

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of July 17, 2013

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – UNIVERSITY AND MEMBER CONTRIBUTION RATES FOR PLAN YEAR 2014-15

EXECUTIVE SUMMARY

The President recommends that contributions by the University and members to the University of California Retirement Plan (UCRP or Plan) beginning in Plan Year 2014-15 be set at the rates shown below. The recommendation is being presented now to allow sufficient time for location budget planning and the collective bargaining process for represented employees. Total contributions to the Plan determined at the recommended rates will fall short of the Regents' funding policy level, but exceed the Plan's Normal Cost (the portion of the cost for projected benefits allocated to each year of service for active members). All member contributions and a portion of the University contributions will be allocated to Normal Cost; the balance of the University contributions will be applied towards paying interest on the unfunded actuarial accrued liability.

RECOMMENDATION

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

- (1) University contribution rates to the University of California Retirement Plan (UCRP or Plan) beginning in Plan Year 2014-15 be 14 percent for all member classes other than Tier Two and seven percent for Tier Two members.
- (2) Member pretax contribution rates beginning in Plan Year 2014-15 be increased to eight percent for 1976 Tier members (as defined in the Plan) and nine percent for Safety members, subject to collective bargaining. Member contributions, other than the contributions of 2013 Tier members (as defined in the Plan), shall continue to be reduced by \$19 per month.
- (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 in paragraphs (1) and (2) above, subject to the terms of the University's contract with the

Department of Energy and subject to collective bargaining for represented members at LBNL.

- (4) Authority be delegated to the Plan Administrator to amend the Plan document as necessary to implement these changes.

BACKGROUND

In February 2009, the Regents approved reinstatement of University and member contributions beginning on or about April 15, 2010. At that time, University and member contribution rates were scheduled to increase incrementally over the next several years. The initial total contribution rates (the University contribution rates plus the member contribution rates) were considerably below both the funding policy contribution rate and Normal Cost due to the lack of State funding, limited availability of other funds, and the impact of member contributions on the competitiveness of UC's total compensation package.

In September 2010, the Regents approved a two-year acceleration of University and member contribution rates, effective for Plan Years beginning July 1, 2011 and July 1, 2012, to capture more contributions from all fund sources as the liabilities are incurred and to reduce growth of the Plan's unfunded liability. Even with this acceleration, the totals of the University and member contribution rates that were recommended and approved for Plan Years beginning July 1, 2011 and July 1, 2012 were less than Normal Cost due to the continued lack of State funding and the adverse impact that a faster rate of acceleration would have had on location budgets and on the competitiveness of UC's total compensation package.

As approved by the Regents in March 2011, \$1.1 billion was transferred from the Short Term Investment Pool (STIP) to UCRP for Plan Year 2010-11, with an additional amount of approximately \$0.9 billion obtained for Plan Year 2011-12 through external financing. These amounts were intended to partially fund the difference between scheduled pension contributions from the University and members and the funding policy amount. There was no additional borrowing for Plan Year 2012-13.

In December 2010, the Regents approved a seven percent member contribution rate for 2013 Tier members starting with Plan Year 2013-14, which is also the effective date of the new tier. In November 2011, the Regents approved contribution rates for the University and for members other than 2013 Tier members beginning with Plan Year 2013-14. Although the total is below the Regents' funding policy level, for the first time it exceeds the Normal Cost (the portion of the cost for projected benefits allocated to each year of service for active members).

