

## Frequently asked questions about President Napolitano's 2016 Retirement Proposal

### General

#### **Why is UC instituting new pension benefits for future employees?**

As part of a broader effort to maintain the university's excellence and sustain its long-term financial health, and consistent with the [2015 budget agreement](#) with the state, President Napolitano is proposing a new retirement program for future UC employees hired on or after July 1, 2016. The president's proposal will significantly bolster the long-term financial stability of the university and its retirement program, and provide critical funding for many UC priorities, through savings generated by the proposal and through additional funds UC will receive from the state. Under the 2015 budget agreement, UC is receiving nearly \$1 billion in new annual revenue and one-time funding over the next several years. As part of ensuring the university's, and the retirement program's fiscal stability, and in line with the budget agreement approved by the regents, UC agreed to implement a cap on pensionable salaries for future UC employees hired on or after July 1, 2016 that mirrors the state employee cap 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.

The priorities supported by the president's proposal 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 improve 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.

#### **Will the new retirement benefits affect current employees/retirees or their pension benefits?**

No. The new benefits changes will apply *only to future employees* (including those who are former UC 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.

#### **How will retirement benefits for future union-represented employees be determined?**

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 a cap on pensionable earnings for future hires, including union-represented employees, that mirrors the cap on pensionable pay for state employees under the 2013 California Public Employees' Pension Reform Act (PEPRA).

**How many future UC employees will be affected by the new PEPRA cap?**

Based on current employee data, we estimate that the vast majority (79%) of new employees will be unaffected by the cap at the time of hire, with only about 21 percent of new employees subject to it.

**What benefits will apply to employees hired before July 1 but who start work after July 1?**

The new retirement benefits will apply only to eligible employees hired on or after July 1, 2016. Incoming faculty and staff hired on or before June 30, 2016 will participate in UC's current retirement benefits program, including the current pension plan ("2013 UCRP Tier").

**Will the new retirement benefits apply to former UC employees who are rehired after July 1, 2016?**

Former UCRP members with a measurable break in service who are rehired into a UCRP-eligible position on or after July 1 will be subject to the new retirement program and have a choice between the UCRP pension benefit (without the PEPRA cap) or the new stand-alone 401(k)-style option. Former UCRP members with only a very short break in service who are rehired into a UCRP-eligible position will not be subject to the new options.

**President's Proposal to the Regents**

**What did President Napolitano propose, and why?**

President Napolitano is proposing a new retirement program that includes a choice of new retirement benefits options for future UC employees, as part of an overall effort to ensure UC's excellence and long-term financial stability.

In addition to new retirement options for future UC employees, the president's proposal:

- focuses 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.
- helps preserve UC's quality by devoting resources to assist campuses in attracting and retaining faculty and key staff, and improve the student experience.
- offers enhanced retirement counseling and education for all employees, including new hires, as part of UC's commitment to helping employees successfully plan for retirement.

Regarding the new retirement benefits, the president is proposing that employees hired on or after July 1, 2016 be offered a choice between two options:

Option 1 – Pension + 401(k)-style supplemental benefit: 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), with the following employer contributions:

- For eligible faculty: UC will contribute 14% up to PEPRA cap for the pension benefit (includes 6% contribution to the unfunded pension liability) + 5% on all pay up to IRS limit for the supplemental 401(k)-style benefit
- For staff and other academic employees: UC will contribute 14% up to PEPRA cap for the pension benefit (includes 6% contribution to the unfunded pension liability) + 3% on pay above PEPRA cap up to IRS limit for the supplemental 401(k)-style benefit

OR

Option 2 – New 401(k)-style benefit: A new stand-alone 401(k)-style option with benefits-eligible employee pay up to the Internal Revenue Service limit (currently \$265,000), with the following employer contributions:

- 8% for all employees up to the IRS limit + an additional 6% contribution to UC's unfunded pension liability

Additional features of the proposed benefits are available here <http://ucal.us/2016retirement>

The proposed new retirement program will allow UC, among other things, to continue to offer pension benefits, which are key to attracting and retaining key personnel, especially faculty; and to offer a new 401(k)-style retirement benefit, for employees who value a portable retirement benefit they can take with them, and those who prefer to manage their own retirement savings.

