Presentation on UCRP Funding to Assembly of Academic Senate 6/17/09

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Benefits Accrued to Date Will be Paid:

- The University is legally obligated to pay all benefits that have been accrued, and cannot escape that obligation.
- The University *may* be able to reduce future accrual of benefits by current employees; would certainly result in litigation.
- The University *clearly can* reduce benefits of newly hired employees.

Likely Devastating Effect on Budget

- UC has been subsidizing its budget by promising benefits, paid for by drawing down the UCRP surplus.
- That surplus is gone, and the subsidy cannot continue. UC must now make contributions to cover the ongoing accrual of benefits.
- UCRP has a substantial unfunded liability. UC must make additional contributions to amortize that liability.

UCRP was 100% funded on 6/30/08

- 100% funded means that if assumptions are exactly right
  - earn 7.5% return compounded
  - everyone cooperates by dying when expected.
- UCRP will have just enough money to pay pensions accrued based on service credit earned in the past.
- No provision for pension based on service credit earned in the future.

Normal Cost

- Every year, people earn an additional year of service credit; value is “Normal Cost”
  – about 17% of covered compensation
- Pension plan needs contributions equal to Normal Cost, plus amounts to amortize past deficit, less amounts to amortize past surplus

Regents’ Funding Policy Sept. 2008

- Five year smoothing of returns: take difference between actual return and 7.5%, and incorporate one-fifth of that into Actuarial Value of Assets each year for five years.
- 15 year amortization of unfunded Actuarial Accrued Liability
- 30 year amortization of Actuarial surplus; means UC would never completely stop contributions unless you got to about 200% funding
- Applying this to situation as of 6/30/08, needed 11.5% (employer 9.5%, employee 2%/4%) as of 7/1/09.
- Would have required contribution in excess of 20% as of 7/1/10.

Governor’s Budget

- November 2008, because of feedback from Department of Finance, Regents reduced employer contribution to 4%, employee to 2%/4% effective 7/1/09
- February 2009, because Governor put only $20M in budget,
  - contribution deferred to 4/15/10
  - Slow Ramp-Up contemplated, not formally adopted: employee rises 1% per year to 5%, employer rises 2% per year until it meets the Regents’ Funding Plan.

Legislature

- Legislature eliminated Governor's $20M.
- Legislature expressed intent not to provide funding for UCRP.
- Uncertain whether contributions will resume 4/15/10.

