for the best jobs and the best graduate and professional schools, thereby aiding social mobility and the goal of a more just society; and
That excellence remains dependent on the ability of the University of California to attract and retain the best faculty; and
That ability is dependent on offering faculty total remuneration that is competitive with other institutions; and
As documented in the Retirement Options Task Force (ROTF) report, the analysis of Professors Chalfant & Hare, UCFW’s report, UCPB’s report, and the Divisions’ reports, the proposal to accept the Public Employees Pension Reform Act...
(PEPRA) cap and to adopt either pension plan put forth in the ROTF report means offering an inferior pension plan to new employees _vi_s-a_v_i_s_ the current pension plan (the 2013 Tier), thereby reducing the value of that component of their remuneration,

**BE IT RESOLVED THAT:**
The Assembly rejects the imposition of the PEPRA cap on the University of California and the discontinuation of the current pension plan in the absence of any plan or program to fund or to provide compensating increases in total remuneration, so as to prevent harming the mission of the University of California by eroding its ability to recruit and retain the best faculty.

**IT IS FURTHER THE ASSEMBLY’S SENSE THAT:**
As documented in the reports of the Divisions, the cost of providing such compensating increases, as well as other resulting costs, could well exceed any savings resulting from adopting either pension option offered in the ROTF report (including factoring in the $436 million that has been offered by the State), which argues that, at the very least, further analysis and planning are warranted prior to their possible adoption to ensure that the University does not pursue an action that is costly and damaging.