The President’s Task Force on Post Employment Benefits

Spring Local Forum
Agenda For Today

• Financial and Funding Issues

• Talent Management Issues

• Scope and work of the President’s Post-Employment Benefit Task Force

• Task Force Process and Options

• Next Steps and Timeline
Timeline – President's Task Force on Post-Employment Benefits

Mar 2009 through Mar 2010
- Task Force Formation
- Steering Committee and Work Team Meetings
  - Fall Forums
  - Consultation
  - Surveys

Apr
- Spring Forums

May
- Work Team Meetings
- Steering Committee Meetings

Jun
- Task Force Recommendations
- Report to the President

Jul
- Regents Discussion
- Decision on when Report is made Public

Ongoing Academic Senate Consultation
What is NOT Changing

• Pension Program (UCRP)
  – Pension benefits that current employees have already accrued to date
  – Continuation of a defined benefit plan
  – Retirees will not be asked to contribute to UCRP when active employees begin contributions

• Retiree Health Program
  – Basic program eligibility if you have already retired
  – Continuation of retiree health benefits

• University of California
  – Severe state induced budgetary pressures expected for many years
  – Strong UC advocacy effort to secure State of California UCRP contributions through the annual budget request process
Under the terms of the pension plan, all of your benefits accrued to date are protected.

The Plan reserves to the Regents the right to change future accruals of pension benefits for current employees.

Pension and retiree health benefits of new hires can be changed at any time.

Retiree health benefits are not vested, so changes can be made to retiree health eligibility, plan design, and premiums for both current faculty, staff, and retirees.

*PEB changes are subject to collective bargaining for represented groups.
FINANCIAL AND FUNDING ISSUES
UCRP and Retiree Health Background

- UCRP assets held in a trust, $32.3B Market Value (June 30, 2009)
  - UCRP benefits are paid from this trust
  - Retiree health benefits are not paid from the UCRP trust

- Retiree health benefits are on a pay-as-you-go basis
  - Retiree health premiums are paid using an assessment against all location fund sources
  - Currently retiree health annuitant assessment is $3.12 per $100 of covered payroll, deposited in a separate retiree health trust
Overview of PEB
Assets / Liabilities / Shortfall

Plan Year Beginning July 1

- UC Retiree Medical Unfunded Actuarial Accrued Liability
- UCRP Actuarial Accrued Liability
- UCRP Actuarial Value of Assets

- $34.9 to $39.0
- $16.5 to $21.6
- $14.5 to $15.6
- $26.8 to $32.6
- $18.0 to $37.5
- $19.3 to $40.4
- $4.0 to $4.9
- $2.0 to $4.0
- $1.5 to $1.5
- $0.0 to $0.0
Increasing Retiree Health Program Costs

“Pay-as-You-Go” Cash Costs (Millions)

Balance Sheet Obligation (Billions)
UCRP Long Term Investment Performance Ahead of UCRP Earnings Assumption

UCRP Funded Ratio [at Market Value]
Actual and Pro Forma
(Assuming Annual Contributions = Normal Cost)

Actual Funded Ratio (Market)  Pro Forma (w/ Norm Cost contrib)
Regents UCRP Funding Policy

• Adopted September 2008 for 2009/2010 Plan Year

• Funding policy determines total policy contribution level and establishes a 100% long term funding target

• Funding policy starts with Normal Cost plus an amount to amortize the unfunded liability over a 15 year period.

• Regents will determine actual total contributions and the split between employer contributions and member contributions based on:
  – The availability of funds
  – Impact of member contributions on competitiveness of total remuneration
  – Collective bargaining
Total UCRP Contributions
Projected and Based on Funding Policy

Plan Year Beginning July 1,
Pension Obligation Bonds

- Issuing POBs to pay a portion of the State contribution of ARC above the planned contribution levels would require payment of debt service each year.
- Debt service would reach a maximum debt service of $324M in 2021 or 8.41% of pay for employees paid from State sources.
- Debt service would be paid in addition to the projected employer contribution of 28% of payroll in 2021.