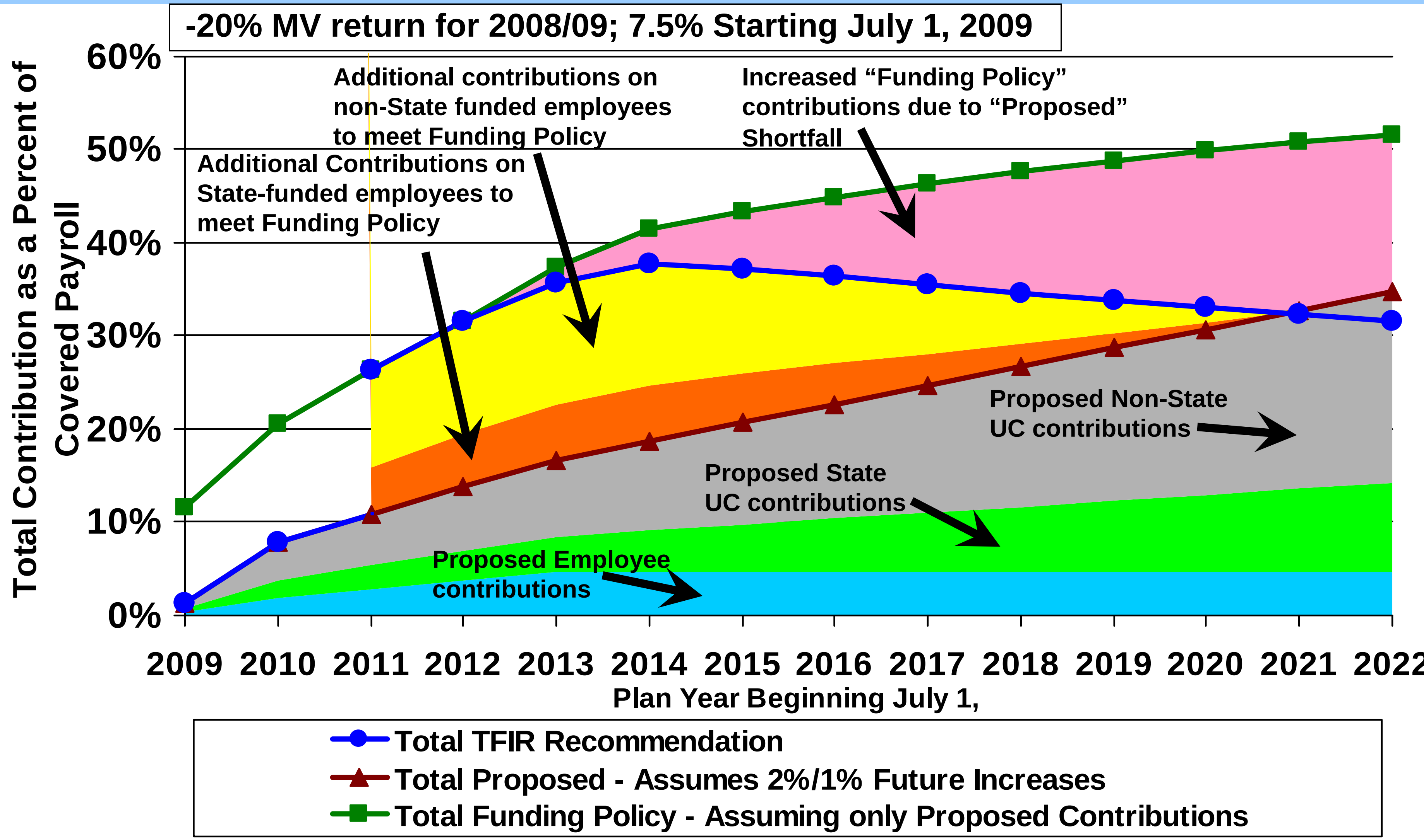
Slow Ramp-Up Is Inadequte

- Slow Ramp-Up would have been adequate if the markets had not fallen dramatically in 2008-09.
- Given current market values, Slow Ramp-Up probably won't get contributions up to the Funding Plan requirement for about 20 years, at which point contributions in excess of 50% of covered compensation will be needed.
- UCRP has been well managed; problem is in markets.
- Slow Ramp-Up keeps digging us into a deeper hole.

Digging the Hole Deeper

- Deferring contributions means we forego the 7.5% earnings on those contributions.
- Deferring $1 contribution now requires over $4 contribution 20 years from now.
- Required Funding Policy contributions projected to exceed 50% of covered compensation.
- Deferring $1 in contributions on state-funded employees results in loss of $2 contributions from other fund sources (federal grants and contracts, hospitals, etc.)

Proposed and Funding Policy Total Contributions for Campus and Medical Centers Only



Deferred Contributions from other fund sources may never be recouped

- No way for federal grants and contracts to commit to amortizing deficit years from now (except for DoE Labs).
- Future contributions in excess of 50% of covered compensation may make UC uncompetitive for these funding sources
  - Pension contributions are a direct cost; would make funding UC research expensive from point of view of federal agencies.
  - Hospitals may be unable to get compete for insurance contracts.

Cutting Benefits Won’t Fix Problem

- UC Can’t renege on benefits already accrued. Employees/retirees have a right to the years of service credit already earned, and to apply the current age factors to those years when you retire.
- Gray area as to whether UC could reduce future accrual for current employees; would certainly be litigated.

Cutting Benefits Won't Fix (Cont.)

- Even if UCRP stopped accrual of additional benefits, UC would still have to amortize the unfunded liability, and couldn't collect employee contributions or employer contributions from hospitals or federal grants and contracts if the employees were no longer accruing benefits; UCRP would become an "orphan" plan.
- UC would still need a competitive pay/benefits package.
  - UCRP with a 5% employee contribution is *uncompetitive* with faculty retirement plans at the Comparison 8.
  - UCRP with a 5% employee contribution is more than competitive for some employee groups.
  - A DC plan requires employer contributions.

TFIR Recommendation

- **"…the least bad option is to raise UCRP contributions as soon as possible to the full recommended contribution under the Funding Policy. Doing so avoids far higher contributions in the future, and also ensures that nonstate sources pay their fair share of the unfunded liability and the additional pension benefits that are earned each year. Every dollar of contributions made on behalf of employees whose salaries are paid from state funds is matched, on a two-for-one basis, by the contributions that will be made from other fund sources, on behalf of employees who are not paid from state fund sources. *TFIR therefore recommends that The Regents commit to allocate funds sufficient to follow the Funding Policy*, starting no later than July 1, 2011;…"**

UCFW and Academic Council

- UCFW and Academic Council endorsed the TFIR Recommendation and transmitted it to President Yudof.
- President Yudof has forwarded the TFIR/UCFW/Academic Council Recommendation to the Presidential Task Force on Post-Employment Benefits.
- Recommendation simply calls on The Regents to follow their own Funding Policy, which requires a faster ramp-up.