The Future of the UC Retirement Plan

COLLECTIVE BARGAINING ISSUES

Q. Is UC required to bargain with unions regarding the contributions to be made by represented employees?

A. Yes, contributions made to the UCRP by employees in collective bargaining units are subject to bargaining, and UC will be negotiating with the unions that represent UC employees on this issue.

Q. Will UC seek the input of the unions regarding the reinstatement of contributions?

A. Yes, UC has already held, and will continue to hold, informal meetings with union representatives, as well as many other UC constituent groups, to begin a discussion about the need for reinstatement of contributions.

OTHER QUESTIONS

Q. Some people are saying that UC is going replace the UCRP with a defined contribution plan such as a 401(k). Is that true?

A. There have been no decisions made regarding possible future changes to UC's retirement benefits. However, UC will be evaluating numerous alternatives that could possibly better serve the diverse needs of UC's workforce than the current defined benefit pension plan. UC is committed to keeping all employees informed of any decisions that would affect the UCRP.

NEW Q. Is UC planning to introduce a two-tier retirement plan?

A. At this time, the Regents have first focused on restarting contributions in order to keep UCRP fully funded. It is critical that UC remain competitive in total compensation—including salaries and benefits. As such, UC is beginning to consult various stakeholders about future design choices that could that could be more affordable to new employees than our current plan. The University will take all appropriate actions that may require notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act.

NEW Q. Is UC planning to eliminate retiree health benefits?

A. No. The university intends to continue retiree health benefits. The university will continue, as it has in the past, to review its retiree health program to see that it remains competitive and represents reasonable cost to UC and its retirees. Changes may be made to retiree health benefits in the future to sustain the program.

NEW Q. Is UC planning to offer any kind of early retirement incentive program, such as the VERIP programs of the early 1990s?

A. No. The University has no plans to offer an early retirement incentive program.

NEW Q. How much did employees contribute to the UCRP prior to 1990?

A. Prior to the current "contribution holiday," the cost of funding the UCRP was shared between UC employees and the University. From 1976 through 1990, the level of contributions from employees and the university varied from year to year. One of the Regents' goals is to create a predictable, long-term schedule of contributions, so that employees and the University can plan financially for the future.
The Future of the UC Retirement Plan

Q. Given the Regents’ decision in March to reintroduce contributions to the UCRP - does that mean that in 2007 I’ll have to contribute 16% of my pay to fund the retirement plan?

A: No. The Regents decided that there should be a multi-year contribution strategy under which contribution rates will increase gradually over time to 16%, which is the normal cost of UCRP. The level of contributions and how the normal cost will be shared between the University and employees is still to be decided.

Q. When employee contributions start, will the money that now goes from my paycheck into the DC plan go to UCRP instead?

A. We expect that, as a first step, UC may re-direct these DC Plan contributions to the UCRP. At this time we do not know exactly when contributions will begin or exactly how much they will be for the University or the employees. These decisions will be made by the Regents when they consider the schedule for restarting contributions. The reinstatement of contributions also depends on the budget process and the collective bargaining process for represented employees.

Q. Why are the Regents targeting July 2007 as the date for reinstatement of contributions, when the plan isn’t projected to dip below 100% funding until 2009?

A. The intent is to phase in contributions gradually, so the financial impact on employees and the University is minimized. If the Regents wait until 2009 when the plan is projected to dip below 100% funding, a much higher level of contributions would be required.

SECURITY OF THE UCRP

Q. Is there any danger that UC will not be able to pay me the retirement benefits that I’ve earned?

A. There have been many news stories about pension plans around the country that have not been able to sustain the benefits promised to their employees. UC is dedicated to ensuring that all UC retirees – present and future – are able to receive the vested retirement benefits that they earn while at the University. This is why UC takes prudent measures to ensure full funding of the UCRP.

IMPACT ON CURRENT RETIREES

Q. What about retirees who are already receiving a pension benefit from UCRP? Will their pension be reduced?

A. No. The planned changes will have no affect on the pensions of those who are already retired.

Q. When contributions are reintroduced for the UCRP, will retirees have to contribute?

A. No. Contributions will be required only of active employees who are members of the UCRP.

DECISION-MAKING PROCESS

Q. Who has final authority to make decisions on the retirement plan?

A. The UC Regents, as plan trustees, have final authority to make decision regarding the UC Retirement Plan.
Questions and Answers about the UC Retirement Plan

REINSTATEMENT OF CONTRIBUTIONS

Q. Why has UC not required contributions to the UCRP since the early 1990s?

A. Strong market performance of the late 1990s combined with good management of UC's investments resulted in a large surplus of UCRP assets. The Regents chose to use this surplus to fund the ongoing annual costs of the UCRP. As a result, there has been a "contribution holiday" since the early 1990's, meaning no contributions by UC or its employees have been necessary since then to fund the plan.

Q. Why is it necessary to reinstate contributions?

A. Because there have been no contributions made to the UCRP for over 15 years, the Plan's surplus has been used to pay ongoing benefit costs, and, as a result, the Plan's funded status has gradually declined. Contributions will need to be reinstated to ensure the plan remains fully funded.

Q. What does "fully funded" mean?

A. This means remaining as close to 100% funded as possible. As market variations make it practically impossible to achieve exact 100% funding all the time. The Regents have defined a target funding range of 95% to 110%.

Q. What would happen if UC does not reinstate contributions?

A. If UC does not reinstate contributions to the UCRP, the plan is expected to become less than 100% funded within the next several years, which would mean that there would not be enough money in UCRP to cover all the liabilities.

