Meeting of February 24, 2012

AGENDA ITEM B

UCRP – The Governor's Pension Reform Proposals – Update

On February 2, 2012 Governor Brown released the text of a bill and a proposed amendment to the state constitution containing his pension reform proposals. Approval of the state constitutional amendment by a two-thirds vote of both houses of the Legislature and a majority of the voters in a statewide general election will be necessary to establish that the proposals apply to the University of California and the Board of Regents. The next statewide general election will be held on November 6, 2012.

Some of the provisions of the bill and the proposed constitutional amendment would apply only to employees first hired on or after July 1, 2013, while others would apply to current employees as well. The provisions applying only to future employees include mandatory participation in a hybrid plan with defined benefit (DB) and defined contribution (DC) components, increases in both the full retirement age and the earliest retirement age, and use of the highest average compensation over three years instead of one year for calculating the DB component of a member's benefit. Also, new employees would need a minimum of 15 years of service to receive any employer contribution for retiree health care benefits and 25 years to receive the maximum contribution.

The provisions applying to all employees include mandatory contributions covering the full Normal Cost of plan benefits each year, equally shared between the employer and employee, restrictions on post-retirement employment, and elimination of retroactive increases in benefits and service credit purchases for time not employed ("air time").

Attached is a comparison of the key provisions in the Governor's proposals with the comparable provisions in the current UCRP tier and in the New Tier approved by The Regents in December 2010 that will become effective July 1, 2013.

In December 2011 Executive Vice President Brostrom and Director Schlimgen gave a presentation in Sacramento to a legislative conference committee considering the Governor's pension reform proposals. They stated that UCRP already includes many of the reform provisions, such as the use of the highest three-year average earnings for calculating pension benefits. They spoke about the resumption and ramp-up of both employer and employee contributions to address the funding issue and outlined the changes to post-employment benefits that were approved by The Regents in December 2010. Finally, they stressed the importance of a competitive DB pension plan to the continued recruitment and retention of the most qualified faculty and staff.

The UCRS Advisory Board will be provided with periodic updates as the bill and the proposed constitutional amendment move through the legislative process.