University of California

UCRS Advisory Board

October 30, 2019

President Janet Napolitano
Office of the President
University of California
1111 Franklin Street
Oakland, CA 94607

Dear President Napolitano:

The University of California Retirement System Advisory Board (UCRSAB) held a special meeting on the morning of October 23 to discuss the Regents' plan to increase employee contributions to the UC Retirement Plan. Even though our meeting was called on short notice, and could only be held for one hour, there were many public comments from representatives of several employee groups at UC. They were all strongly opposed to any proposal to adopt increases in employee contributions at the upcoming November Regents' meeting. Many pointed out that increasing employee contributions is equivalent to a pay cut, which is particularly difficult at a time when living costs are rising and UC compensation is still below that of our competitors.

While the UCRSAB recognizes the need to fully fund UCRP, board members spoke against the need to quickly adopt increased employee contributions in addition to the increased employer contributions approved by the Regents at their September meeting. Board members raised various concerns which I am passing on to you for your consideration:

- The approved 3% increase in employer contributions does not address the cost increases identified in 2019; instead, it partially addresses the University's decision not to fund the Actuarially Determined Contributions (ADC) through employer contributions. Due to a 14% cap imposed beginning in 2014, employer contributions between 2014 and 2019 fell short of ADC by about 4%. The 3% increase in employer contributions partially corrects for this preexisting problem, and it does not even begin to address the new actuarial data. Thus employees would be the only ones contributing to the newly projected cost increases.

- The principle stating that normal cost changes should be shared equally between employer and employees does not justify a 1.5% increase in employee contributions. Though the changed actuarial assumptions imply a 3% jump in normal cost for 2020, normal cost are expected to decline by about 1% between 2020 and 2025. Accordingly, normal cost increase by only 2% on net, and the increase in employee contributions should be no more than 1%.

- The University has not addressed the shortfall in funds to meet the estimated ADC of 34%. UCRP faces annual deficits on the order of $1.2-1.3 billion for years to come, or about 12% of payroll. A deficit of about $1 billion per year would remain even if employer and employee contributions were raised as projected. Unless a plan is developed to address this deficit in other ways, employees have reason to suspect that current plans for higher employee contributions will be followed by further increases in the future.

- There has not been sufficient time to analyze the data nor to fully consult with all stakeholders. The projected first year revenues pool ($12 million) is small, while the cost to employee morale from a rushed decision with inadequate consultation is large.

- To avoid inequities between represented and non-represented employees, a suggestion was made to postpone the implementation of employee contribution increases until unions representing at least half of represented employees also agree.

The Board asks that you urge the Regents to postpone any action until the University has had time to carry out a full analysis of all reasonable options to fund the pension.

Best Regards,

Ronald S. Cortez, JD, MA
Chief Financial Officer and Vice Chancellor, University of California, Irvine
Chair, University of California Retirement System Advisory Board

cc: Members of the UCRS Advisory Board
Director Gary Schlimgen