New Retirement Options

• The State Budget Framework required that UC adopt the “PEPRA cap” for employees hired after July 1, 2016

• The cap ($117,200, indexed for inflation) represents the maximum salary that can be used to calculate pension benefits
  
Pension = Age Factor * HAPC * Years of Service becomes
Pension = Age Factor * CAP * Years of Service for salaries above the cap.
UCRP is Already Stable

• The reforms from PEB I and especially the increased contributions from the University and employees have put us on a better path
• The (internal) borrowing that UC has done to make a series of one-time contributions have also made significant improvement
• Current funded status:
  84% Market Value
  82% Actuarial Value
University of California Retirement Plan
Projected UAAL Comparison for Various DB and DC Plans

- Assumes market value return of 7.25% per year beginning July 1, 2015
- Active member population headcount assumed to remain constant
- State funding of $436 million is included in 2016 Tier scenarios
- Borrowing to reach total funding policy contribution for three years included in all scenarios except one as noted (2013 Tier scenarios excludes State Funding)
- Take rates assumed are shown in previous table
- Includes cost of choice (initial choice plus prospective second choice)

Campus and Medical Center Segment Only

Projected UAALs shown in far right text boxes

- 2013 Tier (Excluding Borrowing and State Funding)
- 2013 Tier (Including Borrowing, but Excluding State Funding)
- 2016 Tier and 8%/10% DC Choice Plan - 6% DC Surcharge Up to CCL (Minority) - UCRP as Default Plan
- 2016 Tier and 10% DC Choice Plan - 4% DC Surcharge Up to and Above CCL (Majority) - UCRP as Default Plan
- 2016 Tier and 10% DC Choice Plan - 4% DC Surcharge Up to and Above CCL - DC Choice as Default Plan
Main UCRP Lessons

- The cap is not necessary to improve funding status
- UCRP is on a good trajectory toward 100% funded status, balancing operating cost pressures (campuses have resisted employer contributions above 14%, not including the repayment costs that put their total contributions above 15%)
- The uncertainty surrounding projections 30 years into the future suggests that these differences should not drive current policy
Main UCRP Lessons Ctd

• The differences of billions of dollars in the slide from the report should be interpreted as figures for 30 years in the future

• The Plan’s total liability and assets both will be so much greater then

• The range is between 95% and 100% funded, for the various scenarios, so these may not be meaningful differences in projections so far into the future
Main UCRP Lessons Ctd

• The emphasis on the need to contribute to the unfunded liability, through an employer-paid “UAAL Surcharge” regardless of the Option chosen, means that we will continue to make progress toward 100% funding

• We think worrying about UCRP as an “orphan plan” is misplaced

• Choice will create some adverse selection
What should we Not worry about?

• Current employees should not worry about long-term funded status of UCRP (any more than before the budget deal)

• Essentially the same funds go to pay down the liability, regardless of the new plan an individual elects
What should we worry about?

• Our ability to recruit and retain the best faculty and staff is directly threatened
• The quality of the institution
The Salary Gap Widens

Chart 1 - UC Ladder Rank Faculty Salaries - General Campus
Private 4, Public 4, Private/Public (Comparison 8) and UC
5-Year intervals to 1999-00, and each year 1999-00 through 2014-15
(Adjusted for Inflation with the CPI-U Index in 2014 Dollars)

The UC to Comp 8 salary lag for 2014-15 is 10.3%
Total Rem 2014 update to Regents

Study Findings: Detail by Rank
All General Campus LRF - Market versus UC
(Data effective October 1, 2013)

- Observations
  - The differences between UC and the market for health & welfare, and total retirement benefits nearly offset one another, leaving cash compensation as the major contributor to UC’s below market positioning for total remuneration

<table>
<thead>
<tr>
<th>Element of Remuneration</th>
<th>Averages</th>
<th>UC</th>
<th>Difference from Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Compensation</td>
<td>$147,473</td>
<td>$129,235</td>
<td>-12%</td>
</tr>
<tr>
<td>Health &amp; Welfare Benefits</td>
<td>$20,442</td>
<td>$18,988</td>
<td>-7%</td>
</tr>
<tr>
<td>Medical &amp; Dental</td>
<td>$18,104</td>
<td>$17,717</td>
<td>-2%</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>$331</td>
<td>$332</td>
<td>0%</td>
</tr>
<tr>
<td>Dependent Care / Health Care FSA</td>
<td>$191</td>
<td>$180</td>
<td>-6%</td>
</tr>
<tr>
<td>Long-term Disability</td>
<td>$1,299</td>
<td>$759</td>
<td>-42%</td>
</tr>
<tr>
<td>Dependent Tuition</td>
<td>$517</td>
<td>$0</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total Retirement</strong></td>
<td><strong>$15,999</strong></td>
<td><strong>$16,914</strong></td>
<td><strong>+6%</strong></td>
</tr>
<tr>
<td>Retirement (DB / DC)</td>
<td>$14,066</td>
<td>$13,808</td>
<td>-2%</td>
</tr>
<tr>
<td>Retiree Health (Med, Life, Dental)</td>
<td>$1,934</td>
<td>$3,107</td>
<td>+61%</td>
</tr>
<tr>
<td><strong>Total Remuneration</strong></td>
<td><strong>$183,914</strong></td>
<td><strong>$165,137</strong></td>
<td><strong>-10%</strong></td>
</tr>
</tbody>
</table>

- All positioning figures shown are rounded to the nearest whole percentage.
- Includes pre-retirement survivor benefits.

