PEB Task Force Report: Preliminary Analysis

September 20, 2010

CFW, UCSC

These slides are not confidential. All the information contained is available in public documents.

Overview

- Overview of Key Recommendations
- Unraveling the Complexity of Options A and B (Integrated Plans with Social Security)
- Summary and Dissenting Statement

Overview of Recommendations

- Total Reduction in PEB Benefits = # Rec

  Reduction in Retiree Health Benefits + 2

  Reduction in Pension Benefits +

  ◊ Reduction in Pension Benefits =

  Removal of Features + 7

  Reduction in Benefits at Retirement + Options A/B/C

  Increase in UCRP Contributions

  Additional Issues

Overview of PEB Recommendations
(starting July 1, 2013)

Retiree Health				
1	University contribution to present and future retiree premiums will reduce from ~92/84% to 70% over a 7 year period (2011 to 2018); then stay at 70% (page 56)			
2	Eligibility modified: 56-65 years of age with 10 years of service credit; (some grandfathered)			
Changes Common to All Proposals				
1	Delay max age factor from 60 to 65			
2	End inactive COLA			
3	No Lumpsum Cashout			
4	Remove $133 offset to HAPC			
5	Remove $19 offset to member contributions			
6	Reduction in survivor pension benefits (page 34)			
7	COLA, upto 2% (inflation based) and guaranteed to preserve purchasing power of 80%			
Pension Plan				
Retirees	No change			
Current Employees	Choice 1: Current Plan (with 7% or higher) Choice 2: Switch to New Plan			
New Employees	Option	Employee Contribution	Employer Contribution	Long-Term Normal Cost
	A	3.5%/9.5%	7.3%	11.9%
	B	4.0%/8.2%	9.0%	13.8%
	C	6.1%	9.0%	15.1%

Integrated Plan Options A and B

- The task force report and dissenting statement leave out three key aspects:
  - Age factors increase with salary (see slide 6)
  - Age factors decrease with time (for same salary; see slides 7 and 8)
  - Contributions peak as percentage of salary for middle-income employees (see slides 9 and 10)

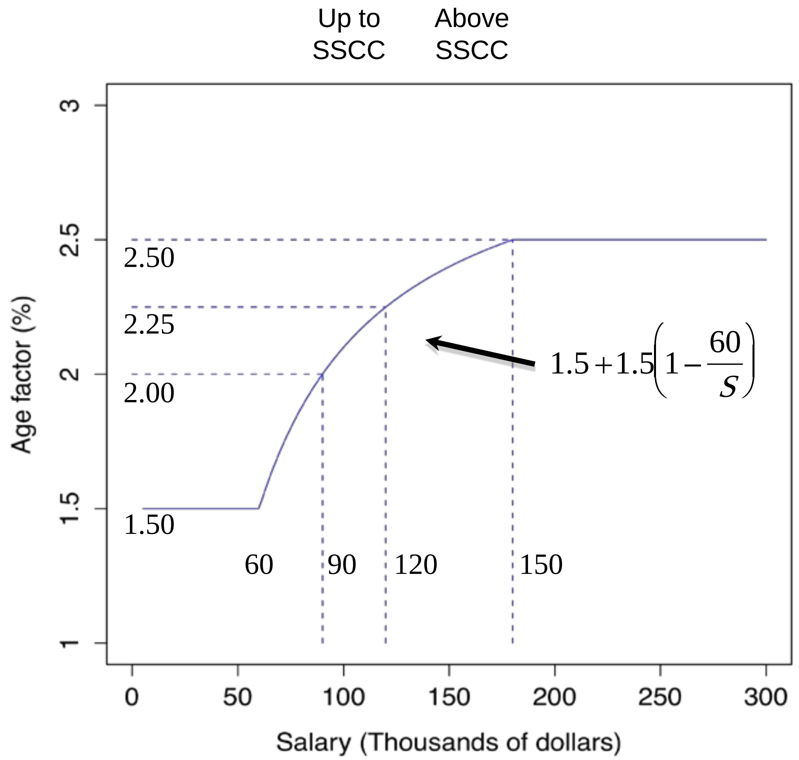
Current Plan: Pension ≈ Salary * Age Factor * # of Years of Service Credit (age factor determines percent of salary by which pension is computed)

