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SANTA CRUZ DIVISION
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February 5, 2016

Dan Hare, Chair
Academic Council

Re: Retirement Task Force Options Report

Dear Dan,

The UC Santa Cruz Division has reviewed and discussed the January 15, 2016 Retirement Options Task Force (ROTF) Report to the President. Our Committees on Faculty Welfare (CFW), Emeriti Relations (CER), Planning and Budget (CPB), and Affirmative Action and Diversity (CAAD) have responded. Two of the four committees strongly opposed the options presented and favored rejecting the PEPRA cap and the associated funds offered by the State to pay down the unfunded liability of the University of California Retirement Program (UCRP). The other two noted their strong opposition to the agreement made between the Governor and President Napolitano, but operating under the assumption that the Tier III retirement is a "fait accompli", strongly favored Plan A: UCRP 2016 Tier plus a Defined Contribution (DC) supplement, and did not at all support the adoption of Plan B: Full DC plan. The Santa Cruz Division recommends that the President delay the implementation of the ROTF recommendations in order to fully explore the impact of the new plans. Further, we recommend that the assumed 7.25% rate of return on investments be reconsidered, that the University of California continue to contribute 14% to employee retirement, and that all savings generated by changes in retirement benefits be transparently reinvested in either reducing UCRP's unfunded liability and/or mitigating the impact of these cuts on the total compensation of new employees.

The Santa Cruz Division states its opposition to an agreement that will further erode the total remuneration of UC faculty, weaken the University's ability to recruit and retain the top faculty, and likely increase total remuneration inequities between the UC campuses while doing little to address the unfunded liability of UCRP. As defined by "income replaced", both plans presented in the report will provide significantly lower benefits than existing Defined Benefit (DB) plans for an average career with the University. In addition, there are a number of unintended consequences associated with the proposed changes in retirement benefits, including likely increases in the frequency and cost of faculty retentions, as well as added recruitment costs. The impact of these consequences on the operating budget of the different UC campuses has not been properly evaluated, but is likely to be substantial.

The reduction of retirement benefits that this change implies will require that campuses pay higher starting salaries and will have a disproportionately negative impact on campuses with limited resources. Campuses without the financial resources to compensate for the reduction in benefits will be at a considerable disadvantage in terms of their attractiveness to qualified faculty and staff and may not be able to compete for qualified replacements. The inability to procure sought after academic and administrative talent would impact the overall viability of these campuses. Without central resources, this change in benefits will translate into an additional burden on campus budgets, and it is likely that UC Santa Cruz's ability to competitively hire and retain top faculty will be disproportionately compromised. To ensure that the total compensation for new faculty at all campuses remains competitive, the Division recommends that any leftover "savings" not used to fund the adopted plan or pay down UCRP's unfunded liability, be passed down to individual campuses according to need.

If a new "Tier" will be adopted, the Santa Cruz Division favors Plan A. The hybrid Plan A partially replicates a key feature of the current DB plans, providing a fixed retirement income with minimal risk. This one feature provides a sense of security that arguably keeps top faculty from seeking employment elsewhere despite the expectation of higher salary, but includes the added uncertainty of the DC retirement plan. It is clear from the report that the supplemental DC plan as proposed will be inadequate in covering much of the reduction in covered compensation created by the Public Employees' Pension Reform Act (PEPRA) cap. The proposed employer/employee contributions along with assumed rates of return fall far short of recovering the reduction in income replaced. This could partially be addressed by keeping the employer contribution at 14% on the DC supplement plan to the Internal Revenue Code (IRC) cap, and/or initiating the DC supplemental plan and supplemental contributions at the time of employment as suggested in the report.

The Division considers the full DC plan described in Plan B, to be least desirable for both employees and the University and does not support its implementation. As articulated in the ROTF Report, the full DC plan shifts the entire investment risk to the employee, and assuming less than optimal rates of return (i.e. < 7.25%), will produce a lower level of "income replaced" over the long term, and may encourage many faculty to hold off retirement well beyond normal retirement age, while delaying the hiring of junior faculty. Another possible effect is that the portability of the DC will provide little incentive for employees to remain long term, particularly on campuses that cannot significantly increase starting salaries. It is possible that certain campuses will become nothing more than a "springboard" into more well-endowed campuses of the UC system, or other universities.

Further, the Division notes that the wording in the report recommending that for employees choosing Plan B, the University direct an amount corresponding to 4% of Plan B participants' salary towards retiring the Unfunded Actuarial Liability (UAAL), might constitute a legal issue. If this wording remains, UCRP might be at risk of a legal challenge by Plan B employees, in that it implies that money put into the retirement system in their name might go into a fund to which they have no access and from which they derive no benefit. If adopted, the Division recommends that this be worded differently, so that it is clear that the 4% contribution geared towards the retirement of the UAAL is not being funded by Plan B participants.

The Division also questions whether the assumed 7.25% rate of return, as used for UCRP investments, is realistic given the transformation of the global economic landscape over the last decade. Such an assumption for either the supplemental or full DC plans might encourage an insufficient level of employer/employee investment. Standard industry projections for long-term returns on investments (e.g. next 30 years) are far less favorable.

In total, a new UCRP Tier III shifts the risk of investment from the University to the employee and in the long term, will not provide cost savings to the University or its campuses. A new third tier will lower overall remuneration for staff and faculty and will create disparate classifications of campuses and employees on each campus according to the tier of enrollment. Given these issues and the limited impact that the $436 million State contribution will have on UCRP's unfunded liability, the Division encourages the Office of the President to consider a one-year delay in the implementation of the ROTF recommendations in order to fully explore the overall impact of the new plans and further explore alternatives.

For many decades, the University of California has been an outstanding public university that has attracted and retained world-class faculty from all over the world. The Santa Cruz Division encourages the President to take care to protect the prestigious image that the University of California has worked so very hard to cultivate, and that our faculty, employees, and emeriti (both current and future), are honored to represent.

Sincerely,

Don Brenneis

Don Brenneis, Chair
Academic Senate
Santa Cruz Division

cc: James Zachos, Chair, Committee on Faculty Welfare
Shelly Errington, Chair, Committee on Emeriti Relations
Abel Rodriguez, Chair, Committee on Planning and Budget
Miriam Greenberg, Chair, Committee on Affirmative Action and Diversity