**POB Debt Service – Additional State Contribution Only**

$0.0  $50.0  $100.0  $150.0  $200.0  $250.0  $300.0  $350.0  $400.0  $450.0  $500.0


0.00%  1.00%  2.00%  3.00%  4.00%  5.00%  6.00%  7.00%  8.00%  9.00%  10.00%
TALENT MANAGEMENT CONSIDERATIONS
Talent Management Considerations

While a good deal of discussion has been on the financials surrounding post-employment benefits…the reason an organization offers these or any other pay or benefit programs is to **Attract and Retain the Best.**

Key considerations:

- Reward long service
- Recognize the value of PEB to employees
- Ensure the programs are sustainable
The Process:

- Targeted online survey of PEB preferences - based on 2009 Towers Watson National Survey
  - 17,700 faculty, policy-covered staff sent written surveys
  - 23% response rate

- Open on-line survey – 6 questions
  - 9,000 faculty and policy-covered staff responded
  - 3,000 retirees responded (questions focused on health program)

- Full report will be available on-line
Sample results:

- Post-employment benefits are among the top reasons that faculty and staff come to and stay at UC.
- 80% expressed high satisfaction with UC retirement benefits.
- 73% said they plan to retire with 20+ years of service.
- Many placed higher value on retirement benefits (69%) vs. cash compensation (13%).
Market Alignment by Category
Campus and UCOP

(Data Effective October 1, 2009)

Campus and OP

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Faculty</th>
<th>SMG</th>
<th>Other Academic</th>
<th>MSP</th>
<th>PSS (Policy)</th>
<th>PSS (Repr)</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>-10%</td>
<td>-22%</td>
<td>-4%</td>
<td>-16%</td>
<td>-13%</td>
<td>-19%</td>
<td>-1%</td>
</tr>
<tr>
<td>Pension</td>
<td>+12%</td>
<td>+29%</td>
<td>+76%</td>
<td>+48%</td>
<td>+54%</td>
<td>+63%</td>
<td>+87%</td>
</tr>
<tr>
<td>Retiree Health</td>
<td>+51%</td>
<td>+59%</td>
<td>+80%</td>
<td>+449%</td>
<td>+469%</td>
<td>+306%</td>
<td>+255%</td>
</tr>
</tbody>
</table>

Figures do not include impact of furloughs

- There have been rigorous discussions about the relation and importance of cash compensation to total remuneration
- Balance and relationship to market will be the key strategic consideration going forward

Data provided by Hewitt and Mercer consulting firms, p. 35, 37, 39, 41, 43, 45, 57 of Oct 2009 Total Remuneration Study.
Medical Centers

Medical Center total remuneration has moved closer to market alignment due to a concerted approach

<table>
<thead>
<tr>
<th>Indicator</th>
<th>SMG</th>
<th>Staff Physicians</th>
<th>MSP</th>
<th>Nurses</th>
<th>PSS (Policy)</th>
<th>PSS (Repr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>+3%</td>
<td>-18%</td>
<td>+5%</td>
<td>-3%</td>
<td>-5%</td>
<td>0%</td>
</tr>
<tr>
<td>Pension</td>
<td>+100%</td>
<td>+40%</td>
<td>+70%</td>
<td>+22%</td>
<td>+37%</td>
<td>+33%</td>
</tr>
<tr>
<td>Retiree Health</td>
<td>+372%</td>
<td>+269%</td>
<td>+600%</td>
<td>+199%</td>
<td>+539%</td>
<td>+506%</td>
</tr>
</tbody>
</table>

(Data Effective October 1, 2009)

Data provided by Mercer consulting firm, pp. 71, 73, 75, 77, 79, 81 of Oct 2009 Total Remuneration Study.
Talent Management Considerations

- Defined benefit scenarios are the primary options

- We stand out among our competitors with these benefits...we want to keep the edge

- We are considering scenarios that are sustainable...
  - with rational adjustments
  - with more market alignment

- Our overall direction is consistent with your feedback
TASK FORCE – PROCESS AND OPTIONS
PEB Task Force Charge

Using the Task Force’s Guiding Principles

- Assess and analyze the impact of:
  - Market Competitiveness
  - Work Force Behavior
  - Employee and Labor Relations
  - Legal Implications and Risks
  - Current and Long-term PEB Funding Options
  - Impact on UC Financial Integrity

- Make recommendations to the President which allow the Regents to meet:
  - Fiduciary Obligations
  - Educational Responsibilities
### UCRP Benefits for New Hires Potential Alternatives

