



UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD -- SPECIAL MEETING
THURSDAY, OCTOBER 21, 2010
10:00 AM

BOARD MEMBERS PRESENT: Chair Oakley, Vice Chair Sandbrook, Executive Vice President Brostrom, Vice President Duckett, Chief Investment Officer Berggren, Vice Chancellor Michaels (via telephone), Acting CHRO Hiemstra, Professor Starr (via telephone), Maintenance Worker Piper, CUCRA Chair Gade and CUCEA Chair Newbrun.

STAFF PRESENT: Director Olson, Director Saxton, Director Schlimgen, Principal Counsel Clark, Managing Counsel Woodall, Associate Director Anguiano, Senior Negotiator Ashcraft, Manager Ryan, Principal Analyst Semple, Principal Analyst West, Principal Analyst Whalen.

OTHERS PRESENT: Provost Pitts, Academic Council Chair Simmons, Academic Council Vice Chair Anderson, General Counsel Robinson, Chief Financial Officer Taylor, Staff Advisor to the Regents Martinez, CUCEA Chair Elect Duffus (via telephone), CUCEA/CUCRA Benefits Committee Chair Harris (via telephone), UCB Retiree Association Representative Sweet, AFSCME Representative Raider, CUE Representative Higgins, CUE Representative Alajie-Sabrie, CUCFA Representative Hays, CUCFA Representative Lodha, CUCFA Representative Kiskis (via telephone), UC-AFT 274 Representative Sawislak, IUOE Local 501 Representative Placencia, UCRS Actuary Angelo (The Segal Company).

The meeting officially opened at 10:05 a.m.

MOMENT OF SILENCE: A moment of silence was requested by Board member Gade in honor of Dr. Colin Bloor, former Board member and CUCEA Chair, who passed away on September 9, 2010. Member Gade provided a brief eulogy for Dr. Bloor, an internationally renowned cardiovascular pathologist who worked at UC San Diego from 1968 until his retirement in 2002.

COMMENTS FROM THE CHAIR: Chair Oakley began by delineating the ground rules for the meeting, stating that it would commence with a 30-minute period for public comments, after which comments from guests would not be permitted. He stated that the purpose of the special meeting was to share information about the proposed changes to UC's post-employment benefits that the President would be recommending to The Regents for discussion in November 2010, and on which The Regents may take action during a special meeting on December 13, 2010. He noted that it was the Board's function to share ideas and the perspectives of various UC constituencies concerning UC retirement benefits with the President. Since the November Regents meeting would occur prior to the next regularly scheduled Board meeting, Chair Oakley felt it was imperative to solicit the

Board members' opinions on recommendations made by the President's Post-Employment Benefits (PEB) Task Force and to share them with the President before he presented his personal PEB recommendations to The Regents. Prior to announcing the public comment period, Chair Oakley mentioned that there would be a brief earthquake drill at 10:21 a.m. and a closed session with General Counsel following lunch to discuss the Board's interaction with University management in light of restrictions imposed by the Higher Education Employer-Employee Relations Act (HEERA).

PUBLIC COMMENT PERIOD: AFSCME representative Raider initiated the public comments, stating that she spoke on behalf of AFSCME with the concurrence of UC unions representing a majority of represented employees. She thanked the Chair for distributing to the Board certain documents that AFSCME had sent to the President, which included the UC Union Coalition response to the PEB Task Force report. She noted that the University of California Retirement Plan (UCRP or Plan) was a valuable recruitment tool for lower-income employees and generally represented their only retirement savings, since most could not afford to contribute to the voluntary UC Retirement Savings Program. She stated that employees should not be allowed to opt out of UCRP as it would jeopardize its integrity and that a two-tier pension system would create morale problems, since employees doing the same job could have dramatically different retirement benefits.

She indicated that the PEB Task Force's proposed new tier options A and B, which integrate with Social Security, disproportionately impact lower-paid employees, especially those in physically demanding jobs who are unable to work until age 65 to obtain maximum retirement benefits. She refuted the Task Force's premise that options A and B are more attractive for lower-income employees, advising that a reduction in required contributions for reduced retirement benefits was not in the best interest of lower-income employees.

AFSCME Representative Raider praised faculty for providing a thorough analysis of the PEB Task Force recommendations and fostering debate on post-employment benefits. However, she indicated that UC's priority should be sufficiently funding UCRP and that focusing on new tiers and other benefit cuts detracted from that issue. She stated that recently approved UCRP contributions should have been higher and implemented more quickly, with UC contributing a significantly larger percentage than it had in the past. She also noted that the employer/employee proportion of UCRP contributions should be determined through collective bargaining before the Regents set any UCRP contribution rates for non-represented employees. She concluded by stating that AFSCME was opposed to any extra retirement benefits for senior managers or other highly compensated employees and that represented employees, along with other employees and retirees, should share in the governance of the pension plan, similar to CalPERS and CalSTRS.

