UPDATE ON RETIREMENT BENEFITS

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Caveat emptor: this information is believed to be accurate and is not a formal document approved by UCOP or the Academic Senate
Two questions about retirement

Will I have enough money?

- Pension
- Savings
- Health insurance

Who am I?

- Do I have an identity other than being a prof?
- What is my self worth?
- Worth to my family?
- Do I want to do anything else?
Don’t listen to ANY of this if you:

a. plan on living forever
b. trust the state of California to decide what you want
c. don’t care what happens after you die
d. do not particularly care for your spouse or children
e. are independently wealthy
f. know that your interests and those of the university and your department are perfectly aligned
The quiz

1. Do you have a will?
2. Do you know your APU? (not the Simpsons!)
3. Are you saving in your 403b?
4. Do you check www.atyourservice.ucop.edu yearly for accuracy?
5. Extra credit: do you know the difference between a DB & a DC?
Caveat emptor

- Consult with financial advisor, HR, departmental business office
- Retirement calculator at www.atyourserivce.ucop.edu
- Lots of faculty council links
  - http://som.ucsd.edu/faculty-council
  - See particularly links relevant to compensation & APUs
- Lots of sites at UCOP, RASC
- Fidelity net benefits workshops
- UCSD Retirement Association
- UCSD Emeriti Association ("the Boynton book")
Floating and steering a great DB pension system

• Everything works fine if:
  • The right number of passengers get on and off at the right time
  • the ship has enough fuel (17.5%/year of payroll invested, aka “normal cost”)
  • the ship makes adequate forward progress (investments earn 7.5%/year return)
For the UCRS “Ship” to cruise:

- Passengers coming on board and disembarking
- The ship has enough fuel
- Making adequate forward progress

- Actuarial forecasts about retirement age, longevity, and death have been pretty accurate
- No fuel “loaded” (i.e. no contributions for 20 years)
  - >$8B in debt
- To “float the boat,” the pension system must earn ~7.5%/year on investments (it generally does)
How did we get here?

• For 20 y, until 2010, we have been punching holes in the keel by not contributing

• Because we are now paying into the system, we are no longer punching new holes, but that doesn’t fix the accumulated (and accumulating) debt
Is this just being an alarmist?

- Deficit grows because steering the pension “ship” assumes 7.5% annual return on 100% funding
- If left untreated, the dollar value of the deficit will double every decade (the miracle/curse of compound interest working against UCRP)
Portfolio performance
(report to Regents, Committee on Finance, Nov 2014)

UCRP Investment Rates of Return

- Market Value of Assets (MVA)
- Assumption (7.5% starting in 1994)
- Actuarial Value of Assets (AVA)

'14-'15 as of 9/4/15, 4.5%
Snapshot on assets and liabilities
(report to Regents, Committee on Finance, Nov, 2014)
In the year 2014

- $52.4B in assets*
- $60.4B in liabilities*
- We are now putting in >normal costs (17.5%/year) and it hurts!
- We still need to pay off billions in debt from lack of contributions

Solution: increase contributions even more
- Do we pray or pretend there will be a miracle?
- Do we pay it off quickly or slowly? (akin to 15y vs 30y mortgage)

*unsmoothed market value
Two classes of “passengers” in the pension system

• Old tier (hired before July 1, 2013)
  • “Richer” tier because the retirement benefits accrue faster
  • Costs more
    • Since 2014, 8%/14%;
    • To pay off liabilities, for next ~10y, 8%/18%*
    • Help from the state?

• New tier (hired after July 1, 2013)
  • “Leaner” tier. Benefits similar as long as you work until age 65. Benefits MUCH worse if retirement before that
  • Costs less (7%/8.1%)
  • Does not fix the deficit

*projected
Calculating your “old” DB

- Years of UC employment earning retirement service credit
- Average of 3 consecutive years of highest covered compensation salary
  - does not include all salary such as “Y” or “Z” salary or campus summer salary
- Academic rank & step are important determinants
- 2.5%/year at age ≥60*

- Example: 60 year old employee with 25 years retirement service credit and whose consecutive highest average annual salary was $100,000 would receive ROUGHLY: 25 X .025 X 100,000 or $62,500

- *the age multiplier is considerably less for age <60
Essence of the pension change