Integrated Plans: Same formula, but age factors depend on salary and time

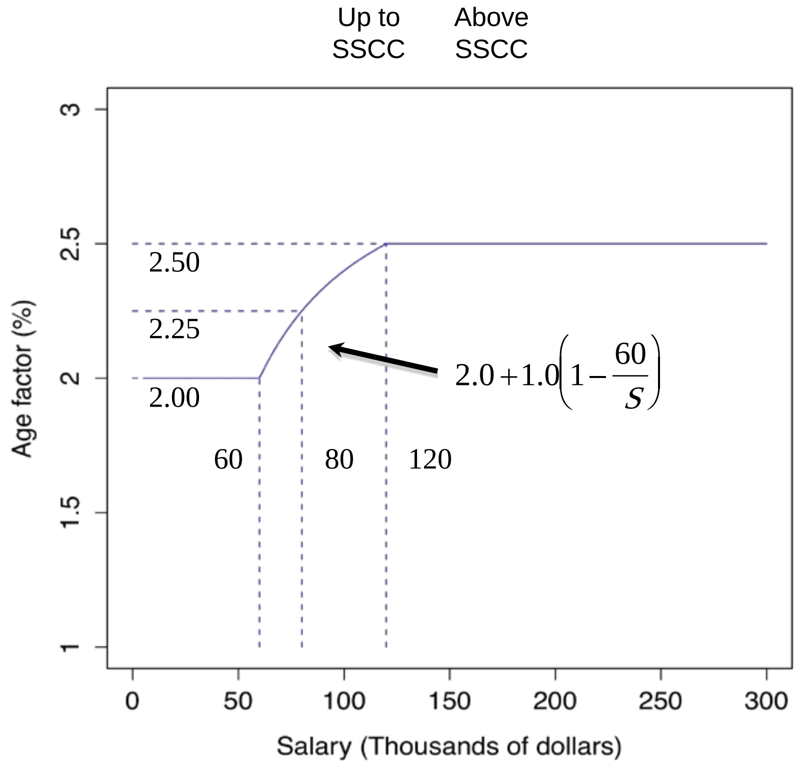
Age factors increase with Salary

(Integrated Plan Options A and B: **2010**)
Example for an employee who is 65 or older
SSCC = Social Security Covered Compensation ≅ $60K

Option A (1.5%/3.0% Max 2.5%)



Option B (2.0%/3.0% Max 2.5%)



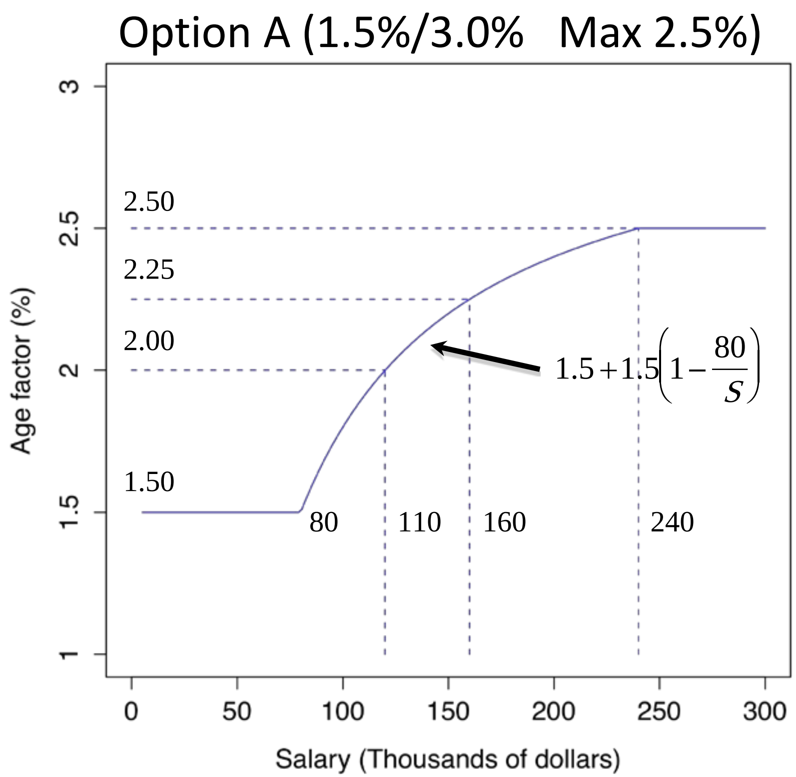
Outcome: Higher wage employees will receive a higher % of their income at retirement than lower wage employees. A & B differ from our current system where the age factor is constant at 2.5 for all employees.

