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Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of March 23, 2016

RECOMMENDATION FOR NEW UNIVERSITY OF CALIFORNIA RETIREMENT PROGRAM

EXECUTIVE SUMMARY

As part of a broader effort to ensure the University of California's long-term financial stability, and consistent with the 2015-16 budget agreement between UC and the State approved by the Regents in May 2015 that provided UC with nearly $1 billion in annual and one-time funding over four years, the Regents are to consider a new retirement program for UC employees hired on or after July 1, 2016, that will implement the State's pensionable salary cap (the California Public Employees' Pension Reform Act or PEPRA cap).

Building on the work of the systemwide Task Force on Retirement Options appointed last summer and subsequent feedback from faculty, staff, and other members of the UC community, the President recommends providing future employees with a choice of two retirement plans: (1) a pension plan with the PEPRA cap and a 401(k)-style supplemental benefit;[1] or (2) a stand-alone 401(k)-style plan. A key difference between the Task Force recommendations and the President's proposal is that, under the President's proposal, UC's employer contribution to the defined contribution supplemental benefit differs between faculty and staff, in recognition of the fiscal constraints UC faces and the labor markets within which the University competes.
The President's approach would achieve significant savings with respect to the University's annual costs and long-term cost structure. The majority of the savings would be used to pay down the pension plan's unfunded liability. A portion of the remaining savings would also be used to fund the 401(k)-style supplemental benefit for faculty and staff and to offer the stand-alone 401(k)-style plan.

[1] The supplemental benefit would be provided through UC's governmental defined contribution (DC) plan. A defined contribution plan is an individual savings account for employee and employer contributions; benefits are based on the plan's investment earnings. UC's Defined Contribution plan is similar to a 401(k) plan in several ways.

The President's proposal also includes programs to bolster recruitment and retention of faculty and critical staff, enhance the student educational experience, and facilitate retirement readiness for UC employees by offering enhanced retirement counseling.

Some members of the University community argued that the PEPRA cap should be rejected altogether. This argument fails for compelling reasons. The PEPRA cap is only one part of a comprehensive agreement with the Governor that provides nearly $1 billion in new funding to the University, among other benefits. The Regents have already endorsed this agreement. To reject the PEPRA cap and undo the agreement would require the University to raise resident tuition by 28 percent over the next three years or somehow find other sources of equivalent funding. In today's political and economic environment, such a result is highly unlikely and undesirable.

If the Regents approve this new retirement program, it will go into effect by July 1, 2016 and will apply to all eligible UC employees hired on or after that date. Retirement benefits for current employees and retirees will not be affected. Retirement benefit changes for future union-represented employees will be effective upon completion of the collective bargaining process. Executive Vice President Nava and Executive Vice President Brostrom will make a detailed presentation on the recommended program for faculty and staff.

RECOMMENDATION

The President of the University recommends that the Committee on Finance recommend to the Regents that the new retirement program, described in detail in Attachment 1, be approved. A list of eligible faculty employees is included in Attachment 2.

OVERVIEW

Key Principles Underlying UC's 2015-16 State Budget Agreement

The 2015-16 budget agreement with the State launched a new period of long-term financial stability for the University, as well as a renewed partnership with the Governor and the Legislature. The budget agreement with the Governor that the Regents approved last May was driven by the same two key principles that have driven the President's proposal: maintaining the excellence of the University and ensuring its long-term financial health. The University's excellence depends on its ability to continue to recruit and retain the best faculty across the UC enterprise of ten campuses, five medical centers, and three National Laboratories, along with the staff who ably support them, the student experience, and the University's overall mission.
The budget agreement included nearly $1 billion in new annual revenue and one-time funding that will extend over the next several years to help ensure UC's long-term financial stability. The nearly $1 billion includes:

- Annual increases, from 2015-16 through 2018-19, in UC's base budget totaling $507 million, which enable the University to:
    - Provide stability and predictability for students and families, including holding resident tuition flat through 2016-17.

  - Expand programmatic innovations to improve student success and enhance student mental health services.
  - Provide regular merit-based salary increases for faculty and staff.
- $436 million over three years to help pay down UC's unfunded pension liability.
- $25 million to support the enrollment of 5,000 additional California undergraduates in 2016-17.

As part of ensuring UC's long-term fiscal health and the pension plan's ability to pay past, present and future pension benefits, the University agreed to implement a cap on pensionable salary to mirror the State's PEPRA cap for UC employees hired on or after July 1, 2016.

