

Office of the President
May 8, 2002

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ITEM FOR ACTION

For Meeting of May 16, 2002

**AMENDMENT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – TO
PROVIDE FOR CONCURRENT RETIREMENT; AMENDMENTS OF THE
UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND THE DEFINED
CONTRIBUTION PLAN TO CLARIFY THE EFFECT OF YEAR-ROUND
OPERATIONS ON SUMMER SALARY**

The President recommends that the Committee on Finance recommend to The Regents that:

- (1) The University of California Retirement Plan (UCRP or Plan) be amended, effective July 1, 2002, as set forth in Attachment I, to provide for concurrent retirement from UCRP and from the Defined Benefit Program of the State Teachers' Retirement System of the State of California (STRS).
- (2) UCRP and the Defined Contribution Plan (DC Plan) be amended, as set forth in Attachments II and III, to clarify the effect of year-round operations on summer salary as follows:
 - a. The definition of Covered Compensation in UCRP be amended to exclude compensation for "equivalent term session" along with compensation for "summer session";
 - b. The DC Plan be amended to include the expression "or equivalent term" wherever the expression "summer" appears.

BACKGROUND

UCRP – Establishing Concurrent Retirement Provisions for Members of STRS

Based on information obtained from the Schools of Education and the Outreach Programs at several locations, it is estimated that there are several hundred active UCRP Members who are also members of STRS as a result of previous employment covered by STRS. STRS includes concurrent retirement provisions that apply to STRS members who are also Members of UCRP or certain other public retirement systems. The STRS concurrent retirement provisions specify that compensation earned under these other public retirement systems, if higher than STRS compensation, may be used to calculate STRS benefits. The STRS concurrent retirement provisions also allow a member age 55 or older to retire with less than five years of creditable service if eligible to retire under one of the other public retirement systems.

To assist the University of California with the recruitment of teachers, many of whom have STRS service, it is proposed that concurrent retirement provisions similar to the STRS concurrent retirement provisions be added to UCRP. These teachers are needed to staff charter schools and various educational outreach programs. For example, the lack of concurrent retirement provisions has caused significant issues in the recruitment for key positions at the Preuss Charter School at UC San Diego. The proposed UCRP concurrent retirement provisions would provide for concurrent retirement from UCRP and STRS on the same date or on different dates, provided that no creditable service was earned under either plan between the two dates. Members who qualify for concurrent retirement from UCRP and STRS would be entitled to the following benefit enhancements:

- Use of STRS compensation, if higher than UCRP Covered Compensation, to calculate UCRP benefits;
- Retirement with less than five years of UCRP Service Credit if eligible for STRS service retirement.

The proposed UCRP concurrent retirement provisions would apply to Active, Inactive, and Disabled UCRP Members who retire after July 1, 2002, provided they were active Members of UCRP on or after July 1, 2002.

Based on the estimated small number of current active Members with STRS service, it is expected that there would be relatively few current active UCRP Members who would be eligible for the proposed concurrent retirement provisions in future years. While these concurrent retirement provisions would provide benefit enhancements for some Members with STRS service, it is anticipated that most of these Members will attain five years of UCRP Service Credit and that their UCRP Covered Compensation will be higher than their STRS compensation.

Due to the relatively small number of current active Members who would qualify for retirement and/or receive a higher benefit as a result of the proposed concurrent retirement provisions, the Plan's consulting actuary, Towers Perrin, has estimated that the increase in the UCRP Actuarial Accrued Liability as a result of adopting the proposed concurrent retirement provisions would be less than \$3 million. There would also be a relatively small increase in the Actuarial Accrued Liability in the future associated with new UCRP entrants who qualify for retirement and/or receive a higher benefit due to their eligibility for concurrent retirement.

DC Plan and UCRP – Amendments to Plan Language to Clarify Effect of Year-Round Operations on Summer Salary

At the November 2000 Regents' meeting, The Regents approved providing contributions to the DC Plan for eligible UC academic appointees who earn summer salary, effective with summer salary payments made on or after July 1, 2001. To be eligible for such contributions, academic appointees must be active Members of UCRP (or a defined benefit plan to which UC contributes) with academic (9-month) appointments who earn additional compensation for summer teaching, summer research, or summer administrative service. Such additional

compensation may not be covered compensation for a defined benefit plan to which UC contributes.

It has been estimated that between 1998-1999 and 2010-2011, UC can expect an increase in the student population of roughly 43%. Year-round operation (i.e., state supported summer instruction) is one of several strategies being employed to accommodate the substantial enrollment growth. Since it is not expected that faculty with academic-year appointments will be converted to fiscal-year (12-month) appointments, it is very likely that campuses will permit faculty to use a term other than summer as their “off/overload” term. Consequently, the administration recommends that the DC Plan document language be amended to permit contributions for eligible academic appointees who earn additional compensation for eligible teaching, research, and/or administrative service performed during any term that is not part of their academic year appointment. With the exception of revising terminology to modify the expression “summer” to “summer or equivalent term,” the definition of compensation that is eligible for the additional DC Plan contributions would not change.