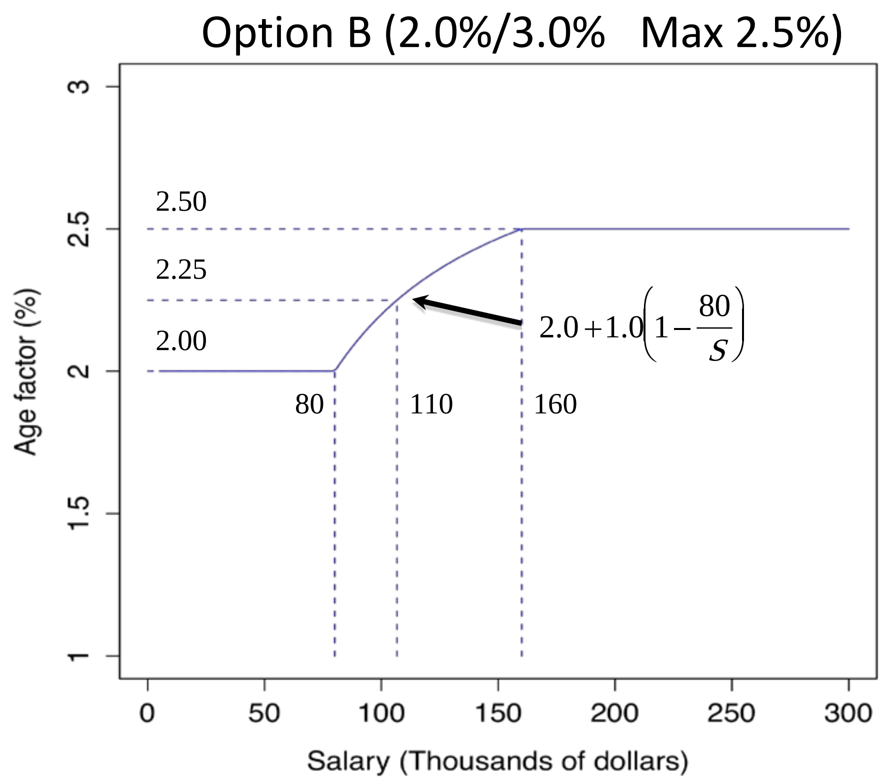
Age factors decrease with Time

(for same salary)

Integrated Plan Options A and B: ~~2010~~ **2020**

SSCC = Social Security Covered Compensation ≅ ~~$60K~~ **$80K**





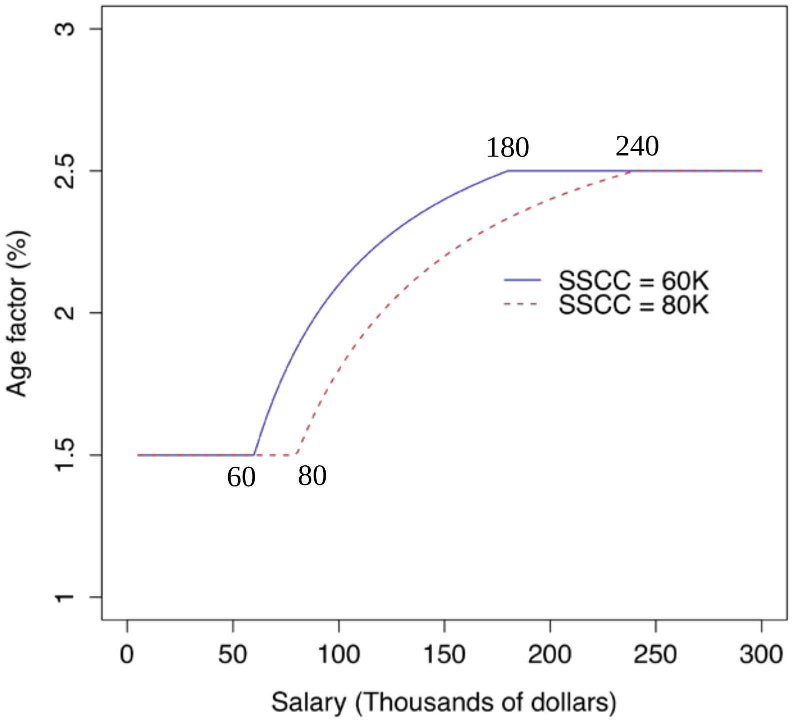
•Outcome: In 10 years, the age factor of an employee at 80K slips from ~2.0 to 1.5 (pension pay decreases by 25%) in Option A and from ~2.25 to 2.0 (pension pay decreases by 11%) in option B.

