February 2, 2016

Professor Leo Estrada
Chair, UCLA Academic Senate

Re: Faculty Welfare Committee’s Response to the Retirement Options Task Force Report to the President

Dear Professor Estrada,

In exchange for a $436 million contribution to the University of California Retirement Plan over a three-year period, President Napolitano agreed to substantially reduce the cap on “pensionable pay,” used to determine the level of pension benefits for employees hired after June 30, 2016. To compensate for the large reduction in pension benefits imposed on many future employees by the new cap, the President appointed a Retirement Options Task Force (ROTF) to explore options for a new supplemental benefit for retirees. She charged the ROTF with ensuring “… that UC retirement benefits continue to be competitive in the context of our total remuneration package and that the University of California Retirement Plan remains financially sustainable.”

The ROTF submitted their report to the President on December 15, 2015. The President released the report to the Academic Senate on January 15, 2016, with the Senate given only 30 days for review. The UCLA Faculty Welfare Committee discussed the ROTF report at a special January 27th meeting. Before discussing the content of the report itself, we must note the brief Academic Senate review period for this report and the lack of faculty involvement in the original decision to impose the new cap on pensionable earnings. Neither reflects UC’s spirit of shared governance.

All options presented in the ROTF report would represent profound cuts to replacement income for retirees. The most recently available study of UC remuneration indicates that our faculty are underpaid relative to the Comparison 8 universities (12% lag), but that this gap was reduced somewhat with respect to total remuneration (10% lag) because of our relatively generous pension benefits (ROTF Report, p. 64). Unless accompanied by substantial improvements in other aspects of compensation (e.g., salaries), the proposed reduction in retirement benefits will further cut the total remuneration of faculty. The current options presented in the ROTF report clearly fail to satisfy President Napolitano’s basic charge of maintaining competitiveness in the context of our total remuneration package.

Declines in total remuneration will impair our ability to recruit and retain the highest quality faculty for which the UC is renowned. Over time, reduced compensation will induce many faculty to sever their relationship with UC, and more immediately, will cause many leading candidates not to accept a UC offer. The reduction in pension benefit will also reduce the attractiveness of retirement relative to continuing to draw a salary from active service for UC faculty. This will impair the University’s ability to renew its faculty ranks with freshly-trained cohorts of new PhDs.
The proposed cap on pensionable earnings will affect the majority of newly-hired faculty. The ROTF projected that more than 90% of ladder rank faculty hired during the 2013-14 academic year would exceed the cap by age 60 if they remain with the University (p.13, ROTF Report). The vast majority of health sciences faculty is also projected to exceed the limit by age 60. Most faculty retire at age 65 or older, and thus the actual share of faculty hitting the cap if they remain with the University is expected to be even higher than the figures presented in the ROTF Report.

To compensate for the proposed cap on pensionable pay for future UC faculty, higher employer contributions than those currently proposed would need to be implemented, beginning at the time of hire. Determining the increased employer contributions needed to remain competitive in the context of our total remuneration package requires specific information about the impact of the proposed pensionable earnings cap on total remuneration. Unfortunately, we were not provided with this essential information in time for our review. To be useful and valid, these estimates must be made in the context of realistic predictions about market returns. We are concerned that projections assuming a 7.25% return, as presented frequently in the ROTF report, are overly optimistic.

We strongly reject both Option A and Option B in the ROTF report as currently structured, as both fail to maintain a competitive level of total remuneration. We do have several recommendations about the general structure of these proposals, however, as we move forward with any future consideration of changes to UC pension benefits.

- Should the proposed cap on pensionable pay take effect, retirement benefits need to be supplemented to maintain the competitiveness of total remuneration. The problem with the currently proposed Options A and B in the ROTF report is that they offer too little, too late. Employer contributions would need to be considerably higher and to start earlier (preferably at the time of hire). To maintain competitiveness, these contributions also likely need to be supplemented by salary increases.

- If faculty are offered a choice is between a supplemented defined-benefit plan and a fully defined-contribution plan, we support the idea that faculty be able to change their minds mid-stream. But any limits on the timing of this decision should keep the tenure review clock in mind. For this reason, the currently proposed five-year window seems too short. Seven or eight years seems more appropriate.

- Whether a plan of the structure of Option A (supplemented defined benefit) or Option B (defined contribution only) is preferred by an individual faculty member is a complex issue, and will depend on factors such as levels of risk aversion, future market performance, and length of service at UC. Employees should be offered extensive counseling about the risks and benefits associated with various plans, if there are choices to be made. We note, however, that the introduction of a defined contribution option removes past incentives for loyalty and shifts investment risk from employer to employee.

- If plans with structures similar to Option A and Option B are offered, the Option A like-model (defined-benefit plan) should be made the default, on the basis that the default plan should be the one that is most protective of employees and carries less risk.
In closing, we share President Napolitano’s commitment to keeping UC retirement benefits
competitive in the context of our total remuneration package, yet it is clear that this will not be
the case under the options presented in the ROTF Report. These options, as currently structured,
would be very bad news for the health of the University. The exceptional quality of a UC
education relies heavily on the exceptional quality of the UC faculty. All currently proposed
options would reduce total remuneration and thus impair the UC’s ability to recruit and retain its
distinguished faculty. This will erode the quality of the UC education that past cohorts of
Californians have enjoyed, the UC’s international reputation in research and scholarship, and
UC’s considerable contributions to economic growth in the State of California. The contribution
to the California economy by UC should not be underestimated or taken for granted. We urge you
to ask the President to consider other options that will maintain UC’s competitiveness for future
faculty.

Sincerely,

Megan Sweeney
Chair, Committee on Faculty Welfare

cc: Members of the Committee on Faculty Welfare
    Linda Mohr, CAO, Academic Senate
    Annie Speights, Committee Analyst, Committee on Faculty Welfare