The Retirement Options Task Force and Subsequent Feedback

Last August, President Napolitano appointed a 13-member Task Force of faculty, staff, administrators, and representatives from the Academic Senate, the Staff Advisors to the Regents, the Council of UC Staff Assemblies (CUCSA), and UC labor unions, charging them to develop options for new retirement plans that would sustain the University's excellence and ensure its long-term financial stability. The Task Force considered a wide range of designs, eligibility, employee and employer contribution levels, effect on the University of California Retirement Plan (UCRP), cost impacts, and other aspects of new benefits designs. Members of the Task Force and the administration at the Office of the President shared updates on deliberations with the University community throughout the process.

The Task Force presented recommendations, described below, as well as analyses and discussions of the data and options, in a December 15, 2015, report to the President (Attachment 3). The President solicited feedback on the Task Force recommendations from the UC community from January 15 through February 15, 2016, to help inform her proposal. Faculty and staff were invited to submit comments through a dedicated website, and all comments received were reviewed and considered. The Academic Senate formally reviewed the recommendations and provided feedback to the President. In addition, two online webinars were convened by Executive Vice President Nava in February to explain the recommendations and solicit questions and comments from interested employees. Several hundred faculty and staff participated in the webinars. Letters were sent to campus deans and department chairs, requesting that they urge all faculty to provide their feedback. Information sessions were also held in February for campus staff, such as academic personnel directors and chief human resources officers, who will play a critical role in implementing the new retirement program.

Key Considerations in the President's Recommendation

The overarching goal of the President's proposed retirement program is to maintain the University's excellence and sustain its long-term financial health, including the health of its retirement program. The new retirement program will result in significant savings for the University and greater choice for new employees.

The proposed new program for faculty and staff is based on the following specific priorities:

- **Ensuring UC's long-term financial stability – not only the health of the pension plan, but also the underlying health of the University.** The cost of the retirement program and savings are an important element of the proposal. The savings generated by the proposed changes, along with additional funds UC will receive from the State under the 2015-16 budget agreement, will go towards addressing UC's priorities. By implementing a new cap on pensionable income for future employees that aligns with the PEPRA limit along with a stand-alone 401(k)-style plan, UC will reduce its long-term pension cost structure by 16 percent and save an average of $99 million a year over 15 years. In addition, under the budget agreement, UC will receive nearly $1 billion in new annual revenue and one-time funding over the next several years.
- **Addressing overall compensation, particularly for faculty.** The UC competes in a global market for faculty and with elite private institutions that can often pay more. Pension benefits are but one part of addressing compensation, albeit an important part. To address this market, the retirement program offered under the President's proposal includes a 401(k)-style supplement in addition to the pension benefit with the PEPRA cap.
- **Preserving quality by creating programs to enhance the recruitment and retention of faculty and critical personnel.** The President's proposal includes a new program focused on the recruitment and retention of faculty and critical personnel, and expansion of the University's home loan program.
- **Continuing to improve the student educational experience.** The President's proposal also includes measures to enhance undergraduate instructional support, fund programs that support undergraduate student academic success, and bolster graduate student support.
- **Reducing UC's risk and facilitating shared responsibility between UC and employees for retirement, including through retirement counseling for employees**. Implementing the pensionable salary cap and offering a new stand-alone 401(k)-style benefit plan significantly reduce the University's future risk and its long-term liability. Because risk will now be shared, the President's proposal includes retirement counseling to all employees to assist them in being retirement-ready.

Summary of Comparator Institutions' Retirement Options

The President's recommendation affirms UC's commitment to continuing its pension plan, now with a cap on earnings that count for pension and a defined contribution supplement. It also proposes that the University offer participants a choice of a stand-alone 401(k)-style plan for the first time. In undertaking her analysis of potential retirement options and designs, the President considered information in the Task Force report on retirement options provided by the 26 national comparator institutions to UC. It is important to note that, of the 26 national comparator institutions to UC (Comp 26), there are four primary models of retirement options provided: 1) pension plan only, 2) a combination of a pension plan and 401(k)-style supplement, 3) choice between a pension plan and a stand-alone 401(k)-style plan, and 4) a stand-alone 401(k)-style plan only.

From a design prevalence perspective (i.e., without regard to benefit value), UC's retirement offerings under the 2013 tier previously placed it in the minority of comparator institutions (six of 26) by offering only a pension plan. The President's proposal would have it join the largest segment of comparator institutions in offering a choice between a pension program and a stand-alone 401(k)-style benefit (ten of 26). A significant minority (eight of 26) offer a stand-alone 401(k)-style benefit only and two offer the greater of pension plan or stand-alone 401(k)-style benefit.

