COMMITTEE ON FACULTY WELFARE
Resolutions on Post Employment Benefits

To the Academic Senate, Santa Cruz Division:

Background to Post Employment Benefits Resolutions
The current discussion about the PEB Task Force recommendations is not just about the future of our retirement, but about the future of the University of California. With unattractive benefits, the work environment of current employees may become disrupted by the sudden departure of our colleagues and staff whom we are unable to retain, and our inability to recruit talented faculty. Even though we may not feel the financial burden of “7% or higher” contributions towards our pension plans immediately, with a steep rise in retiree and current employees’ health insurance premiums, salary scales lagging, and the university’s inability to offer quality affordable health care, we have to begin to question: can we ever comfortably retire and meet our basic needs?

The resolutions sponsored by the Santa Cruz Division of the Academic Senate have been informed by the Faculty Forum held on October 1. The main thrust of the resolutions is to reject any variant of the Integrated Plan Structure Options A and B (for new employees and for current employees who choose the new plan). Integration of these pension plans with social security makes these plans high risk, highly uncertain, complex, and rare. Not only do these plans fail to meet their main stated design objective of providing uniform percentage income to all employees from UC retirement plan and social security combined, they also fail to meet the design expectation of requiring uniform percentage contribution. These plans are also very complex and difficult to understand. With these plans, since age factor deteriorates with time (for same salary), pension income decreases with time unless faculty salary scales rise rapidly by 35% to 50% over the next 10 years, a fiscal challenge that the university will almost certainly be unable to meet.

We advocate retaining the current flat (or uniform) pension plan structure similar to the current UC retirement plan. These plans are simple, easy to understand, low risk, certain, and easy to plan for. Option C is such a plan, and so is Option B2. Option B2 has exactly the same cost to the university (same employer cost and same normal cost) as Option B, and thus falls within the financial range defined by the PEB Task Force Report. In summary, within the flat (or uniform) pension plan structures, there are several financially viable choices.

In various options, employer or UC contribution toward estimated long-term normal cost has been identified to be between 7.3% (Option A) and 9.0% (Option B, B2, and C). The total remuneration remains uncompetitive even after the employer contribution of 9.0%. Therefore, we recommend a minimum employer contribution of 9.0%.

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1 Options B2 and C retain the flat (or uniform) pension plan structure similar to our current UC retirement plan. The max age factor is 2.5% for the current UCRP and Option C, and 2.25% in Option B2. For details refer to (i) Preliminary Analysis and Recommendations and (ii) Slides on the web page: http://senate.ucsc.edu/ PEB/PostEmployeeBenefitsindex.html
Employee contributions range from 3.5% (Option A) to 4.8% (Option B2) to 6.1% (Option C). Assuming employer contribution of 9.0%, these employee contributions will roughly result in maximum age factors of 2.0, 2.25 (Option B2), and 2.5 (Option C) respectively. We recommend that employee contributions be decided in consultation with all employee groups.

In summary, large cuts in pension and retiree health benefits, and the precarious and uncertain funding of these two benefit plans, will inevitably impact faculty and staff morale. However, we hope that the University can make this situation more bearable by spreading this financial pain uniformly, by providing accurate and timely information, and by demonstrating a willingness to engage with employees in a meaningful way.
### Integrated Plan Structure (Options A & B) vs. Flat/Uniform Plan Structure similar to Current UC pension plans (Options C and B2)

