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MEMBERS, UNIVERSITY OF CALIFORNIA COMMUNITY

Dear Colleagues:

I am writing to let you know that within the next few days, the Task Force on Post-Employment Benefits will send me its final report and recommendations on ways to make UC's retiree health and pension programs financially sustainable.

I have been briefed on the Task Force recommendations and was deeply impressed by the thorough effort that went into striking a balance between offering competitive, attractive retirement benefits and achieving long-term financial sustainability.

The Task Force consulted extensively with the University community before developing recommendations that will allow us to live within our means while still offering a safe, secure retirement to the talented faculty and staff making their careers here, as well as those we hope to attract in the years ahead.

I have asked senior administrative leaders to continue the consultative process over the next few months, in advance of my submitting proposals to the Board of Regents for a vote. Leading the consultation process will be Executive Vice President for Business Operations Nathan Brostrom, Chief Financial Officer Peter Taylor, and Provost Lawrence Pitts. In addition, Daniel Simmons, incoming Chair of the Academic Senate, and Brian Gresham, Chair of the Council of University of California Staff Assemblies, will engage in consultations with the UC community.

I encourage you to get involved. Once I receive the final Task Force report, it will be posted on the Future of UC Retirement Benefits website at:

<http://www.universityofcalifornia.edu/news/ucrfuture/welcome.html>.

There you also will find background materials and mechanisms for asking questions and submitting your opinions.

As we go forward, I welcome vigorous debate and discussion both within and outside the University about the best ways to restructure and fund our retirement programs. As with the design of the furlough program last year, input from the University community will help shape the ultimate program.

Already, in advance of the final Task Force report, I have received communications from interested faculty and staff who have criticized some of the Task Force ideas and suggested alternatives. That kind of vocal debate is to be expected and encouraged when the issues are so difficult and so important.

As with all feedback on the Task Force recommendations, I will listen to what members of the UC community have to say and will make my recommendations to The Regents in light of what's best for the University, its faculty, staff, and retirees.

The Board of Regents has the ultimate authority. They will be part of this deliberative process, with presentations at their September and November meetings before final consideration of my recommendations.

One thing is certain: UC must make changes to its retiree health and pension programs. If we do nothing, in four years the University will be spending more on retirement programs each year than we do on classroom instruction. And within five years, our unfunded liabilities will have ballooned to more than \$40 billion. That scenario would be disastrous for UC.

Yet, deciding how to fix the problem will not be easy. The choices ahead are difficult, and they have real financial implications for all of us. I want to assure you that any recommendations I make to The Regents will be informed by several guiding principles:

- All pension benefits vested by current faculty and staff are protected and will not change.
- UC must provide attractive, competitive retirement benefits for current and future faculty and staff.
- Retirement benefits, and a plan to finance UCRP's unfunded liability, must be financially sustainable for decades to come.
- The University will continue to provide affordable, comprehensive health benefits for our retired staff and emeriti faculty.
- Retirement programs and policies must treat all faculty and staff equitably.
- Faculty and staff who spend their careers at the University can count on having sufficient and guaranteed retirement income.

The first issue to be addressed concerns employer and employee contribution levels to the UC Retirement Plan (URCP). I expect The Regents to take action on these levels for the next two years at their September meeting. For represented employees, those contribution rates will be subject to collective bargaining, as will most other changes to UC's retirement programs.

As previously communicated, the plan to resume UCRP contributions included increasing contributions from both UC and employees over time. UC currently contributes 4 percent of annual pay to the UCRP, while employees contribute about 2 percent. Yet the current cost of the pension is roughly 17.6 percent of annual pay. Given the size of the UCRP funding deficit that we now face, it is clear that we need to find a way to quickly ramp up employer and employee contributions to cover that full cost.

It is also important to understand that funding our UCRP obligations competes directly with paying for other University operations – a problem that is compounded by the fact that the State has not contributed its share to the pension program in nearly 20 years. I am working diligently with State leaders to restore their support for our pension program, just as the State shares in the cost of pension programs for CSU and the Community College system.

One of the other key issues concerns how best to structure UC's pension plan. Most employers have adopted or switched to a defined-contribution plan, but the Task Force felt that UC should continue its defined-benefit program because of the security it offers faculty and staff, and the advantages it offers the University in recruiting and retaining valued employees. Defined-benefit plans, also known as pensions, guarantee employees a certain level of retirement income, based on a formula that factors in retirement age, years of service and pre-retirement earnings.

The Task Force recommendations call for allowing current employees to continue in our current pension plan. To ensure that the plan is affordable over the long term, the Task Force also recommended that the University offer a new pension option called a new "tier," to faculty and staff who join UC after July 2013.

The Task Force considered numerous options for a new pension tier and narrowed it to two alternatives. Both have a common set of features, including shifting the minimum retirement age from 50 to 55, and raising the age of eligibility for the maximum pension benefit from 60 to 65.

The two alternatives advanced by the Task Force also introduce a new form of pension calculation, one that integrates a career employee's Social Security benefit with the UCRP benefit to replace the employee's working income in retirement.

Recommended options also would allow current employees with lower salaries to make a lower level of contribution and receive a lower pension benefit, if they so desire. The Task Force has proposed that current UC employees be given a one-time opportunity to enroll in that lower-cost plan.

The Task Force Steering Committee considered two other options that more closely resemble the current UCRP in their costs and design, but did not include them in the final report, primarily because of concerns about cost.

A group of faculty and staff who served on the three working groups of the Task Force has asked that I consider one of those options, and I have agreed to do so. In the interest of open discussion, the University community deserves exposure to all alternatives, and their Dissenting Statement will be posted with the Task Force's executive summary and full report.

This third option more closely mirrors the current UCRP benefits, although it moves the age for maximum pension benefit to 65, as do the two other plans. It does not, however,

integrate UCRP benefit payments with an individual's Social Security benefits. The option will cost UC and its employees approximately 3.2 percent more than the Task Force's least expensive alternative. To put that figure in perspective, each percent adds more than \$80 million in costs for employees and the University, or roughly \$256 million in permanent, annual UC expenses that must be paid by the University and its employees together, if the more expensive plan were adopted. This is in addition to the roughly \$1.6 billion that we must pay annually to restore UCRP to health.

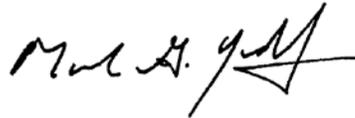
The faculty and staff group that advanced this plan wants to ensure that any new pension tier helps UC attract and retain the highest-caliber people. I share that goal, as does the Task Force, and I will look at the option they propose. At the same time, I am mindful that fiscal stewardship and benefits must be carefully balanced.

These are only a few of the recommendations contained in the full report. As you can see, they involve complex issues that merit careful study and discussion.

Rest assured, decisions will not be made lightly. Senior UC leaders and I are well aware that retirement benefits are of great importance to faculty and staff, and are one of the reasons that high-quality people devote their entire careers to UC. My goal is to ensure that UC employees have excellent retirement benefits that continue to help us attract and retain top faculty and staff, and to do so within a framework that can serve the University for decades to come.

With best wishes, I am,

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark G. Yudof". The signature is fluid and cursive, with a prominent flourish at the end.

Mark G. Yudof  
President