Currently, among the 16 institutions that offer any type of pension plan, UC offers the highest age factor (2.5 percent – tied with two other institutions) when the benefit is based on final pay. The President's recommendation offers a choice to participants. Designs among the Comp 26 that offer a choice vary considerably but generally the stand-alone 401(k)-style plan design proposed is competitive at shorter service periods, whereas the pension plan design proposed is more competitive at longer periods of service.

BACKGROUND

The Retirement Options Task Force Recommendations

Retirement Benefits

The Task Force recommended that the University implement two new retirement plans, effective on July 1, 2016 for employees hired on or after that date:[2]

Option 1: Pension with PEPRA cap + defined contribution supplemental benefit

- The current UC pension benefit capped at the PEPRA pensionable salary limit (currently $117,020) plus a supplemental 401(k)-style defined contribution benefit for eligible employee pay up to the Internal Revenue Service limit (currently $265,000). UC's employer contribution to the supplemental benefit would not differ for faculty and staff.
- For all faculty and staff: UC would contribute ten percent to the supplemental defined contribution plan on pay above the PEPRA cap (currently $117,020) up to the IRS limit (currently $265,000).

Option 2: New stand-alone defined contribution plan

- A new stand-alone 401(k)-style defined contribution plan with employer and employee contributions on benefits-eligible employee pay up to the Internal Revenue Service limit (currently $265,000). For this option, the employer contribution would be the same for all employees—a flat ten percent up to the IRS limit ($265,000)—regardless of whether they are faculty or staff.

Under either option, employees would contribute seven percent up to the IRS limit.

[2] Subject to collective bargaining.

Contributions to the Unfunded Liability

In either of the proposed options, the Task Force recommended that the University continue to use a portion of its employer contributions to pay down the unfunded pension liability. Regardless of whether an employee chooses the pension plan with the defined contribution supplement or the stand-alone 401(k)-style plan, the University would continue to pay down its unfunded pension liability. The Task Force proposed contributing six percent to the unfunded liability for the pension plan and four percent for the stand-alone 401(k)-style plan.

Initial Selection Period and Default

The Task Force recommended that all new employees would have 90 days from hire date to make his or her election. For new employees who do not make a choice between the two options, they would automatically be enrolled in Option 1, the pension plus supplement option, by default.

Choice Window

In addition, the Task Force proposed that those employees who initially elected Option 2 (the stand-alone 401(k)-style benefit) should be offered a "second choice," or a one-time opportunity to switch to Option 1, the pension plus supplement option. The Task Force recommended that employees be given this second choice five years after hire.

Vesting

The Task Force recommended different vesting periods for the two options:

1. Option 1– five years UCRP service credit.[3]
2. Option 2 – one calendar year from eligibility date.

Anticipated Savings

The 15-year average annual cash outlay for future new hires was projected to have been $655 million under the UCRP 2013 Tier benefit. Under the structure proposed by the Task Force, it is projected to be $640 million – an average annual savings of $15 million compared to the 2013 Tier.

The President's Recommendations

Building upon the work of the Task Force, and after much analysis, discussion with numerous University stakeholders, and consideration of several hundred comments from faculty and staff, President Napolitano is proposing a new retirement program for future employees hired on or after July 1, 2016, that balances resource constraints and the need to achieve savings with

[3] UCRP service credit is based on actual time worked; e.g., a plan member appointed in an eligible position at 50 percent time earns one-half year of service credit in each calendar year worked.

maintaining the excellence of the University.

The President's recommended package of benefits will allow UC to:

