May 3, 2010

Henry Powell
Chair, Academic Council

In Re: UCLA Response to UCFW/TFIR Report

Dear Harry,

Thank you for the opportunity to review and opine upon the UCFW/TFIR Recommendation on Assuring Adequate Funding for UCRP. I requested review by the Council on Planning and Budget (CPB), Faculty Welfare Committee (FWC), the Anderson School of Management FEC, and the Executive Board. All other committees were welcome to opine. I am attaching the responses I received for your information.

The UCLA Senate very much appreciates the thoughtful, dedicated and sustained efforts by the UCFW and TFIR. Nevertheless, although we understand the seriousness of the fiscal situation, we do not believe that the proposed solutions represent the UC’s best options. The Executive Board, which speaks for our campus on such matters, agrees with CPB that “the current funding shortage in the UCRP should be addressed by a combination of actions (emphasis added): employee/employer contributions, less generous retirement benefits for new employees, an increase in health care premiums for all UCRP members and perhaps the issuance of a limited amount of Pension Obligation Bonds (POBs).” Specific points are elaborated below.

• Executive Board members cautioned against precipitous responses with long-term consequences to solve serious, though perhaps temporary, budgetary shortfalls engendered by current economic and market conditions. Although all agree that it is critical to stop the UCRP budget gap from widening further, and that steps should be taken to narrow the gap over time, we believe that having UCRP fully funded is neither mandatory nor urgent. Incremental steps can and should be taken, with due consideration of the macroeconomic context, the state’s revenues and its ability to fund the UC. The Board fully supports CPB’s judgment that, “it would appear impulsive to decide to fully fund UCRP’s unfunded liabilities with POBs at this point.”

• Regarding POBs, faculty expressed varied opinions about using them to address the unfunded liability currently faced by the UCRP. As CPB wrote, “on one hand, POBs appear to be the only available instrument to quickly inject a substantial amount of money into UCRP. On the other hand, POBs are simply a way to borrow money that will need to be repaid at a later time, and do not represent a true increase in net revenue for UCRP.” Moreover, the arbitrage opportunity that has been mentioned as an advantage of POBs (UC can borrow money at a lower interest rate than it can earn) may be a fragile assumption that is subject to the macroeconomic scenario
and can therefore vary substantially. The January 2010 Issue Brief\(^1\) from the Center for State & Local Government Excellence presents a compelling case that **POBs should not be issued** when a state is “fiscally stressed and in a poor position to shoulder the investment risk.” We conclude that POBs should be issued only after all other options to address shortfalls associated with UCRP have been exhausted. If issued, they should be used only sparingly and judiciously.

- The Executive Board and CPB maintain that “it is imperative that salary scales be brought to market levels” concomitantly with any changes to post-retirement benefits. “Failure to do so would result in the inability of UC to recruit and retain quality faculty members, as total compensation would fall below market levels. That would be detrimental to the mission of the institution.”

- The UCLA Executive Board and CPB concur “that the employee and employer contributions to UCRP (which have been initiated) should be ramped up as quickly as possible to a level that is reasonable and comparable to that of institutions where retirement systems are relatively healthy.”

- Along with CPB, the Executive Board found that “retirement plan options for new UC hires should be different from the one currently in place. First, consideration should be given to the creation of two retirement plan options: a defined contribution and a defined benefit plan. A defined contribution model may be more adequate for faculty members who may not have made a commitment to remain employed by the UC for the length of their careers. Clinical faculty members may be an example of those who may prefer to own a mobile type of retirement plan. For those employees who opt for a defined benefit plan, the formula should be modified so that the age threshold is subject to some increase and the retirement pay caps at a somewhat lower rate than it currently does.”

- The Executive Board and CPB suggest that medical benefits after retirement should be modified for new recruits, currently active employees and retirees.

In conclusion, the Board realizes that although the current fiscal and economic climate in California is bleak, better economic times lie ahead. Given that certainty, the UC should redouble its lobbying efforts at the state level to fund retirement benefits on a permanent basis. Then, when state financial surpluses become available, the UC will be better positioned to receive its share. As a lesson learned, the UC should be very circumspect about cutting back on employee contributions to the UCRP when the economy is healthy, understanding the inevitably of market and economic downturns that could lead to a crisis similar to the one we face today.

Sincerely,

Robin L. Garrell
Chair, UCLA Academic Senate

Cc: Martha Kendall Winnacker, Executive Director, Systemwide Senate
Jaime R. Balboa, CAO, UCLA Academic Senate

\(^1\) CSLGE Issue Brief, "Pension Obligation Bonds: Financial Crisis Exposes Risks" (January 2010)
April 16, 2010

Professor Robin Garrell
Chair, UCLA Academic Senate

Re: TFIR Recommendation to Assure Adequate Funding for UCRP

Dear Dr. Garrell,

The Council on Planning on Budget (CPB) has had the opportunity to examine and discuss the document entitled “TFIR Recommendation to Assure Adequate Funding for UCRP” forwarded to us on 3-4-10. As part of its deliberations, CPB hosted Professor Shane White who is the system-wide chairman of the Faculty Welfare Committee and also a member of the University of California (UC) president’s task force on post-employment benefits.

