February 2, 2016

Leobardo Estrada
Chair, UCLA Academic Senate

Re: Retirement Options Task Force Report to the President

Dear Professor Estrada,

The Council on Planning and Budget (CPB) reviewed the Retirement Options Task Force Report to the President at its meeting on January 25, 2016.

CPB members lament that this initiative is the product of the “committee of two”, lacking consultation with the Academic Senate, and setting a bad precedent by not adhering to shared governance, given none of the stakeholders were involved in the decision on the future of the University.

There is unanimous agreement that this is an ill-conceived deal and should be rejected. Because of the PEPRA cap, there will be catastrophic consequences for the University.

Members realize that during budget negotiations, there was never a clear argument given how this plan (financially) addresses the deficiencies of the current system, which is already paying down the unfunded liability. In fact, it seems to have little to no impact on the financial health of the UCRP, with relatively little help from the cash injections promised from the State. All agree that neither plan is good enough for the faculty.

How will UC remain competitive, attract and retain top talent? There are serious flaws in the new plan for recruiting mid-career faculty, who have traditionally been attracted to the UC based on the “gold-plated” retirement plan. There is a lack of attention paid to the faculty welfare, recruitment, and hiring strategies. We particularly call out the lack of thought given to assistant professor hires, who will be given an option to change plans only after 5 years, before tenure and its associated job security, when they would be unlikely to change plans.

It is evident that neither the DB plan alone nor the DB + DC plan after 5 years will ever, for any new faculty or staff hired after July 1, proffer to the employee the same replacement income at age 65, compared to the 2013 tier. To achieve parity, said employee would need to have a salary 6-10% (depending on the models) higher than what the salary scales are now offering. We realize that this parity will never be attained, when we consider the recent history of faculty and staff pay raises (cf., this year’s 1.5% + 1.5% - far from the minimum projected 6% to attain parity for new hires).
Recruitment of excellent faculty will become more challenging, perhaps even impossible, when our salaries and retirement cannot keep pace with those of our competitors. In general, it would be critical to emphasize that future retentions and recruitments will depend on the combination of salaries and pension benefits and unless the salaries go up, pension benefits cannot be cut.

By reducing the overall retirement benefits to new employees, UC will be substantially decreasing the size of a very important chip on the bargaining table when trying to retain post-career and mid-career faculty years down the road. Especially with the portable plan B option, this has the potential to cause many of the most successful mid-career faculty to leave for other opportunities (e.g. chair positions), thereby lowering rankings of UC schools and departments substantially, even though the effects may not be seen by current administrators while they are still active.

UC’s defined benefit retirement program is one of the pillars that set UC above other state institutions in attracting the highest quality academic talent to its universities. Slashing the current DB program even further could potentially undermine UC’s reputation and long-term research quality in this regard.

Members recognize that we are living in times of artificially suppressed near-zero inflation rates for nearly one decade following financial events in 2008; it is reasonable to assume that a period of inflation will come. The hard cap amount of the new program does not appear to allow for annual inflation readjustment. Will there be inflation adjustments? Any such caps (even for the existing tier DB retirement programs) should be inflation/COLA-adjusted. Why should an employee be limited to a cap that was put in place during economic times many years before without regard to inflation or changes in buying power in the intervening years? Moreover, we should seek guarantees that the pension plan for those in the pre-2016 cohort will indeed be preserved.

Thank you for the opportunity to review the report. If you have any questions for us, please do not hesitate to contact me at fchiappelli@dentistry.ucla.edu or via the Council’s analyst, Elizabeth Feller, at efeller@senate.ucla.edu or x62470.

Sincerely,

Francesco Chiappelli, Chair
Council on Planning and Budget

cc: Susan Cochran, Vice Chair, Academic Senate
    Joel Aberbach, Immediate Past Chair, Academic Senate
    Linda Mohr, Chief Administrative Officer, Academic Senate Office
    Elizabeth Feller, Committee Analyst, Council on Planning and Budget
    Members of the Council on Planning and Budget