

**\*Revised\***

**Additions shown by underscoring; deletions shown by strikethrough**

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**Office of the President**

**TO MEMBERS OF THE COMMITTEE ON FINANCE AND THE COMMITTEE ON  
COMPENSATION:**

**ACTION ITEM**

*For Meeting of February 5, 2009*

***POWERPOINT PRESENTATION***

**PROPOSED REINSTATEMENT OF CONTRIBUTIONS TO THE UNIVERSITY OF  
CALIFORNIA RETIREMENT PLAN AND ASSOCIATED AMENDMENT OF THE  
DEFINED CONTRIBUTION PLAN**

**EXECUTIVE SUMMARY**

The President recommends that University contributions and member contributions to the University of California Retirement Plan (UCRP or Plan) be reinstated and that the current redirection of member contributions to the University of California Defined Contribution Plan (DC Plan) be terminated effective on or about April 15, 2010.

- Issue: Reinstatement of contributions to UCRP
- Relevant Policy: UCRP Plan Document  
UCRP Funding Policy  
Defined Contribution Plan Document
- Previous Actions: **October 1990:** The Regents adopted a “full funding policy” under which contributions are suspended when the Plan’s surplus is enough to cover the Plan’s Normal Cost.
- March 2006:** The Regents updated the funding policy to incorporate a long-term targeted funding level of 100 percent.
- September 2008:** The Regents adopted a new funding policy for UCRP to become effective with Plan Year 2009-2010, based on the July 1, 2008 actuarial valuation.

**RECOMMENDATION**

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

(1) University contributions and member contributions be reinstated effective on or about April 15, 2010 as follows:

(a) The University contribution rate for the fourth quarter of Plan Year 2009-2010 (starting on or about April 15, 2010) and for Plan Year 2010-2011 be as shown below:

Member Class	Number of Members July 1, 2008	University Contribution Rate on Covered Compensation	
		Fourth Quarter of Plan Year 2009- 2010*	Plan Year 2010-2011
Coordinated with Social Security	111,254	4%	TBD**
Noncoordinated	2,556	4%	TBD**
Safety	411	4%	TBD**
Tier Two	21	2%	TBD**

\* Starting on or about April 15, 2010

\*\*The University contribution rate for Plan Year 2010-2011 will be at least 4 percent and may be higher as decisions are made about moving towards the entire recommended total contribution rate.

(b) The member contribution rates for the fourth quarter of Plan Year 2009-2010 (starting on or about April 15, 2010) and for Plan Year 2010-2011 be as shown below, subject to collective bargaining, if applicable, for represented members. These are the same as the current rates for member contributions that are being redirected to the DC Plan.

Member Class	Member Contribution Rate on Covered Compensation for the Fourth Quarter of Plan Year 2009-2010* and for Plan Year 2010-2011
Coordinated with Social Security	2% up to Social Security wage base, then 4% over Social Security wage base, minus \$19/month
Noncoordinated	3% minus \$19/month
Safety	3% minus \$19/month
Tier Two	None

\*Starting on or about April 15, 2010

(2) The current redirection of member contributions to the DC Plan be terminated effective on or about April 15, 2010, subject to collective bargaining, if applicable, for represented members.

(3) The University contributions and the member contributions for the Lawrence Berkeley National Laboratory (LBNL) segment of UCRP be made on the same basis as determined for the non-laboratory segment of UCRP (i.e., campuses, medical centers and Hastings College of the Law), effective on or about April 15, 2010, subject to the terms of the

University's contract with the Department of Energy and subject to collective bargaining, if applicable, for represented members at LBNL.

- (4) For members participating in the Staff and Academic Reduction in Time (START) Program at any time between April 15, 2010 and June 30, 2010, the applicable University fund source be assessed and be liable for the additional amount of University contributions and member contributions that would have been contributed by and on the behalf of such members had such members not participated in the START program, in accordance with Regental approval of the START program.
- (5) UCRP be amended effective April 15, 2010 to allow members who are not vested in their basic retirement benefit to leave their contributions on deposit with the Plan following a break in service.
- (6) Authority be delegated to the Plan Administrator to amend UCRP and the DC Plan as necessary to implement these changes.

