

BERKELEY FACULTY ASSOCIATION UC PENSION FUND ALERT – RESTART OF CONTRIBUTIONS

The Crisis at UCRP

After a 19-year suspension, UC will restart contributions to the University of California Retirement Plan (UCRP) on April 15, 2010. This restart is necessary, but extremely problematic for a number of reasons. While there is some good news in the restart, it's dwarfed by truly appalling and dispiriting bad news—bad news that faculty need to understand in order to advocate effectively for solutions. This report explains the reason for the restart, summarizes key problems with it, and sets out a faculty response.¹

The good news:

1. The good news is that as terrible as things are, UCRP is better funded than other California state employee pensions, such as CalPERS. UCRP was 100% funded as of June 30, 2008—meaning it had the resources to cover all the existing benefits employees had accrued as of that date.
2. Our benefits are “guaranteed”—a much stronger commitment than merely “promised” (like our retirement health care benefits). According to the Academic Council, “overwhelming legal precedent say[s] UC cannot renege on the benefits that have already been accrued” and any attempt to do so would be tied up in litigation for years. (TFIR 2009 Report, p. 6).
3. UCOP recognizes that retirement benefits are an important part of faculty compensation, which make up, at least in part, for the relatively modest salaries we receive. It is unwilling to cut benefits because it knows that this will further undermine UC's ability to recruit and retain world-class faculty.

The bad news:

1. UCRP is badly underfunded in terms of its liability for future benefits that employees began accruing after June 30, 2008. Moreover, the unfunded future liabilities are increasing very rapidly. In 2009, UCOP and TFIR estimated that if contributions were not immediately restarted, the percentage of funded liabilities would fall to 61% and the dollar amount of the unfunded liability would increase to \$18 billion by 2013 – 3 years from now!
2. Although the 2007-09 stock market crash was responsible for some of this unfunded liability, most of it results from the fact that no employee or employer contributions have been made for nearly 20 years. While the recent rise in the financial markets has eased the problem, the gap is still enormous.
3. UC is responsible for the employer contribution. However, more than 2/3rds of UC salaries are paid by non-state entities (through federal grants, contracts, medical enterprises, etc.), which are responsible for paying the employer contribution for those employees. Because their employer contributions are tied to the state's contribution, they have also been withholding contributions for the last 20 years, magnifying the impact of the state's suspension of its contributions.
4. The Academic Council has been calling on the Regents to resume contributions—and UCOP has been talking about doing so since at least 2006. But the Regents postponed acting on these recommendations because the state legislature has refused to appropriate funds to resume its historic share of UC's employer contribution. That delay has further magnified the unfunded liability.

¹ This report is based on the following sources: the Academic Council's Task Force on Investments and Retirement (TFIR), “**TFIR Recommendations to Assure Adequate Funding for UCRP**,” May 13, 2009; the TFIR updated of March 3, 2010; information from the UCRP Task Force's “Berkeley Listening Forum,” an informational meeting held last fall; and reports of the UC Davis Faculty Association. (See BFA's website for copies and related materials – <http://ucbfa.org/>)

The Restart of Contributions

The good news:

1. In 2009, the Regents agreed to restart contributions on April 15, 2010. The employer (UC) contribution begins at 4% and the employee contribution at 2% of each person's salary (6% total) and continuing through academic year 2010-11. After this the contributions will be gradually ramped up over an unspecified period of years, as determined by the Regents.
2. The initial employee 2% contribution will be made by redirecting the 2% contribution the university was putting in the Defined Contribution Plan it set up for all employees after the suspension of contributions into UCRP. Therefore we will not see a 2% decline in take-home pay this spring on top of furlough cuts. (After 2011, however, gradual increases in employee contributions will impact pay.)

The bad news:

