UNIVERSITY OF CALIFORNIA

COMPREHENSIVE REVIEW OF DISABILITY BENEFITS

DRAFT FOR DISCUSSION

UCRS Advisory Board Meeting - JUNE 29, 2012

Table of Contents

- Review – Why?
- Current Disability Benefits
- Draft Recommendations – For Illustration Only
- Appendix

Comprehensive Review of Disability Benefits - Why?

- An outcome of the Post-Employment Benefits Task Force was to evaluate the long-term disability benefit in the new tier, in part to see if the disability program could be administered more efficiently, and with better value, outside the defined benefit plan.
  - The funding of disability benefits through pension plans was relatively common in the past but is rare today. The overwhelming majority of employers deliver disability benefits for long-term disabilities through plans insured or administered by an insurance company.
- At the request of the University Committee on Faculty Welfare, the Chief Human Resource Officers, and several other groups, a comprehensive review of the entire UC disability program – both design and administration - was undertaken.
- UC staff met with many groups to “process map” administration and a consultant (Mercer) was engaged to evaluate our program against several criteria. The UCFW-Task Force on Investment and Retirement (TFIR) has provided consultation throughout the process.

Current Disability Benefits

- UC Paid Disability Benefits – provides a taxable benefit of **$800 per month**. This benefit is below the California state disability insurance (SDI) benefit, which currently pays 55% wage replacement up to **$1,011 per week**, based on an annual salary cap of $95,585.
- Employee Funded Disability Benefits – The supplemental disability program (STD and LTD) provides a tax-free benefit up to 70% of pre-disability pay with a maximum monthly benefit of $10,000.
  - UC's 70% income replacement is higher than most taxable disability benefits offered and does little to encourage employees to return to work.
- UCRP Disability Benefits - UCRP provides a long-term disability benefit to those members eligible for benefits and with a minimum of 5 years of service credit. Members earn service credit generally until their disability end date or until they cross over to UCRP retirement income.
  - Current Tier (with SS hired 4/1/80 and later) – 22.5% of final salary after 5 years, scaling to 40% max after 12 years of UCRP service credit
  - 2013 Tier – 12.5% of final salary after 5 years, scaling to 25% max after 12 years service credit

Current Benefit Offerings

Duration of Absence

Sick Leave/PTO/Salary Continuation

(Required to use 22 days of sick leave, if available)

Employee Funded Supplemental Disability Plan

(Voluntary Benefit, 50% of eligible earnings, or 70% with other benefits, to max of $10,000/month)

Choice of 7, 30, 90, or 180 day waiting period

UC Funded Short Term Disability Plan

(55% of earnings to $800/month, max 26 weeks)

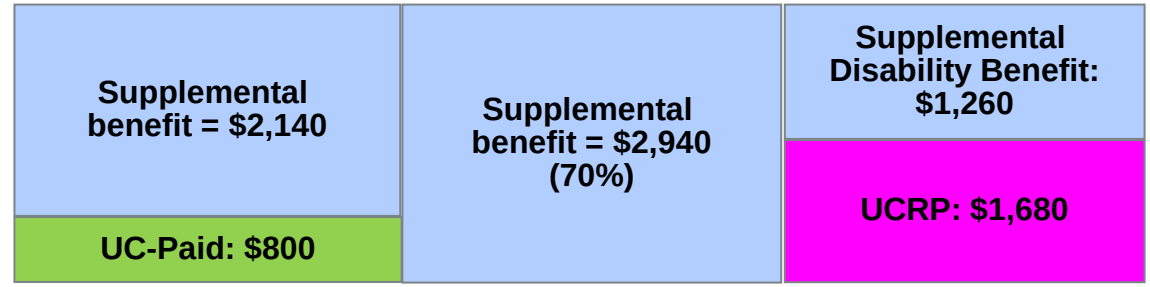
UCRP LTD

(40% of eligible earnings up to age 65)

Benefits Begin | **26 weeks** | **12 months**

Illustration of disability benefits (if enrolled in employee funded supplemental and with 12+ years UCRP service credit); illustration does not include Social Security Disability Income (long term)

Monthly salary = $4,200



Note that if an employee has a long-term disability with no supplemental plan and less than 5 years of UCRP service credit, benefits are payable at only $800/month for 26 weeks

Benchmarking Comparisons

- STD - Almost all of the benchmarked plans provide a core employer-paid benefit with a 7 day waiting period – except for CA employers who are subject to state disability insurance which has mandatory employee contributions (1% of covered pay).
- LTD – Most comparators provide a core employer-paid LTD benefit of 50-60%, with optional coverage available through employee contribution. Most plans have a 180 day waiting period, an average maximum monthly benefit of $11,000 and use “base pay” as the definition of covered salary.
- UCRP - Benchmark data does not support a disability income benefit under a defined benefit plan and shows very few UC peers offering such a benefit. Where it exists, benefit level is 33-50% of salary, and only one employer indicated any vesting requirement to receive benefits.