## **BACKGROUND**

### ***Suspension of Contributions to UCRP***

Prior to November 1990 both University contributions and member contributions to UCRP were required. In 1990 the Regents adopted a full funding policy and suspended University contributions to UCRP after the actuary and the auditor confirmed that UCRP was adequately funded to provide benefits for many years into the future. At the same time the Regents directed that contributions from members participating in Social Security (coordinated members) and a portion of the contributions from members not participating in Social Security (noncoordinated members) and from safety members be redirected to individual accounts in the DC Plan, subject to the Regents' right to direct member contributions back to UCRP in the future as necessary to maintain the Plan's funded status. Under the DC Plan, contributions from participants are held in accounts and may be invested at the participant's direction. DC Plan accumulations are available for distribution after a participant's break in service. In July 1993 the Regents suspended the remaining portion of UCRP contributions from noncoordinated members and from safety members.

### ***UCRP Funded Status***

As reported to the Regents at their November 2008 meeting, the July 1, 2008 actuarial valuation documented that, on an actuarial value-of-assets basis, the funded status of the non-laboratory segment of UCRP has declined in each of the last eight Plan Years from 154 percent in July 2000 to 103 percent in July 2008. The funded status has deteriorated significantly since July 1, 2008 due to the decline in the financial markets.

To address the current and projected decline in the Plan's funded status and to maintain the long-term targeted funding level of 100 percent, it is recommended that contributions be resumed beginning with the 2009-2010 Plan Year in accordance with the funding policy approved by the

Regents in September 2008. A further delay in the reinstatement of UCRP contributions is projected to require even greater contributions in future years due to the absence of current contributions and the loss of potential investment earnings on those contributions. In addition, contributions that are not received to offset retirement liabilities as they are incurred cannot be recouped later from most non-State funding sources, such as short-term federal contracts and grants. The lost opportunity to receive contributions from these funding sources will further increase the burden on members and the University in future years.

***Recommended Contributions – Plan Year 2009-2010***

Recommended Total Contributions

Applying the funding policy to the results of the July 1, 2008 actuarial valuation for the campus and medical center segment of UCRP, the recommended total contribution rate for all active members for the 2009-2010 Plan Year is 11.61 percent of projected Covered Compensation. The components of the recommended total contribution rate are shown below:

Total Normal Cost Rate	16.91%
Amortization of Unfunded Actuarial Accrued Liability (or Surplus)	(5.71%)
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Recommended total contribution rate, before timing adjustment	11.20%
Recommended total contribution rate, after timing adjustment <sup>1</sup>	11.61%

Recommended University Contributions Based on Available Funding

The Plan document states that the University shall contribute to the Plan a percentage of total Covered Compensation at rates determined from time to time by the Regents and that such contributions shall be an amount, which when added to member contributions, if any, and amounts already credited to the Plan Trust shall be reasonably expected to maintain the Plan on an actuarially sound basis.

It is recommended that the University contribution rate be determined annually based on the excess of the recommended total contribution rate over the scheduled member contribution rate but also in consideration of available funds. Furthermore, in accordance with the funding policy, in no event would the University contribution rate be lower than the member contribution rate.

At their November 2008 meeting the Regents approved a proposed 2009-2010 budget in which UC requested, among other things, \$228 million from the State for retirement contributions. The funding request was based on a total retirement contribution rate of 11.5 percent, of which 9.5 percent would be funded by the University and 2 percent by the members, effective July 1, 2009.

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<sup>1</sup> The adjustment accounts for contributions being made throughout the Plan Year rather than at the beginning of the Plan Year.

The Governor's proposed 2009-2010 budget, released in January 2009, included funding for the restart of the State employer contribution to UCRP at the 4 percent level for the entire fiscal year (\$95.7 million). The amount was reduced to \$20 million. ~~provides \$20 million for the restart of the State employer contribution to UCRP.~~ The \$20 million is equivalent to a 4 percent University contribution rate beginning on or about April 15, 2010 (based on projected 2009-2010 Covered Compensation of \$7.55 billion).