<table>
<thead>
<tr>
<th>Integrated Plan Structure</th>
<th>Flat/Uniform Plan Structure</th>
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<tbody>
<tr>
<td><strong>Design Objective (Benefits):</strong> uniform percentage replacement income from UC Retirement Plan (UCRP) and social security combined for all employees (<strong>Objective not met:</strong> see the curve with kinks and dips on Page 37 of the task force report, showing middle income employees will receive less pension income than they should)</td>
<td><strong>Design Objective (Benefits):</strong> uniform percentage replacement income from UCRP pension plan (<strong>Objective met:</strong> this is a flat/horizontal curve)</td>
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<td><strong>Design Expectation (Contributions):</strong> uniform % contributions to UCRP and social security combined for all employees (<strong>Expectation not met:</strong> see slide 9; middle-income employees pay the highest percentage of their income compared to all other groups: <a href="http://senate.ucsc.edu/PEB/PostEmployeeBenefits/index.html">http://senate.ucsc.edu/PEB/PostEmployeeBenefits/index.html</a>)</td>
<td><strong>Design Expectation (Contributions):</strong> uniform percentage contributions to UCRP pension plan (<strong>Expectation met</strong>)</td>
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<td><strong>High Risk:</strong> Age factor <strong>deteriorates with time</strong> (for same salary); <strong>Requires rapid increase in salary</strong> (35% to 50% increase in the next 10 years) to maintain the same age factor and therefore the same benefits.</td>
<td><strong>Low Risk:</strong> Age factor <strong>increases with time</strong> and therefore, no salary increase required to maintain the same age factor.</td>
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<td><strong>High Uncertainty:</strong> Difficult to compute &amp; plan benefits without several assumptions re. increases in US wage base (or changes in Social Security Covered Compensation and Social Security Wage Base)</td>
<td><strong>Certain:</strong> Easy to compute and plan</td>
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<td><strong>Complex/Opaque/Difficult to Understand</strong></td>
<td><strong>Easy/Transparent/Simple to Understand</strong></td>
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<td><strong>Rare</strong></td>
<td><strong>Most common</strong> defined benefit (DB) plan</td>
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<td><strong>Inequitable</strong> - non-uniform benefit cuts; larger cuts for lower paid employees because age factor depends on salary (lower salary=lower age factor=lower benefits)</td>
<td><strong>Equitable</strong> - uniform benefit cuts for all employees because age factor does not depend on salary (same age factor for all employees)</td>
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<td>Expected <strong>retirement age</strong> of 65 is “<strong>integrated</strong>” with retirement age between 62 and 67 for social security (what if the Gov’t changes the retirement age for social security?)</td>
<td><strong>No need to integrate</strong> with the <strong>retirement age</strong> of social security</td>
</tr>
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<td><strong>Weird Twist 1:</strong> An employee may receive less income after an additional year of service!</td>
<td>An employee will always receive higher pension income after an additional year of service.</td>
</tr>
<tr>
<td><strong>Weird Twist 2:</strong> An employee may have contributed at an age factor of 2.5 but may receive benefits at a much lower age factor</td>
<td>An employee will always receive benefits at the highest age factor.</td>
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### Current Plan or Flat/Uniform Pension Plan Structure:

**Pension Income = Salary (in $) * Age Factor (in %) * Number of Years of Service Credit**

The age factor depends on the age of retirement and maximizes at age 60 in current UCRP, and at age 65 in the new plans.
Integrated Plan Structure:
Pension income: same formula but age factor increases with salary and decreases with time, as the formula is dependent on social security.

Resolution on New Tier Post Employment Benefits

Whereas; a reliable plan providing adequate post-retirement income and health care for employees, with a sufficient employer contribution toward its cost, is critical for the continued excellence of the University of California, and

Whereas; the integrated pension plans, Options A and B, proposed by the Post-Employment Benefits Task Force, are complex, opaque, and inequitable unlike the flat (or uniform) structure of the current UC pension plan and the proposed Option C, which makes retirement planning easy, certain, equitable, and low risk; and

Whereas; the linkage with social security in integrated pension plans will result in pension age factors (for a fixed salary) decreasing with time, and are liable to result in a steady deterioration of faculty pensions unless there are large and continuing increases in the faculty salary scales, commensurate with the increases in social security covered compensation;

THEREFORE BE IT RESOLVED that the Santa Cruz Division of the Academic Senate calls on President Yudof to reject any variant of an integrated pension plan and retain the existing flat/uniform plan structure of the current UC pension plan, and

BE IT RESOLVED that the Santa Cruz Division calls on President Yudof to assure an employer contribution of at least 9.0% toward the estimated long-term normal cost of the pension plan, and

BE IT RESOLVED that the Santa Cruz Division calls on President Yudof to decide on employee contribution only after consultation with all employee groups.

Resolution on Current Employees’ Contribution to Continue with the Current UCRP Plan

Whereas; raising employee contributions above 7% fundamentally alters the terms of the current UCRP pension plan and has the effect of making the total remuneration highly uncompetitive for current employees;

THEREFORE BE IT RESOLVED that the Santa Cruz Division of the Academic Senate calls on President Yudof to recommend that the employee contributions to continue in the current UCRP plan not exceed 7%.

Resolution on Retiree Health Benefits

Whereas; provision of adequate health care benefits following a full career is viewed as a critical aspect of the total compensation package that has made the University of California the preeminent
Whereas; the retiree health insurance recommendations of the Post-Employment Benefits Task Force do not inform current and future retirees of the magnitude of likely future contributions; and

Whereas; it appears that all current and future retirees are likely to face huge increases in health insurance premiums, further eroding their pension benefits;

THEREFORE BE IT RESOLVED that the Santa Cruz Division of the Academic Senate calls on President Yudof to immediately inform retirees and active employees about the size of the increased premiums for all health plans with and without Medicare, and

BE IT RESOLVED that the Santa Cruz Division calls on President Yudof to decide on retiree health insurance contributions only after the above information is made available and after consultation with all employee groups.

Respectfully submitted,

COMMITEE ON FACULTY WELFARE
Roger Anderson
Maria Elena Diaz
Abel Rodriguez
Hirotaka Tamanoi
Suresh Lodha, Chair

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