Q. What level of contributions will employees and UC need to make?

A. The level of contributions that will be necessary has not yet been determined. The Regents will be evaluating recommendations and will determine what contributions will be needed to maintain the UCRP. Contributions made to the UCRP by employees in collective bargaining units are subject to bargaining.

NEW Q. What is the "normal cost" of the UCRP benefits?

A. The "normal cost" is defined as the annual cost of a member's benefits earned over his or her career at UC. In the plan's recent history, the normal cost of the UCRP benefits has been 15% to 16% of participants' "covered earnings." Costs were shared in the past, and it is expected that both employees and the University will share in paying the cost of the UCRP benefits in the future.

NEW Q. What is meant by "covered earnings"?

A. "Covered earnings" is the amount of employees' pay eligible for calculation of retirement benefits. Typically, base pay comprises the bulk of covered earnings, although other forms of compensation are also considered as part of "covered earnings." For more information, see the UCRP Summary Plan Description at http://atyourservice.ucop.edu/forms_pubs/spd/ucrpspdwss.pdf
To keep the UC Retirement Plan healthy for the future, contributions will once again be necessary from both the University and UC employees.

The Regents will decide when contributions will start and how much UC and employees will contribute. Here are some important facts to clear up some of the rumors you might have heard about the UCRP.

Claim: “UC is going to cut my pay 8% to fund the UCRP.”

**ANSWER:** UC has no plans to implement “pay cuts.” In fact, the compact with the Governor calls for UC employees to receive salary increases over the next several years. Neither UC nor employees have contributed to the UC Retirement Plan for 16 years. So far, there have been no decisions as to how much UC or employees will be asked to contribute.

Claim: “UC squandered the surplus in the UCRP with mismanagement.”

**ANSWER:** This is a false statement. The UCRP has been very well managed, even through major national economic downturns. The careful management of the UCRP is the main reason why no contributions have been necessary for 16 years.

Claim: “UC plans to impose contributions to the UCRP without negotiating with the unions.”

**ANSWER:** This is absolutely a false claim. UC will bargain the restart of contributions with unions for all represented employees. UC has already met informally with AFSCME, CNA, UPTE, and CUE on this issue.

Claim: “UC wants to create a ‘two-tier’ retirement plan or replace the pension with a 401(k) plan.”

**ANSWER:** Right now, the Regents are discussing options for keeping the UCRP healthy through contributions. In the future the Regents may consider making other choices available to employees.

Claim: “UC will offer some kind of early retirement incentive.”

**ANSWER:** There are no such plans to offer an early retirement incentive program: this type of program would have substantial negative impact the funded status of UCRP.

The latest information regarding UCRP can be found at UC's Web site “The Future of the UCRP” which can be found at: http://atyourservice.ucop.edu/.

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Latest Information about the UC Retirement Plan (UCRP)

In March, the UC Regents decided that contributions need to be made to the UC Retirement Plan for the first time since the early 1990s. This will keep the UCRP financially stable for the future and from facing some of the problems that many other public pension funds are currently experiencing. While there are still many important decisions that need to be made by the Regents, below are some important facts regarding the future of the UCRP.

- UC and our employees will both contribute to the UCRP.

- The amount of shared contributions has not yet been decided.

- UC is not planning to cut pay by 8% to pay for UCRP contributions.

- UCRP contributions will begin small and increase gradually over years for both UC and employees.

- UC will continue to provide competitive salary and benefits packages to all employees.

The latest information regarding UCRP can be found at UC's Web site "The Future of the UCRP" which can be found at: http://atyourservice.ucop.edu/.
Information about the UC Retirement Plan

Retirement benefits are an important part of the overall compensation for UC employees, and part of the University’s ongoing efforts to ensure the long-term sustainability of its employee benefits. Every year, an outside agency conducts an assessment of the UC Retirement Plan (UCRP) to measure its financial status and recommend an appropriate level of contributions to the pension fund to ensure its solvency for the upcoming year. This assessment, called an “actuarial valuation,” compares the amount of money in the pension fund (“assets”) to the amount of its retirement benefits payment obligations (“liabilities”) to determine its “funded status.” In addition, this year the outside agency also looked at employee demographics and other factors in order to forecast the potential direction of the plan’s funded status in the years ahead.

15-year contribution holiday to end within next several years

Thanks to prudent management and good market performance of the UC Retirement Plan’s investments for many years, a large surplus of assets accrued in the pension fund. The Regents chose to use this surplus to fund the ongoing annual costs of UCRP, in lieu of requiring contributions. As a result, no employee or employer contributions have been necessary since 1990 (the “contribution holiday”). The current actuarial valuation shows that the retirement plan currently remains overfunded (with assets exceeding liabilities), meaning no contributions will be necessary for the 2006 calendar year.

At the same time, however, a byproduct of using surplus assets to fund the annual ongoing costs of UCRP is that the surplus will erode. And, in fact, recent valuations indicate that this level of surplus has been steadily declining, thus contributions will need to be reinstated within the next few years to ensure the plan remains 100% funded.

Efforts to ensure long-term sustainability of benefits and competitive compensation

UC’s ability to attract and retain the caliber of personnel required to maintain institutional excellence hinges on the market-competitiveness of its compensation and benefits. To help ensure that the University can provide competitive total compensation to faculty and staff in a strategic and financially prudent way, the UC Regents will consider strategies for the reinstatement of employer and employee contributions to the retirement plan and potential retirement plan design changes for future employees, as well as potential design and eligibility changes for retiree health insurance. The Regents’ finance committee and the full board are expected to hear recommendations and take action on this issue in 2006.

For represented employees, the changes being contemplated will be subject to collective bargaining with their respective union.