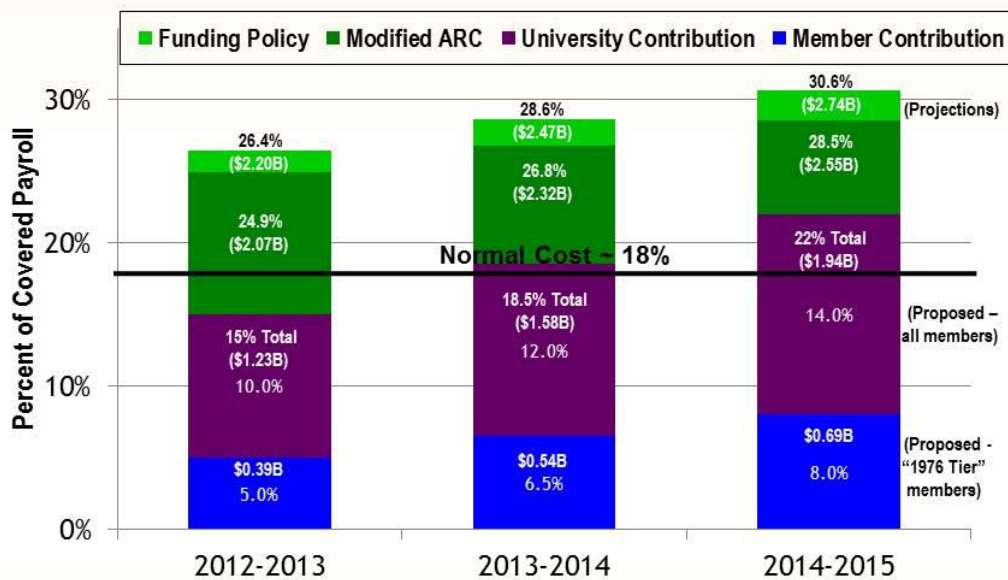
It is recommended that the amount of the increase in University and member contribution rates be determined now for Plan Years beginning on and after July 1, 2014 to allow sufficient time for location budget planning and the collective bargaining process for represented employees.

The existing and proposed rates and their timing, as shown on the following chart, have been included in previous financial modeling and discussions with the Regents and the University community. The total proposed contribution rate for Plan Year 2014-15, while below the level of

the funding policy contribution rate, is expected to exceed the Normal Cost by a greater amount than did the total contribution rate for the current Plan Year. All of the member contributions and a portion of the University contributions will be allocated to Normal Cost; the balance of the University contributions will be applied towards paying interest on the unfunded actuarial accrued liability. The University contribution rate does not include a supplemental assessment to pay for debt service on the STIP transfer and external borrowing (currently approximately 0.8 percent of covered pay).

Because member contribution rates for represented employees are subject to the collective bargaining process, changes in UCRP contribution rates necessarily may take effect on different dates for different groups. In the interest of equity, members who receive the same level of UCRP benefits should ultimately contribute the same amount and, through the collective bargaining process, adjustments should be made in the amount and/or timing of contributions to achieve this goal. For example, if the effective date of an increase in the member contribution rate is delayed for a group of employees, then the new contribution rate for that group may be set at a higher amount for a period of time to equalize the total contributions from different groups. Alternatively, a group of employees with a later start date for increased contribution rates may agree to provide retroactive contributions once the bargaining process has been completed.

UCRP Contribution Illustration



-Results based on July 1, 2012 actuarial valuation and assume 7.5% market value return per year beginning July 1, 2012.
 -Member contribution rates shown apply to non-safety members who became members prior to July 1, 2013; offset of \$19 per month applies; all member contributions subject to collective bargaining, as applicable. Contribution amounts (\$) are based on projected campus/med center payroll for all members. All rates shown for 2014-15 are projections and not final.
 -Employer rates exclude the extra assessment to pay back internal/ external financing.
 -Modified ARC (Annual Required Contribution) is equal to the Normal Cost plus interest only on the Unfunded Actuarial Accrued Liability.

