THE END OF THE BEGINNING: THE PEB RECOMMENDATIONS

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The Academic Senate has not yet developed a response to the PEB recommendations, so any opinions expressed should be interpreted as the views only of the authors of these slides.

THREE BIG PROBLEMS

- Substantial unfunded liabilities
  - UCRP
  - Retiree Health
- Uncompetitive salaries
- The UC Budget: Inadequate State support

How will the PEB Recommendations help with these problems??

THE UNFUNDED LIABILITIES

- UCRP has an unfunded liability of $12.9 Billion (7/01/09) due to 20 years of no contributions to the Plan whose annual normal cost is 17.6%.
- Restarting contributions is overdue and absolutely necessary.
- A long-term financing plan is needed.
- Reducing Benefits? No effect on unfunded liability, only on "normal cost" for future benefits.

UNCOMPETITIVE SALARIES

- UC salaries are below market averages for nearly all employee groups.
- Competitive benefits help, to varying degrees by different employee groups.
- Total remuneration is still uncompetitive
- Cutting benefits therefore further erodes our competitiveness.

THE UC BUDGET AND DECLINING STATE SUPPORT (1)

- State support is inadequate and far from historical levels, posing a direct threat to UC's excellence.
- Alternative revenue sources are welcome and critical, but there should be no illusions about their potential to fully replace state support.
- The current budget situation cannot be an excuse to delay dealing with the unfunded liability.
    - The unfunded liability grows at 7.5% annually.
    - $2 of non-state contributions are lost for every $1 of state contributions that are not made.

THE UC BUDGET AND DECLINING STATE SUPPORT (2)

- Retiree health cuts cannot fix the operating budget.
  - We do not “pre-fund” retiree health.
- The unfunded liability means that it will be 20 years before benefits cuts could make a difference in UC’s operating budget.
- Developing a long-term plan for benefits is critical, but the report misses an opportunity to document the need for competitiveness.
- Benefits cuts are not a solution to the budget problem.

WHAT WOULD BE EFFECTIVE?

- Providing incentives to delay retirement
  - Eligibility changes for retiree health benefits
  - Increases in targeted retirement ages
- A long-term financing strategy that recognizes that we cannot invest the problem away
- Achieving competitive total remuneration is required for UC excellence
  - Faculty and Staff need salary increases with **current** benefits
  - We need even greater salary increases to compensate for **reduced benefits** to remain where we are now

DEFINITELY NOT EFFECTIVE

- New tier plans have
  - No effect on accrued pension liability.
  - Little effect on future liability for years.
  - **No effect on the operating budget for 20 years.**
- It is impossible to build or maintain a great University by paying faculty and staff 85 cents on the dollar.
- Savings from cutting benefits are illusory.

THE FUNDAMENTAL QUESTION

- What effect will the actions we take now have on our excellence over the next few years and the next few decades?
- Our heirs may be glad we did not prolong the 20% employer contribution any longer than necessary.
  - But they will have to wait until 2030 for the first 1% reduction in employer costs.
  - By then the damage to the University will likely be irreversible.
- More likely, our heirs will be glad we did everything we could to preserve UC’s excellence through competitive total remuneration.

RETIREE HEALTH OPTIONS

- Structured to incentivize retirement at a later age
- Reduce UC's maximum contribution to 70% of premiums
- Eligibility for maximum contribution requires age 65 and 20 years service
  - Half at age 60 (i.e. 35% of premium)
  - Reduced by service years < 20, also linearly
- We need to be looking at pre-funding, which reduces the GASB liability
- Affordability for retirees

THE PENSION OPTIONS: COSTS

Proposed Plan-Age Factor	Estimated Long-Term Total Normal Cost	Member Contribution Rate(s)	Estimated Long-Term Employer Normal Cost
Integrated with Social Secruity			
Option A – 1.5%/3.0%	**11.9%**	**3.5% / 9.5%**	**7.3%**
Option B – 2.0%/3.0%	**13.8%**	**4.0% / 8.2%**	**9.0%**
Not Integrated with Social Security			
Option C – 2.50%	**15.1%**	**6.1%**	**9.0%**

The slashes indicate the break point of Social Security Covered Compensation (SSCC) which is currently around $60K and rises over time with wages.