1. This isn't nearly enough to close the unfunded liability gap. According to the Academic Council, due to delays in beginning the restart, the total contribution now needs to start at just over 20% of covered compensation starting July 1, 2010 to meet the funding policy goals approved by the Regents (and by the Council) in 2008. This figure needs to rise to approximately 37% of covered compensation by July 1, 2014, then can slowly decline.
2. The current plan to gradually ramp up contributions is a recipe for disaster, as each dollar we don't pay in now increases the need for more future contributions by substantially more than a dollar later (due to the lack of investment income). The Academic Council projects that if the Regents adhere to their existing slow ramp-up plan, contributions will need to be raised to more than 50% of covered compensation by 2022—a level that might require the closure of some campuses!
3. This problem is exacerbated by the 2/3rds of UC salaries paid by non-state sources. Because they pay only as much as UC does, the restart of their employer contributions will replicate the problems created by the low level of the UC restart. Apparently, UC will have to absorb the liability created by the practice of non-state sources matching their contributions (or non-contributions) to UC's.
4. The state is refusing to pay its historic share of the employer contribution for state funded employees. The Legislative Analyst Office (LAO) says that the state has no responsibility for the UC pension. Nonetheless, the state has paid its share of the employer contribution to CalPERS and other state pension funds through the whole period that contributions were suspended to UCRP. Amazingly, this year Governor Schwarzenegger allocated more funding for CalPERS than its managers requested!
5. If the recent UCRP employee survey is any indication, UCOP is considering allowing (or forcing) staff and/or new employees to join a Defined Contribution Plan. UCRP, by contrast, is a Defined Benefit Plan, which means UC is responsible for managing the investment of the pension fund in a way that will ensure that employees receive post-retirement benefits commensurate with pre-retirement salaries. A Defined Contribution Plan shifts responsibility for pension management to employees (like the Bush Administration's plan to "privatize" Social Security by enabling beneficiaries to invest their social security contributions in the stock market).
6. Defined Contribution Plans can be jiggered to allow employees to take home more pay, making them an attractive short-term option for many, especially low-paid workers; but they put off the inevitable day of reckoning for old-age income. More important, such a shift will destroy the long-term fiscal viability of UCRP, if it significantly reduces the number of people paying into the program without reducing the number of retirees receiving pensions.

The Immediate Crisis

Without state funding, UC will have to pay its employer contribution from internal funds, such as tuition and cost cutting. This has dire implications for students, staff, departments, and research units, to wit:

1. Students will pay for the restart through tuition increases. According to a UCRP Task Force member at the Berkeley Listening Forum, one of the reasons UCOP pushed for a 15% tuition increase starting this January is that it needs this to help pay for the contribution restart.

2. Departments and other units will pay through layoffs and other cuts. UCOP's strategy is to push this responsibility for pension funding down to the operating units by requiring those that pay employee salaries to find the money in their budgets to pay the employer contribution. While most units stand to gain some relief from the funds generated by the tuition increases, it will not be enough to cover the cost of pension contributions. Task Force members at the Berkeley Listening Forum acknowledged that units would likely have to lay off staff and make other cuts to free up funding to free up funding to do this.

BFA's Position

1. The responsibility for funding our pension plan belongs squarely with the State of California. Faculty must insist that UCOP and the Regents take this position; after all, UC is a state entity. The state should fund our pensions just as it contributes its fair share to all other state employee pension plans.
2. UCOP must advocate aggressively on this issue with the governor and the state legislature. It also needs to explain to the public why pension funding is vital to UC's future as a world-class institution.
3. UCOP must have a transparent and fair process by which it will pay for the restart of the employer contribution. It should not shift fiscal responsibility for the employer contribution to the departments, forcing them to make staff layoffs and other cuts that undermine the university's instructional mission. Nor should it ask today's students to pay for the past 19 years of no contributions through skyrocketing tuition.
4. Asking employees to shoulder the burden of managing their pension funds is a thoroughly bad idea. It requires additional personal time, costs and expertise that most people do not have. Worse, it puts pensions at risk of losses due to volatile financial markets and inevitable misjudgments, while threatening the long-term financial viability of UCRP.
5. The Academic Council has proposed that UC pay for a more rapid and complete funding of the unfunded liability gap by issuing \$4.6 billion in Pension Obligation Bonds or other form of bonded debt. This proposal should be seriously considered and its pros and cons fully debated. Nonetheless, it could make things worse unless the bonds are carefully structured and set at a level that will both cut the unfunded liability more quickly than the existing plan *and* reduce the cost of the restart to students and departments relative to the existing plan. If implemented, the state should help meet its responsibility for the employer contribution by paying its fair share of the debt service on the bonds.
6. The suspension of contributions to UCRP began during the financial crisis of the early 1990s and continued because the state government is perennially underfunded. The BFA supports the California Democracy Act and other efforts to solve the structural problems in government that have brought us to this pass. It will not be possible to fund UC adequately nor restore broad access to high quality public education in California without the repeal of the 2/3rds majority budget and taxation rules. We must educate voters about the need to pay for the public services on which we all depend.

What You Can Do

Raise awareness of the problems discussed here by circulating this report to your colleagues. Ask your department chair to put the pension crisis on the agenda for the next faculty meeting. Demand reform!