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Soaring UC pension costs raise pressure for more cuts, tuition hikes

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SAN FRANCISCO – The cost of pensions and retiree health benefits is soaring at the University of California, increasing pressure to raise tuition and cut academic programs at one of the nation's leading public college systems.

The 10-campus system is confronting mounting bills for employee retirement benefits even as it grapples with unprecedented cuts in state funding that have led to sharp tuition increases, staff reductions and angry student protests.

The UC system, including medical centers and national laboratories, is scrambling to shore up its pension fund as it prepares for a wave of retirements and tackles a roughly $10 billion unfunded liability.

The UC Retirement Plan's huge deficit was created by investment losses during the global economic crisis – and the nearly two decades when campuses, employees and the state did not contribute any money toward pensions.

"The regents made a serious error and the Legislature made a serious error by not putting money aside for 19 years while accumulating this obligation," said Robert Anderson, a UC Berkeley economist who chairs the system's Academic Senate. "Now we have to pay for it."

The UC system faces spiraling pension costs for 56,000 current retirees and an additional 116,000 employees nearing retirement.

As of May, there were 2,129 UC retirees drawing annual pensions of more than $100,000, 57 with pensions exceeding $200,000 and three with pensions greater than $300,000, according to data obtained by The Associated Press through a state Public Records Act request.

The number of UC retirees collecting six-figure pensions has increased by 30 percent over the past two years, according to Californians for Fiscal Responsibility, an advocacy group that has analyzed UC pension data.

TOP PENSIONER

Topping the list is Marcus Marvin, a retired professor of dentistry and public health at UCLA, who receives an annual pension of $337,000.

If UC President Mark Yudof, 67, serves for seven years, he would receive an annual pension of $350,000 – in addition to regular benefits he accrues through the UC Retirement Plan, according to university documents.

The university caps employee pensions at the IRS limit of $250,000, but that ceiling does not apply to the

"supplemental retirement benefits" promised to Yudof.

In the coming year, the university is expected to contribute about $240 million to its retirement fund from a roughly $6 billion core operating budget. That amount is expected to more than double to about $500 million annually by 2015-16, according to UC officials.

The university also faces skyrocketing costs for its retiree health care benefits.

The unfunded liability for its retiree health program was $14.6 billion in July 2011. UC is expected to spend $270 million on retiree health care this year, and that amount is expected to rise significantly over the next several years, according to UC documents.

While UC seeks to pay its retirement bills, the system is wrestling with the loss of $750 million in state funding this past year. And it could lose an additional $250 million in the coming academic year if voters reject Gov. Jerry Brown's tax initiative in November.

To offset state cuts over the past three years, UC has repeatedly raised tuition, cut academic programs and student services, reduced its workforce, and increased enrollment of out-of-state students who pay three times more than California residents.

In July, the university's board is expected to consider another tuition increase for the coming school year. Under one scenario, in-state tuition would increase by 6 percent to $12,923, roughly double what students paid five years ago.

Without a substantial boost in state funding, UC will need to find other ways to raise revenue or cut costs to pay for promised retirement benefits, officials said.

'SIGNIFICANT CHALLENGE'

"This is a very significant challenge to the UC system," said UC Executive Vice Chancellor Nathan Brostrom.

UC officials want the state to make pension contributions, as it does for the California State University and California Community Colleges systems. But the state, facing its own financial problems, hasn't provided money for UC pensions for more than 20 years.

UC Irvine student Traci Ishigo said she also wants the state to help cover the UC's escalating pension costs.

"Students shouldn't have to compromise any more on the quality of our education," Ishigo said. "I don't want to see the regents make any decisions where they have to place more burden on the backs of students to cover the rising pension costs."

Similar stories are playing out across the country as public pensions overwhelm the budgets of city, state and federal governments grappling with a surge of retirements, stock-market declines and years of mismanagement and underfunding.

"It's pretty clear what happens when you don't pay your bills for a long time. They eventually catch up with you," said Jeffrey R. Brown, a finance professor at the University of Illinois at Urbana-Champaign who researches pension issues.

For years, the UC system has used its generous retirement benefits to attract and retain talented employees and professors willing to accept lower salaries in exchange for a secure retirement.

Employees can begin collecting pensions at age 50 and receive maximum benefits at age 60. Pensions are based on the average of their three top-earning years, and employees who work 40 years receive annual pensions equal to 100 percent of that amount.

"Maintaining the defined benefit is very important to maintaining the success of the University of California," said Daniel Simmons, a retired UC Davis law professor who previously chaired the system's Academic Senate.

SUSPENDED CONTRIBUTIONS

The roots of UC's pension problems began more than two decades ago when administrators decided to suspend contributions. The pension fund appeared to be overfunded, and the cash-strapped state was cutting UC funding.

University administrators finally took action to address its ballooning retirement obligations in 2010 after stock market losses in 2008-09 left the UC retirement fund dangerously underfunded. UC and its employees resumed making payments to the UC Retirement Plan in 2010, with contribution amounts steadily increasing each year.

The university system is increasing the retirement age for future employees by five years, which will reduce the amount UC subsidiaries will need to contribute for pensions.

UC is also aiming to rein in costs for its retiree health program by raising the eligibility age and reducing the percentage of the insurance premiums it covers.

"If we were to kick the can down the road even further, the problem would get even worse and future generations would have to take even more draconian measures," Brostrom said.

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