Academic Senate Position

The Academic Senate issued the following statement regarding its position on UCRP contributions:

At its meeting on April 24, the Academic Council discussed the administration's proposal to increase contributions to UCRP effective July 1, 2014 to an employer contribution rate of 14 percent and an employee contribution rate of eight percent. *The Academic Council voted unanimously to support this proposal.*

In addition, *a majority of Academic Council members endorsed the University Committee on Faculty Welfare's (UCFW's) caveat that support for the proposal should be conditional on a corresponding salary increase of at least three percent for faculty and non-represented staff* (14 in favor, 3 opposed, 1 abstention). This increase would offset the combined increases in employee contributions scheduled for July 2013 and proposed for July 2014. While it is essential to return UCRP to fully funded status, it is equally necessary to arrest further decline in total remuneration for faculty. The Academic Council is very concerned about the ability of UC to retain its highly accomplished young faculty members. While UC remains successful at recruiting top faculty, younger faculty are mobile. When salaries are not competitive, faculty may seek increases by getting outside offers that will trigger retention efforts. This pattern is both destructive to faculty morale and is not an efficient way to approach salary and retention.

Summary of President Yudof's Response to the Academic Senate Position

On May 17, President Yudof sent a letter to Academic Council Chair Powell, thanking the Council for their letter in support of increasing UCRP contribution rates and stating that he would take the Council's advice regarding salary increases under consideration as he reviewed the options. He indicated that a decision on a salary program could not be made until there was a better understanding of the impact of the Governor's revised budget on the University.

Announcement of 2013-14 Salary Program

On June 5, an announcement was issued regarding systemwide salary increases to be effective July 1, 2013. These increases, which were part of the proposed 2013-14 budget approved by the Regents this past November, are intended to acknowledge the fact that non-represented employees have received only one general salary increase in the past five years. The increases also are intended to partially offset increased retirement and other benefit costs that faculty and staff have absorbed over the past few years.

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 changes in member contribution rates to UCRP for represented employees are subject to collective bargaining requirements.

Previous Actions

September 2010: The Regents approved the following UCRP contribution rates to be applied against a member’s covered compensation:

<i>Member Class</i>	<i>Plan Year</i>			
	<i>2011-2012</i>		<i>2012-2013</i>	
	<i>University</i>	<i>Member*</i>	<i>University</i>	<i>Member*</i>
Coordinated & Noncoordinated	7%	3.5%	10.0%	5.0%
Safety	7%	4.5%	10.0%	6.0%
Tier Two ¹	3.5%	none	5.0%	none

*Member contribution reduced by \$19 per month

December 2010: The Regents approved a new tier to be established within two of the existing UCRP member classes—Members with Coordinated Benefits and Members with Noncoordinated Benefits—for eligible employees hired or rehired on and after July 1, 2013. The contribution rate for members in the new tier, referred to as the “2013 Tier,” was set at seven percent of covered compensation with no monthly reduction. Members in the new tier are designated as “2013 Tier members” within the Coordinated and Noncoordinated member classes; members who continue in the program established in 1976 for the Coordinated and Noncoordinated member classes are now designated as “1976 Tier members.”

The Regents also gave the President authority to fully fund the UCRP annual required contribution (ARC) as quickly as practical by paying UCRP modified ARC (Normal Cost plus interest only on the unfunded actuarial accrued liability) from fiscal year 2011 through fiscal year 2018, using one or more of the following options: borrowing from the STIP, restructuring University debt, or funding from other internal or external sources.

March 2011: The Regents approved additional funding for UCRP through transfers from STIP or external borrowing in fiscal year 2010-11 and fiscal year 2011-12 in an amount equal to the difference between the approved total UCRP contribution and modified ARC.

November 2011: The Regents approved the following contribution rates to take effect in the 2013-14 Plan Year for the University and members other than members in the 2013 Tier, whose contribution rate was set at seven percent at the Regents’ December 2010 meeting:

<i>Member Class /Tier</i>	<i>University</i>	<i>Member*</i>
Coordinated and Noncoordinated/1976 Tier only	12%	6.5%**
Safety	12%	7.5%
Tier Two	6%	None

*Member contribution reduced by \$19 per month.

**Rate for 2013 Tier members established at December 2010 meeting.

¹ The UCRP member class known as “Tier Two” is a frozen group. As of July 1, 2012, it had 11 active members.