UC-AFT Representative Sawislak concurred with the comments presented by AFSCME Representative Raider. She stated that represented employees comprise approximately 45% of UCRP active members and negotiating pension benefits is more difficult when the Regents have already determined contribution rates for the other 55%. She reiterated that collective bargaining with represented employees should be conducted before the Regents determine any UCRP contribution rates.

APPROVAL OF THE MINUTES OF MEETING OF SEPTEMBER 9, 2010: Chair Oakley called for approval of the minutes from the special Board meeting of September 9, 2010. With respect to AGENDA ITEM 4 - (PEB OVERVIEW AND UCRP CONTRIBUTIONS), member Michaels indicated that the minutes did not adequately convey her sentiment opposing the statement by another member that UCRP employer contributions should be ramped up as quickly as possible. She requested that the minutes be amended to reflect her opposition to ramping up employer contributions more quickly than planned. With Member Michaels' amendment accepted, the minutes from the meeting of September 9, 2010, were approved.

PRESENTATION OF PERSPECTIVES ON PEB TASK FORCE RECOMMENDATIONS:

Chair Oakley introduced Juliann Martinez, the Staff Advisor to the Regents, whom he had invited to present the views of staff employees on the PEB Task Force recommendations. Advisor Martinez noted that staff employees were pleased that the PEB Task Force recommended the continuation of a defined-benefit plan for new hires, but had serious concerns about the proposed plan designs that integrated with Social Security. Staff found the integrated-design options confusing and all three options to be less competitive than the current UCRP. They felt option A was the least competitive option and the non-integrated option C the best of the three options.

Advisor Martinez noted that current employees were more concerned with retiree health eligibility and questioned how the proposed grandfathering provisions were determined. This was particularly true for younger employees who could fail to grandfather under the proposed rules despite having many years of UC service. She noted that while there was a deep level of commitment to UC by staff employees, they were personally concerned with the financial impact of the proposed changes (i.e., the effect on their paychecks). She noted that staff should have access to the post-employment benefits decision process, but that benefit changes should not be implemented without formulation of a multi-year plan for across-the-board salary increases. She concluded by asking for questions.

A general and open discussion on various aspects of the PEB Task Force recommendations ensued.

Retiree Health eligibility/grandfathering: One member indicated that it seemed problematic that a faculty member with 10 years of UC service as of July 1, 2013, would be "tenured" at UC but could fail to grandfather for retiree health coverage under existing rules simply because he/she was below 40 years of age. The implication that benefits eligibility should be different for tenured faculty was questioned. It was clarified that both faculty and staff could be eligible for retiree health coverage under the proposed eligibility rules and receive the maximum UC contribution toward premiums, provided they retired at age 65 with 20 or more years of UCRP service credit. Further, it was noted that most faculty do not retire before age 65.

Maximum benefits at age 65: Noting a maximum retirement age factor at age 65 was common to all the proposed Task Force options, one member indicated that it would disadvantage lower-income employees in physically demanding jobs. She indicated that such members could not work until age 65 and, therefore, could not receive the maximum benefits from UCRP or UC's maximum contribution to retiree health. Advisor Martinez confirmed that lower-income staff in physically demanding jobs held such a view. Another member questioned why a maximum age factor of 63 was not proposed for new tier benefits, since that was the maximum UCRP age factor prior to July

1992. It was noted that to mitigate UC's costs for UCRP and retiree health, the Task Force recommendations were designed to encourage employees to retire later, generally when they would begin receiving Medicare. It was also noted there had been consensus on the maximum UCRP age factor and the design of the new retiree health eligibility provisions among all the work groups in the Task Force, which included staff, faculty, administration and retiree representatives.

Social Security integration and income replacement: One member noted that the Task Force had been concerned with income replacement at retirement and that approximately 25% of all retirement plans include some sort of integration with Social Security. He mentioned that lower-income employees generally paid a higher percentage of their income in OASDI taxes for higher Social Security benefits and that Task Force options A and B reversed that scenario. Lower-income UC employees would pay less in required UCRP contributions and receive UCRP benefits that represented a lower percentage of their final three-year average salary. He concluded by stating that Task Force options A and B were designed so that UC employees of all income levels would receive the same income replacement between UCRP and Social Security upon retirement. It was also noted that the Academic Senate did not feel that the 80% income replacement provided to some employees under the Task Force options would be sufficient.

Retirement Plan Choice: One member had a question regarding the Task Force's retirement plan "choice" option for current UCRP members. He wondered whether current UCRP members would be given a one-time choice to elect a new UCRP tier on July 1, 2013, or whether such a choice would be an on-going option in the future. It was clarified that The Task Force had envisioned a one-time choice and that it was contingent upon Internal Revenue Service approval. In response to a comment that other retirement plans offered employees multiple opportunities to switch to a lower-cost retirement plan, it was noted that a multiple-choice scenario would create confusion and present benefits-counseling challenges at UC.

