COMMITTEE ON FACULTY WELFARE
Pension and Post-Retirement Health Benefits

To the Academic Senate, Santa Cruz Division:

For the past year, the systemwide Presidential Task Force on Post Employment Benefits (PEB Task Force) has been meeting to examine the challenges posed by pension and post-retirement health benefit liabilities and to develop recommendations for solutions. Pension and post-retirement health care liabilities at this point exceed assets, a trend that is projected to worsen significantly over the coming years. Costs associated with the underfunding of these benefits—underfunding compounded but not created by the severe recent downturn in the world economy and the California legislature's unwillingness to provide support for UC benefits—are a key driver of the fiscal difficulties the University of California is now contending with.[1] This report, in two parts, is meant to outline CFW's perspective on the process of consultation and our commentary on the content of PEB options that have been offered for serious consideration systemwide.

These two items are related: though consultation with the Academic Senate and with other UC employees is very much part of the planned process of the PEB Task Force, restrictions attributed to confidentiality have limited the ability of the Senate to consult widely with constituents, all of whom are stakeholders in the outcome of any changes to our "post-employment" benefits.[2] These restrictions have been compounded by a challenging, but as yet incompletely defined timeline.

CFW offers the thoughts that follow as a report on our thinking thus far. For reasons outlined below, we are limited in the amount of detail we can provide in this report.

Part One: Consultation

Overview

The PEB Task Force has worked closely all year to identify plausible options for reducing UC's PEB liabilities.[3] This process has reduced the number of options from sixteen to two; the final

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[1] See CFW's May 2009 report (http://senate.ucsc.edu/cfw/PostRetirementBenefits/UCRPresoltuionBackgroundMay09.pdf), Academic Council Vice-Chair Daniel Simmons's benefits glossary (http://senate.ucsc.edu/cfw/PostRetirementBenefits/SimmonsPEBglossary.pdf) , and UCPB's "Choices" report (April 2010) for background information on benefits liabilities and the choices the UC system must make in meeting its mission and its various obligations.

[2] A note on nomenclature: For the sake of simplicity, we adopt here the term "post employment benefits" used systemwide. That said, pensions and post-retirement health care are employment benefits—they are considered part of our "total remuneration" as employees of the University of California, and have often been cited as compensation for salaries that are low with respect to salaries of faculty and employees at comparable institutions.

[3] Changes to pension benefits will almost certainly be implemented for new UC employees. Pension benefits will remain untouched for those who have already retired. Though no changes to vested benefits will occur for current employees, future vesting for current employees is an

two were shared with Academic Council leadership, UCPB, and UCFW during winter quarter 2010. The sharing of options takes the form of separate comparative analyses, one comparing the current pension benefits plan to two alternative proposals, and one comparing the current post-retirement health benefits plan to two alternatives. These analyses focus on two main areas: compared to our current plans, (1) how would the alternative plans reduce systemwide projected liabilities, and (2) how would the alternative plans affect employees (e.g., their post-employment cash compensation and health benefits costs). UCFW has actively opined on the analyses of the options produced by the Task Force; after some initial hesitation based on concerns about confidentiality, their Divisional counterpart committees were also provided these analyses and asked to opine.

The PEB Task Force has conducted fall and spring forums at all ten campuses (UCSC's spring forum was May 3) outlining the scope of the fiscal problem and the nature of the system's obligations to current employees, and providing limited information about the range of changes being considered—one set of changes for new employees, and another for current employees and retirees. According to information provided at this presentation, in June the Task Force will forward its recommendations to President Yudof; in July, President Yudof will forward his recommendations to the Regents, and simultaneously release to the public more detailed information about the options considered; in September, the Regents will vote on the level of contributions to the UCRP to be made by employers and employees. According to the presentation, consultation with the Academic Senate on the substance of the changes will be ongoing: there was no specified end date.

