

## Facts about UC's New 2016 Retirement Benefits Under Development

UC is developing new retirement benefits for future employees as a result of the 2015 budget agreement with state leaders. Under the agreement, Gov. Brown and the Legislature will provide UC \$436 million over several years to help pay down UC's unfunded pension liability in exchange for UC implementing a cap on the defined benefit (pension) portion of UC's retirement benefits, mirroring the cap on pension benefits for state employees under the 2013 California Public Employees' Pension Reform Act (PEPRA). This approach will help ensure the long-term financial stability of UC and its retirement program.

### The process: Community Feedback, President's Proposal, Regents Presentation

Last summer, President Napolitano convened a task force to recommend options for retirement benefits that include the PEPRA cap. The task force has completed its work and has presented her with its recommendations, as part of a multi-step process. President Napolitano will now ask the UC community for feedback on the recommendations. The Academic Senate will formally review the recommendations and provide feedback to the president. In addition, two online webinars with senior UC officials will be held in February to explain the recommendations to and solicit questions and/or comments from interested employees. Faculty and staff also are invited to submit comments through a dedicated website (<http://ucal.us/2016retirement>). The president will use the community feedback to help inform the proposal she is expected to bring to the UC Board of Regents in March.

Key priorities for UC in designing a new set of retirement benefits include:

- Ensuring UC's long-term financial stability that, among other things, maintains the financial stability of the UC Retirement Plan (UCRP) for current and future employees and allows for regular salary/merit increases for faculty and staff;
- Maintaining the competitiveness of overall compensation for UC faculty and staff;
- Facilitating appropriate levels of shared responsibility between UC and employees for individual retirement readiness, and providing programs that help employees prepare for retirement.

### The new retirement benefits changes will not affect current employees

- The new benefits will apply *only to future employees* hired on or after July 1, 2016.
- There will be no changes to the pension benefits of current employees or retirees — accrued pension benefits are protected by law and cannot be reduced or revoked.
- Retirement benefits for union-represented employees are determined through the collective bargaining process. The state's agreement to provide \$436 million for UC's pension plan is contingent upon UC having the PEPRA cap for future hires, including union-represented employees.

### Task Force Recommendations Developed by Faculty, Staff, Labor, Administration

Task force members included faculty, staff, and representatives from the Academic Senate, the Staff Advisors to the Regents, the Council of UC Staff Assemblies (CUCSA), UC labor unions, and UC administrators. Additionally, President Napolitano asked task force members to discuss possible options with colleagues and constituent groups throughout the university, and to use feedback from those discussions to inform their deliberations.

### Timeline

Jan. 15 – Feb. 15: Academic Senate reviews recommendations and submits comments to president  
Jan. 15 – Feb. 15: Faculty, staff and others submit feedback on recommendations  
Feb. 1 and 10: Webinar discussions with UC community about the recommendations  
Mar. 23 – 24: President Napolitano expected to bring a proposal to the regents  
July 1: New benefits options take effect

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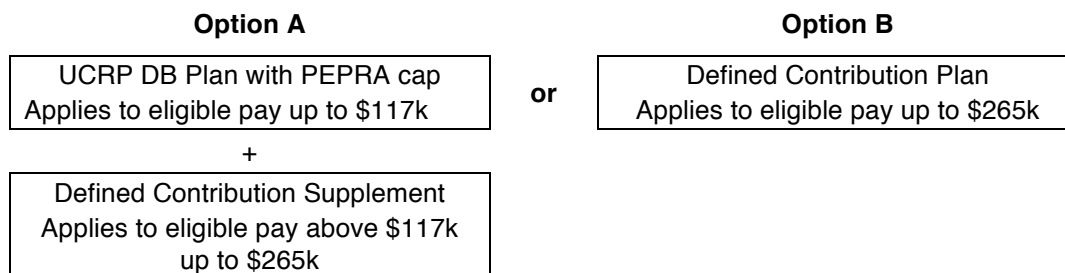
## Task Force Recommendations

After considering a range of options, which are described in the task force report, the task force has recommended that future UC employees be offered a choice between two retirement benefit options:

Option A -- Hybrid Approach: A new UC Retirement Plan defined benefit (DB) plan capped at the PEPRA salary limit (currently \$117,020) plus a new supplemental defined contribution benefit (“DC Supplement Plan”) with eligible employee pay up to the Internal Revenue Code limit (\$265,000);

Option B -- Pure Defined Contribution Approach: A new stand-alone defined contribution (DC) plan with benefits-eligible employee pay up to the Internal Revenue Code limit, currently \$265,000.

