The President’s Task Force on Post Employment Benefits

Overview

Local Forum
Forum Agenda

- Work Force Demographics
- Background on UCRP
- Background on Retiree Health
- President’s Task Force on Post Employment Benefits
- Questions & Answers
Objectives For Today

• To provide an understanding of UC post employment benefits

• To explain the scope of the financial issues due to post employment benefit liabilities

• To provide an understanding of the need for significant funding and the need to review potential benefit changes

• To answer your questions and to listen to your concerns
University Workforce Profile

~115,700 faculty and staff career employees
and ~69,000 student and other non-career employees
Age Distribution of UCRP Active Members

- **Under 30 Years Old**: 120 Faculty, 15,718 Staff
- **30 - 39 Years Old**: 3,398 Faculty, 24,577 Staff
- **40 - 49 Years Old**: 4,540 Faculty, 25,879 Staff
- **50 - 59 Years Old**: 4,245 Faculty, 26,215 Staff
- **60+ Years Old**: 3,234 Faculty, 7,819 Staff
Active UCRP Members by Years of Service

- 0–4 Years: 45,173
- 5–9 Years: 22,219
- 10–14 Years: 12,317
- 15–19 Years: 8,382
- 20–24 Years: 6,228
- 25+ Years: 5,889

Staff and Faculty members are represented in the bar chart.
Total Remuneration Components and Allocation Values vs. Market Comparators

Excludes medical centers

- Market Cash Compensation
- Market Health & Welfare
- Market Retirement (DB/DC)
- Market Retiree Medical & Life

Market Comparators:
- Market Cash Compensation: 73%
- Market Health & Welfare: 17%
- Market Retirement (DB/DC): 8%
- Market Retiree Medical & Life: 2%

UC:
- Market Cash Compensation: 64%
- Market Health & Welfare: 19%
- Market Retirement (DB/DC): 11%
- Market Retiree Medical & Life: 6%

Market Comparators Values:
- Market Cash Compensation: $78,365
- Market Health & Welfare: $18,777
- Market Retirement (DB/DC): $8,805
- Market Retiree Medical & Life: $2,034

UC Values:
- Market Cash Compensation: $68,089
- Market Health & Welfare: $19,940
- Market Retirement (DB/DC): $11,833
- Market Retiree Medical & Life: $6,179
Components of UCRS

UC Retirement Plan (UCRP)

Defined Contribution (DC) Plan

403(b) Plan

457(b) Deferred Compensation Plan
~229,000 Members in UCRP (7/1/08)

UCRP Membership

Active Employee members ~ 114,200
Retirees & Survivors ~ 50,200
Separated members owed a benefit ~ 64,600
What Does UCRP Provide?

**While employed at UC**
- Disability Protection
- Survivor Benefits
- Death Benefits

**At Retirement**
- Lifetime retirement income or lump sum equivalent

**During Retirement**
- Annual COLA’s

**Death**
- Death Benefits

**The After-life**
- Postretirement Survivor Continuance
AVA recognizes each MVA return above or below the assumed rate (7.5%) over five years.
Funding Retirement Benefits – Elements of Cost

- The **Normal Cost** is the portion of the long term cost allocated to a year of service.
  - Only active members have a current Normal Cost
- The **Actuarial Accrued Liability (AAL)** measures the Normal Costs from past years.
  - For retired members, the AAL is the entire value of their benefit

**Current Year Normal Cost**

- **Actuarial Accrued Liability**
- **Future Normal Costs**
- **Entry Age**
- **Current Age**
- **Retirement Age**
UCRP Historical Funded Status

Campus/Medical Centers Only

Actuarial Accrued Liability (AAL)  Actuarial Value of Assets (AVA)  Ratio

2001 2002 2003 2004 2005 2006 2007 2008

$ in billions

$0  $10  $20  $30  $40  $50  $60  $70  $80

0% 20% 40% 60% 80% 100% 120% 140% 160%
What it Takes to Stay 100% Funded

- Contributions equal Normal Cost (currently 17% of pay)
- Assets earn assumed return (currently 7.5%)
- All other experience matches assumptions
Why Restart Contributions?

• Sustain and preserve UC retirement benefits

• Maintain UCRP target funded status of 100%

• Allocate cost of UCRP to all funding sources:
  – State and UC general funds and student fees
  – Contracts and grants
  – Medical Centers and other self-supporting enterprises
  – Department of Energy (Lawrence Berkeley National Lab)
Regents Approved April 15, 2010 Contributions

• Employer
  – FY 09/10
    • All employer payroll funding sources will start at 4%
  – FY 10/11
    • At least 4%, higher if funding available

• Member
  – Beginning April 15, 2010
  – Amounts currently redirected to the DC Plan
    – No reduction in take home pay
    – About 2% for most members
  – Same amounts for FY 10/11
  – Gradually increase to parallel CalPERS member rates (currently 5%)
  – Subject to collective bargaining, as applicable
### Examples of Member Contribution Amounts

<table>
<thead>
<tr>
<th>Monthly Covered Compensation</th>
<th>Monthly Member Contribution</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500 ($30,000 annual)</td>
<td>$31</td>
<td>1.24%</td>
</tr>
<tr>
<td>$4,167 ($50,000 annual)</td>
<td>$64</td>
<td>1.54%</td>
</tr>
<tr>
<td>$6,250 ($75,000 annual)</td>
<td>$106</td>
<td>1.70%</td>
</tr>
<tr>
<td>$8,333 ($100,000 annual)</td>
<td>$148</td>
<td>1.78%</td>
</tr>
<tr>
<td>$10,417 ($125,000 annual)</td>
<td>$220</td>
<td>2.11%</td>
</tr>
<tr>
<td>$12,500 ($150,000 annual)</td>
<td>$303</td>
<td>2.42%</td>
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Funded Ratio (Actuarial Value Basis)

