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*Chair of the Assembly and the Academic Council
Faculty Representative to the Board of Regents
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200*

November 24, 2010

**MARK YUDOF, PRESIDENT
UNIVERSITY OF CALIFORNIA**

Re: Post-Employment Benefits

Dear Mark:

I am pleased to advise you that at its meeting on November 22, 2010, the Academic Council unanimously endorsed your recommendations to the Board of Regents regarding post-employment benefits. I thank you for the consideration that you gave to staff and faculty concerns regarding the initial recommendations of the Post-Employments Benefits Task Force.

I also attach a separate resolution enacted by the Academic Council regarding plans developed by Vice President and Chief Financial Officer Peter Taylor and Associate Director of Strategic Initiatives Maria Anguiano to finance initial employer contributions to UCRP by borrowing from the short term investment pool (STIP). The Council, adopting a resolution proposed by the UC Committee on Planning and Budget and endorsed by the UC Committee on Faculty Welfare, urges that borrowing from STIP be done to the extent possible to fund contributions required on the state funded compensation base. Further, to the extent that STIP borrowing is used to fund contributions required from non-state funded payroll sources, the resolution calls for a plan to be developed to ensure repayment from those non-state sources. For your information, I attach copies of the UCPB and UCFW letters in support of this resolution.

Sincerely,

A handwritten signature in cursive script that reads "Daniel L. Simmons".

Daniel L. Simmons, Chair
Academic Council

Encl (3)

Copy: Academic Council
Martha Winnacker, Academic Senate Executive Director
Provost Pitts
Vice President Brostrom
Vice President Taylor
Associate Director Anguiano

Academic Council Resolution on STIP Borrowing and the Post-Employment Benefits Finance Plan

November 2010

Whereas:

1. A key step in providing competitive benefits is to move as rapidly as possible to fully fund the Annual Required Contribution (ARC) for UCRP, to preserve and sustain the Plan;
2. Contributing less than the full ARC requires larger contributions later, and the projected employer contributions represent significant burdens for campus operating budgets and for all other funding sources;
3. The issue of how these employer contributions will be funded has yet to be resolved;
4. It appears that borrowing from STIP or other sources represents a cost-effective means to increase contributions to the Plan;
5. The Regents will be asked to adopt the President's recommendations for post-employment benefits in December;
6. Recommendations currently pending before the Board of Regents do not set the contribution rate for employees who will be covered by the current Plan provisions;
7. The Academic Council has resolved that employee contributions should not exceed 7% of salary

Be it resolved by the Academic Council that:

1. The finance plan should be modeled and presented to The Regents with contributions from both current and future employees no greater than 7%.
2. STIP borrowing should be used to contribute the full ARC to allow employee and employer contributions sufficient time to grow to fully fund the ARC.
 - a) The minimum amount of borrowing should be the amount necessary to contribute the full ARC for all state-funded covered compensation, with the employer contribution rates set so that the full ARC is contributed by all other funding sources;
 - b) For covered compensation from other funding sources, further STIP borrowing is acceptable to allow the same flexibility, protecting current operating budgets to a greater extent and repaying the funds borrowed from STIP over time, provided there is a credible plan for repayment from these same funding sources.
3. No decision should be made to increase employee contributions beyond the already approved 5% level for 2012-13,
 - a) until UC implements salary increases sufficient to compensate for the increase in employee contributions (or implements them simultaneously);
 - b) until the Regents adopt a complete finance plan, with full funding of ARC beginning no later than the 2011-12 fiscal year, borrowing from STIP or other sources as deemed necessary to achieve that level of funding.



UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB)

James A. Chalfant, Chair

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November 15, 2010

DANIEL SIMMONS, CHAIR
ACADEMIC COUNCIL

Re: STIP Borrowing and the Post-Employment Benefits Finance Plan

Dear Dan,

On November 2, 2010, UCPB met with Executive Vice President and Chief Financial Officer Peter Taylor and Associate Director of the Office of the CFO Maria Anguiano, to discuss a proposed plan to finance post-employment benefits, and specifically the possibility that borrowing from the Short-Term Investment Pool (STIP) could be used to obtain additional funding for contributions to UCRP.