### Task Force Recommended 2016 UC Retirement Benefits



The chart below summarizes the recommended features of the two task force options

	<b>Option A: UCRP DB with PEPRA Cap + DC Supplemental Plan</b>	<b>Option B: DC Plan</b>
Eligibility	Eligible employees hired into career appointments or who attain career status on/after July 1, 2016.	
Eligible employee pay limits	Eligible pay up to the PEPRA cap (currently \$117k) would be covered by the UCRP 2016 Tier; eligible pay above the PEPRA cap up to the IRC limit (currently \$265k) would be covered by the DC Supplement.	Eligible pay up to the IRS limit (currently \$265k).
Employee contributions (pre-tax)	7%	7%
UC contributions	1) 14% up to PEPRA cap (includes approx. 6% contribution to UCRP unfunded liability) + 2) 10% on amount above PEPRA cap	14% up to the IRS limit (includes 4% contribution to UCRP unfunded liability)
Vesting	5 years UCRP service credit	1 calendar year from eligibility date
Choice/Default	Eligible employees would choose either option within an initial enrollment period. Employees who do not make a choice would be enrolled in Option A by default. Subject to IRS approval, employees who initially choose Option B would, after five years, have a one-time opportunity to switch to Option A.	

More at <http://ucal.us/2016retirement>

- Task force report
- Frequently Asked Questions
- Comment on task force recommendations
- Background on 2015 budget agreement

## Frequently Asked Questions about UC's 2016 Retirement Benefits Under Development

### Overview

#### **Why is UC instituting new pension benefits for future employees?**

UC is creating new retirement benefits for future employees as a result of the [2015 budget agreement](#) with state leaders. Under the agreement, Gov. Brown and the Legislature will provide UC \$436 million over several years to help pay down UC's unfunded pension liability in exchange for UC implementing a cap on the defined benefit (pension) portion of UC's retirement benefits, mirroring the cap on pension benefits for state employees under the 2013 California Public Employees' Pension Reform Act (PEPRA). This approach will help ensure the long-term financial stability of UC and its retirement program.

Key priorities for UC in designing a new set of retirement benefits include:

- Ensuring UC's long-term financial stability that, among other things, maintains the financial stability of the UC Retirement Plan (UCRP) for current and future employees and allows for regular salary/merit increases for faculty and staff;
- Maintaining the competitiveness of overall compensation for UC faculty and staff;
- Facilitating shared responsibility between UC and employees for individual retirement readiness, and providing programs and other support that help employees prepare for retirement.

The task force President Napolitano convened last summer to recommend options for retirement benefits for future employees has completed its work and presented her with its recommendations, as part of a multi-step process. President Napolitano will now ask the UC community for feedback on the recommendations, which she will use to help inform the proposal she is expected to bring to the UC Board of Regents in March.

#### **Will the new retirement benefits affect current employees/retirees or their pension benefits?**

No. The new benefits changes will apply only to future employees (including former UC employees) hired on or after July 1, 2016. There will be no changes to the pension benefits of current employees or retirees — accrued pension benefits are protected by law and cannot be reduced or revoked.

#### **How will retirement benefits for future union-represented employees be determined?**

Retirement benefits for union-represented employees are determined through the collective bargaining process. The state's agreement to provide \$436 million in funding for UC's pension plan is contingent upon UC having the PEPRA cap for future hires, including union-represented employees.

#### **How many future UC employees will be affected by the new PEPRA limit?**

It's hard to say precisely since the PEPRA cap applies only to future employees. Based on current employee data, we estimate that about 8 percent of new employees would be subject to the cap at the time of hire, with the vast majority (92%) unaffected by the cap. It is estimated that 24 percent of UC employees' salaries will exceed the cap later in their careers by age 60. [Seth: we revised #s to align with TF report.