Pending regents' approval, the new retirement benefits will take effect July 1, 2016 and apply only to UC employees hired on or after that date. Retirement benefits for current employees and retirees will not be affected. Retirement benefits for union-represented future employees will be determined through the collective bargaining process.

#### **Why is the president proposing to contribute more for future faculty than future staff?**

UC's outstanding faculty and staff are what make UC great. Faculty are the core of UC's excellence, and staff play a critical role in supporting them, the student experience, and the University's overall mission. UC competes for faculty in a global market and often against top private universities that can offer higher salaries. The difference in the benefits offered to future faculty and staff reflects that global competition and the critical need to attract and retain top-tier faculty in order to maintain UC's excellence, within UC's fiscal constraints. Depending on the specific employee group, UC staff generally come from regional or state markets.

#### **How does the president's proposal support UC's ability to recruit top faculty**

This proposal will allow UC to continue to offer new faculty attractive retirement benefits, including pension benefits, which many universities do not offer. In addition, the president proposes to devote resources to supporting faculty recruitment and retention by focusing on overall employee compensation and (1) allowing UC to budget for regular pay increases for faculty and staff, and (2) making merit-based pay a more regular component of systemwide salary programs to help recognize and reward employees based on performance.

#### **Did faculty and staff have input on the president's proposal?**

Yes. The [task force](#) President Napolitano convened last summer to recommend options to her included faculty, staff, and representatives from the Academic Senate, the Staff Advisors to the Regents, the Council of UC Staff Assemblies (CUCSA), and UC labor unions. The task force submitted its recommendations to the president in December. During January and February, she invited members of the entire UC community to share their thoughts about the task force's recommendations, via two online webinars as well as a dedicated website. The president received feedback on the task force's recommendations from hundreds of UC faculty and staff, all of which were reviewed and considered and informed her proposal to the regents.

#### **How was the input the president received from the UC community taken into account?**

The president reviewed and carefully considered the many letters and comments sent in by staff and faculty, and discussions with staff and faculty, and these helped shape her proposal. For example:

- Many faculty members and others expressed concern that the new retirement benefits would hurt UC's ability to attract and retain top-tier faculty, and by extension UC's excellence. To help address this concern, the president's proposal:
  - continues to offer new faculty a pension benefit, which many universities no longer offer, with a supplemental 401(k)-style plan.
  - focuses 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 more regular component of systemwide salary programs to help recognize and reward employees based on performance
  - allocates resources to help campuses recruit and retain needed faculty, and improve the student experience

## UNIVERSITY OF CALIFORNIA

- Another concern among those who submitted comments was the need for UC to address overall employee compensation, not only retirement benefits. Overall employee compensation is a key priority for the president. She has instituted systemwide salary increases in each of her two years in office, and the funding UC will receive under the 2015-16 budget agreement allows the university to budget for regular employee pay increases over the next several years. The funds also will allow UC to make merit-based pay a regular component of its systemwide salary programs to help recognize the contributions of deserving employees.
- Another concern expressed was employees' ability to make informed decisions about and properly plan for retirement. The president's proposal recognizes UC's role in helping employees educate themselves about retirement planning and investing, which is why she's proposing enhanced retirement counseling and education for all employees, including new hires.
- In response to comments received, the president's proposal expands the time for faculty and lecturers to switch retirement options, based on academic reviews and decisions. Specifically, subject to IRS approval, employees who initially choose the stand-alone 401(k)-style option would have a one-time opportunity to switch to the pension plus 401(k)-style supplement option 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; and 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 (although they will remain eligible to contribute to the university's separate 403(b) plan and 457(b) plan).