• Outcome: If salary lags with respect to SSCC, an employee would receive benefits at a lower age factor than s/he contributed at. If UC COLA increases are less than 35% over the next 10 years, salary scales slip with respect to age factors and employees automatically lose pension income. (SSCC is guaranteed to rise to at least $80K in 10 years).

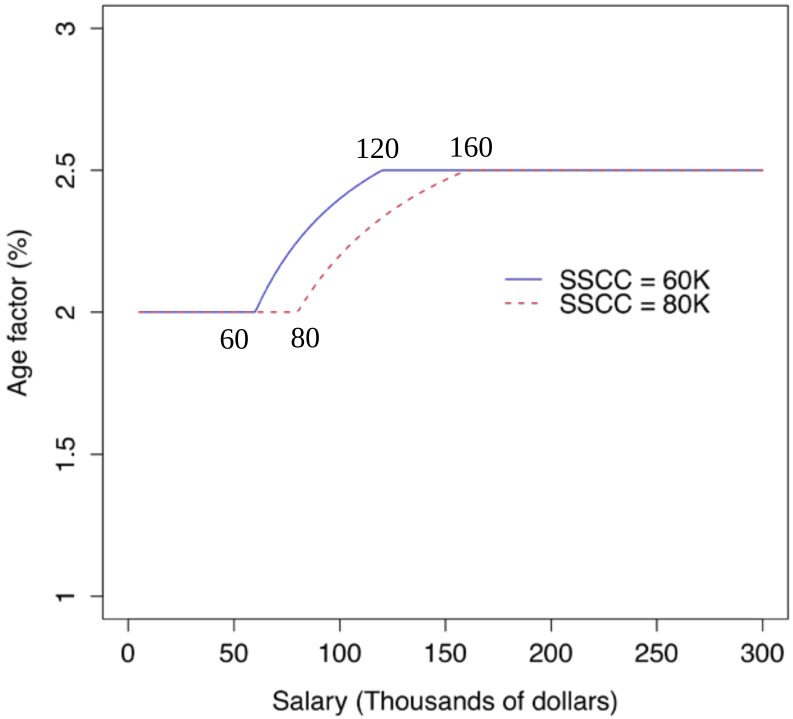
How does 2010 compare with 2020?

- Salary at which the maximum age factor is achieved increases by \$60K under Option A and by \$40K under Option B.
- In general an increase of x at the bottom implies 3x at the top for Option A and 2x at the top by Option B.

Option A (1.5%/3.0%   Max 2.5%)



Option B (2.0%/3.0%   Max 2.5%)



Outcome: Unless salaries increase with respect to SSCC (social security covered compensation), employees lose pension income as time progresses. SSCC is guaranteed to rise at least 35% in next 10 years.

