Considerations for a New UC Retirement Savings Program Benefit

Possible Applications

- An alternative to UCRP to meet recruiting needs of the clinical enterprise for policy-covered staff by offering choice for new hires (instead of the new UCRP tier)

Plan Design Options

- A recent study identified the following best practices for a primary (core) defined contribution plan:
  - Eligibility and participation: mandatory (auto) enrollment with opt-out option, no age restrictions, and maximum 1-year waiting period for entry
  - Vesting: 100% after one year
  - Total contributions (employer and employee): at least 12% if covered by Social Security; 18-20%, if not

Contribution Limits (see attached chart)

- 415(c) Annual Additions – lesser of $49,000 or 100% of compensation
  - applies separately to the DC Plan and the 403(b) Plan
  - DC Plan – includes pretax and after-tax contributions, both employer and employee
  - 403(b) Plan – includes pretax employee contributions. If employee contributes the maximum ($16,500, or $22,000 if 50 or over), the employer contribution would be limited to $32,500, or $27,000 for employees age 50 or older.
  - 457(b) Plan – no Annual Additions limit; all contributions limited to $16,500, or $22,000 if age 50 or older; employer contributions subject to FICA taxes and so generally are not made
- Covered Compensation for employer contributions is subject to the 401(a)(17) limit of $245,000, or $360,000 if hired before 7/1/94 (DC Plan); only the $245,000 limit for both the 403(b) and 457(b) Plan. Limit applies separately to each plan.

Comparison of Employer and Employee Contributions FY 2014/15

Plan	Employer		Employee		UCRP Normal Cost (NC)	Amount for UCRP UAAL
	UCRP	DC plan	UCRP	DC plan		
UCRP Current	14%	n/a	TBD	n/a	18%	(ER+EE) - NC
UCRP New Tier	14%	n/a	7%	n/a	15.1%	5.9%
Optional DC plan	6% addl. assessment	8% (example)	n/a	TBD (see A, B, C below)	n/a	6%

Considerations for Design of Employer Automatic and/or Matching Contribution Formula

- Higher automatic or matching contributions to reward longer service
- Higher automatic or matching contributions based on age
- Rate of automatic or matching contributions based on salary level (increasing or decreasing) – automatic without a match component could be more attractive to the lower paid
- Incentivize maximum employee contributions—no automatic contributions and/or 100% matching on all employee contributions up to the maximum

Plan Design A - Employer automatic and/or matching contributions based on age, service, and/or salary level

Plan Design B

Formula	*Employee*	*Employer*	*Total*
100% of first 5%	5%	5%	10%
50% of next 6%	6%	3%	9%
Total	11%	8%	19%

Plan Design C

Formula	*Employee*	*Employer*	*Total*
4% automatic employer	n/a	4%	4%
100% up to 4%	4%	4%	8%
Total	4%	8%	12%

Participant Vesting in Employer Contributions

Concerning participant vesting with employer contributions, there are many variations that are allowable under the regulations.

- Best Practice: 100% vesting in employer contributions after completion of one year of service

- For cliff vesting, a plan cannot go past 3 years of service. Below is an example of the most restrictive cliff vesting a plan can offer - note that a plan can be more generous in year one and two if desired.
    - After one year of service: 0% vested
    - After two years of service: 0% vested
    - After three or more years of service: 100% vested

- For graded vesting, a plan can be more generous than the example below but it cannot be less generous and must provide 100% vesting in six years or less:
    - After one year of service: 0% vested
    - After two years of service: 20% vested
    - After three years of service: 40% vested
    - After four years of service: 60% vested
    - After five years of service: 80% vested
    - After six or more years of service: 100% vested

- Vesting schedules can be customized by the plan sponsor under the guidelines above and variations on the above schedules are common.

- Investment of ER contributions / assets that are not yet vested are generally allowed to be invested at the employee's discretion. If a participant leaves employment before they are vested in the employer contributions, then the un-vested assets are forfeited to a forfeiture account.