### **Does UC expect to save money under the president's proposal? If so, how much?**

Yes. If adopted by the regents, the president's proposal is expected to yield approximately \$99 million in average annual savings over the next 15 years. These savings are generated both from reductions in UC's annual employer costs for retirement benefits, and by allowing UC to pay down its future unfunded liability at a faster rate. More than half of these savings will go to pay down the unfunded liability, with a portion of the remaining funds going towards the new 401(k)-style benefits.

### **Why is UC offering future UC employees an employer-funded 401(k)-style benefit, in addition to a pension benefit – why two options?**

The UC workforce is a diverse community of employees, and not everyone has the same needs or preferences when it comes to retirement benefits. Some employees stay at UC for many years, while others do not. Continuing to offer a pension benefit is important to UC's ability to attract and retain the caliber of faculty and other personnel needed to maintain UC's long-term excellence. At the same time, a 401(k)-style benefit is attractive to those UC employees who may stay with UC for only several years and/or who prefer to personally manage their retirement savings. Offering future employees a choice of retirement benefits allows UC to more effectively support the retirement needs of different employees, and in doing so, more effectively attract and retain a variety of personnel.

### **Once future employees choose their retirement benefits, will they have an opportunity to change their election – can they change their mind?**

Subject to IRS approval, employees who initially choose the stand-alone 401(k)-style option would have a one-time opportunity to switch to the pension plus 401(k)-style supplement option 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 (although they will remain eligible to contribute to the university's separate 403(b) plan and 457(b) plan).

### **Will current employees have the option of switching their existing benefits to either of the new options?**

No. The new benefit options apply only to future employees hired on or after July 1, 2016.

**How much time will new employees have to choose the option they want under the president's proposal?**

Employees will have an initial enrollment period of 90 days from the date of hire to choose the retirement option they want.

**Are faculty who hold administrative positions eligible for the supplemental contribution?**

A person hired on or after July 1, 2016 in an eligible faculty title who chooses the pension plan plus the 401(k)-style supplemental benefit is eligible for the supplemental contribution. This includes academic appointees with two titles, including one qualifying title, and academic administrators with an underlying faculty appointment. For example, an administrator with a 0% salary faculty appointment will receive the supplemental contribution for eligible faculty.

**Is approval by the regents required to implement the president's proposal?**

Yes. The president will bring her recommendation to the regents for discussion and approval at the March meeting.

## 2015-16 Budget Agreement

**Could UC reject imposition of the cap on pensionable earnings?**

One of UC's most pressing needs and priorities is long-term financial stability and state investment in the university. The budget agreement with the governor and the legislature last year marked a significant milestone toward that goal by creating an era of increased state funding and financial stability for the university. One of the agreement's most important aspects is that it reflects the state government's recognition of the need to invest in UC. With this agreement, UC is receiving nearly \$1 billion in new revenue over several years, which will help ensure UC's excellence and long-term financial stability, and provide critical funding for many UC priorities. The agreement's \$436 million in Prop. 2 funding also helps UC reduce its unfunded pension liability, which is key to ensuring the long-term fiscal solvency of the UC pension plan. To reject the cap, which is a critical component of the agreement, would significantly undermine UC's ability to fund critical needs, including paying down UC's unfunded pension liability and regular pay increases for employees.

It's important to understand that the cap on pensionable earnings will only affect a small percentage of future UC employees. To put this in perspective, if the cap were in effect today, the vast majority (79 percent) of employees would be unaffected by it.

## Benefit Comparisons

**How do the president's proposed retirement benefit options differ from those the task force recommended?**

Both proposals offer future employees hired on or after July 1, 2016 a choice between two options: the current UC pension benefit with the PEPRA cap plus a 401(k)-style supplement, and a stand-alone 401(k)-style benefit. They also are identical in terms of the 7 percent employee contribution for either option. The key differences between the proposals can be summarized as follows:

- The president proposes a higher employer contribution for faculty on the 401(k)-style supplement, to continue to attract and retain them and to compete for them in a global market, often against elite private universities that can pay higher salaries. Under the president's proposal, UC would make a 5% contribution to the 401(k)-style supplement on all faculty pay up to the IRS limit (currently \$265,000), and for staff, a 3% contribution to the supplement on pay above the pensionable salary cap (currently \$117,020) up to the IRS limit.