#### **What benefits will apply to employees hired before July 1 but who start work after July 1?**

The new retirement benefits will apply only to eligible employees hired on or after July 1, 2016. Incoming faculty and staff hired by June 30, 2016 will participate in UC's current retirement benefits program, including the current pension plan ("2013 UCRP Tier").

#### **Will the new retirement benefits apply to former UC employees who are rehired after July 1, 2016?**

Yes. Former UC employees who are rehired on or after July 1 will be subject to the new retirement benefits for their future service.

**Task Force Recommendations**

**What did the task force recommend?**

After considering a range of options, which are described in the task force report, the task force has recommended that future UC employees be offered a choice between two retirement benefit options:

Option A -- Hybrid Approach: A new UC Retirement Plan defined benefit (DB) plan capped at the PEPRA salary limit (currently \$117,020) plus a new supplemental defined contribution benefit (“DC Supplement Plan”) with eligible employee pay up to the Internal Revenue Code limit (\$265,000);

Option B -- Pure Defined Contribution Approach: A new stand-alone defined contribution (DC) plan with benefits-eligible employee pay up to the Internal Revenue Code limit, currently \$265,000.

**Task Force Recommended 2016 UC Retirement Benefits**

**Option A**

UCRP DB Plan with PEPRA cap Applies to eligible pay up to \$117k
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or

**Option B**

Defined Contribution Plan Applies to eligible pay up to \$265k
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+

Defined Contribution Supplement Applies to eligible pay above \$117k up to \$265k
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**The chart below summarizes the recommended features of the two task force options**

	<b>Option A: UCRP DB with PEPRA Cap + DC Supplemental Plan</b>	<b>Option B: DC Plan</b>
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Employee contributions (pre-tax)	7%	7%
UC contributions	1) 14% up to PEPRA cap (includes approx. 6% contribution to UCRP unfunded liability) + 2) 10% on amount above PEPRA cap	14% up to the IRS limit (includes 4% contribution to UCRP unfunded liability)
Vesting	5 years UCRP service credit	1 calendar year from eligibility date
Choice/Default	Eligible employees would choose either option within an initial enrollment period. Employees who do not make a choice would be enrolled in Option A by default. Subject to IRS approval, employees who initially choose Option B would, after five years, have a one-time opportunity to switch to Option A.	

**Did faculty and staff have input on the task force’s recommendations?**

Yes. [Task force members](#) included faculty, staff, and representatives from the Academic Senate, the Staff Advisors to the Regents, the Council of UC Staff Assemblies (CUCSA), and UC labor unions. Additionally, President Napolitano asked task force members to discuss possible options with colleagues and constituent groups throughout the university, and to use feedback from those discussions to inform their deliberations.

**How do the options recommended by the task force compare to current UC pension benefits?**

Currently, eligible employees who meet vesting and other requirements are enrolled in the UC Retirement Plan (UCRP), a traditional pension (defined benefit or “DB”) plan. UC also offers employees voluntary participation in several defined contribution (DC) plans for additional retirement savings. If proposed and adopted, the options recommended by the task force would give future employees the choice to enroll in either a new UCRP pension (DB) option with the PEPRA cap accompanied by a supplemental DC benefit, or a stand-alone DC plan. The president will not make a decision about what to propose to the regents until receiving feedback on the task force recommendations from faculty, staff, and other interested parties.

**Next Steps: Community Feedback, President’s Proposal, Regents March Presentation**

**What happens now with the task force’s recommendations – what are the next steps and will faculty and staff have a chance to comment on the recommendations?**

With the task force’s work complete, President Napolitano will now ask the UC community for feedback on the recommendations. As part of UC’s principles of shared governance, the Academic Senate will formally review the recommendations and provide feedback to the president. In addition, two online webinars with senior UC officials will be held in February to discuss the recommendations to and solicit questions and/or comments from employees. Faculty and staff also are invited to comment on the recommendations through a [dedicated website](#). President Napolitano will use the feedback from the UC community to help inform the proposal she is expected to bring to the UC Board of Regents in March.

