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January 8, 2010

Lawrence Pitts, MD
Interim Provost and Executive Vice President, Academic Affairs
Office of the President
University of California
1111 Franklin Street
Oakland, CA 94607-5200

Re: The Future of UC Retirement Benefits Task Force

Dear Interim Provost Pitts:

We look forward to hosting you at our campus on February 1, 2010, 2:00-3:30 pm in room S 118 at UCSF's Parnassus campus to discuss the future of the University of California Post Employment Benefits. To prepare for that meeting, please find below the questions sent to you in my previous letter, dated December 8, 2009, as well as the questions distributed to members of the Post Employment Benefits Task Force Chair Randy Scott on October 16, 2009, prior to their visit to UCSF on October 22 and 23, 2009. My colleagues and I have not yet received satisfactory responses to these questions and expect to learn more from you before or at our February 1 meeting.

Excerpted from the letter sent to you on December 8, 2009:

The Listening Forum at UCSF succeeded in raising the visibility of the financial jeopardy of the PEB programs. We understand that our next opportunity to participate in the process is planned as a presentation of the Task Force's final recommendations. However, we would prefer to be engaged in the process throughout the entire period.

In preparation for the Listening Forum, we submitted several written questions to the panel but relatively few were addressed in the prepared remarks or the question-and-answer session. To address the questions and concerns submitted in advance by the faculty and staff, we are requesting a formal response to our questions. The specific questions and concerns are:

- 1. Transparency and necessity of efficient communications between the Task Force and System-wide and Senate committees.**

In addition to the financial liability slides which were presented, we would like an analysis of the costs associated with state FTE employees and faculty as well as those employees and faculty who are funded by grants/contracts, clinical revenue, and other state resources. We believe that the presentation, which did not make these distinctions, may bias the Task Force process toward PEB cuts and employee reductions rather than other solutions.

It is our understanding that a trust fund has been authorized for retiree health benefits. We are conceptually supportive of a trust fund as a mechanism to reduce the future unfunded liability of PEB. Please provide us with a status report which includes the total amount deposited in the trust fund and the sources of the funds which have been and/or are being used to support the trust fund. If the trust fund does not yet exist, please provide us with the proposal and/or information regarding funding mechanisms and projections.

In addition, we requested specific details about the following topics: the possible discontinuation of a defined benefit plan, the alternative plans if the UCRP investment fund's rate of return is below the assumed levels or if the state elects to not appropriately fund its contribution, whether members of the Senior Management Group (SMG) have the same PEB as all other UCSF employees, and if so, how the SMG's benefits are financed.

We would like to know the directions being considered by the Task Force and what actions are being taken to assure that such deliberations will influence the decisions made by the Regents, the President, the legislature and the Governor. We would also like to know which options are being considered by UCOP to finance the restart of contributions in case the legislature or Governor decides not fund this action. As part of this, please describe the efforts that are being undertaken to assure cooperation of the bargaining units in the development of the options. The communication between the Divisions, the System-wide Senate committees, and the Task Force needs to be more open and interactive. Our engagement in this process will create an opportunity for UCOP and the Senate to engage the faculty at each campus in the political and public relations efforts which are needed to influence the state budget and UCOP. We are eager to be involved in the process at all stages and to provide input and comment, which could avoid the problem of unwelcome surprises at the conclusion of the process.

2. Full insight into models and methods used to evaluate the performance of the current and potential alternate PEB plans.

We request information about how the recommendations already made by consultants regarding PEB may influence the options that are being considered by the Pension Benefits and Finance work teams work groups.

We are concerned that there are many assumptions and methodologies built into the models that are used to develop the PEB alternatives. The assumptions and methods need to be made explicit and carefully evaluated for their effects on projected outcomes. We would prefer to see evidence-based analyses specific to the effects of the PEB options on current as well as future employees, particularly faculty. Comparisons of UC to the comparison eight institutions may not be sufficient or appropriate to fully assess the effects of changes in PEB on recruitment/retention, adequacy of retirement income, and other unforeseen consequences.

