Frequently asked questions about UC retirement benefits/PEB recommendations

Q: ***Will I lose the benefits I've earned if the proposed changes are adopted?***
A: Accrued pension benefits cannot be changed or reduced. Even if proposed changes are adopted, they cannot alter benefits that have already been accrued — those benefits are protected by law.

Q: ***Are my accrued benefits at risk because I'm not yet vested in UCRP?***
A: No. Accrued pension benefits are not at risk, regardless of whether or not you are vested in UCRP. Accrued pension benefits are protected by law and cannot be reduced or revoked.

Q: ***Are my benefits changing immediately?***
A: No decisions have been made regarding the task force recommendations and there are no benefits changes taking place at this time. Further, the proposed changes do not affect accrued pension benefits for current employees — those benefits are protected by law and cannot be reduced or revoked. The task force has submitted recommendations to President Yudof, which he will be discussing with the UC Board of Regents over the coming months. A group of faculty and staff from the task force's working groups has also asked the president to consider a third option regarding future pension benefits, which he is doing. The president has called for a full and open dialogue about these issues and he has asked UCOP leaders to consult with the UC community to help inform his thinking about which options to bring to the Regents for their consideration. The Regents will consider a recommendation for increased UC and employee contributions to UCRP over the next two years at their September 14-16 meeting.

Q: ***Will current employees automatically be pushed into the new pension tier?***
A: No — current employees will not be pushed into the new tier. If adopted, the new tier would apply to <u>new employees hired after July 2013</u>. UC employees hired prior to July 2013 may have the choice of staying in UCRP or moving into the new tier.

Q: Is ***UCRP running out of money?***
A: UCRP is not running out of money and pension benefits for current UC retirees are secure. At the same time, it is clear that actions are needed to ensure that the plan is adequately funded and can meet its pension obligations over the long term, especially since UCRP receives no pension funding from the State. These actions include contributions from UC and employees, and revisiting the level of benefits UC offers future employees.

Q: ***Why doesn't UC pay into UCRP?***
A: UC does pay into UCRP. UC currently contributes 4% of the university's total payroll — approximately $320 million for 2010-11 – toward funding UCRP. UC employees currently contribute roughly 2% of pay into UCRP. The task force recommends that contributions from both UC and employees be increased over the coming years to help ensure an adequate funding level for UCRP. Ultimately, UC's long-term approach is intended to be similar to CalPERS' approach to contributions for its members. Currently most CalPERS members contribute anywhere from 5 to 7 percent of pay. Additionally, UC is working closely with elected officials regarding the State's obligation to help fund pension benefits for UC employees, just as it helps fund the pension benefits for employees in the California State University system and for the California Community College system.

Q: ***Why did the task force only look at cutting benefits to solve the problem?***
A: The task force – comprised of more than 40 faculty, staff, retirees and administrators – was created to help identify solutions to the escalating cost of retiree health and pension programs,

while also maintaining good retirement benefits. In looking at options and developing its proposals, the task force was guided by several principles and values:

- UC must provide attractive, competitive benefits for current and future faculty and staff.
- UC should reward long years of service with sufficient and guaranteed retirement income.
- UC must be fiscally responsible in striking a balance between offering attractive, competitive benefits for its retirees and achieving sustainable long term costs.

Q: *Why can't UC simply use investment income to solve the UCRP funding problem?*
A: Employee benefits cannot and should not be funded by investments alone. Due to market unpredictability and volatility, relying on investment returns alone may not provide adequate funding for benefits over the long term. It is commonplace for employees to help pay for their benefits, and UC employees have been extremely fortunate that they've not had to contribute to the cost of their pension benefits for so many years. Sustaining UCRP benefits for the long term requires a combination of contributions from UC and its employees, redesigning benefits for future employees, and financial support from UCRP investments.

Q: *Is UC's management of UCRP to blame for this problem?*
A: Over the past twenty years, the actual earnings rate of UCRP has exceeded the expected earnings. The funding challenges UC faces today regarding its retirement benefits are due to a combination of factors that have evolved over many years. These factors include:

- a sharp increase in retiree health care costs over the last 15 years
- a lack of contributions to the UCRP over a 20-year period
- investment losses during the economic downturn of 2008-09
- an aging workforce
- a lack of state funding support