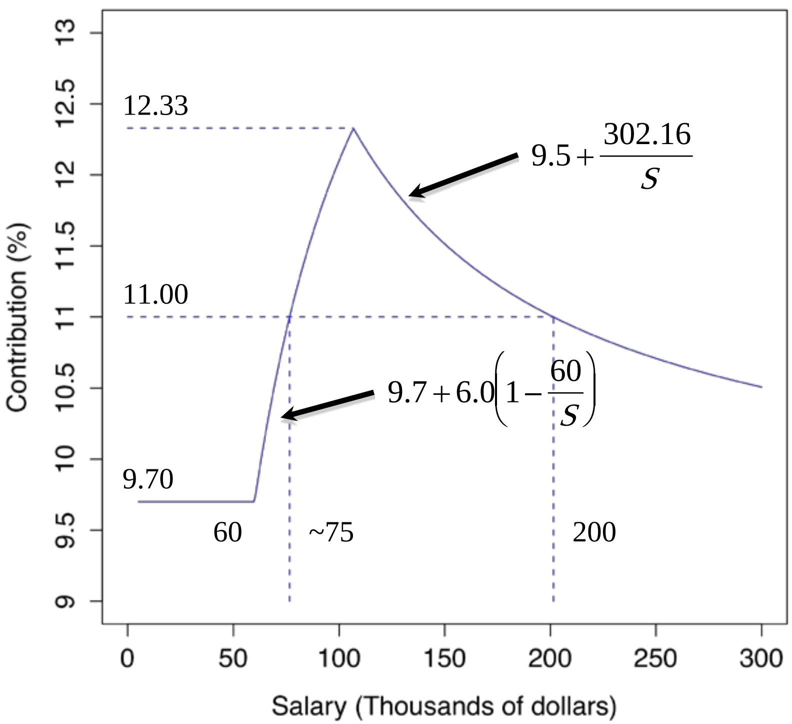
Employee Contribution Rate Peaks for Middle-Income Employees

(Integration Plan Options A and B: 2010)

SSCC ≅ \$60K; SS Wage Base = \$106.8K

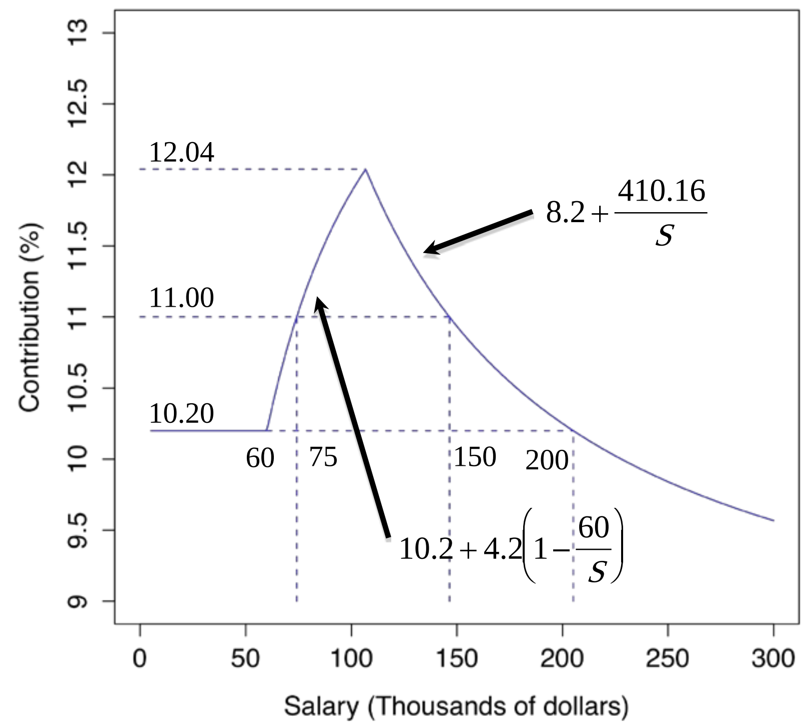
Option A (3.5%/9.5% + SS 6.2%)

Up to SSCC | Above SSCC | Up to SSWB



Option B (4.0%/8.2% + SS 6.2%)