A related change is recommended to the definition of Covered Compensation contained in the UCRP document to clarify that compensation earned during the summer or equivalent term is not Covered Compensation for pension purposes. There would be no cost to UCRP associated with the proposed Plan language amendment.

(Attachments)

(Additions shown by underlining; deletions shown by strikeout)

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

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ARTICLE 2 DEFINITIONS

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2.50 STATE TEACHERS' RETIREMENT SYSTEM (STRS)

State Teachers' Retirement System (STRS) means the Defined Benefit Program of the State Teachers' Retirement System of the State of California.

2.51 ~~250~~ TOTAL NORMAL COST

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2.52 ~~251~~ UNIVERSITY

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2.53 ~~252~~ UNIVERSITY CONTRIBUTIONS

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ARTICLE 5 BENEFIT PROVISIONS FOR MEMBERS WITH COORDINATED BENEFITS

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5.05 EARLY RETIREMENT

An Active Member, Disabled Member, or Inactive Member who has attained age 50 and who has earned at least five years of Service Credit, including service credit under PERS as a University employee, or who has attained age 62 regardless of Service Credit and became a Member of the Plan on or before July 1, 1989, may elect to retire at any time by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the

(Additions shown by underlining; deletions shown by strikeout)

Plan Administrator, whichever is later. Retirement at age 50 became effective January 1, 1990.

(Additions shown by underlining; deletions shown by strikeout)

An Active Member, Disabled Member, Inactive Member, or former Member who has attained age 50, who is eligible for concurrent retirement as provided by Section 12.09, and who is eligible for service retirement from STRS, unless such eligibility for STRS service retirement is dependent upon retiring concurrently under the Plan or any other public retirement plan as defined in the Plan Regulations, may elect to retire at any time after July 1, 2002 by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the Plan Administrator, whichever is later.

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5.11

ADJUSTMENT TO HIGHEST AVERAGE PLAN COMPENSATION

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(c) to determine the amount of Retirement Income under this Article for an Inactive Member, the Highest Average Plan Compensation shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date. In the case of a Disabled Member who elects Inactive Membership, the Highest Average Plan Compensation shall be determined as of the Disability Date, and shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date.

For an Inactive Member eligible for reciprocal benefits in accordance with Section 12.08, cost of living adjustments to the Highest Average Plan Compensation shall exclude periods for which Service Credit was earned in the reciprocal retirement plan.

(Additions shown by underlining; deletions shown by strikeout)

For an Inactive Member eligible for concurrent retirement as provided by Section 12.09, cost of living adjustments to the Highest Average Plan Compensation shall apply only to the period after the final period in which service credit was earned under either plan.

(Additions shown by underlining; deletions shown by strikeout)

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ARTICLE 6 BENEFIT PROVISIONS FOR MEMBERS WITH NONCOORDINATED BENEFITS

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6.05 EARLY RETIREMENT

An Active Member, Disabled Member, or Inactive Member who has attained age 50 and who has earned at least five years of Service Credit, including service credit under PERS as a University employee, or who has attained age 62 regardless of Service Credit and became a Member of the Plan on or before July 1, 1989, may elect to retire at any time by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the Plan Administrator, whichever is later. Retirement at age 50 became effective January 1, 1990.

An Active Member, Disabled Member, Inactive Member, or former Member who has attained age 50, who is eligible for concurrent retirement as provided by Section 12.09, and who is eligible for service retirement from STRS, unless such eligibility for STRS service retirement is dependent upon retiring concurrently under the Plan or any other public retirement plan as defined in the Plan Regulations, may elect to retire at any time after July 1, 2002 by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the Plan Administrator, whichever is later.

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6.10 ADJUSTMENT TO HIGHEST AVERAGE PLAN COMPENSATION

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(c) to determine the amount of Retirement Income under this Article for an Inactive Member, the Highest Average Plan

(Additions shown by underlining; deletions shown by strikeout)

Compensation shall be

(Additions shown by underlining; deletions shown by strikeout)

increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date. In the case of a Disabled Member who elects Inactive Membership, the Highest Average Plan Compensation shall be determined as of the Disability Date, and shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date.

For an Inactive Member eligible for reciprocal benefits in accordance with Section 12.08, cost of living adjustments to the Highest Average Plan Compensation shall exclude periods for which Service Credit was earned in the reciprocal retirement plan.

For an Inactive Member eligible for concurrent retirement as provided by Section 12.09, cost of living adjustments to the Highest Average Plan Compensation shall apply only to the period after the final period in which service credit was earned under either plan.