New data coming in Feb 2016
ROTF CHARGE

• Future faculty, staff & UC Health
• Competitive Benefits in context of Total Rem
• UCRP remains financially sustainable

• Political pressure for “Savings”
  – Dollar savings now?
  – Decreased Normal Cost going forward
  – Paying down the UAAL going forward
ROTF CONSTRAINTS

• Cap on the DB, pegged to the PEPRA cap
• Option of DC supplement to Capped DB, for some workforce segments
• Option of stand-alone DC plan
The ROTF Tenets

• Total employer contribution to be held constant across both options
• UAAL surcharge must be collected on all salary sources
• All employees to be treated equally
• Choice at hiring & second choice available
• DC should have a 10-7% contribution - majority
• DC must have vehicles designed to protect employees
Main Considerations

• Competitiveness of total remuneration
  = Salaries + active benefits + retirement benefits

• Retirement Readiness and Appropriate Sharing of Responsibility between the University and employees

• Shifting responsibility to employees is the same as reducing the competitiveness of total remuneration

• Long-term funded status of UCRP
Two Main Plan Recommendations

• Plan A
  Capped version of DB UCRP + a supplemental DC plan
  10% employer/7% employee contributions from pay above the cap (and less than the older, IRC limit)
  Generally better option for long-term employees

• Plan B
  10%/7% DC plan applied to all earnings
  Definitely better option for short-term employees
Effects of the CAP

• They depend on starting salary
• For someone who never meets the cap, there is no effect and they are in effect covered by the 2013 tier
• The effects increase with salary
• The next slide compares the 2013 benefit to the capped DB plan under the 2016 tier (with no supplement)
Comparing the 2013 Tier with the Capped 2016 Tier

All projections are from our “Guide” and based on Persona #3 (36 years old when hired)
Effects of the Supplement

- A defined-contribution DC plan applied to annual salaries above the cap
- Too little to make much difference
- Too late to fully benefit from compounding
- An additional wrinkle is that the purchase of a commercial annuity with an accumulated balance in a DC plan is not as good as what UCRP offers (4.75% vs. 7.25%)
- The curve improves, but the story is the same
Adding a DC Supplement to the 2016 Tier

29 years of service, 4.75% Return

34 Years of Service, 4.75% return

29 Years of Service, 7.25% Return

34 Years of Service, 7.25% Return
The 2016 DB Tier and Recruitment and Retention

- Old assumptions about the value of DB plans on recruitment and retention need to be re-examined under the PEPRA cap
- Under the 2016 Tier, mid-career faculty may find that the forfeiture of future retirement benefits is insufficient to justify rejecting outside offers.
- Under the 2016 Tier, late-career faculty may find the smaller retirement benefit an insufficient incentive to retire.
A Pure DC Plan

• It is portable
• Should new employees commit 30+ years to the UC?
• Investment Risk → Employee
• Longevity Risk → Employee
• Leftover funds → Employee’s heirs
• There are ways to mitigate these, but they are outside the report recommendations
• Earnings are critical
• The same annuity problem applies
Adding the Alternative, A Defined Contribution Plan

29 years of service, 4.75% Return
- 2013 Tier
- 2016 DB
- Pure DC 10 + 7

34 Years of Service, 4.75% return

29 Years of Service, 7.25% Return

34 Years of Service, 7.25% Return

Percent of Income Replaced vs. Starting Salary * 1,000
Augmenting the Supplement

- The supplement starts too late and applies to too small a portion of earnings
- As the next slide shows, it would take substantial increases in the employer contribution to catch up to the 2013 tier
- Even an additional 40% from the employer, applied to salary above the cap, does not match the 2013 tier except for the highest salary levels
29 Years of Service, 7.25% Return

Percent of Income Replaced vs. Starting Salary * 1,000

- 2013 Tier
- 2016 DB
- 2016 Plan A
- 2016 Plan A + 5%
- 2016 Plan A + 10%
- 2016 Plan A + 20%
- 2016 Plan A + 40%
All Projections for Options A and B on one Graph (Figure 5 in the Guide)

29 years of service, 4.75% Return

34 Years of Service, 4.75% return

29 Years of Service, 7.25% Return

34 Years of Service, 7.25% Return
Augmenting the Supplement

• A 6% supplement starting at hiring could generally make the 2016 capped DB whole with respect to the marginally competitive 2013 tier.
CHOICE

• Choice and what it costs

• Offering a second choice
  – After 5-7 years
  – More closely tied to tenure decisions

• Choice could be offered at different times for different segments of the workforce

• Choice constrains the *employee* contribution to be the same across plans (IRS)
Should UC Reject This “Deal”?  

- Presumably we would return to something like the Governor’s January 2015 budget proposal, with no multi-year commitment to expand funding, but with a lot of fallout  
- After turning down $436M, what is our next move?  
- Consider how you would write the press release, after persuading the President and the Regents
What Should We Do Instead?

• Keep pressing the need for competitive total remuneration
• Try to create investment options that improve outcomes from DC investments
• Advocate for a richer supplement