Up to SSCC | Above SSCC | Up to SSWB

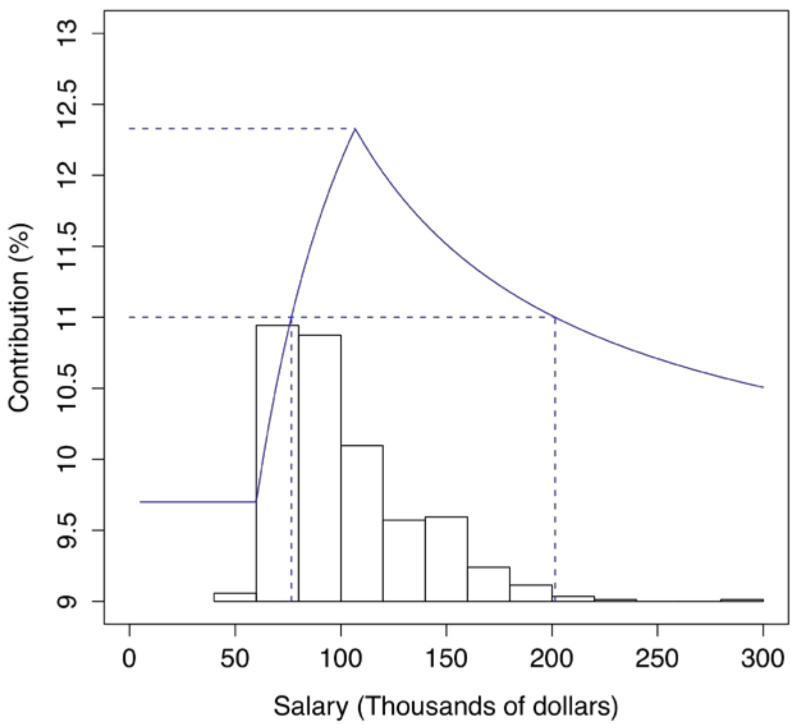


Outcome: Integrated Options A and B propose uniform replacement income of salary from pension fund and social security combined. However, contribution rates to pension fund and social security combined peak for middle-income employees.

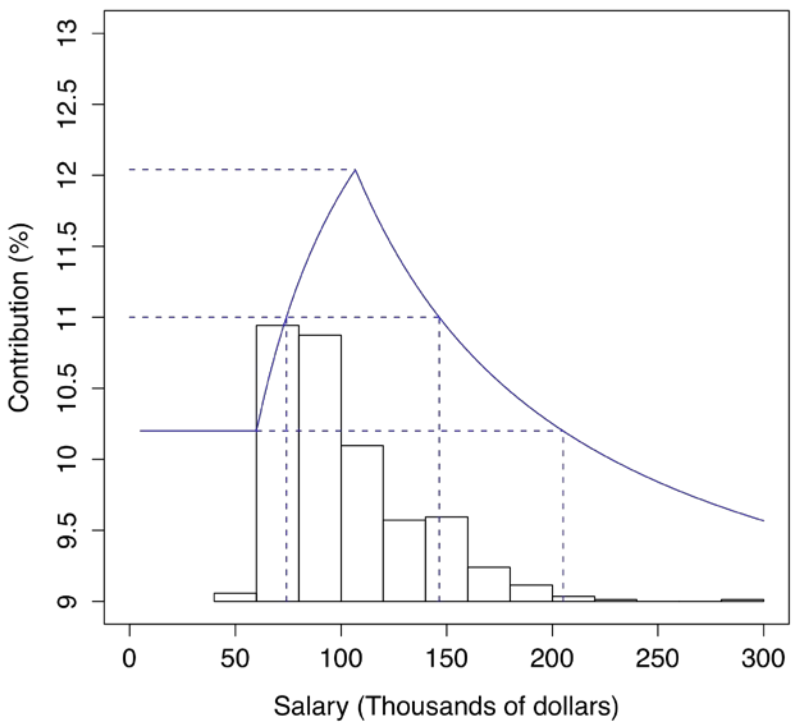
Where are UCSC faculty today? Contributions

- The histogram corresponds to the salaries of all current active faculty at UCSC.

Option A (3.5%-9.5% + SS 6.2%)



Option B (4.0%-8.2% + SS 6.2%)



Outcome: The vast majority of UCSC faculty (under option A) and a sizable majority (under option B) are middle-income employees, who will pay higher percentage of their income into the pension plan and social security combined than other employees.