THE PENSION OPTIONS: AN ILLUSTRATION

Pension Alternatives with Retirement:

Age = 60 Years of Service = 30

HAPC	UCRP	Option A	Option B	Option C
$60,000	**$45,000** ***(75%)***	**$19,440** ***(32%)***	**$25,920** ***(42%)***	**$32,400** ***(54%)***
$90,000	**$67,500** ***(75%)***	**$38,880** ***(43%)***	**$43,740** ***(49%)***	**$48,600** ***(54%)***
$120,000	**$90,000** ***(75%)***	**$58,320** ***(49%)***	**$64,800** ***(54%)***	**$64,800** ***(54%)***

%HAPC is shown in parentheses

THE PENSION OPTIONS: AN ILLUSTRATION

Pension Alternatives with Retirement:

Age = 65   Years of Service = 30

HAPC	UCRP	Option A	Option B	Option C
$60,000	$45,000 *(75%)*	$27,000 *(45%)*	$36,000 *(60%)*	$45,000 *(75%)*
$90,000	$67,500 *(75%)*	$54,000 *(60%)*	$60,750 *(68%)*	$67,500 *(75%)*
$120,000	$90,000 *(75%)*	$81,000 *(68%)*	$90,000 *(75%)*	$90,000 *(75%)*

%HAPC is shown in parentheses

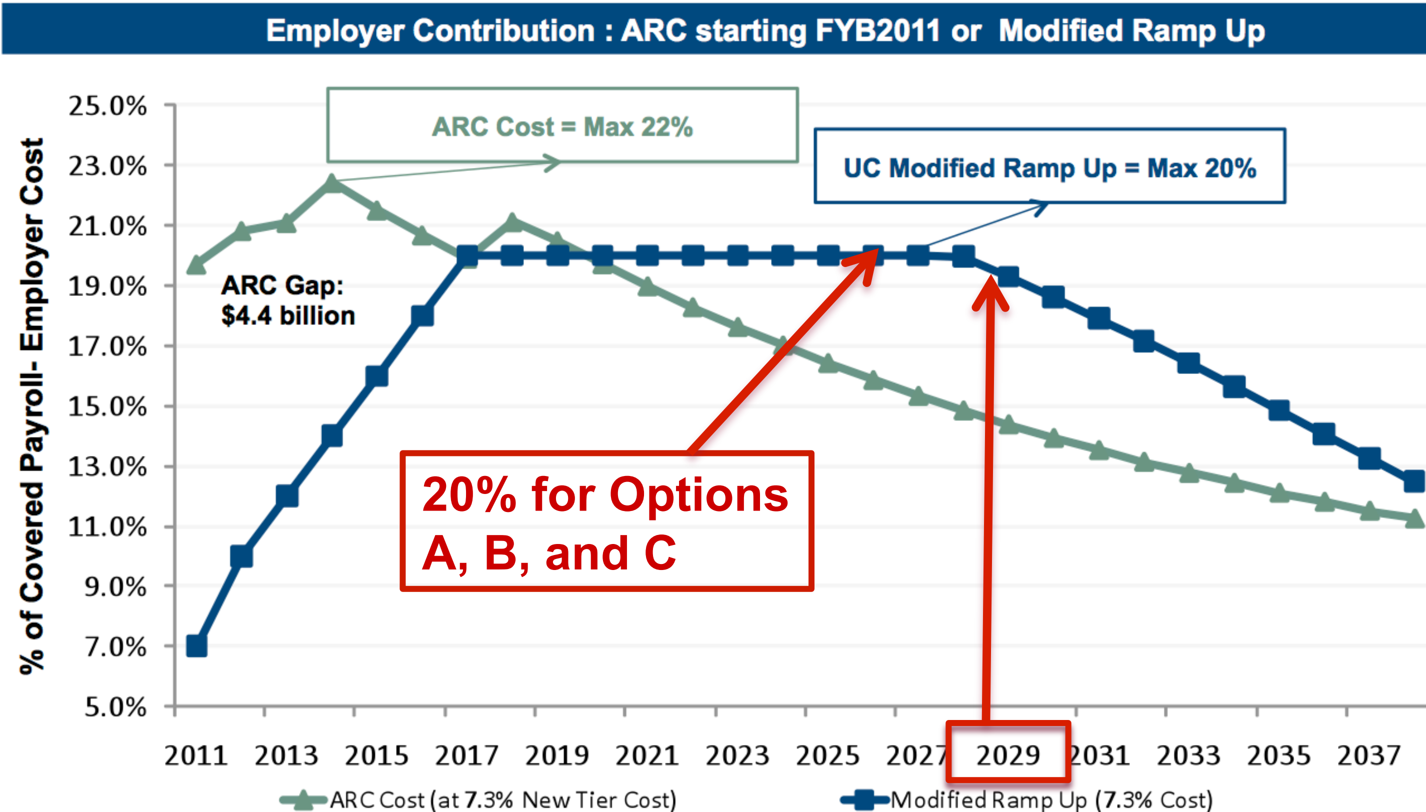
COMPETITIVENESS OF THE OPTIONS

Employee Group	Current UCRP With 5% Contributions	Option A	Option B	Option C
Overall	+10%	-43%	-27%	-22%
Ladder Rank Faculty	-8%	-41%	-30%	-26%
Senior Management Group	+19%	-6%	-2%	+2%
Librarians & Other Academics	+50%	-19%	+5%	+13%
Management & Senior Professionals	+24%	-33%	-17%	-14%
Professional & Support Staff—Policy Covered	+25%	-52%	-30%	-22%
Professional & Support Staff—Represented	+25%	-54%	-31%	-25%
Service Workers	+43%	-43%	-17%	-8%

Options A, B, and C: Comparisons to Market and to Current Benefits, for Faculty and Policy-Covered Staff

Group/ Cash Comp. Lag	Retirement	Retiree Health	Total Retirement	Total Remuneration
Current UCRP with 5% employee contributions				
Faculty -10%	-8%	+56%	+2%	-2%
PSS-PC -13%	+27%	+485%	+85%	-2%
Option A: 1.5%/3% with 3.5%/9.5% employee contributions				
Faculty -10%	-41%	-3%	-36%	-11%
PSS-PC -13%	-52%	+212%	-18%	-11%
Option B: 2%/3% with 4%/8.2% employee contributions				
Faculty -10%	-30%	-3%	-26%	-9%
PSS-PC -13%	-30%	+212%	+1%	-9%
Option C: "UCRP Lite" with 6.1% employee contributions				
Faculty -10%	-26%	-3%	-23%	-9%
PSS-PC -13%	-22%	+212%	+8%	-8%

IDENTICAL EMPLOYER CONTRIBUTIONS FOR OPTIONS A, B, OR C, THROUGH 2029