<table>
<thead>
<tr>
<th>Lever</th>
<th>Current Plan</th>
<th>Range of Options*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Factors</td>
<td>Minimum age 50</td>
<td>Minimum age 55</td>
</tr>
<tr>
<td></td>
<td>2.5% at age 60</td>
<td>1.5 to 3% at age 65</td>
</tr>
<tr>
<td>Maximum Benefit</td>
<td>100%</td>
<td>80% - 100% (with or without Social Security)</td>
</tr>
<tr>
<td>COLA</td>
<td>Generally 2% with a 6% cap</td>
<td>Generally 2% with a 5% cap or lesser of CPI or 2% with periodic ad hoc increases</td>
</tr>
<tr>
<td>Employee Contribution</td>
<td>2%/4% (through 6/11)</td>
<td>5% or more upon hire</td>
</tr>
<tr>
<td>Employer Contribution</td>
<td>4% (actually ~16%)</td>
<td>7 – 9% Target</td>
</tr>
<tr>
<td>Plan Design</td>
<td>Defined Benefit Plan</td>
<td>New Tier - Defined Benefit or Defined Contribution Choice</td>
</tr>
<tr>
<td>Current Normal Cost</td>
<td>17.6%</td>
<td>12%</td>
</tr>
<tr>
<td>Total Normal Cost Target</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Does NOT reduce UCRP Unfunded Actuarial Accrued Liability; only applies to future benefits.

*PEB changes are subject to collective bargaining for represented groups
Task Force Considerations for Current Faculty and Staff - Pension

• Faster ramp up of contributions for both employer funding sources and for active members*

• Extending choice to current faculty and staff*

• Complete stakeholder discussions on risks and impacts of applying new tier defined benefit options to current faculty and staff for future pension benefits*

*PEB changes are subject to collective bargaining for represented groups
<table>
<thead>
<tr>
<th>Lever</th>
<th>Current Plan</th>
<th>Range of Options*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Eligibility Age</td>
<td>Age 50</td>
<td>Age 55 - 65 (Age 50-55 access only)</td>
</tr>
<tr>
<td>Graduated Eligibility based on Service</td>
<td>10 - 20 years (50% to 100% of UC contribution)</td>
<td>10 – 30 years (0% to 100% of UC contribution)</td>
</tr>
<tr>
<td>UC Contribution</td>
<td>≃ 89% of blended premium</td>
<td>Phase in 70% - 80% blended or unblended premium</td>
</tr>
<tr>
<td>Actuarial Accrued Unfunded Liability</td>
<td>$14.5 billion</td>
<td>$9.2 to $10.4 billion</td>
</tr>
<tr>
<td>Normal Cost Target Normal Cost</td>
<td>7.9% of payroll</td>
<td>3% - 4% of payroll</td>
</tr>
</tbody>
</table>

*Reduces unfunded liability for Retiree Health Benefits

*PEB changes are subject to collective bargaining for represented groups
### Medical Plan Rating Groups

#### Blended
- Faculty and Staff plus **Non-Medicare Retirees** (117,700)
- Medicare Retirees (22,000)

#### Unblended
- Faculty and Staff (107,400)
- **Non-Medicare Retirees** (10,300)
- Medicare Retirees (22,000)
Task Force Considerations for Current Faculty and Staff – Retiree Health

• Grandfathering basic program eligibility based on age and service*
  – Not level of UC contribution

• Program policy changes*
  – Pay bands, blended or unblended rates

• Mitigating the impact of proposed changes for those not eligible for Medicare

*PEB changes are subject to collective bargaining for represented groups
Risk of Potential PEB Changes on Current Faculty and Staff

• Total remuneration
• Employee relations impact
• Recruitment
• Retention
• Workforce segmentation

PEB changes are subject to collective bargaining for represented groups
Public Reactions to Post Employment Benefit Programs

- Public Opinion
  - Ongoing negative opinion pieces on public employees’ benefits
  - 2009 Field Poll (random phone survey of 1,005 voters)
    - 60% favor a cap on public pension benefits
    - 56% favor a Defined Contribution plan only
    - 51% favor reduced benefit formulas

- Public employers beginning to address unfunded liabilities

- Prior proposals for CalPERS
  - Pension
    - Reduce benefits to level in effect before January 1, 2000 increases
    - Increase employee contribution to 10%
  - Retiree Health
    - Increase service requirement for full benefit to 25 years
    - Reduce State contribution to 85% of average HMO premium
National Health Care Reform

- Full effect on UC’s retiree health program and liabilities not yet known
- Higher Medicare payroll tax for high earners
- Dependents covered to age 26 under UC plans
- UC will need to carefully monitor issues related to the “Cadillac Tax” (effective 2018)
- UC will closely monitor this reform package and the reconciliation process as it is implemented
Timeline
President's Task Force on Post-Employment Benefits