-20% MV return for 2008/09;

7.5% Per Year Starting July 1, 2009

2013 Funded Ratio = 61% ($18 Billion Unfunded Liability)
What is NOT Changing for UCRP?

- Pension benefits that current employees have already earned
- Pension benefits for current retirees
- Retirees will not be asked to contribute to UCRP
UC Retiree Health Benefits

- Medical
  - Medicare
  - Non Medicare
- Dental
- Wellness Program
- Access to Vision plan
- Access to Legal plan
UC medical program covers ~289,600 employees, retirees and their dependents
Financial Background on Retiree Health

- **Annual Retiree Health Valuation**

- **Financial Reporting Obligations**
  - “Pay-as-you-go” cash costs
  - Annual Required Contribution (ARC)
    - Net OPEB balance sheet obligation (GASB)
  - Unfunded actuarial accrued liability (GASB)

- **Budget Impact**
  - CY 2009 cash costs ~ $230 million
  - CY 2010 cash costs ~ $255 million
GASB Impacts

Unless changes to plan design and/or funding are made

✓ Significant operating deficits
✓ Significant unfunded liability
✓ Erosion of University's equity

Retiree Health TRUST 115 established July 2007

Pre-funding annual liability has not started
Retiree Health Benefit Program
Unfunded Liability and Cash Costs

Plan Year Beginning July 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Liability (in Billions)</th>
<th>Cash Costs (in Millions)</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>$13.3</td>
<td>$0</td>
</tr>
<tr>
<td>2009</td>
<td>$14.3</td>
<td>$10</td>
</tr>
<tr>
<td>2010</td>
<td>$15.4</td>
<td>$20</td>
</tr>
<tr>
<td>2011</td>
<td>$16.5</td>
<td>$30</td>
</tr>
<tr>
<td>2012</td>
<td>$17.7</td>
<td>$40</td>
</tr>
<tr>
<td>2013</td>
<td>$18.9</td>
<td>$50</td>
</tr>
</tbody>
</table>

* Based on 7/1/2008 valuation
5-Year Projection
Growth in Balance Sheet Obligation

* Based on 7/1/2008 valuation

Deloitte Consulting LLP
• What is not changing for 2010:

  – No change to basic or graduated eligibility
  – No change to definition of eligible dependents
  – Retiree medical benefits continue to mirror employee benefits
  – Blended experience to continue (employees and non-Medicare)
  – Retiree dental will continue to be fully paid (subject to graduated eligibility)
• **What is changing for 2010:**

  – The average UC contribution for retirees, as a percent of total premiums (including Medicare Part B), will be more closely aligned with the percent contributed for active employees due to budget constraints and financial reporting obligations.

  – UC contribution overall average changes from 92% to 89%.

  – Retiree rates will be increasing.

Current PEB Valuation Comparisons
(7/1/2008)

UCRP
- 114,200 Active Employees
  - 64,000 Vested
  - 50,200 Non-Vested
- 29,400 Vested Inactive
- $42.6 B*

Retiree Health
- 113,100 Active Employees
  - 25,800 Eligible Now
  - 87,300 Earning Eligibility
- $13.3 B

* Includes campus/medical centers and National Laboratories
Overview of Employee PEB
Assets / Liabilities / Shortfall

-20% MV Return for 2008/09 and 7.5% per year beginning July 1, 2009 for UCRP

$ in Billions

Plan Year Beginning July 1,

2008
$35.5
$13.3
$12.1
$34.3

2009
$34.3
$36.4
$14.3
$16.4

2010
$32.5
$38.8
$15.4
$16.4

2011
$31.2
$41.2
$16.5
$21.7

2012
$29.1
$43.7
$17.7
$26.5

2013
$28.2
$46.3
$18.9
$32.3

$37

UCRP Actuarial Value of Assets
UCRP Actuarial Accrued Liability
UC Retiree Medical Unfunded Actuarial Accrued Liability
PEB Work Teams Interactive Process

Steering Committee

- Pension Benefits Work Team
- Retiree Health Work Team
- Finance Work Team
The University of California is committed to providing competitive pay and benefits programs to attract and retain excellent faculty and staff to accomplish its mission for the people of California, while ensuring sustainable post employment benefits for current and future retirees.
PEB Task Force Charge

• Consider the impact of:
  – Market competitiveness,
  – Talent management, work force development and renewal, work force behavior,
  – Affordability and sustainability

• Analyze:
  – Cost and cash flow
  – Long-term funding options & impact on UC financial integrity

• Complete work within a reasonable timeframe

• Make recommendations which allow the Regents to meet:
  – Fiduciary obligations
  – Educational responsibilities
PEB Task Force Process Timeline

2009
July–Sept
- Steering Committee Meeting
- Work Team Meetings

2009
Oct–Dec
- Steering Committee Meeting
- Work Team Meetings

2010
Jan–Mar
- Steering Committee Meeting
- Work Team Meetings

2010
Apr–Jun
- Steering Committee Meeting
- Work Team Meetings

2010
July–Aug
- Steering Committee Meeting
- Work Team Meetings

Phase 1:
Assessment and Preparation

Phase 2:
Defining Options and Analysis

Phase 3:
Frame Recommendations

Phase 4:
Prepare Report and Recommendations
President’s charge: engage in a robust consultation and communication process.

- Local Forums with stakeholders and advisory groups
- Meeting all HEERA obligations with unions
- State of California
- Website: http://www.universityofcalifornia.edu/news/ucrpfuture/
QUESTIONS