3. Official support for the establishment of political action.

Based on Randy Scott's comments that faculty advocacy will be an important means toward gaining budgetary support from the Regents, legislature, and Governor, it seems that each campus (perhaps in conjunction with UCOP) should consider organizing political action to lobby legislators and the Governor for meaningful action to secure the State's contribution to fund the

UC Retirement Program. To accomplish this goal, the faculty may need to build a coalition with other employee groups within the UC community. Please clarify if there will be UCOP leadership or support for these efforts.

Questions sent to Post Employment Benefits Task Force Chair Randy Scott on October 16, 2009:

Trust

1. A dismal financial picture has been painted for both the retirement system and retiree health benefits. Could you please describe the historical context that culminated in this crisis, focusing on the fact there were no employer contributions to the retirement system for 20 years and we anticipated that the retirement system balances were going to drop below 100% funding levels after 2010?
2. Following from this question, did the University attempt to create a trust fund for the retiree health benefits? Is that an option under consideration?
3. What assurance can we have that the Regents and UCOP (or state government), will protect our post employment benefits? For example:
 - What are the legal obligations of the University to honor its contract obligations with UC employees/retirees?
 - What are the loopholes or circumstances that might allow for reductions/discounting, or even voiding of any of these benefits?

Transparency

In the last three to five years, UCOP commissioned and received reports from consultants which forecasted the financial status of the pension plan and the unfunded obligations of retiree health. The consultants also developed options for reducing these obligations and liabilities.

4. Are the consultants' recommendations the basis for the options which are currently under consideration by the Pension Benefits and Finance work teams work groups?
5. Could you give us the highlights of what the options are or likely will be?

The process of consultation between UCOP and various Academic Senate committees, such as Faculty Welfare and Planning & Budget, often consists of PowerPoint presentations. This format is time-constrained and characterized by limited (if any) discussion of underlying methods or assumptions, and creates a situation where faculty have little time to deliberate on the options presented. More importantly, faculty are not proactively engaged in the development of the options. So, in this context,

6. What different types of engagement processes with the Senate will be followed now, as we move to address the challenges to PEB?
 - What will be the role and responsibility of the task force groups?
 - What kind of staff support and/or release time will members have?
 - What type of access to consultant methods and assumptions will they have?
 - What role will they have in formulating and evaluating options?

- Aside from comparing UC benefits with the comparison 8 institutions, what will be the standards for evaluating the consequences of the various options?
 - Will there be experience-based data on effects on recruitment, retention, and the post-retirement income from other institutions that have moved from defined benefit vs. defined contribution plans? There is empirical data available to compare state employee retirement income for those in defined benefit vs. defined contribution plans; and of University employees in TIAA/CREF-type systems. Will such experience be included in the analysis?
 - There are pro and con arguments for many conceivable options. How will the options and their advantages and downside consequences be communicated to the Senate, UC faculty, and staff? Will this be as alternatives emerge, or only after the decisions have been made?
 - Where do the Regents, legislature, governor, and bargaining units fit into these processes?
7. Are UC budgets currently being developed which incorporate ramped-up employer and employee contributions to retirement? What are the assumed contribution levels for employee and employer, and how will they change over time?
- Are the bargaining units included in this process?
 - What is the fallback plan if the investment rate of return does not meet the assumed levels?
 - What is the fallback plan if the state elects to not appropriately fund its contribution?

We understand that the University has a separate retirement system and possibly other PEB for its Senior Management Group (SMG). These include Chancellors, UCOP top executives, and perhaps others.

8. Could you explain how the PEB system for Senior Management Group members differs from UCRS in terms of the maximum income limits, years to qualify, etc.?
9. When options are being considered for changes in UCRS or other PEB, is the SMG PEB going to be equally affected in relation to the UCRS?

We expect to discuss these questions and concerns with you on February 1, 2010. To help us prepare for the meeting, please send your responses to me before January 25, 2010. We look forward to meeting with you.

Sincerely yours,



Elena Fuentes-Afflick, MD, MPH
Chair, UCSF Academic Senate