Draft Recommendations – For Illustration Only
UCRP

- UC should modify the disability benefit for Tier 2013 participants, and transition current employees into the new program in stages, as funding and implementation issues allow (no change to UCRP long-term disability provision for current employees).
- Moving the delivery and funding of disability benefits outside the pension plan provides a number of advantages including:
  - Greater flexibility in changing plan design to keep up with emerging industry trends
  - More intensive medical management and medical review of disability claims, ensuring that only those with true disabilities receive benefits
  - Increased focus and resources on return to work, leading to shorter disability durations and reduced turnover
  - Greater cash flow flexibility through a mix of insured and self-insured funding options.

Draft Recommendations

Draft Recommendation Variations – For Illustration Only

There are two variations to the modification of the long-term disability benefit associated with the 2013 Tier:

1. Completely modify 2013 Tier long-term disability provision:
   - no payments from UCRP for disability;
   - no service credits to UCRP for time not working;
   - no crossover process;
   - offer improved STD and LTD benefits.

2. Partially modify 2013 Tier long-term disability provision:
   - no payments from UCRP for disability;
   - a continuation of service credit accruals;
   - a crossover process;
   - offer improved STD and LTD benefits.

Draft Recommendations – For Illustration Only
STD and LTD

- Concurrent with changes to the 2013 Tier, UC should consider a new disability plan design and structure that is more competitive to the short-term and long-term disability marketplace. Based on benchmark and marketplace data, a possible plan design might be:
  - Short-Term Disability - UC funded benefit of up to 55% (up to $1,000/week) plus optional employee-paid coverage of additional 15%, (up to $15,000/mo.)
  - Long-Term Disability - UC funded benefit of up to 50% (up to $15,000/mo.) plus optional employee-paid coverage of 10% (up to $15,000/mo.)
  - UCRP – Offer improved UC-paid STD/LTD benefits in lieu of the UCRP 2013 Tier disability income benefit; continue service credit accrual / crossover.

Draft Recommended Benefit Offerings – For Illustration Only

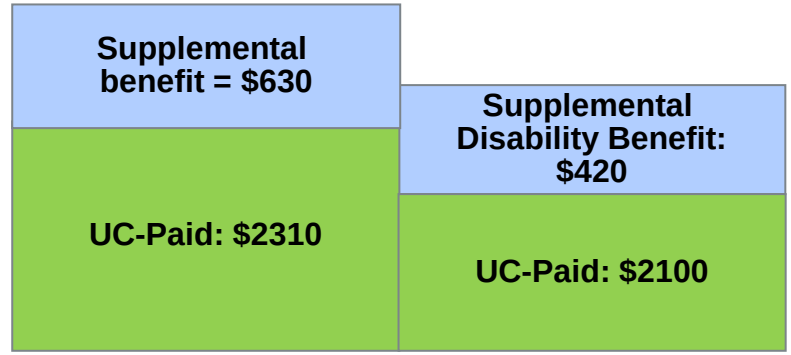
Duration of Absence

7 day waiting period **(Sick Leave/PTO)**	**UC Funded Short Term Disability Plan** (up to 55% of eligible earnings up to $1,000/week)	**UC Funded LTD** (up to 50% of eligible earnings up to $15,000 per month) Up to age 65
	Supplemental STD (employee funded 15% supplemental benefit for a total of up to 70% income replacement up to $15,000 per month)	**Supplemental LTD** (employee funded 10% supplemental benefit for a total of up to 60% income replacement up to $15,000 per month) up to age 65

Benefits Begin **26 weeks**

Illustration of disability benefits. UC-paid 55%/50% plus Employee-paid supplemental 15%/10%; no UCRP disability income; illustration does not include Social Security Disability Income (long term)

Monthly salary = $4,200



Collective Bargaining

- The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act, if any such action is required. Any ultimate recommendations as they apply to represented employees are subject to collective bargaining requirements.

Appendix
Benchmarking Comparisons

- Benchmark comparators include:
  - Academic Institutions
    - Comp 8
      - Harvard University, MIT, Stanford University, Yale University, SUNY – Buffalo, University of Illinois – Urbana, University of Michigan – Ann Arbor, University of Virginia
    - The University of Texas System
  - Large California Employers
    - Wells Fargo
    - California State University (CSU System)
    - State of California
  - Academic Medical Centers and Medical Systems
    - Oregon Health and Sciences
    - Stanford Hospital and Clinics
    - Kaiser California
    - Sutter Health