

AT-A-GLANCE: PROPOSED CHANGES TO UC RETIREMENT BENEFITS

TASK FORCE RECOMMENDATIONS ON UC RETIREMENT BENEFITS

UC President Mark G. Yudof appointed the Task Force on Post-Employment Benefits in March 2009 to help identify solutions to the escalating cost of retiree health and pension benefits. The task force – which was comprised of more than 40 faculty, staff, retirees and administrators – met extensively with members of the university community about preferences for changes to post-employment benefits as it developed its recommendations.

Preserving good benefits while controlling costs: A delicate balance

The president asked the task force to develop recommendations that would uphold UC's commitment to competitive retirement benefits while ensuring long-term financial sustainability. In developing its proposals, the task force was guided by several key principles:

- UC must continue to provide attractive, competitive benefits for current and future faculty and staff.
- UC should reward long years of service with sufficient and guaranteed retirement income.
- UC must be fiscally responsible in striking a balance between offering attractive, competitive benefits for its retirees and achieving sustainable long-term costs.

Immediate Impact of Task Force Recommendations

None of the proposed changes affect the earned pension benefits that current faculty, staff and retirees have already accrued. Those benefits are guaranteed by law and cannot be reduced or revoked. For represented employees, changes to UC's retirement benefits must be negotiated as part of the collective bargaining process.

Summary of Recommendations

The majority of the Task Force's recommendations fall into three main categories:

- 1: Increasing UC and employee contributions to the UC Retirement Plan (UCRP)
- 2: Changes to the retiree health program
- 3: New/different pension benefits for new employees hired after July 2013

1: INCREASING UC RETIREMENT PLAN (UCRP) CONTRIBUTIONS

Due to a funding surplus, for twenty years neither UC nor its employees have had to contribute toward the cost of UC's pension benefits. This surplus was used to fund pension obligations and the administration of the plan. Over time, due to a variety of factors, the surplus has steadily declined. To help ensure that UCRP is sufficiently funded over the long term, UC and employees resumed contributing to the plan in mid-April, 2010. As previously planned, contributions from both UC and employees will increase over time, with UC's long-term approach to contributions expected to be similar to CalPERS' approach. Most CalPERS members currently contribute from 5 to 8 percent of pay, and CalPERS employers pay 17-29 percent of pay.

At their September 2010 meeting, the UC Regents voted to adopt the task force recommendation for increasing both employer and employee contributions to the UCRP for the next two fiscal years as follows:

	Employee Contribution*	UC Contribution
Current	2 percent**	4 percent
July 2011	3.5 percent	7 percent
July 2012	5 percent	10 percent

* Portion of employee earnings directed to the UCRP.

**On earnings below \$106,000; 4 percent on earnings above that threshold, less \$19 offset.

2: RETIREE HEALTH BENEFITS

The task force concluded early in its work that UC should continue to provide comprehensive health care to its retirees. Health care coverage has long been an important part of UC's retirement benefits package – and one of the benefits that attracts and retains top faculty and staff. The task force felt it important to maintain that benefit, but within a cost structure that the university could afford over the long term.

The task force has proposed reducing UC's share of retiree health insurance premiums and changing how it calculates eligibility for retiree health care. For 2010, UC currently pays 89 percent on average of the cost of retiree health insurance premiums for a retiree receiving the maximum UC contribution. Under the task force recommendations, UC would gradually decrease its share of the cost by 3 percent per year, until its maximum contribution reaches a floor of 70 percent. By reducing its maximum portion of health insurance premiums over time, UC will continue to offer retiree health benefits that are more generous than those offered by most employers, but under a cost-sharing formula that is more manageable for the university.

UC would exempt from the new cost-sharing structure retirees who are over age 65, but are not eligible for Medicare. Those retirees would pay the same health insurance premiums as current employees who earn between \$47,001 and \$93,000 per year.

Overview of recommended changes to retiree health benefits:

- UC would share the cost of health care premiums based on a formula that considers years of service and employee age at retirement, as follows:
 - Employees who retire after age 50 but before age 56 (with at least 10 years of service) would still be eligible for retiree health care, but would have to pay the full premium cost. UC would no longer pay health insurance premiums for those who retire before age 56.
 - UC would pay 5 percent of the premium for employees who retire at age 56 with five years of service.
 - Those who retire at age 65 with 20 years of service would receive UC's maximum contribution.
 - The new rules, if adopted, would take effect in July 2013.
- Mindful that eligibility changes could disproportionately affect those nearing retirement, the task force recommended "grandfathering" current employees under the old eligibility rules based on their age and years of service as of July 1, 2013. Under the recommendations, current employees would need a minimum of five years of UC service to be grandfathered. In addition, an employee's age plus years of service would have to be equal to or greater than 50 or greater by July 2013. Approximately 46 percent of current UC employees would be grandfathered under task force recommendations.