- Offer all eligible future employees a choice in their retirement benefit program, which includes the current pension benefit capped at the PEPRA limit with a 401(k)-style supplement, or, alternatively, the flexibility of a pure 401(k)-style plan.
- Reduce the University's long-term cost structure, achieve significant savings, continue to pay down the unfunded pension liability, and reduce risk.
- Address concerns with recruitment and retention issues by:
    - Providing a higher retirement benefit to faculty than the Task Force recommended as part of addressing overall faculty compensation issues.
    - Through funds generated as part of the package, allow for further improvements in the salary component of total compensation by permitting UC to budget for regular pay increases for faculty and staff and facilitating the transition to a more market- and merit-based salary structure that rewards excellence.
    - Providing additional resources devoted to recruitment and retention of outstanding faculty and critical personnel.
    - Expanding resources devoted to assisting faculty and critical personnel with housing through the expansion of the Mortgage Origination Program (MOP).
    - These measures were not included in the Task Force recommendations but they are responsive to many of the comments received during the feedback period.
- Continue to improve the student experience by:
    - Providing additional resources devoted to, for example, enhancing undergraduate student instructional support (such as adding more advisors given the significant enrollment growth over the next three years) and increasing graduate student support.
    - This measure was not included in the Task Force recommendations but addresses a key UC priority.
- Address concerns with retirement preparation by:
    - Providing enhanced support to all current and new faculty and staff in making retirement decisions to reach retirement readiness. (Programs providing retirement counseling, training, and education for all employees, with services available not only during their onboard period but also at regular intervals throughout their UC careers, will be offered. These expanded programs are designed to position UC as best-in-class for retirement preparation and advising of employees.)
    - This measure was not included in the Task Force recommendations but this concern appeared in many comments received during the feedback period.

Details of the President's Recommendation

Retirement Program

As described in Attachment 1, the President proposes that future employees be offered a choice between two retirement options:

Option 1: Pension with PEPRA cap + defined contribution supplemental benefit: The current UC pension benefit capped at the PEPRA pensionable salary limit (currently $117,020) plus a supplemental defined contribution benefit for eligible employee pay up to the Internal Revenue Service limit (currently $265,000). UC's employer contribution to the supplemental benefit would differ for faculty and staff.

- For eligible faculty (see Attachment 2): UC would contribute five percent to the supplemental defined contribution plan on all pay up to the IRS limit (currently $265,000) to address faculty compensation. This is a higher benefit than the Task Force recommended for faculty and differentiates between faculty and staff. The differentiation reflects the fact that UC competes for faculty in a global market, frequently against elite private research universities that can pay more than UC on cash compensation. Within the constraints in which UC operates, this higher level of faculty benefit reflects their role at the very top of their fields in maintaining UC's position as the nation's preeminent public research university, as well as their role in teaching and training future generations of scholars, leaders, and the state's workforce.

- For staff and other academic appointees: UC would contribute three percent to the supplemental defined contribution plan on pay above the PEPRA cap (currently $117,020) up to the IRS limit (currently $265,000). While this is a lesser benefit for staff than the Task Force report recommended, the three percent supplement puts UC staff at a competitive advantage to other State employees in California. Moreover, the vast majority of future staff and other academic appointees would not see any difference in their benefits compared to current employees. Based on current employee data, 84 percent of staff and academic appointees other than faculty earn below the PEPRA cap and would see no difference in their retirement benefits.

  The UC workforce employed across the University's ten campuses, five medical centers and three National Laboratories includes many diverse employee groups, each with a distinct competitive labor market. Measured against numerous objectives – maintaining academic excellence and research prowess and promoting social mobility – and given its complexity, size, scale and impact, the University's recruitment and retention needs differ from those of California's other public higher education segments and the State of California. In order for UC to maintain its excellence, it must be able to hire and retain top staff, in addition to faculty. For example, UC medical centers, which are among the best in the world, compete with the best hospitals in the country and world for talent. However, unlike faculty, staff at UC locations typically come from regional or statewide markets. The offer of the 401(k)-style supplemental benefit above the pensionable salary cap to staff recognizes their important role in supporting the University's teaching and research.

Option 2: New stand-alone defined contribution plan: A new stand-alone defined contribution plan with employer and employee contributions on benefits-eligible employee pay up to the Internal Revenue Service limit (currently $265,000). For this option, the employer contribution would be the same for all employees – a flat eight percent up to the IRS limit ($265,000) – regardless of whether they are faculty or staff.

This option addresses the highly diverse makeup and needs of UC's workforce. Offering a stand-alone, portable defined contribution plan similar to a 401(k) provides employees with flexibility and portability. This option, which was recommended by the Task Force but with a higher employer contribution, was particularly favored by the UC medical centers and Lawrence Berkeley National Laboratory. As important, it significantly reduces risk for the University and its long-term liability, even if only a small portion of employees choose it.

As with the Task Force recommendations, under either option, employees would contribute seven percent up to the IRS limit.

Contributions to the Unfunded Liability

In either of the proposed options, the President recommends that the University continue to use a portion of its employer contributions to pay down the future unfunded pension liability, also known as the Unfunded Actuarial Accrued Liability (UAAL). Regardless of whether an employee chooses the pension plan with defined contribution supplement or the stand-alone 401(k)-style plan, the University would continue to pay down its unfunded pension liability. The President's proposal maintains a six percent employer contribution to the unfunded liability for the pension plan and includes a six percent employer contribution for the stand-alone 401(k)-style plan, higher than what was recommended by the Task Force.