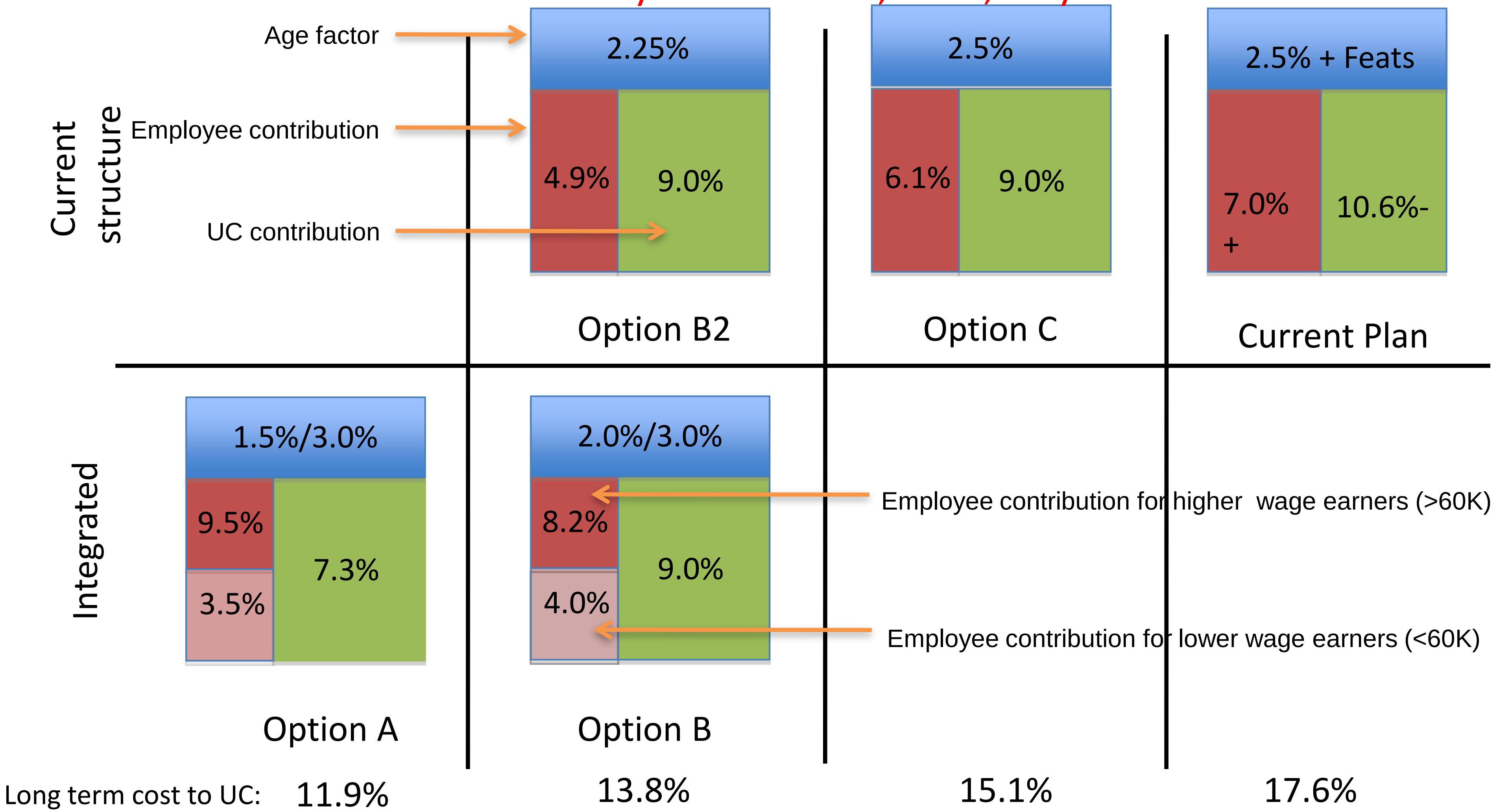
Summary of Options A and B

- Complex (difficult to understand, costly to implement)
- Rare (none of the comparator 8 educational institutions or any of the additional 13 educational institutions listed in the report on Page 73 or CALPERS or CALSTRS uses an integrated pension plan)
- High Uncertainty or Hard to Plan (since benefits are dependent on SSCC which change over time, age factors cannot be computed; only a crude estimate can be provided)
- Inequitable (contributions and benefits vary substantially with salary in contrast to the current structure where both the contributions and benefits are uniform for all salaries)
- Progressive Deterioration with Time (if salary lags with respect to SSCC, then an employee would have contributed at a higher age factor and will receive benefits at a lower age factor; merit increases are not sufficient; needs automatic adjustment of salaries with increase in SSCC)

Pension plan options

Benefits to be decided now for long-term

Contributions to be decided only until June 30, 2014; may increase thereafter



Summary of PEB Recommendations

Total PEB Reduction

= Reduction in Retiree Health

1	Increase in Health Premiums								
2	~8%	Retiree contribution increasing							30%
	2010								2018

+ Removal of Features

1	Delay in Retirement Age to 65
2	Reduction in Survivor Pension Benefits
3	É ÉÉ É ÉÉ É ÉÉ É ÉÉ ÉÉ..

+ Increase in UCRP Contributions

Employee	0%	2%	3.5%	5.0%	7.0%+/ A/B/C				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employer	0%	4%	7%	10%	12%	14%	16%	18%	20%