DISSENTING STATEMENT-1

1. No pension plan should be adopted if it is competitive only after future hypothetical salary increases.

2. Option A is unacceptable because it would not be competitive even if the salary gap were closed.

3. Options B and C could be competitive if the salary gap is closed.

4. It can be argued that Option C is superior to Option B for simplicity and transparency.

DISSENTING STATEMENT-2

5. If "Choice" between remaining in UCRP or joining a new tier is implemented, the employee contribution for UCRP should not exceed 7%.
6. We oppose attempts to undermine the Total Remuneration studies and their results.
7. We support the cuts in Retiree Health described in the Report but oppose any further cuts in this area.
8. We support steps proposed and taken to put UCRP on a sounder financial footing.

BUDGET CONCLUSION: THE UNFUNDED LIABILITY

- The budget problem (and potential shrinkage of work force) arises from the *unfunded liability*, which we have no way to reduce.
- A new tier will initially apply to only a few people, so there is little reduction in future liability early on in any Option.
- Borrowing from STIP* (at 2.5-3%) to address the unfunded liability results in *identical* effects of Options A, B, and C on the operating budget for two decades.

**STIP = Short Term Investments Pool*

BUDGET CONCLUSION: THE OPERATING BUDGET

- Under Option A, there will be fewer employees, and there might be layoffs.
- Since they cost the same until 2030, Options B and C will not cause any additional layoffs.
- Option A could even cause more harm, since it requires higher salaries just to match Options B and C in total remuneration.
- Option A cannot be competitive unless salaries move to levels *above market*.

SOME FINAL THOUGHTS

- Integration with Social Security is not an overriding goal and has disadvantages, among which is complexity.
- What matters is total remuneration!
- How to formulate a better strategy?
  - LAO call for long-term financing plan
  - The PEB Task Force Report is a missed opportunity to make the case for remaining competitive and for UC excellence.
- “Sustainability” vs. Quality