A. Confidentiality

Though the PEB Task Force forums have served to inform a wide range of stakeholders about the process of deliberations, strict limits on the sharing of specific details have restricted serious faculty consultation to a privileged few—on each campus about thirty members of the Senate Executive, Planning and Budget, and Faculty Welfare committees. Concern about divulging information that may affect union negotiations for represented employees has been cited as a main reason for the confidentiality measures, which limit the sharing of quantitative figures and decisions but permit qualitative descriptions of structural options.

The Task Force forums heed the confidentiality restrictions and go one step further in lumping together the options being considered, thus comparing current plans with a range of options rather than with distinct, separate options.[4] CFW recognizes the complexity of the information and the difficulty of explaining distinct options without providing quantitative information on the actual effects of the different alternatives. Nevertheless we note that the confidentiality restrictions have hobbled wide consultation, and—despite admirable efforts through surveys and the fall "fact-finding" forums—blunts the Task Force's ability to assess what stakeholders really approve.

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untested gray area. Post employment health benefits are likely to change for all classes of employees.

[4] See the slides for the UCSC presentation at http://press.ucsc.edu/text.asp?pid=3688. A full recording of the event should soon be posted at the same site.

B. Consultation with faculty

For the confidentiality reasons mentioned above, most faculty will be left out of the consultation process. Divisional CFWs have been urged to forward written comments on the PEB options to UCFW, but confidentiality restrictions limit our ability to consult with the wider faculty. This restriction fosters top-down consultation on a matter that will affect every employee at the University of California. This consultation is taking place in spring quarter, which further limits the opportunities for two-way consultation prior to the end of the quarter and prior to the Task Force's forwarding of its recommendations to President Yudof.

CFW recognizes the urgency of resolving the benefits conundrum, but wishes to register the limits to broad, serious consultation imposed by timing and confidentiality restrictions, and by the logic of top-down consultation with faculty.

C. Timeline

We have several points to make here. First, the timeline for decision-making, and the nature of the target points along the timeline, have shifted several times in the six weeks or so since CFW has been invited to consult. In a slide attached to a confidential presentation on the PEB options, we were originally told that, after the Task Force forwards its recommendations to President Yudof in June, President Yudof will present his recommendations to the Regents in July, simultaneously revealing the options to the public; the Regents would vote in September on which options to confirm. In in-person discussion with a UCOP official and written communication with Academic Council leadership, we were told that the Regents would not decide until November. And in the PEB Task Force forum on May 3, were told that the Regents would decide in September on the sum of employer/employee contributions to UCRP for the following year (an extremely narrow decision) but that consultation with the Senate on the broader issue of the PEB options themselves would continue, with no specified end date.

In general the shifts in the timeline suggest increasing sensitivity to the need for faculty consultation, which we heartily approve. However, the uncertainty built into these shifts undermines confidence that stakeholders will have sufficient time to provide meaningful input on serious decisions that will have a significant impact on our total remuneration.

Second, depending on when the Regents decide which option to adopt, CFW is concerned that individual employees may not have sufficient time to adjust their behavior (e.g., opting perhaps to delay retirement to increase savings with which to offset changes in retirement benefits). Now that the timeline appears to be extending, CFW is somewhat less concerned about this question, but we raise it as an issue because the original timeline, combined with confidentiality restrictions, implied potentially very serious consequences to unwitting stakeholders.

D. Shared Governance

Shared information is a key element of shared governance. Though considerable efforts have been made to ensure that the Academic Senate has been included in decision-making, information on some key points has not been shared even between the PEB Task Force and UCFW, the committee charged with overseeing faculty benefits. For instance, UCFW has been given only attenuated information on how the range of options was narrowed from sixteen to two apiece for pension and post-employment health benefits; it was not provided with a précis of the original slate of options; it did not participate in the narrowing of those options. UCFW has also not been provided an explanation for how the options that remain were selected beyond the general principle of preserving an excellent defined benefit system while reducing liabilities.