UCPB supports borrowing STIP funds and contributing them to UCRP, to allow the University to move more quickly to increase employer contributions to UCRP, to the point where the full Annual Required Contribution (ARC) could be made. ARC includes not only the full annual normal cost, but also an amount for amortization of UCRP's unfunded liability. Borrowing from STIP represents an attractive way to reduce the growth in the unfunded liability and reduces pressure on future operating budgets, by reducing the projected maximum employer contribution. Current projections suggest that borrowing \$2B from STIP, increasing planned contributions in both 2011-12 and 2012-13 in order to achieve the level called for by the full ARC, would reduce the maximum employer contribution in the future—the “plateau” in the diagram that has been part of most PEB presentations—from 20% to 18.5% of covered compensation.

An even greater reduction is feasible with additional borrowing. It appears that an additional \$2B would be sufficient to contribute the full ARC for the years after 2012-13, until the sum of employer and employee contributions exceeds ARC in 2017. (Given the “modified slow ramp-up,” the shortfalls in contributions grow progressively smaller from 2012 until 2017, which explains why the same amount, \$2B, covers shortfalls for just two years initially, but is enough to achieve full funding of ARC in several subsequent years.)

The virtue of this plan is that it reduces the maximum employer contribution rate in the future, without a further increase in employee contributions. Increasing contributions is necessary to restore and sustain the health of UCRP. Still, increasing employee contributions represents a pay cut; and at a time when UC already provides uncompetitive total remuneration, the funding problem cannot be solved with employee contributions without creating far worse problems in recruitment and retention. There is no alternative except to solve the problem with employer contributions, managed to do the least possible harm to operating budgets. Moreover, with every increment by which UC

reduces the employer rate, we strengthen the political argument that we have found a responsible, fiscally prudent solution to the funding crisis, which bolsters the argument for the State to fund a larger share of the employer contribution. Borrowing allows the employer contribution percentage to be reduced, without doing direct harm to total remuneration, and it represents part of a long-term solution to the funding problem.

The more important reason to make greater use of borrowed funds is to mitigate the severe impact of high employer costs on operating budgets. Every unit on every campus will be forced to make difficult choices to meet its obligations to UCRP. Faculty who fund their own salaries through “soft” money or clinical revenues will, in effect, be paying both the employee and the employer contributions. We see no alternative to this, but it adds a sense of urgency to the need to implement the finance plan.

At the same time, we recognize that there are real costs to borrowing from STIP. Although STIP borrowing should not reduce the operational flexibility of units holding STIP accounts, such as the medical centers (currently, units are free to draw down their STIP balances as needed, and that will not change under the proposal), the proposal to cap the payout from STIP earnings does represent a cut. Still, UCPB feels that the prospect of a 20% employer contribution is far more harmful to units such as the medical centers than any limits on the income from STIP investments. Reduction in income from STIP funds might seem more acceptable if it means paying less than 20% or even less than 18.5% contributions.

Our committee wants to call attention to another consideration regarding the finance plan. When the Academic Senate recommended the use of Pension Obligation Bonds (POBs), one key argument was that increasing the contributions tied to state-funded payroll would bring about increases in contributions from all other funding sources. UCPB agrees that borrowing from STIP is more cost-effective than issuing POBs. But substituting this cheaper source of funds, we would again support (1) borrowing for only the contributions associated with state-funded payroll, on the one hand, or (2) for both state-funded payroll and additional UC-controlled funding sources, such as payroll at the medical centers and auxiliaries. Setting a higher employer contribution percentage and then funding UC’s contributions using STIP borrowing would presumably bring additional contributions from funding sources such as the federal government. One could argue against using STIP borrowing to reduce contributions associated with payroll funded by federal contracts and grants. One could also justify doing so, especially for the short run, to allow time for faculty to prepare for higher contributions in new contracts and grants, rather than expect these contributions to be absorbed by cuts in other spending categories, within existing contracts and grants.