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ARTICLE 7 BENEFIT PROVISIONS FOR MEMBERS WITH TIER TWO BENEFITS

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7.06 EARLY RETIREMENT

An Active Member, Disabled Member, or Inactive Member who has attained age 50 and who has earned at least five years of Service Credit, including service credit under PERS as a University employee, or who has attained age 62 regardless of Service Credit and became a Member of the Plan on or before July 1, 1989, may elect to retire at any time by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first

(Additions shown by underlining; deletions shown by strikeout)

day of the month in which the application is received by the Plan Administrator, whichever is later. Retirement at age 50 became effective January 1, 1990.

(Additions shown by underlining; deletions shown by strikeout)

An Active Member, Disabled Member, Inactive Member, or former Member who has attained age 50, who is eligible for concurrent retirement as provided by Section 12.09, and who is eligible for service retirement from STRS, unless such eligibility for STRS service retirement is dependent upon retiring concurrently under the Plan or any other public retirement plan as defined in the Plan Regulations, may elect to retire at any time after July 1, 2002 by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the Plan Administrator, whichever is later.

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7.10

ADJUSTMENT TO HIGHEST AVERAGE PLAN COMPENSATION

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(c) to determine the amount of Retirement Income under this Article for an Inactive Member, the Highest Average Plan Compensation shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date.

In the case of a Disabled Member who elects Inactive Membership, the Highest Average Plan Compensation shall be determined as of the Disability Date, and shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date.

For an Inactive Member eligible for reciprocal benefits in accordance with Section 12.08, cost of living adjustments to the Highest Average Plan Compensation shall exclude periods for which Service Credit was earned in the reciprocal retirement plan.

For an Inactive Member eligible for concurrent retirement as provided by Section 12.09, cost of living adjustments to the

(Additions shown by underlining; deletions shown by strikeout)

Highest Average Plan Compensation shall apply only to the
period after the final period in which service credit was earned
under either plan.

(Additions shown by underlining; deletions shown by strikeout)

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ARTICLE 8

BENEFIT PROVISIONS FOR MEMBERS WITH SAFETY BENEFITS

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8.05

EARLY RETIREMENT

An Active Member, Disabled Member or Inactive Member who has attained age 50, and who has earned at least five years of Service Credit, including service credit under PERS as a University employee, or who has attained age 62 regardless of Service Credit and became a Member of the Plan on or before July 1, 1989, may elect to retire at any time by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the Plan Administrator, whichever is later. Retirement at age 50 became effective January 1, 1990.

An Active Member, Disabled Member, Inactive Member, or former Member who has attained age 50, who is eligible for concurrent retirement as provided by Section 12.09, and who is eligible for service retirement from STRS, unless such eligibility for STRS service retirement is dependent upon retiring concurrently under the Plan or any other public retirement plan as defined in the Plan Regulations, may elect to retire at any time after July 1, 2002 by complying with Plan requirements as stated in Section 12.03. The Member's Retirement Date may not be earlier than the day following separation from University service or the first day of the month in which the application is received by the Plan Administrator, whichever is later.

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8.09

ADJUSTMENT TO HIGHEST AVERAGE PLAN COMPENSATION

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(Additions shown by underlining; deletions shown by strikeout)

(c) to determine the amount of Retirement Income under this Article for an Inactive Member, the Highest Average Plan Compensation shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date. In the case of a Disabled Member who elects Inactive Membership, the Highest Average Plan Compensation shall be determined as of the Disability Date, and shall be increased by the total percentage of cost of living adjustments specified in Section 9.03(b) from the July 1 coinciding with or next following the date of Inactive Membership, but not earlier than July 1, 1971, to the July 1 coinciding with or immediately preceding the Retirement Date.

For an Inactive Member eligible for reciprocal benefits in accordance with Section 12.08, cost of living adjustments to the Highest Average Plan Compensation shall exclude periods for which Service Credit was earned in the reciprocal retirement plan.

For an Inactive Member eligible for concurrent retirement as provided by Section 12.09, cost of living adjustments to the Highest Average Plan Compensation shall apply only to the period after the final period in which service credit was earned under either plan.

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ARTICLE 12 MISCELLANEOUS

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12.09

Concurrent Retirement

Any Active Member, Disabled Member, Inactive Member or former Member, who

(a) is an Active Member on or after July 1, 2002;

(b) is a member of STRS; and

(Additions shown by underlining; deletions shown by strikeout)

(c) satisfies the requirements of Section 5.05, 6.05, 7.06 or 8.05, as applicable,

shall be eligible after July 1, 2002 for retirement from this Plan concurrent with retirement under STRS. Concurrent retirement can be on the same

(Additions shown by underlining; deletions shown by strikeout)

date from both plans or on a different date from each plan; provided that an Active Member, Disabled Member, Inactive Member or former Member shall lose eligibility for concurrent retirement under this Plan if such Member earns service credit under this Plan or STRS after retiring concurrently under this Plan or STRS. A Retired Member who is subsequently employed in a position subject to membership in STRS shall not be eligible to elect concurrent retirement under this Section 12.09 following this subsequent employment.