It is obvious that the University of California Retirement Plan (UCRP)’s financial position is extremely fragile and that any option available to ameliorate its funding would be associated with substantial consequences to its members. Therefore, making faculty aware of the situation and encouraging its participation in the process of addressing the financial shortfalls associated with UCRP appears crucial. CPB suggests that open informational sessions to faculty be offered in all units on campus, preferably with the inclusion of a senate member who has knowledge of the subject. Faculty executive committees are the ideal bodies to host these meetings.

In general, CPB members think that the current funding shortage in the UCRP should be addressed by a combination of actions: employee/employer contributions, less generous retirement benefits for new employees, an increase in health care premiums for all UCRP members and perhaps the issuance of a limited amount of Pension Obligation Bonds (POBs).

It is imperative that salary scales be brought to market levels concomitantly with the actions suggested above. Failure to do so would result in the inability of UC to recruit and retain quality faculty members, as total compensation would fall below market levels. That would be detrimental to the mission of the institution.

CPB members agree that the employee and employer contributions to UCRP (which have been initiated) should be ramped up as quickly as possible to a level that is reasonable and comparable to that of institutions where retirement systems are relatively healthy. That figure seems to be around 15% (5% employee plus 10% employer). CPB opposes contributions to exceed that level, as they would have substantially negative effects on employee take home pay and on faculty recruitment and retention. Implementing and increasing employee and employer contributions is also crucial to enable UCRP to collect retirement fund contributions associated with employee compensation that comes from sources other than the state.

CPB believes that the retirement plan options for new UC hires should be different from the one currently in place. First, consideration should be given to the creation of two retirement plan options: a defined contribution and a defined benefit plan. A defined contribution model may be more adequate for faculty members who may not have made a commitment to remain employed by the UC for the length of their careers. Clinical faculty members may be an example of those who may prefer to own a mobile type of retirement plan. For those employees who opt for a defined benefit plan, the formula should be modified.
so that the age threshold is subject to some increase and the retirement pay caps at a somewhat lower rate than it currently does.

CPB suggests that medical benefits after retirement be also modified, and that should apply to new recruits, currently active employees and retirees. All members of the retirement system should pay higher health care premiums, as health care cost seems to be the single largest contributor to the growth of UCRP's expenses. It is also suggested that a tiered system be developed for health care premiums, where retirees with higher income contribute to the pool at a higher rate than those with lower income.

CPB members expressed mixed opinions about the utilization of POBs as means to address the unfunded liabilities currently faced by UCRP. On one hand, POBs appear to be the only available instrument to quickly inject a substantial amount of money into UCRP. On the other hand, POBs are simply a way to borrow money that will need to be repaid at a later time, and do not represent a true increase in net revenue for UCRP. The arbitrage opportunity that has been mentioned as an advantage of POBs (UC can borrow money at a lower interest rate than it can earn) may be a fragile assumption that is subject to the macroeconomic scenario, and therefore can vary substantially. Moreover, issuing POBs may be viewed by the state legislature as a sign that the UC has the ability to fund its needs and that it will be able to do so repeatedly when other needs arise. Such message could be used as reasoning by the legislature to decrease funding to the UC. With those caveats in mind, CPB thinks that issuing POBs should be done very carefully and to the least possible extent, only after all other options to address shortfalls associated with UCRP are exhausted.

CPB members also believe that all these proposed actions be taken deliberately. It is obviously urgent to halt the growth of UCRP’s budget gap, and all necessary steps should be taken until that goal is achieved. On the other hand, having UCRP fully funded is desirable, but neither mandatory nor urgent. Therefore, incremental steps should be taken in that direction taking into consideration what happens in the macroeconomic picture and with the state’s revenues and its ability to fund the UC. For instance, it would appear impulsive to decide to fully fund UCRP’s unfunded liabilities with POBs at this point.

An extremely important point of CPB’s recommendation is that UCRP examine its financial position often from now on and that the necessary adjustments be made before a chaotic situation such as the one at hand is reached again. In making the recommendations included in this memorandum, CPB members realize that the UC faculty is sacrificing a great deal in the name of saving the whole institution. It is unlikely that UC faculty would agree to make concessions of this extent a second time.

Finally, as stated above, the state’s economy is an ever-evolving process. While there is no perspective for improvement in the immediate future, better economic times will come at some point, and no one can predict the time. With that in mind, the UC needs to lobby heavily for funding at the state level on a permanent basis, so that when state financial surpluses do become available, it can request and be awarded its share. And, by the same token, the UC should be very circumspect in future good times about cutting back on employee contributions to the UCRP, anticipating the inevitable waxing and waning of the economy.

Sincerely,

Paulo Camargo
Chair, UCLA Council on Planning and Budget

cc: Michael Goldstein, Immediate Past Chair, Academic Senate
    Ann Karagozian, Vice Chair, Academic Senate
    Jaime Balboa, Chief Administrative Officer, Academic Senate
    Linda Mohr, Assistant Chief Administrative Officer, Academic Senate
To: Robin L. Garrell  
Academic Senate, Chair  

From: Mitchell Wong  
Faculty Welfare Committee, Chair  

Re: Senate Item for Review: UCFW/TFIR Recommendation on Assuring Adequate Funding for UCRP

The Faculty Welfare Committee reviewed the Senate Item for Review: UCFW/TFIR Recommendation on Assuring Adequate Funding for UCRP. The committee endorses the document as written.

Cc: Jaime Balboa, Chief Administrative Officer, Academic Senate  
Dottie Ayer, Assistant to Chief Administrative Officer, Academic Senate  
Brandie Henderson, Policy Analyst, Academic Senate