- The task force recommended that employees who initially choose the stand-alone 401(k)-style option, after five years, have a one-time opportunity to switch to the pension + 401(k)-style supplement option. The president's proposal goes beyond the task force recommendation and proposes that, subject to IRS approval, employees who initially choose the stand-alone 401(k)-style option would have a one-time opportunity to switch to the pension plus 401(k)-style supplement option 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.
- In addition, the president's proposal includes:
  - allocating resources to help campuses attract and retain faculty and key staff, and improve the student experience;
  - making merit-based pay a more regular component of UC's systemwide salary programs to help recognize and reward employees based on performance and their contributions;
  - enhanced retirement counseling and education for all employees, including new hires, as part of UC's commitment to helping employees successfully plan for retirement.

#### **How do the options proposed by the president compare to current UC pension benefits?**

Currently, eligible employees who meet applicable requirements are enrolled in the UC pension plan (the UC Retirement Plan). UC also offers employees voluntary participation in several retirement savings plans for additional retirement income. If adopted, the options recommended by the president would give future employees the choice to enroll in either a new pension option with the PEPRA cap accompanied by a supplemental 401(k)-style benefit, or a stand-alone 401(k)-style option. Employees will continue to be able to participate voluntarily in other retirement savings plans for additional retirement income.

#### **How do the new benefits under the president's proposal compare with other universities and employers?**

Nationally, most employers, including universities and private sector businesses, don't offer pension benefits and predominantly offer 401(k)-style plans. Within the 26 universities often considered UC's comparator institutions, only six offer a stand-alone pension plan. The rest offer either a combination of pension plus a 401(k)-style benefit, a choice between the two, or a stand-alone 401(k)-style benefit.

#### **Stand-Alone 401(k)-style Option and UC Pension Plan Stability**

##### **Will UC continue to pay down its unfunded pension liability?**

Yes. Reducing UC's unfunded pension liability and ensuring the pension plan's long-term stability is a key priority. UC will use a variety of funds to continue to pay down the unfunded pension liability, including the \$436 million multi-year state allocation that is part of the 2015-16 budget agreement and annual savings from implementation of the new retirement benefits.

##### **If a 401(k)-style option is adopted and a significant number of future employees choose it, would it compromise ("destabilize") the overall financial health of the UC pension plan?**

No. 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 stand-alone 401(k)-style option as an alternative to the UC pension plan would not jeopardize UC's ability to pay pension benefits. It is important to understand that UC pension benefits (pensions paid to retirees) are funded from pension fund assets, not from contributions from pension plan members. UC's pension plan is very solid financially, with more than \$55 billion in assets and a strong record of investment performance.

**If a 401(k)-style option is offered and a significant number of future employees choose it, will UC still pay me my full UC pension benefits?**

Yes. UC is obligated, both by law and university policy, to pay all accrued UC pension benefits regardless of future employees' choices. Accrued UC pension benefits are protected by law and cannot be reduced or revoked. Additionally, UC pension benefits (pensions paid to retirees) are funded from pension fund assets, not from contributions from pension plan members. One of the priorities underlying the president's proposal is to ensure the long-term financial stability of UC and its pension plan.

**How likely is it that a significant number of future employees would choose a 401(k)-style option?**

We cannot know with certainty what future employees will do, but we expect that a pension benefit will continue to appeal to certain employees.

**Other**

**Many people don't understand investing or know how to properly plan for retirement. Is there anything in the president's proposal that addresses this?**

Yes. Under the president's proposal, all UC employees will be offered enhanced retirement and counseling services as part of UC's commitment to help its employees understand their retirement options and be ready for retirement.

**Will the new retirement benefits change UC's existing Voluntary Retirement Savings Plans, such as the UC 403(b) Plan?**

The UC Retirement Savings Plans are independent of (not linked to) the proposed new retirement program.

**Will there be further changes to UC's retirement plans?**

Further changes to UC's retirement benefits are not planned at this time.