3: NEW PENSION BENEFITS FOR NEW UC EMPLOYEES HIRED AFTER JULY 2013

***NOTE:** None of the proposed changes affect the earned pension benefits that current faculty, staff and retirees have already accrued. Those benefits are guaranteed by law and cannot be reduced or revoked. Nor would they change the terms of the UCRP pension plan for current employees. For represented employees, changes to UC's retirement benefits must also be negotiated as part of the collective bargaining process.*

Defined-benefit plans, or pensions, provide employees with a guaranteed level of retirement income based on a formula that considers years of service, retirement age and earnings. Many employers no longer offer a defined-benefit plan, and have switched to defined-contribution plans (e.g., 401(K) plans) in which the employee is responsible for his or her own retirement investments. The task force felt UC should continue to offer future employees a defined-benefit plan because of the security it offers faculty and staff, and the advantages it offers UC in retaining and recruiting valued employees. At the same time, the task force recognized that UC needs to offer different pension benefits to future employees in order to keep the retirement system financially sustainable.

The task force steering committee put forward two options for pension benefits for new UC employees hired after July 1, 2013, with differing employer and employee costs and pension benefits. In addition, the president has agreed to review a third alternative that was not in the task force recommendations. The three plans share some elements:

- Employees would become vested in the pension program after five years of UC service, as with the current pension plan.
- The minimum retirement age would be raised from 50 to 55.
- Employees would be eligible for the maximum pension benefit at age 65.

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Integration with Social Security income

One of the key differences between the two options proposed by the task force and the third alternative is whether or not the pension benefit is integrated with Social Security. The two options advanced by the steering committee include Social Security benefits when calculating how much pension income faculty and staff will need in retirement. These options propose employees with 30 or more years of service would receive an annual retirement income of between 80 -100 percent of their annual UC salary when the pension benefit is combined with Social Security.

These two options also propose scaled contributions for employees – those who earn less would pay lower percentages than those who earn more. These two options have different percentages of employee and University contributions, resulting in different pension benefit calculations.

The third option does not consider Social Security when calculating how much pension income faculty and staff will need in retirement, and proposes that all employees pay the same percentage of their salary into the retirement fund. As a result, it would cost some employees more each year than the other two options, but would also provide a higher pension benefit. After 30 years of service, under this proposed option, an employee would receive about 75 percent of their annual salary, (plus any Social Security benefits that they are entitled to).

Costs

UC's current pension plan costs are equivalent to 17.6 percent of annual payroll. The least expensive option proposed would require UC and employees together to contribute about 12 percent of annual payroll to UCRP. In the proposed a cost-sharing plan, employees would contribute 3.5 percent of pay on earnings up to roughly \$60,000 and 9.5 percent on any amount over that. The university would contribute 7.3 percent. To put that in perspective, one percent of payroll costs UC about \$80 million per year, so the current pension costs UC and its employees roughly \$550 million more per year than the least expensive option being considered for future employees.

If a pension tier for new employees is adopted, current employees might be given the option of switching to the new, lower-cost tier. UC is seeking guidance from the IRS about whether or not this choice can be offered.

NEXT STEPS: The Consultation and Decision-Making Process Ahead

Before endorsing any of the proposals and deciding which options to bring to the Regents, the president has stated he wants a full and open dialogue about the recommendations. At his directive, UC Office of the President leaders are meeting with and soliciting input from faculty and staff throughout the university.

At their September meeting, the Regents voted to increase contributions to UCRP from both UC and employees for the next two fiscal years according to the schedule mentioned above. The president will likely submit his recommendations on other aspects of the plan to the Board at its November meeting. The Regents could take action on those proposals as early as December.

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For more information, including details about the proposals and answers to frequently asked questions, go to:

[HTTP://UNIVERSITYOFCALIFORNIA.EDU/SITES/UCRPFUTURE](http://universityofcalifornia.edu/sites/ucrpfuture/)