**Will there be any public forums to discuss the task recommendations, similar to the campus discussions during the 2010 Post Employment Benefits Task Force process?**

Senior officials from the UC Office of the President will hold two informational online webinars regarding the task force’s report for UC faculty, staff and administrators. The webinars are scheduled for:

- Monday, February 1 from 2:30pm to 4:00pm
- Wednesday, February 10 from 1pm to 2:30pm

**Competitiveness of UC Retirement Benefits and Employee Salaries**

**Will new UCRP benefits with the PEPRA cap support UC's ability to recruit quality faculty and staff?**

Maintaining the quality of UC’s faculty and staff is fundamental to maintaining UC’s competitiveness; the quality of UC’s academic, research and public service programs; and UC’s stature as the world’s leading public research university. Ensuring that UC’s total compensation, including benefits, allows UC to recruit and retain the caliber of faculty and staff necessary to maintain UC’s quality is a key priority. It’s important to remember that many employers, including other universities, do not offer pension benefits.

**Along with new retirement benefits, is UC also looking at ways to provide regular salary increases?**

Key priorities for UC in designing a new set of retirement benefits include ensuring UC’s long-term financial stability that, among other things, allows for regular salary/merit increases for faculty and staff and maintains the competitiveness of overall compensation for UC faculty and staff. UC has given systemwide salary increases each year since President Napolitano assumed the UC presidency, and faculty and other academic personnel have also continued to receive regular merit increases. The proposed UC budget for the coming 2016-17 fiscal year includes funds to continue the systemwide salary increases and merit increases.

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## **What retirement benefits do UC's peer institutions and other employers provide?**

Most universities don't offer pension benefits and offer only defined contribution plans. Most private sector employers also offer only defined contribution benefits.

## **Potential Stand-Alone Defined Contribution Plan and UCRP Stability**

### **When will we know if a defined contribution plan will be among the implemented options?**

From mid-January to mid-February, President Napolitano will ask the UC community for feedback on the task force recommendations. The president will use that feedback to help inform the proposal she is expected to bring to the UC Board of Regents in March. A defined contribution benefit may or may not be among the options proposed/approved.

### **If a defined contribution plan is offered and a significant number of future employees choose it, will UC still pay me my full UCRP pension benefits?**

Yes. UC is obligated, both by law and university policy, to pay all accrued UCRP benefits regardless of future employees' choices. Accrued UCRP pension benefits are protected by law and cannot be reduced or revoked. It is important to understand that UCRP benefits (pensions paid to retirees) are funded from UCRP assets, not from contributions from UCRP members. Again, a defined contribution benefit may or may not be among the options proposed/approved.

### **If a defined contribution plan is offered and a significant number of future employees choose it, will UC continue to pay down its unfunded pension liability?**

Yes. It will remain a priority for UC to continue to pay down its unfunded pension liability under whatever retirement options are proposed by the president and adopted by the regents.

### **If a defined contribution plan is offered and a significant number of future employees choose it, would it compromise ("destabilize") UCRP's overall financial health?**

No. UCRP is very solid financially, with more than \$55 billion in assets and a strong track of investment performance, and ensuring UCRP's long-term stability is a key priority for UC. Should a stand-alone defined contribution plan be among the options proposed by the president and adopted by the regents, UC's independent actuary has confirmed that, as long as UC continues to make contributions to the UCRP unfunded liability, allowing future employees to elect a defined contribution plan as an alternative to the UCRP would not jeopardize UCRP's ability to pay pension benefits. It is also important to understand that UCRP benefits are funded from UCRP assets, not from contributions from UCRP members.

### **How likely is it that a significant number of future employees would choose a defined contribution plan if one is offered?**

We cannot know with certainty what future employees will do, but we expect that a traditional pension benefit will continue to appeal to certain employees.

### **Will any savings from the new retirement benefits be used to pay down UCRP's unfunded liability?**

UC will continue to pay down the UCRP unfunded liability using funds from several sources, including the \$436 million multi-year state allocation that is part of the 2015 budget agreement. It's expected that President Napolitano will likely recommend how savings (if any) from the new retirement benefits should be allocated as part of her proposal expected to go to the regents in March.

## **Other**

### **Will the new retirement benefits change UC's existing Retirement Savings Plans?**

Whatever new benefits are adopted, they will be independent of (not linked to) UC's existing retirement savings plans.

### **What is UCRP's current funded status?**

As of July 1, 2015, UCRP was 80.7 percent funded.