In light of the Governor's proposed budget, it is recommended that the University contributions to UCRP, from all employer funding sources, be restarted at a 4 percent rate beginning on or about April 15, 2010. Notably the 4 percent University contribution rate is the same as the University contribution rate in effect immediately prior to the suspension of University contributions in November 1990.

The University contribution rate for Plan Year 2010-2011 will be recommended at a future date and will depend on the amount of State funding available and other budget considerations; however, it is expected that the rate will be a minimum of 4 percent. In accordance with the funding policy, the University contribution rate will be at least as much as the member contribution rate.

#### Recommended Member Contributions Schedule

It is recommended that the member contribution schedule start on or about April 15, 2010 and continue at the same level through the 2010-2011 Plan Year to facilitate budget planning and collective bargaining requirements. Member contributions are proposed to begin at low rates during this initial period with the intention to increase these rates gradually, by 1 percent per year, to ultimately parallel the contribution rates for members of the California Public Employees' Retirement System (CalPERS), currently 5 percent of covered pay for most members.

The recommended level of member contributions starting on or about April 15, 2010 is the same as the level of member contributions currently being redirected to the DC Plan, which means that during this initial period, members would have no decrease in take-home pay. For coordinated members, initial contributions would be the sum of 2 percent of Covered Compensation up to the Social Security wage base (\$106,800 for 2009, higher amount expected for 2010) and 4 percent of Covered Compensation above the Social Security wage base, minus \$19 per month. For noncoordinated members and safety members, the initial contribution rate would be 3 percent of Covered Compensation minus \$19 per month. By definition, members with Tier Two benefits (currently 21 members) do not contribute to the Plan. An offset (currently \$19 per month) from the member contributions has been applied since 1974 when it was introduced to provide parity with CalPERS. It results in a relatively lower contribution rate for lower-paid members as shown in the table below.

Because UCRP benefits for coordinated members are integrated with Social Security, historically there have been two contribution rates for these members: a lower rate on Covered Compensation up to the Social Security wage base and a higher rate on any Covered Compensation above the Social Security wage base. The result is that coordinated members with

Covered Compensation above the Social Security wage base will have a higher average overall contribution rate than coordinated members with no Covered Compensation above the Social Security wage base. For example, as shown in the table below, the contribution rate for a coordinated member whose annual Covered Compensation in 2010 is \$30,000 will be 1.24 percent of pay (\$31 a month) as compared with 2.11 percent (\$220 per month) for a coordinated member whose annual Covered Compensation is \$125,000. For Plan Year 2009-2010, these member contribution rates are projected to amount to about 1.88 percent of Covered Compensation on average.

Member Contributions for Coordinated Members Beginning on or about April 15, 2010		
Monthly Covered Compensation	Monthly Member Contribution	Percent of Covered Compensation*
\$2,500 (\$30,000 annual)	\$31	1.24%
\$4,167 (\$50,000 annual)	\$64	1.54%
\$6,250 (\$75,000 annual)	\$106	1.70%
\$8,333 (\$100,000 annual)	\$148	1.78%
\$10,417 (\$125,000 annual)	\$220	2.11%**
\$12,500 (\$150,000 annual)	\$303	2.42%**

\*The \$19/month contribution offset reduces the effective contribution rate for all members, with the impact being greater for lower paid members.

\*\*The 4% contribution rate that is applied to Covered Compensation over the Social Security wage base results in a higher overall contribution rate for members whose Covered Compensation exceeds the Social Security wage base (\$106,800 for 2009, assumed same amount for calendar year 2010).