Faculty have been able to provide input to the PEB Task Force through a few representatives who sit on the Task Force including the chair of the UC Task Force on Investment and Retirement (TFIR), a powerful subcommittee of UCFW.[5] TFIR has a long-standing, extremely knowledgeable membership with a great deal of expertise. However, the few faculty members of the PEB Task Force, and the slightly larger faculty cohort of TFIR, have been the main faculty representation in major deliberations about narrowing the number of PEB options and have been the main faculty representatives weighing in on the remaining options. Such a small number of faculty necessarily limits diversity of viewpoints (e.g., perspectives from different campuses, different age and service credit cohorts, etc.). Shared governance is weakened when only a dozen or so faculty representatives are fully briefed to opine on decisions of such consequence systemwide.[6]

Part Two: Content

CFW, together with CPB and SEC, has been provided with somewhat more detailed information than what has been presented in Divisional forums about the narrowed-down slate of options the PEB Task Force has developed. That said, significant details regarding these proposals have not yet been presented to UCFW, and hence not to CFW. Within the limits on confidentiality and the limits of information provided so far, we wish to share with the UCSC Academic Senate our views on the ideas the PEB Task Force will forward to President Yudof in June. This section borrows heavily in content, organization, and language from a letter sent to the UC Berkeley Senate chair and Divisional council by the UCB CFW, but it is not identical: we have not endorsed all of their positions, and we take a slightly more nuanced stance on the nature of the problem.

This section is divided into two parts—discussion of the specific proposals with regard to pension plans, and discussion of proposals related to post-retirement health care.

A. Summary of Positions

CFW opposes solutions that emphasize resolving the funding liability problem without directly addressing the problem of total compensation of employees or maintaining the excellence of the UC system in the long term. Our analysis of the PEB options has indicated that there is insufficient coordination between the analysis of potential changes to pension benefits and that of potential changes to post-retirement health benefits. Without a clearer analysis of the cumulative effect of these changes on employees, it appears that the Task Force is emphasizing the fiscal

[5] TFIR, though technically a subcommittee of UCFW, has only one representative on UCFW and long-term membership. As a standing committee charged with analysis of retirement options, it had earlier access to the range of options and the deliberations that narrowed the field.

[6] CFW acknowledges the careful work the PEB Task Force did, through a series of surveys, to capture what employees value in retirement benefits. These surveys, however, could not provide input on the range of options the PEB Task Force considered.

solution over the challenge of maintaining, rather than decreasing, UC employees' total compensation.

Thus the Committee on Faculty Welfare takes the following positions:

1. *We oppose efforts to resolve the University's fiscal crisis by reducing pension benefits for current and future employees.*

2. *We oppose proposals to decrease employee health benefits by reducing the University's contribution to retiree health insurance (from 89% to 70-80%, phased in over time) or by constructing a special insurance classification for retirees under the age of 65.*

B. The Task Force recommendations—pensions

The PEB Task Force's formal recommendations are due to President Yudof in June. While we believe some of the likely recommendations are useful and necessary, we also believe that others are not in the interests of the faculty. Some directly threaten the long-term quality of the University. We do not see Task Force proposals to reduce pension payouts, discussed below, as ameliorating the unfunded liability we currently carry.

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One proposal is to cut the age factors and raise the age at which the factor reaches its maximum for new hires. These changes will result in our being in a further relative disadvantage to our competitors when trying to recruit new faculty, regardless of their age. Compared to the current system, a faculty member recruited at 30 who works until 60 may find pension benefits reduced by as much as half, or even more, while one who works until 65 may face more than a one-third reduction.

Another option has a two-part contribution rate and a matching two-part pay-out formula, in which pension terms depend on salary level. When combined with current Social Security levels, faculty who retire at age 67 or later (after approximately 30 years or more of service) would see salary replacement rates drop significantly, to as low as 80%, as compared to approximately 100% now. While this option appears to be better for some faculty than the previous option, it still presents a significant direct reduction in benefits and two major challenges. First, we think it unwise to develop long-run employee compensation policies that count on the continuation of today's structure of Social Security benefits. Second, the reduction in salary replacement for middle-income faculty (retiring with HAPC between $70 to $120K) is more than the reduction for higher-income faculty (retiring with HAPC between $120 and $200K), and much more than the reduction for very high income faculty (retiring with HAPC above $200K). Although some of these higher-income employees will also be contributing more to UCRP, it is not clear without further analysis whether middle and low-income employees will be subsidizing the benefits of high-income employees.