+ Reduction in Benefits

Age factor reduced from 2.5 to a lower age factor

	Reduction in Retiree Health Benefits	Removal of Features & Reduction in Benefits	Increase in Contributions
Retiree	Yes	No	No
Current Employees	Yes	No	Yes (High)
		Same as new employees	
New Employees	Yes	Yes	Depends on Salary

Dissenting Opinion: PEB Recommendations

Retiree Health						Dissenting Opinion
1	University contribution to present and future retiree premiums will reduce from ~90%/84% to 70% over a 7 year period (2011 to 2018); then stay flat at 70% (page 56)					√
2	Eligibility modified: 56-65 years of age with 10 years of service credit; (some grandfathered)					√
Changes Common to All Proposals						
1	Delay max age factor from 60 to 65					√
2	End inactive COLA					√
3	No Lumpsum Cashout					
4	Remove $133 offset to HAPC					Minor impact
5	Remove $19 offset to member contributions					Minor impact
6	Reduction in survivor pension benefits (page 34)					
7	COLA, upto 2% (inflation based) and guaranteed to preserve purchasing power of 80%					√
Pension Plan						
Retirees	No change					√
Current Employees	Choice 1: Current Plan (with 7% or higher) Choice 2: Switch to New Plan					7% √
New Employees		Option	Employee Contribution	Employer Contribution	Normal Cost	
		A	3.5%/9.5%	7.3%	11.9%	Reject
		B	4.0%/8.2%	9.0%	13.8%	**B ~ C**
		C	6.1%	9.0%	15.1%	Consider

Which pension plan?

Benefits: C is better than B. B is better than A.

Cost: C is more expensive than B. B is more expensive than A.

The University has opposed C.

B = B2 in financial cost (see Slide 12)

Plans with same total normal cost are stacked vertically below.

Current UCRP Pension Plan Structure (Uniform benefits and uniform contributions for all employees)		Option B2	Option C
Integrated Plan Structure (Combined with Social Security)	Option A	Option B	

Key question: Do we want Integrated Plans (Option A, B) or Current UCRP Plan Structure (Option B2, C)?

Additional Questions

- **Funding**

-- UC is promising to ramp up its contribution to 20%+ starting from 2018 for 10 years. Why delay? Delay will lose the additional dollars that can be captured from other sources.

-- UC is continuing its commitment to spend $8 Billion in Capital financing projects over 5 years. This is 100% of payroll. These projects will add additional costs to recurring operating budget. In contrast, UC is promising to pay roughly 50% of payroll into UCRP in the next 5 years. Why not delay some building projects?

-- UC is proposing to increase benefits for super-high income employees.

- **Process**

-- Information Disclosure: The critically important details related to Integrated Option Plans have not been described or presented anywhere by UC or the system-wide senate, which participated in formulating these plans through shared governance. Are/were these option plans clear to Senate, Campus VCs, PEB Steering Committee Members? Will they be communicated to President Yudof and the Regents?

-- Shared Governance: Why is there such a rush to vote on newly designed pension plans? They will be implemented starting July 1, 2013 – two and a half years later. Why not allow more time for input on such complex plans?

- **Impact of other changes in Benefits**

-- No details are provided on several critically important changes in pension design plans: What will be the dollar amount impact of retiree health benefit cuts? What will be the percentage reduction on survivor pension benefits?

Example 1: Pension Benefits

Age = 65: Years of Service = 30

SSCC (2010) = $60K; SSCC (2020) = $80K

Salary	Option A		Option B		UCRP	
	2010	2020	2010	2020	2010	2020
$60,000	45%	45%	60%	60%	75%	75%
$90,000	60%	50%	70%	63.3%	75%	75%
$120,000	67.5%	60%	75%	70.0%	75%	75%

Outcome:

In integrated plan options A and B,

- pension income percentage depends upon salary
- pension deteriorates with time

In current UCRP plan, pension stays the same irrespective of salary or time.