### ***Other Recommendations***

#### Elimination of Mandatory Refunds to Certain Separated Members

Currently, members who have a break in service prior to accruing five years of service credit do not vest in UCRP's basic retirement benefit and following their separation date are required to receive a refund of their accumulations (member contributions plus interest). If these former members return to active Plan membership, they may reestablish service credit for their prior period of Plan membership by redepositing their refund of accumulations plus interest into the Plan within three years of returning to work. To reduce the member and administrative burden associated with refunds and redeposits, it is recommended that members who have a break in service before accruing five years of service credit be allowed to leave their accumulations on deposit with the Plan. This proposed change would make UCRP policy consistent with the current CalPERS policy.

#### Member Cost to Establish Service Credit for Approved Leaves

No change is proposed to the current method of determining the cost that members are charged to establish Service Credit for approved leaves within a three-year window of returning from the leave. Prior to the suspension of member contributions, the amount that members were charged to establish Service Credit for the leave time was equal to the member contributions and University contributions that would have been made, plus interest. For leaves without pay

occurring after the suspension of member contributions, the amount that members were charged to establish Service Credit for the leave time is the Normal Cost incurred by the Plan, plus interest. Following the reinstatement of University and member contributions, it is recommended that Normal Cost plus interest continue to be charged to establish Service Credit for unpaid leaves, since this is more representative of the long-term cost to the Plan. In instances where the three-year window has expired or for leaves without pay in excess of two years, the cost would be determined by an individual actuarial cost calculation as approved by the Regents at their November 2008 meeting.

*~~Academic Council Position on the Reinstatement of UCRP Contributions~~*

~~The Academic Council, acting on behalf of the Assembly of the Academic Senate, evaluated the proposed UCRP funding policy prior to its approval by the Regents. On the recommendation of University Committee on Faculty Welfare (UCFW) and its Task Force on Investments and Retirement (TFIR), the Council unanimously supported the funding policy proposal with the understanding that the resumption of member contributions would not lead to or be associated with reductions in total cash compensation or total remuneration for UC faculty and staff. The Council stated that the funding policy is a transparent and prudent method of establishing recommended levels of contributions to UCRP each year, which should help in securing the State funding needed to keep the Plan fully funded. Its endorsement included the caveat that “employee salaries must increase by *at least* the amount of the required employee contributions, to avoid a reduction in UC’s competitive position in total remuneration.” While cessation of the member contribution redirection to the DC Plan will result in no decrease in take-home pay, it would result in a reduction in total remuneration, as the member’s accumulation in the DC plan is a valuable part of total remuneration.~~

*Academic Council Position on the Reinstatement of UCRP Contributions*

The Academic Council discussed the restart of employee and employer contributions to UCRP at its meeting on January 28, 2009. The Council endorsed the recommendation of the University Committee on Faculty Welfare (UCFW) that the Council support resumption of contributions regardless of the immediate effect on total remuneration. The Council emphasizes, however, that the imperative to restore competitiveness to the faculty salary scales is equally important. It asks that the Regents use data obtained from the currently ongoing analysis of total faculty remuneration to make appropriate salary improvements in fiscal year 2010-11, including those needed to remedy any detriment caused by restarting employee contributions to UCRP.

*Task Force on Retirement Benefits*

The President is charging a Task Force on Retirement Benefits (Task Force) to develop a comprehensive, long-term approach to UC obligations for post-retirement benefits. The Task Force will make recommendations to the President for subsequent submission to the Regents on the long-term funding, benefits policy, and benefits design alternatives for retirement benefits for UC faculty and staff. The Task Force recommendations must consider the issues of market competitiveness, work force development, affordability, and sustainability. The Task Force will consist of and consult with representatives from a cross section of UC stakeholders, including the

Academic Senate, Treasurer's Office, Office of General Counsel, Human Resources, Financial Management, Budget, as well as campus, medical center and laboratory representatives from administration, planning and budget, and staff. The University will observe all Higher Education Employer-Employee Relations Act requirements in undertaking this process. The Task Force is expected to make recommendations that can be incorporated into the budget and planning cycles of the University for fiscal year 2011-2012.

***Notice***

The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act, if any such action is required. The reinstatement of member contributions to UCRP for represented employees is subject to collective bargaining requirements.