



320 STEPHENS HALL  
UNIVERSITY OF CALIFORNIA

October 27, 2010

DANIEL SIMMONS  
Chair, Academic Council

*Subject: The future of post-employment benefits at UC*

Dear Dan,

In response to the report of the Task Force on Post-Employment Benefits, the Dissenting Statement, and the subsequent responses to these, the Berkeley Division has employed a number of strategies to inform and consult its members. Divisional Council (DIVCO) discussed the key documents and issues, informed by reports from the divisional committees on Academic Planning and Resource Allocation, Budget and Interdepartmental Relations, Faculty Welfare, and University-Emeriti Relations, as well as a discussion with you and Academic Senate Vice Chair Robert Anderson. DIVCO endorsed the *Dissenting Statement by Staff and Academic Senate Members of the Work Groups of The President's Task Force on Post-Employment Benefits*.

We also held a seminar on post-employment benefits, which, though lightly attended, provided valuable faculty feedback on the various plans and options.

A few overarching principles emerged through the consultative process:

- UC 's defined benefit plan remains the most effective method of recruiting and retaining Berkeley faculty.
- Whatever plan is ultimately adopted for future employees, it should not be integrated with Social Security. There is significant uncertainty in estimating future contributions and retirement income for the integrated plans that have been proposed (stemming from uncertainties concerning the future growth of the Social Security Covered Compensation (SSCC) number). This uncertainty is exacerbated by differences in how Social Security and other income is taxed. Furthermore, given the confusion that we encountered among individuals trying to understand the integrated plans, we foresee significant difficulty in implementation and communication.

- The University should reaffirm its commitment to current retirees with specific cost of living provisions.

In addition, the following concerns were raised about the specific plans presented to date:

#### Future UC employees

- At present, although the total remuneration for UC faculty is lower than the remuneration provided by our competitive peer institutions, the existing University of California Retirement Plan (UCRP) is attractive to many potential faculty appointees, and is particularly powerful for retaining senior faculty being recruited by competitor institutions. Option A would result in our trying to recruit new faculty who would pay some of the highest pension contributions in the country for a markedly inferior retirement benefit. Faculty joining the university after 2013, and those who chose to change to the new system if such a choice is offered, would have less reason to stay until retiring.

#### Current UC employees

- Option B represents a reduction from current benefits for employees earning less than \$110,000, even taking coordination with Social Security into account.
- The option for current employees of staying in a plan with the current benefit level or moving to the new “tier”, whatever it may be, does not represent a useful choice unless there is an understanding about the cost of continuing in UCRP. The contribution level is described as “7% or more”; we have heard 10% discussed.
- We recommend against a 401(a) (17) restoration program, which would substantially enhance the pension benefits of a small group of very highly compensated employees, whose compensation exceed IRS limits for coverage by a qualified defined benefit pension plan. There is a fundamental inequity in proposing this restoration plan while simultaneously proposing that the pension benefits of all other employees be curtailed.
- The response to the dissenting statement contains some seriously misleading statements, e.g. the response states that experts advise that employees need 70–80% income replacement of pre-retirement income. We are not aware of any such expert opinion and are informed that the task force itself discussed internally income replacement income in the range of 78% to 94%.

#### Current UC retirees

- Keeping retirees financially sound should be a primary objective of any pension system. We support the language to simplify the design of the COLA, but we strongly object to wording that seems to shift the COLA from being a firm pledge to little more than a vague hope.
- The planned increase in retirees’ share of health benefit costs from the current

11% to 30% should be reflected in the calculation of the retiree COLA described above.

- Partial protection against CPI increases should either be restored to something like its current form, or the pledge to retain purchasing power of pensions at 80% of purchasing power must be made a vested right.

#### Unfunded liability

The above comments notwithstanding, we are deeply concerned about the impact on university budgets of paying for the normal cost of a competitive retirement program while also amortizing the cost of the current unfunded liability. First, there is likely to be a significant impact on both state- and extramurally-funded programs; a 20% employer contribution for over a decade is clearly huge. Second, if the number of employees is reduced in order to cover the 20% employer cost, which seems inevitable, we are concerned that a 20% employer contribution on the reduced number of employees might not be adequate to amortize the unfunded liability. It is clear that the situation will have to be monitored much more closely than happened over the last couple of decades, so that corrective action can be taken swiftly if necessary.

In closing, we urge President Yudof to support a sustainable, competitive post-employment benefits plan that preserves the quality of the University, and ensure that there is careful oversight of the plan going forward.

Sincerely,



Fiona M. Doyle  
Chair, Berkeley Division of the Academic Senate  
Professor of Materials Science and Engineering

Cc: Yale Braunstein, Chair, Committee on Faculty Welfare  
Calvin Moore, Chair, Committee on University Emeriti Relations