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Facts about President Napolitano's 2016 Retirement Proposal

As part of a broader effort to maintain UC's excellence and sustain its long-term financial health, President Napolitano is proposing a new retirement program for future employees hired on or after July 1, 2016. The president's proposal balances resource constraints and the need to save with maintaining the excellence of the university. The president's proposal will significantly bolster UC's long-term financial stability and provide critical funding for university priorities through savings generated by the proposal, additional state funds, and other resources. Under the 2015 budget agreement with the state, UC has begun to receive nearly $1 billion in new annual revenue and one-time funding that will extend over the next several years. To sustain the financial stability of the university and its retirement system, and consistent with the 2015 budget agreement with the state that was approved by the regents, the regents are requested to implement a cap on pensionable earnings for future UC employees hired on or after July 1, 2016 that mirrors the limit on pensionable pay for state employees under the 2013 California Public Employees' Pension Reform Act (PEPRA). The president's proposal was informed by recommendations from a systemwide task force and input from hundreds of UC faculty and staff. The president will present her proposal to the UC Board of Regents at its March 23-24 meeting.

Support for university priorities

The priorities the president's proposal supports include:

- Reducing the cost of UC's retirement program while maintaining the caliber of UC's personnel and the university's excellence; the president's proposal will generate average savings of $99 million a year over the next 15 years.
- Ensuring UC's long-term financial stability, including that of the UC pension plan by, among other things, channeling more than half the savings from the president's proposal toward UC's unfunded pension liability.
- Focusing on overall employee compensation by (1) allowing UC to budget for regular pay increases for faculty and staff, and (2) making merit-based pay a regular component of systemwide salary programs to reward employees based on performance.
- Preserving UC's quality, which requires recruiting and retaining quality personnel, especially faculty, by devoting resources to help campuses attract and retain faculty and key staff, and improving the student experience.
- Facilitating shared responsibility between UC and employees for individual retirement readiness, and providing support such as enhanced retirement counseling and education for all employees, including new hires.

The new retirement benefits changes will not affect current employees

- The new retirement benefits being proposed will apply *only to future employees* hired on or after July 1, 2016.
- There will be no changes to the pension benefits of current employees or retirees — accrued pension benefits are protected by law and cannot be reduced or revoked.
- Retirement benefits for union-represented employees are determined through the collective bargaining process. Under the 2015 budget agreement, the additional $436 million UC will receive from the state for UC's pension plan is dependent on UC having the PEPRA cap on pensionable earnings for future hires, including union-represented employees.

Key information related to President Napolitano's proposal

- Many universities and private employers don't offer pension benefits and offer only 401(k)-style plans.
- Based on current employee data, the vast majority (79%) of UC employees earn less than $117,020, which means if the PEPRA cap were in effect at UC today, most employees would be unaffected by it.
- UC's independent actuary has confirmed that as long as UC continues to make contributions to its unfunded pension liability, allowing future employees to elect a 401(k)-style plan would not jeopardize the pension fund's ability to pay pension benefits. It is important to note that UC pension benefits are funded from pension fund assets, not from contributions from pension plan participants.

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President Napolitano's Proposal

Building upon the work of the task force, and after much analysis, discussion with numerous university stakeholders, and consideration of comments from faculty and staff, President Napolitano is proposing that future employees hired on or after July 1, 2016 be offered a choice between two retirement benefits options:

<u>Option 1 – Pension + 401(k)-style supplemental benefit</u>: The current UC pension benefit capped at the PEPRA salary limit (currently $117,020) plus a supplemental 401(k)-style benefit for eligible employee pay up to the Internal Revenue Service limit (currently $265,000); or

<u>Option 2 – New 401(k)-style benefit</u>: A new stand-alone 401(k)-style option with benefits-eligible employee pay up to the Internal Revenue Service limit (currently $265,000).

	Option 1: Pension with PEPRA cap + 401(k)-style supplement	**Option 2: 401(k)-style stand-alone benefit**
Description	Pension benefit with PEPRA cap; applies to eligible pay up to $117k + 401(k)-style supplement; applies to eligible pay above $117k up to $265k (applies to all eligible pay up to $265k for faculty)	401(k)-style benefit Applies to eligible pay up to $265k
Eligibility	Eligible employees hired into career appointments or who attain career status on/after July 1, 2016.	
Employee contributions	7% up to the IRS limit	7% up to the IRS limit
UC contributions	For eligible faculty: 14% up to PEPRA cap (includes 6% contribution to UC's unfunded pension liability) + 5% on all pay up to IRS limit For staff and other academic employees: 14% up to PEPRA cap (includes 6% contribution to UC's unfunded pension liability) + 3% on pay above PEPRA cap up to IRS limit	8% for all employees up to the IRS limit + 6% contribution to UC's unfunded pension liability
Vesting	5 years UC pension service credit	1 calendar year from eligibility date
Choice/Default	Eligible employees would choose either option within an initial enrollment period of 90 days. Employees who do not make a choice would be enrolled in Option 1 by default. Subject to IRS approval, employees who initially choose Option 2 would have a one-time opportunity to switch to Option 1 after a period of time equivalent to the longer of: a) five (5) years after date of hire; or b) for ladder-rank faculty, one year after the tenure decision; for lecturers or senior lecturers one year after the decision on security of employment; and for eligible Unit 18 non-Senate faculty in accordance with their collective bargaining agreement.	

More at http://ucal.us/2016retirement