RETIREMENT REFORM

Taskforce summary

January 26, 2016
• System-wide task force of UC faculty, staff and administrators to help develop a new set of retirement benefits options for UC to offer future employees hired on or after July 1, 2016.
• The task force delivered its recommendations to the president in December.
• New retirement benefits options are being developed as a result of the budget agreement between UC and state leaders, which included $436M to help pay down UC’s unfunded pension liability. In exchange, Gov. Brown and the Legislature required UC to align pension-eligible pay for future employees with that of state employees: this means capping the DB plan at PEPRA cap
• President Napolitano asked the task force members to balance two important criteria:
  - That UC retirement benefits remain competitive within the context of total employee compensation;
  - And that the UC Retirement Plan be financially sustainable.
MEMBERSHIP

- Rachael Nava, chair of the task force, executive vice president and chief operating officer, University of California
- James Chalfant, professor of agricultural and resource economics, UC Davis
- Lori Lubin, professor of physics, UC Davis
- David Lawlor, vice chancellor and chief financial officer, UC Davis
- Shane White, professor, UCLA School of Dentistry
- Dan Hare, professor of entomology, UC Riverside; incoming chair of the UC Academic Senate
- Deidre Acker, systemwide UC Staff Advisor and ombudsperson, UC Merced
- Maria Anguiano, vice chancellor for planning and budget, UC Riverside
- Greta Carl-Halle, business officer, UC Santa Barbara
- David Marshall, executive vice chancellor, UC Santa Barbara
- Pierre Ouillet, vice chancellor and chief financial officer, UC San Diego
- David Odato, associate vice chancellor and chief administrative officer, UC San Francisco Medical Center
- Michael Fehr, UC Labor Coalition representative (University Professional and Technical Employees) and UCLA computer resource specialist
DEFINITIONS

• **Defined benefit**: pension plan in which an employer/sponsor promises a specified monthly **benefit** on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

• **Defined contribution**: does not promise to pay a specific benefit at retirement. Under a defined contribution plan, the employer generally allocates **contributions** to the employee account, often in the form of matching contributions. The retirement benefit payable from a defined contribution plan depends solely on the value of the account balance upon retirement.

• Industry is generally shifting from DB to DC.

• UC is currently offering a generous DB plan.

• For new employees only, PEPRA places a cap on the amount of earnings that can be used to determine pensionable compensation. This cap currently stands at $117,000.
COST CONSIDERATIONS

- Normal cost: the cost of the benefits earned in the current year, usually expressed as percent of payroll
  - Normal cost of the 2013 Tier cost is 16%
    - 7% contributed by the employee
    - 9% contributed by UC
- Unfunded Actuarial Accrued Liability (UAAL): difference between projected pension costs for service already performed and the actual value of our investments
  - UC’s UAAL comes from a two-decade contribution holiday and the 2008-09 financial crisis
  - As a result funded level is 83%, a UAAL of $10 billion
- So
  - UC pays a 5% surcharge to fund the UAAL over the next few years
  - As a result, the total employer cost is 9% + 5% = 14%
- Financial constraints
  - Continue to fund current DB liability
  - Do not increase UC costs, ideally provide some savings
SUPPLEMENTAL PLAN

- One way to protect employees’ retirement is to introduce a supplemental DC plan
- DB plan + DC Supplemental
  - DB Plan unchanged up to PEPRA limit ($117,000).
  - Supplemental DC plan above the PEPRA limit
- DC funding
  - 7% employee contribution up over the PEPRA limit (no change)
  - 10% University contribution over the PEPRA limit
- Design features
  - Flat option percentage regardless of length of service
  - No differentiation between Faculty and Staff
- Challenge: DB + DC plan will be less attractive than current plan to high earners staying with UC for a long-time as DB plan values compound in later years
Projected Pension as a % of Eligible Pay at Retirement (Commencing 55 or later)

Plan A - UCRP 2016 Tier plus DC Supplemental: Flat 10% Option
Plan B - DC Choice: Flat 10% Option

Persona 3: LRF: Assistant Professor; Age 36 / Eligible Pay $98,000
Baseline Pay Increase Assumption 7.0% Employee Contributions

DC account balance is converted to equivalent annual income stream
DC CHOICE

• Another way to protect employees’ retirement is to introduce an alternative plan: DC choice
• Contribution
  - 7% mandatory employee contribution
  - 10% University contribution
  - UC pays a 4% UAAL surcharge to fund the current DB liability
  - As a result, the current employer cost remains 14% (10% + 4%)
• Design features
  - Mandatory employee contribution: making the employee contribution (triggering the employer match) optional match would have saved money but would left some employees at risk
  - Flat option percentage regardless of length of service
  - No differentiation between Faculty and Staff
  - Default plan is the DB + Supplemental
  - Second choice: offering opportunity to chose plan and opportunity to offer second choice after 5 years
  - Vesting: 1 year vesting to support shorter-term employees (a desire from the Health Systems)
## COST CONSIDERATIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>2013 Tier*</th>
<th>2016 Tier DB + Sup</th>
<th>2016 Tier DC Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Normal cost</td>
<td>1</td>
<td>16%</td>
<td>15% to cap + DC Sup</td>
</tr>
<tr>
<td>2. Employee contribution</td>
<td>2</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>3. Employer Normal cost</td>
<td>1-2</td>
<td>9%</td>
<td>9%</td>
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<tr>
<td>4. Employer contribution</td>
<td></td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>5. UAAL Contribution</td>
<td>4-3</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

- For UC: No material savings, but reduction in risk
- For Employees: Less benefits to new long-term employees, but more portability options

* Other tiers include 1976 and Modified 2013
ISSUES AND NON-ISSUES

Negative
• A DC does not “save” money unless benefits are cuts
• In fact, the task-force recommendations do not provide material savings
• Long-term employees earning above PEPRA lose out

Positive
• DC Choice: some employees will favor a DC
• Ability to switch in 5 years
• Political: alignment with the public sector

Neutral
• Commitment to paying the UAAL remains
• No change in defining covered and uncovered comp
• IRS cap applies the same way
• And of course, current employees are exempt
PARTING THOUGHTS

President seeking feedback

Design features heavily debated
- Differentiating Faculty and Staff
- Gradation

Talent acquisition and retention reflects many variables
- Compensation
- Pension
- Other benefits
- Academic environment
- Start-up packages