Initial Selection Period and Default

Consistent with the Task Force recommendations, all new employees would have 90 days from hire date to make his or her election. Financial counseling will be provided to all new hires to assist in making this election. As recommended by the Task Force, the President recommends that those who do not make a choice will automatically be enrolled in Option 1, the pension plus supplement option, by default.

Choice Window

In addition, the President agrees with the Task Force's proposal that those employees who initially elected Option 2 (the stand-alone 401(k)-style benefit) should be offered a "second choice," or a one-time opportunity to switch to Option 1, the pension plus supplement option. The Task Force recommended that employees be given this second choice five years after hire; however, during the feedback period, the Academic Senate, other faculty members and campus leadership urged the President to consider increasing the period of time that employees have to make a second choice. In response to this feedback, the President recommends that, subject to IRS approval, employees who initially choose Option 2 may have a one-time opportunity to switch to Option 1 after a period of time equivalent to the longer of: a) five (5) years after date of hire; or b) for ladder-rank faculty, one year after the tenure decision; for lecturers or senior lecturers, one year after the decision on security of employment; and for eligible Unit 18 Non-Senate Faculty, in accordance with the Unit 18 collective bargaining agreement.

Vesting

The President recommends the same vesting period as the Task Force recommended.

1. Option 1– 5 years UCRP service credit.[4]
2. Option 2 – one calendar year from eligibility date.

Programmatic Enhancements and Institutional Investments in Faculty and Staff

Consistently throughout the process of developing this proposal, the President received feedback that the recruitment and retention of faculty and key staff and maintaining the quality of the educational experience on campus, were key concerns. As a result, in addition to investments in supplemental retirement contributions for faculty and staff and paying down UC's unfunded pension liability, the President has identified key areas for further investment, focusing on the core missions of the University and, in particular, creating and enhancing programs focused on the faculty and staff that are critical to UC's success. The first such program dedicates funds totaling $110 million over ten years to recruiting and retaining faculty and critical personnel, and to programs and initiatives critical to the educational experience of students. The second program, related to the theme of recruitment and retention of key faculty and staff, expands the University's program to support faculty and staff housing, the Mortgage Origination Program (MOP). The final program focuses on investing in programs that ensure all employees of the University, both current and new, have access to excellent, comprehensive retirement counseling.

Recruitment and Retention

The President proposes designating an additional $50 million over a ten-year period to aid in the recruitment and retention of faculty and critical personnel[5] systemwide. The funds available to each campus would be allocated in proportion to the number of faculty on that campus and would reside at the campuses, allowing the Chancellor and/or Provost to use those funds with maximum flexibility. Campuses are to consider allocating funds across all academic disciplines, recognizing that even modest funds added to a recruitment or retention package can be meaningful, particularly in less resource-intensive areas of research and scholarship. These funds are also not intended to replace existing resources for recruitment or retention, but rather to be supplemental, allowing campus leadership to allocate extra funds in situations where that can mean the difference between ensuring a successful effort and an unsuccessful one. Examples of possible investments include: faculty recruitment and retention allowances, improved or newly created facilities for research and scholarship, additional faculty hire(s) in a particular area of successful research, and awards for innovative and effective teaching, among others.

[4] UCRP service credit is based on actual time worked; e.g., a plan member appointed in an eligible position at 50 percent time earns one-half year of service credit in each calendar year worked.

[5] Examples of critical personnel range from a software engineer working in a high performance computing center to a senior grants administrator with expertise in a specific research area.

Presidential Recruitment and Retention Fund

In addition to the $50 million investment for recruitment and retention activities on the campuses, the President is also designating an additional $10 million to aid in the highest level recruitment and retention opportunities, particularly those of faculty members whose joining or staying in UC has a systemwide reputational impact. This will also be targeted towards faculty from a range of disciplines and departments.

Educational Experience and Academic Excellence

An additional $50 million Educational Experience fund will be made available to campuses to support other aspects of the University that directly affect the student experience and the quality of their education. Funds would be allocated in proportion to the number of students on each campus. As with the Recruitment and Retention Fund, resources would reside at the campuses, allowing maximum flexibility in their application. The use of these funds will depend on specific campus needs, but examples of areas that could be funded include: enhancing undergraduate instructional support, funding programs that support undergraduate student academic success, and augmenting graduate student support.