- New pension affects only new hires (July 2013)
- New pension almost as good as old pension if you retire at 65 (don’t even think about retiring <65)
- No lump sum cash out option
- Eliminate “subsidized” survivor benefit
- A new tier for new employees as of 7/1/16—being designed now, probably a mix of DB and DC
  - DB = ~annuity, employer assumes the longevity risk, COLA, nothing “left” when you and your survivor die
  - DC = you own it, you bear the risk of outliving your savings, it can be passed on to heirs
Illustrations of old vs new pension

Age = 65   years of service = 30

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<tr>
<th>HAPC</th>
<th>Tier 1</th>
<th>Tier 2</th>
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<td>$60k</td>
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<td>75%</td>
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<td>$120K</td>
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<tr>
<td>$180K</td>
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Age = 60   years of service = 30

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UCRP Service Credit

• Earned proportional to the % time worked (excludes unpaid leaves, non-salaried sabbaticals)

• Service credit jeopardized by
  • unpaid leave
  • split salary sources (UC, VA)
  • reductions in time
Implications of resumed contributions in health sciences environment

- Contributions assessed to employee and to funding source (grants, hospital, department)
- Contributions assessed to covered compensation (APU), not rank and step
Impact of resumed contributions on grant budgets (% Fringe Benefit Rates)

- With resumed contributions, the fund source (e.g. grants) will pay more fringe benefits
- Fringe benefits are part of direct costs
- Write budgets accordingly
- Remember that PIs are both employers and employees
The elephant in the room

- Clinical and grant income pay both employer and employee contribution
- Unless clinical and grant incomes increase dramatically, salaries will take a hit
VA pension

• Entirely different!
• DB + DC with partial matching, but leaner benefits all in all
• See your VA benefits office to understand
• Complex benefits with joint appointments between VA and UCSD
Medicare primer

- Part A (inpatient) is “free” {you paid for it all along}
- Part B (outpatient and labs covers ~80% of allowable costs). In 2015, billed monthly @$105/person with STEEP increase rate for those couples earning >$170K/year
- UC pays for a supplemental medigap, including drugs. Worth ~$3600/person/year. Not guaranteed.
- For info on Medicare, see:
  [http://senate.universityofcalifornia.edu/committees/ucfw/UnderstandinghealthcarecostsforUCretireesonMedica
trefinalMay2013.pdf](http://senate.universityofcalifornia.edu/committees/ucfw/UnderstandinghealthcarecostsforUCretireesonMedica
trefinalMay2013.pdf)
Costs for retiree medical coverage

Medicare part B and D (2015): substantially increased premiums for those whose earnings are >$85,000 (see table right)

UC medigap currently pays ~$3600/person. Not guaranteed & not provided at all with lump sum cash out

Premium for UC medigap/person ranges from $0 to $105.95/month, depending on plan

Due to an anomaly, these premiums are slated to increase by 50% in 2016

<table>
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<th>Income band/person</th>
<th>Monthly cost/person*</th>
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<tr>
<td>&lt;$85K</td>
<td>$104.90</td>
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<td>$85K-$107K</td>
<td>$146.90 + $12.30</td>
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<tr>
<td>$107K- $160K</td>
<td>$209.80 + $31.80</td>
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<tr>
<td>$160K- $214K</td>
<td>$272.70 + $51.30</td>
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<tr>
<td>&gt;$214K</td>
<td>$335.70 + $70.80</td>
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* First # is part B. Second # is part D.
Retiree health care

- Old tier (hired before July, 2013)
  - Age + years of service
  - “Full coverage” with 20 y service, regardless of age
  - “Full coverage” = UC contribution of ~75% premium cost (will drop to 70% over next ~3 y)
  - Not guaranteed

Increasing cost of health insurance
~$14B unfunded liability for retiree health benefits
The new leaner health care

• Retirees
  • If you are new tier & you retire at age:
    • 50-55 “we wish you luck” (no UC contribution)
    • >55-64 ….. [it’s complicated, for details, see] http://ucrpfuture.universityofcalifornia.edu/news-updates/retiree-health-benefit-changes-coming-in-july/
  • Bottom line:
    • age 65 + 20 y service, you are “covered”
    • “Covered” again means ~75% cost of medigap premium
Final thoughts on health care: HUGE tug of war

- We are on ALL sides of the issue
  1. Employees of UC
  2. “Employers” for our clinical & research staff
  3. Providers
  4. Part of the health sciences

- No one action will benefit all of these players!
Questions?