Jan:
- Work Team Meetings
- Consultation
  - Surveys

Feb:
- Spring Forums

Mar:
- Work Team Meetings
- Steering Committee Meetings

Apr:
- Task Force Recommendations
- Report to the President

May:
- Regents Discussion
- Decision on when Report is made Public

Jun:

Jul:

Ongoing Academic Senate Consultation
Websites

• [http://www.universityofcalifornia.edu/new/ucrpfuture/emp_task.html](http://www.universityofcalifornia.edu/new/ucrpfuture/emp_task.html)
  – PEB Task Force Website
  – Post Employment Benefits Survey results will be available in May

• [http://www.universityofcalifornia.edu/regents/regmeet/nov09.html](http://www.universityofcalifornia.edu/regents/regmeet/nov09.html)
  – Finance Committee – November 18, 2009
    • Annual Pension Valuation Report and Presentation (Segal Company) and
    • Annual Retiree Health Valuation Report and Presentation (Deloitte Consulting)

  – The Complete 2009 Total Remuneration Study and Fact Sheet

• [http://www.universityofcalifornia.edu/senate](http://www.universityofcalifornia.edu/senate)
  – Assuring Adequate Funding for UCRP
  – Evaluating UCRP Investment Returns
  – Market Volatility and the Lump Sum Cashout
QUESTIONS
## Examples of Member Contribution Amounts

<table>
<thead>
<tr>
<th>Monthly Covered Compensation</th>
<th>Monthly Member Contribution</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500 ($30,000 annual)</td>
<td>$31</td>
<td>1.24%</td>
</tr>
<tr>
<td>$4,167 ($50,000 annual)</td>
<td>$64</td>
<td>1.54%</td>
</tr>
<tr>
<td>$6,250 ($75,000 annual)</td>
<td>$106</td>
<td>1.70%</td>
</tr>
<tr>
<td>$8,333 ($100,000 annual)</td>
<td>$148</td>
<td>1.78%</td>
</tr>
<tr>
<td>$10,417 ($125,000 annual)</td>
<td>$220</td>
<td>2.11%</td>
</tr>
<tr>
<td>$12,500 ($150,000 annual)</td>
<td>$303</td>
<td>2.42%</td>
</tr>
</tbody>
</table>
AVA recognizes each MVA return above or below the assumed rate (7.5%) over five years.
The **Normal Cost** is the portion of the long term cost allocated to a year of service.
- Only active members have a current Normal Cost

The **Actuarial Accrued Liability (AAL)** measures the Normal Costs from past years.
- For retired members, the AAL is the entire value of their benefit

**Current Year Normal Cost**

<table>
<thead>
<tr>
<th>Actuarial Accrued Liability</th>
<th>Future Normal Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Age</td>
<td>Current Age</td>
</tr>
<tr>
<td>Current Age</td>
<td>Retirement Age</td>
</tr>
</tbody>
</table>
UCRP Historical Funded Status

$ in billions

2001 2002 2003 2004 2005 2006 2007 2008 2009

Actuarial Accrued Liability (AAL)  Actuarial Value of Assets (AVA)  Ratio

Campus/Medical Centers Only
UCRP Peer Performance Comparison
Consistently in Top Percentile

Trust Universe Comparison Service
Performance Comparison
Total Return of Master Trusts > $1B
Cumulative Periods Ending: December 31, 2009

<table>
<thead>
<tr>
<th>Percentile Rankings</th>
<th>3 Month</th>
<th>Fiscal Year</th>
<th>Cal. Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th</td>
<td>4.53</td>
<td>18.89</td>
<td>26.40</td>
</tr>
<tr>
<td>25th</td>
<td>3.83</td>
<td>16.23</td>
<td>22.06</td>
</tr>
<tr>
<td>50th</td>
<td>3.43</td>
<td>14.71</td>
<td>18.51</td>
</tr>
<tr>
<td>75th</td>
<td>2.58</td>
<td>13.10</td>
<td>14.64</td>
</tr>
<tr>
<td>95th</td>
<td>0.74</td>
<td>6.90</td>
<td>6.86</td>
</tr>
<tr>
<td>No. of Obs</td>
<td>177</td>
<td>177</td>
<td>175</td>
</tr>
<tr>
<td>UCRP Total</td>
<td>3.82 (26)</td>
<td>16.72 (19)</td>
<td>23.26 (20)</td>
</tr>
</tbody>
</table>