DC Plan for Clinical Enterprises: One member asked if offering a defined contribution plan (DC plan) to Clinical Enterprises employees would create an "orphan" liability problem for UCRP. The Plan's Actuary noted that, going forward, there would be an orphan liability in UCRP for the Clinical Enterprises employees who would no longer be paying into UCRP. However, it was also noted that if offered a DC Plan, Clinical Enterprises would still be liable for their share of UCRP's accrued but unfunded liability as of the time of the switch to a DC Plan.

Comments by Academic Council Vice Chair Anderson: Chair Oakley asked Academic Council Vice Chair (AC Vice Chair) Anderson to present the Academic Council's views on the Task Force recommendations. AC Vice Chair Anderson noted that the proposed University financing for all three retirement options considered by the Task Force is exactly the same through 2029. Further, he noted that the cost to UC is exactly the same under options B and C. While member contributions are higher under option C, he indicated that many members would be willing to pay more in required contributions for higher retirement benefits and that such an option should be offered. He also stated that both staff and faculty had difficulty understanding options A and B and that the Plan's Actuary had forewarned of the complexity of such integrated plan models. Responding to a question posed by Chair Oakley, he indicated that UC's recruitment and retention efforts would likely be diminished under any of the Task Force recommendations. While UC salaries have lagged

for some time, he noted that UC's benefits have enabled UC to remain competitive with other institutions, but that would not be the case after 2013, especially if either option A or B were implemented. To remain competitive, he also stressed that UC needed to increase salaries.

In response to AC Vice Chair Anderson's comments, it was noted by one member that the issue of recruitment is very complicated and that a retirement plan is not usually a factor in a candidate's employment decision. Most job candidates make employment decisions based on the amount of salary offered. Another member pointed out that UC has been able to continue to recruit high caliber faculty and staff despite offering lower salaries, but that situation could change very quickly.

One member noted that the \$211 million per year in savings to UC under option A would have a beneficial impact on the budget at her location. Chair Oakley reminded the Board that the State had previously contributed money towards UCRP and that language in last year's budget legislation that had prevented the State from funding UC's contributions for UCRP had been deleted from the 2010-11 budget legislation. He asked if there was a perception that the Governor and/or Legislature might look more favorably at appropriating funds for UCRP if UC moved quickly to enact the Task Force recommendations. In response, it was noted that UC appears to have received more favorable bond ratings since the work of the Task Force commenced. However, it was also noted that UC was fortunate to get \$350 million from the State in this year's budget and it would be very optimistic to hope for State funding for UCRP in the near future.

ARTICULATION OF VIEWS BY BOARD MEMBERS ON THE PEB TASK FORCE

RECOMMENDATIONS: Chair Oakley began by summarizing the University Committee on Faculty Welfare (UCFW) position with respect to the PEB Task Force recommendations. He noted that UCFW opposed option A, prefers option C, but would accept option B if staff preferred it. Further, he noted that UCFW's support of options B and C was contingent on credible plans to increase faculty and staff salaries to competitive levels before the new pension tier goes into effect. In the event current employees are offered a choice to migrate to the new second-tier plan, UCFW strongly opposed more than a 7% employee-contribution rate for employees choosing to remain in the current plan. Based on the request of a member, Chair Oakley then asked each of the other members to indicate whether or not he/she agreed with the UCFW position. The responses of the members were as follows:

- Three members of the Advisory Board, two of whom had been executive-level participants in the Task Force, expressed the view that option A of the recommendations was the superior recommendation and should be adopted by the Board of Regents. Each of these members also acknowledged, however, that the lack of University-wide support for option A was a significant factor against that option.
- Five members of the Advisory Board expressed the view that option C was the best option given current circumstances, recognizing the wide level of discontent about option A and even option B throughout the University community.
- Two members of the Advisory board expressed the view that current emeriti and retirees were less affected by whichever option was selected with respect to the pension system but

that the recommendations regarding the University's retiree health program could be a significant concern to their constituencies. These members also noted that there were longstanding issues regarding the PERS+5 program that were overdue for action.

- One member of the Advisory Board abstained, expressing that view that the University community should understand that each of the three options provided superior retiree benefits as a defined-benefit program which, even with its reduction in benefits compared to the current program, remains a significant advantage per se compared to most other employers in the U.S.

All members of the Advisory Board, however, expressed the common view that the underlying fact that the Board of Regents needs to address is that action on any of these options regarding the UC Retirement Plan and the UC retiree health program needs to be accompanied – immediately – by a forceful and aggressive program to address the University's uncompetitive compensation program. And, at the same time, the continuing effort by the University to gain recognition by the State of California as to its obligations to provide funding for UC's employer contribution to UCRP for all individuals paid from General Funds also needs to be a primary objective.

One member voiced concern that a letter would be presented to the President with the Board members' opinions on the PEB Task Force recommendations when, in the opinion of that member, not every member had command of all the necessary facts or fully comprehended the Task Force recommendations. Further, the member opined that if cash compensation (i.e., employee salaries rose to competitive levels, arguments over the proposed retirement-plan options would go away.

The meeting adjourned at 2:32