An Active Member, Disabled Member, Inactive Member, or former Member who meets the requirements for concurrent retirement set forth in this Section 12.09 shall be entitled to the following:

- (d) Compensation earnable while a member of STRS shall be considered in determining the Highest Average Plan Compensation under this Plan, provided the Member did not earn service credit concurrently under this Plan and under STRS; and
- (e) Eligibility for retirement under Section 5.05, 6.05, 7.06 or 8.05, as applicable, with less than five years of Service Credit if eligible for service retirement from STRS, unless such eligibility is dependent upon retiring concurrently under the Plan or any other public retirement plan as defined in the Plan Regulations.

12.10 12.09

UNCLAIMED BENEFITS AND ACCUMULATIONS

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(Additions shown by underlining; deletions shown by strikeout)

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

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ARTICLE 2 DEFINITIONS

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2.13 COVERED COMPENSATION

Covered Compensation means the total monthly remuneration which an Active Member receives from the University for a regular and normal appointment, whether on a 9-month, 10-month, 11-month, or annual basis, including remuneration while on sabbatical leave or other approved leave of absence with pay. The following are not Covered Compensation:

- (a) overtime payments except payment in the form of compensatory time off.

For purposes of this Section, "overtime payment" means any remuneration, including a premium payment, that is not a part of compensation for a regular and normal appointment.

- (b) compensation for correspondence, summer or equivalent term session, intersession, and for interquarter or vacation periods and University Extension courses unless such employment constitutes a part of an annual or indefinite appointment.

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(Additions shown by underlining; deletions shown by strikeout)

UNIVERSITY OF CALIFORNIA DEFINED CONTRIBUTION PLAN

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ARTICLE 2 DEFINITIONS

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2.02 ACTIVE PARTICIPANT

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(b) Employer Pickup Contributions

The following shall be eligible to make Employer Pickup Contributions:

- (i) employees of the University who are Members of the University of California Retirement Plan;
- (ii) employees of the University who meet all of the following conditions: are academic appointees with academic year appointments, are Members of the University of California Retirement Plan or a defined benefit plan to which the University contributes, and earn Summer or Equivalent Term Salary as described in Section 2.28;

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2.28 SUMMER OR EQUIVALENT TERM SALARY

Summer or Equivalent Term Salary means additional compensation, in accordance with Plan Regulations, for summer or equivalent term teaching, summer or equivalent term research or summer or equivalent term administrative service that is not covered compensation for the University of California Retirement Plan or a defined contribution plan to which the University contributes, which is earned by academic appointees, with academic year appointments, who are Members of the University of California Retirement Plan or a defined contribution plan to which the University contributes.

(Additions shown by underlining; deletions shown by strikeout)

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ARTICLE 3 CONTRIBUTIONS

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3.01 DEFINED CONTRIBUTIONS

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(b) Employer Pickup Contributions

Employer Pickup Contributions are:

- (i) those Member Contributions described in Article 4 of the University of California Retirement Plan which The Regents direct to be paid to the Plan, including make-up contributions made in accordance with USERRA and IRC §414(u); and
- (ii) those required contributions made to the Plan by all Active Participants described in Section 2.02(b)(ii), including make-up contributions made in accordance with USERRA and IRC §414(u). The contribution rate shall be 3.5% of such Active Participants' Summer or Equivalent Term Salary; and

* * *

(c) University Contributions

University Contributions are those required contributions made to the Plan for all Active Participants described in Section 2.02(b)(ii), including make-up contributions made in accordance with USERRA and IRC §414(u). The contribution rate shall be 3.5% of such Active Participants' Summer or Equivalent Term Salary.

All University Contributions shall be credited into the same Defined Contribution Fund to which the Employer Pickup Contributions as described in Section 3.01 (b) (ii) are credited.

(Additions shown by underlining; deletions shown by strikeout)

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3.03

CONTRIBUTION LIMITATION

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(a) The following amounts of compensation are not taken into account under the Plan and, thus, are not considered for purposes of determining After-Tax Voluntary Contributions, the Employer Pickup Contributions described in Section 3.01 (b), and the University Contributions described in Section 3.01 (c), except as provided by law:

* * *

(iii) Summer Salary which exceeds $\frac{1}{4}$ of the limits described in (i) and (ii) above, as applicable. Summer or Equivalent Term Salary which exceeds $\frac{1}{4}$ of the limits described in (i) and (ii) above, as applicable.

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