UCPB recommends that the Academic Senate support *any* amount of STIP borrowing—from one extreme, limited only to supplementing contributions associated with state-funded payroll, to the other, supplementing contributions associated with *every* funding source. To the extent that concerns over borrowing too much from STIP introduce any problems, however, they do represent an argument for limiting the use of borrowed funds to either state-funded or UC-controlled payroll.

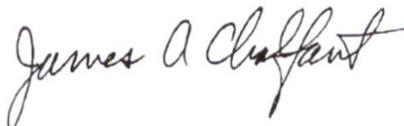
The employee contribution percentage cannot be set arbitrarily high. With employee contributions at 7%, the employer bears the entire burden of paying above-normal cost contributions to reduce the unfunded liability. UC cannot allow the liability to continue to grow to the point where the employer contribution percentage becomes even larger. Our high benefits costs would threaten to make UC uncompetitive for patient care and research grants, and the burden for the operating budgets of units where faculty and staff payroll is state-funded would also be unsustainable. The only sensible policy is to get money into the plan as fast as possible, subject to remaining

competitive for hiring and retaining faculty and staff. If we cannot contribute the full ARC from the operating budget, we must contribute funds borrowed from STIP.

In recognition of these considerations, and to call attention to the critical need for accelerating the pace of UCRP contributions, while causing no further harm to total remuneration, UCPB has developed the resolution below, which we ask the Academic Council to endorse.

Thank you very much.

Sincerely,

A handwritten signature in black ink that reads "James A. Chalfant". The signature is written in a cursive style with a large, prominent initial "J".

James A. Chalfant
UCPB Chair

cc: UCPB
Martha Winnacker, Senate Executive Director



UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
Joel Dimsdale, Chair
jdimsdale@ucsd.edu

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November 17, 2010

**DANIEL SIMMONS, CHAIR
ACADEMIC COUNCIL**

RE: Post-Employment Benefits (PEB) Process, Outcome, and Next Steps

Dear Dan,

UCFW continued discussions of PEB in light of President Yudof's pending presentation to the Regents, the Academic Council memo of October 27, and the UCPB letter of November 10. We appreciate the enormous efforts that have been made by the Senate and the Administration to work toward a consensus in this area which is so critical for the future well-being of the University.

We appreciate President Yudof's ultimate recommendation regarding the new tier stated in his letter of October 26, as well as his listening closely to the views of the Senate. This pattern of respectful listening strengthens Shared Governance. We appreciate Peter Taylor's thoughtful approaches for finance including the idea of borrowing from STIP, as much as is fiscally prudent, with the goal of achieving contributions equivalent to ARC as soon as possible. These steps will lower the ultimate cost the university will have to pay in order to stabilize UCRP.

We appreciate the wisdom of Academic Council in crafting the resolution of 10/27, which we feel indeed captures the accumulated wisdom of the Senate—its Divisions as well as its systemwide committees. Enormous efforts were expended to analyze and negotiate these matters, and we are grateful to you and to Chair-elect Anderson for your leadership.

We appreciate the continuing labor and insights of our colleagues on UCPB. Having our two committees work together so closely in this crucial matter has been enormously productive. We support the November 10 UCPB Resolution. It is largely parallel to the leading points in the Council's October 27 Resolution, and thus reflects the consistency of the Senate's views. The UCPB Resolution also brings important focus on (and support for) the administration's finance plans and the importance of maintaining 7% as the upper limit on both current and future employee contributions.

Sincerely,

Joel E. Dimsdale, UCFW Chair

Copy: UCFW
Martha Winnacker, Executive Director, Academic Senate