Also under consideration is a proposal to have either of the options described above apply to the <u>future benefits of current active employees</u> as well as to new hires. We believe that such a proposal would immediately face a legal challenge. We also think it represents the worst sort of policy as it will be widely viewed as a breach of trust between the faculty and the administration. And it is very likely that this move—effectively a decrease in expected lifetime compensation—would give younger and mid-career faculty increased incentive to leave UC.

We are also extremely disturbed to have found out, via CFW colleagues at UCB, that there is a proposal to reduce survivor benefits going forward. Currently, the monthly retirement benefit includes a "free" 25% continuance provision (50% for those not coordinated with Social Security) for one's spouse or same-sex domestic partner. Retirees have the option of choosing a higher continuation percentage for an actuarially-based fee. *We strongly oppose the proposal to make retirees pay for benefit continuation from the first dollar.*

Despite our opposition to the proposed pension reduction plans, we realize that there may be reasons to prefer a system of compensation in which the mix tilts more toward salary and less toward pension benefits. But the Task Force proposals as they have been outlined simply cut pensions; they are not proposals to alter the compensation mix by shifting resources into salaries and away from pensions.

C. The Task Force recommendations—post-employment health care

The situation with retiree health care is different from that of pensions in several dimensions. First, retiree healthcare benefits have been traditionally unfunded across the American economy. That is, they have been paid from current employer revenues on a “pay as you go” basis. Second, for the vast majority of active employees and current retirees, they are coordinated with Medicare. Those who are retired, over 65, and eligible for Medicare are instructed to apply for Medicare, and the University pays for a large fraction of the cost of a supplemental insurance policy. Currently that fraction is approximately 89%, similar to the fraction the University pays for active employee health insurance and for insurance for those who are retired but under 65.

The major proposed change is a reduction in the percentage the University pays for retiree health insurance (for both those covered by Medicare and those without Medicare) to approximately 70%. (A range of 70 to 80% was presented at the recent forum, and we have heard that there may be a proposal to phase in the reduction in University contribution.) While the 70% figure is almost a tripling of the monthly insurance premiums for all retirees, in dollar terms it is a significantly greater sum for those without Medicare.

A second proposed change will not affect most faculty, but will impose significant costs on staff and those faculty who do retire prior to age 65 or who have spouses or partners aged 65 or less at the time of their retirement. This proposal is to put these people in their own group for insurance rating purposes. On average they are older (and therefore generally in poorer health) than active employees; as a result the cost of rating them separately will lead to higher insurance premiums.

A third proposal is to lengthen the time required for one to acquire the rights to retiree health care, extending the current 20 years to 30 years or so. Since there is recognition that this should be done on a pro-rated basis (i.e., one gets two-thirds of the university contribution if retiring with 20 years of service and 100% if retiring after 30 years), we believe this can be accomplished in a reasonably fair manner. However, these new rules should not apply to current employees.

CFW opposes both of the first two proposals.

Each proposal amounts to an effort to enhance UC's financial status through a reduction in employee compensation—specifically, via lower retiree health benefits. The fact that retiree health benefits for UC faculty are not below market value, according to the UC Total Compensation Study, does not justify their reduction. Total compensation will still be reduced, which will hinder faculty recruitment and retention. These proposals will also induce older employees with chronic illnesses to remain active employees rather than retire, because the medical benefits are better. This is not in the interest of the University.

We believe that it is critical at this juncture in the history of the University of California to maintain the high quality of the faculty. This can only be done if total compensation is not reduced. Indeed, given the competitive disadvantage in compensation that UC faces, quite the reverse is needed. We could imagine modifying or reversing our stance on some of these proposals if there were sufficient evidence that total compensation will remain competitive with the comparison eight institutions. The faculty have suffered low salaries for years in the belief that their pension plan and health benefits in part made up for the loss. To reduce pensions and health benefits without raising salaries in proportion and without fully considering the cumulative effect of the changes would be disastrous to the reputation and mission of the University.

Respectfully submitted,

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