

Saving UC and Its Pension Plan

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The University of California faces two crises of unprecedented magnitude. At a time of sustained, painful cuts to the operating budget, UC must also deal with large unfunded liabilities for its pension and retiree health benefits. These unfunded liabilities are not due to mismanagement of investments, but to a 20-year suspension in making contributions to the pension plan, UCRP, and to a “pay-as-you-go” approach to providing retiree-health benefits, in lieu of pre-funding. The pension “holiday” financed substantial growth beyond the University’s means, and saved the state of California billions of dollars in contributions for state-funded employees. Unfortunately, amid concerns that the state will not provide funding to address this crisis, the administration now proposes, in the Report of the Task Force on Post-Employment Benefits, to pay its bills with cuts in benefits that risk the University’s excellence. This is a natural reaction, but it is misguided, and will cause far more harm than good. We pointed this out in our “Dissenting Statement”: the unfunded liabilities are the result of financing decisions, not overly generous benefits. Hence, cutting benefits does not represent even part of the solution.

The Report of the Presidential Task Force on Post-Employment Benefits is a missed opportunity. Instead of building a strong case for the critical need for state funding for competitive salaries and benefits, to preserve UC’s excellence, the report calls for a seriously uncompetitive pension plan, in addition to substantial cuts in retiree-health benefits. The senior administrators advocating this plan are well-intentioned, and are understandably focused on UC’s financial problems. However, cutting benefits to uncompetitive levels is the wrong move. It represents wishful thinking that somehow this move will lead to budgetary savings and have no impact on the quality of the workforce. Unfortunately, wishing does not make it possible; no university has ever become or remained great by paying its faculty and staff uncompetitively. The budgetary savings cited by the administration have another interpretation: they represent compensation we would not be paying to faculty and staff.

Anyone reading these comments is familiar with the University’s argument that competitive salaries are needed for top administrators, to attract the best talent, but this argument should not be forgotten when it comes to the faculty and staff who carry out UC’s mission. California cannot generate quality jobs and a better standard of living for all without hiring the best faculty and staff to sustain an excellent public system of research universities. Only UC can deliver research and innovation at the scale and quality needed. Private universities cannot possibly fill the void, but they will be all too happy to poach UC’s faculty if UC becomes even more uncompetitive in compensating its faculty. The same holds for staff, who will find outside offers more and more tempting, as UC’s competitiveness falls further behind.

During our service on the Task Force, our focus was on one key question: how will our recommendations affect UC's excellence twenty or thirty years in the future? We do not accept that we must further cut the compensation of faculty and staff in order to allow UC to continue to grow beyond its means. A large, mediocre University system is not in anyone's interest, but that is where the administration's proposals will take us.

Public sector pensions have come under a remarkable amount of criticism in the current political season. It is not surprising that they would be scrutinized, given the sizeable unfunded liabilities many plans face. We are surprised, however, that pensions are analyzed in isolation from salaries and other job characteristics. Are public sector employees over-compensated, with salaries and benefits far above market levels? Perhaps they are, but most criticisms do not even address this question, let alone document that the pensions are more generous than necessary to attract the best hires. Instead, one component of compensation, retirement benefits, seems to be considered in isolation from all others. But the unfunded liabilities in those plans are the result of financing decisions, not the "richness" of the benefits. Similarly, UCRP's unfunded liability is due to a financing decision to put no money in for two decades, not because the benefits are overly generous, so it should not surprise anyone that cutting benefits does not address the problem. The current pension plan, with even a 5% employee contribution, is uncompetitive with comparison universities, in part because UC's salaries also lag the competition's. The administration will say that cutting benefits is "part of the solution," but this is merely a statement about accounting. Cutting spending on electricity, travel, and administrative layers also frees up discretionary funding to pay off the liabilities, but every cut has consequences that need to be addressed.

A defined-benefit plan, such as UCRP, plays several roles. In addition to providing a pension, it creates a "golden handcuff" that makes it more costly to leave for another job, in contrast to the portable retirement benefit provided by a defined-contribution plan. This golden handcuff is very valuable to the institution. Our defined benefit plan also makes it more likely that faculty and staff will retire at a targeted age, where the maximum age factor is attained. In the case of UC, the result of these two effects is to encourage talented people to spend their career with the University, avoiding the costs in quality and money of rapid turnover, and to provide for renewal of this talent as younger employees are hired to replace faculty and staff who retire at or around the target age. Because of these desirable characteristics of a defined benefit plan, reducing the pension benefit does not simply translate into cutting costs. There will be substantial effects on the workforce, and UC will find itself paying higher salaries, just to retain faculty and staff, and just to remain as competitive as it is now. The benefits cuts won't create the funds that are need to pay truly competitive salaries.

The reality of the situation is that, with the current mix of salaries and benefits, UC already is uncompetitive. This situation can easily worsen if careful attention is not paid to the total compensation we are offering. Each of the three proposed pension

plans is uncompetitive, according to the University's own outside consultants. Had these consultants found that UC faculty and staff were paid above-market salaries and pensions, then cuts in pensions would be sensible. But they have demonstrated that benefits cuts will only move UC further below the market. The University's Chief Financial Officer has developed a financing plan—which we support enthusiastically—that guarantees that there will be *no difference among the three plans in the University's operating costs until 2030*. In spite of this fact, the administrators leading the process seem determined to prevent adoption of the most competitive plan in the report.

What is to be done? The least draconian plan, Option C, is still on the table. It is there only because it appeared in our dissent; the Steering Committee did not even discuss it in their recommendations. Option C would cost no more than the cheapest plan---not a dollar more---until 2029. Will our colleagues and students, 20 years from now, be glad that we kept the administration from eroding UC's excellence, by advocating for the more competitive pension plan, or will they think we should have embraced mediocrity by giving in to the cost-cutting urge? In advocating for a less competitive pension plan, UC's senior administrators implicitly ask Californians to believe that UC can only preserve its excellence by paying faculty and staff less than the competition. But while the unfunded liabilities are truly staggering, they cannot be dealt with by cutting benefits. A decision to simply cut benefits means that UC will become a second-rate institution with staggeringly large, unfunded liabilities, rather than the world's finest public university system.

We urge all UC faculty, staff, and stakeholders to speak out. On every campus, faculty, staff, and students need to tell the administration that they support preserving UC's excellence. Write to President Yudof and insist that he and The Regents refocus their attention on a plan to provide competitive total remuneration, to recruit and retain top faculty and staff. We believe very strongly that the President would do just that, and if the UC community speaks out on this issue, The Regents will hear the message very clearly.

The UC administration's efforts to make the case to the state for preserving our excellence appear to be having positive effects in Sacramento. We should not abandon hope of solving the state funding problem just when our message seems to be getting through. With the financial plan currently proposed, we have two decades to continue to make progress, before any effect of the small difference in cost of the three options would be noticeable. Faculty salaries have been uncompetitive for a decade, while most staff have seen no raises for several years. Further cuts in compensation harm our youngest faculty and staff—UC's future—most of all. It is not too late to save the University, but it soon will be.

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