Source of Funds

In implementing the new pension benefit with the PEPRA cap on pensionable income, the university is slated to receive three installments of Proposition 2 funds to help the University pay down its unfunded pension liability, totaling $436 million over a three-year period. Given that the State intends for these funds principally to support employees on core funds (*i.e.* those funded by State funds, tuition and UC general funds), campuses can recoup savings from other fund sources (medical centers, auxiliaries, etc.) that had been previously contributing to the general fund portions of the unfunded liability. Each campus will designate $1 million over ten years for these programs, which represents only a small portion of recouped funds. The Presidential Recruitment and Retention Fund will be funded from the President's Endowment Fund. Beyond the present three-year period of Proposition 2 funding, these programs will be funded either in a similar manner as a result of future State contributions to the unfunded liability or from other sources.

Mortgage Origination Program

The Mortgage Origination Program was created by the Regents to offset the negative impact of California housing prices by providing competitive first mortgages to eligible faculty and critical staff to assist them in the purchase of a principal residence near their campus. The President recognizes the value of this program and has announced plans to expand it in ways that will allow campuses to apply it more broadly in their recruitment efforts.

First, the University encourages locations to offer 40-year loans, with approval by the Chancellor or other designated authority, in cases that warrant a longer-term loan. This extension should make the program more appealing to prospective or new employees and further ease the burden associated with purchasing a home near a given campus. Second, the University will increase the

maximum loan amount to $1.43 million. As housing prices continue to rise, particularly in areas surrounding several of the University's campuses, this increase will ensure that prospective or new faculty or critical personnel are able to purchase homes near the campus. Finally, the University will increase the total allocation provided to each campus, allowing them to provide loans to more employees and to enhance each campus' ability to recruit world-class faculty and critical personnel.

Retirement Readiness

The President wants to ensure that the UC plays a proactive role in ensuring that when the time comes, University employees are ready for retirement. The President will enhance programs for retirement counseling, training, and education for all employees, with services available not only during their onboard period but also at regular intervals throughout their UC careers. These expanded programs are designed to position UC as best-in-class for retirement preparation and education of employees.

Input from University Stakeholders

The several hundred comments received from the University community informed many critical elements of the President's proposal. Chief among those comments was the need to address total compensation, particularly for faculty, to sustain the University's excellence. The President addressed many of the concerns expressed by investing heavily in faculty through the 401(k)-style supplement to the pension with an employer match beginning at first dollar of pay; focusing on faculty and staff recruitment and retention needs; addressing other elements of compensation such as housing; and adjusting the window to shift from the stand-alone 401(k)-style benefit to the pension benefit plus supplement to track the timing of tenure decisions and the timing of future faculty elections, pending IRS approval.

While some also suggested that offering the choice of a stand-alone 401(k)-style benefit signals the end of the University's pension benefit, the new benefits offer a more sustainable pension that reflects the opposite. UC's commitment to continue to make contributions to the pension plan's unfunded liability will ensure the plan's ability to pay pension benefits in the future.

To address concerns about the shift to a choice of new retirement benefits, and the need for retirement readiness, UC will ensure that all employees receive adequate education and training on the new benefits to help them become "retirement-ready."

Anticipated Savings from President's Proposal

To promote the sustainable, long-term fiscal health of the University and its pension plan, the reduction of risk and UC's long-term cost structure, and the sharing of responsibility for retirement costs, costs and potential savings were important considerations in designing the new retirement benefits. The President's recommended program costs less than current benefits – achieving short-term and long-term savings on the annual employer cost to provide retirement benefits (or "normal cost") and an acceleration in the reduction in UC's unfunded pension liability. By implementing a new cap on pensionable income for future employees that aligns

with the PEPRA limit along with a standalone 401(k)-style plan, UC will reduce its long-term pension cost structure by 16% and save an average of $99 million a year over 15 years. On the basis of plan design, the President's proposal also costs $40 million less annually, on average, than the designs proposed by the Task Force.

As current UC employees retire, the savings to the University will increase. That is because the retiring employees, who are covered under the 1976 and 2013 pension tiers, will be replaced with new employees covered by the 2016 tier – a generational change that generally lasts 25 to 30 years.

Attachment 1: President's Recommendations

Attachment 2: Academic Employees Eligible for 2016 Retirement Options DC Supplemental Benefit under President's Recommendations

Attachment 3: Retirement Options Task Force Report to the President