# Your UC Benefits Under Attack

Presented by UC-AFT

# UC’s P.R. Campaign to Support Benefit Cuts

Total Compensation Plan

Pension Fund Crisis

# Part 1:
# Total Compensation Plan

## Contents

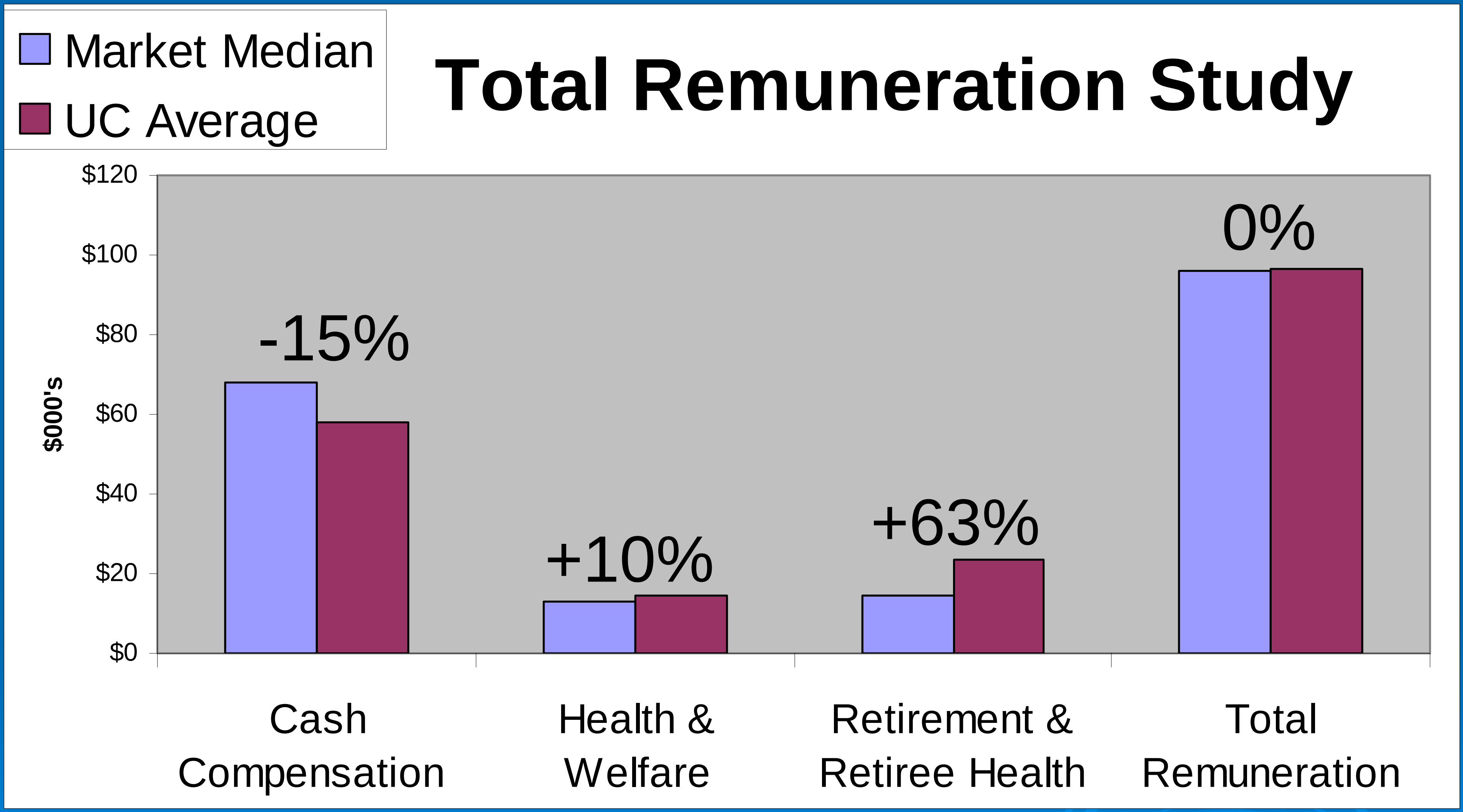
- The plan and its rationale
- Current and projected benefit cuts
- Market-based raises: where are they?
- Academic Senate's position
- Taking action – next steps?

# UC's Total Compensation Plan

**3 types of benefit cuts:**

- Restart employee pension contributions
- Shift health costs to employees
- Cut retiree health

**Plus:** Market-based raises to offset the benefit cuts.




– Mercer Consulting, Sep 2005

# 10-Year Rebalancing Plan

More Pay
Fewer Benefits

- Helps recruitment
- Young employees prefer cash over benefits
- Same for short-term employees

# Market Raises

Recommendation A:

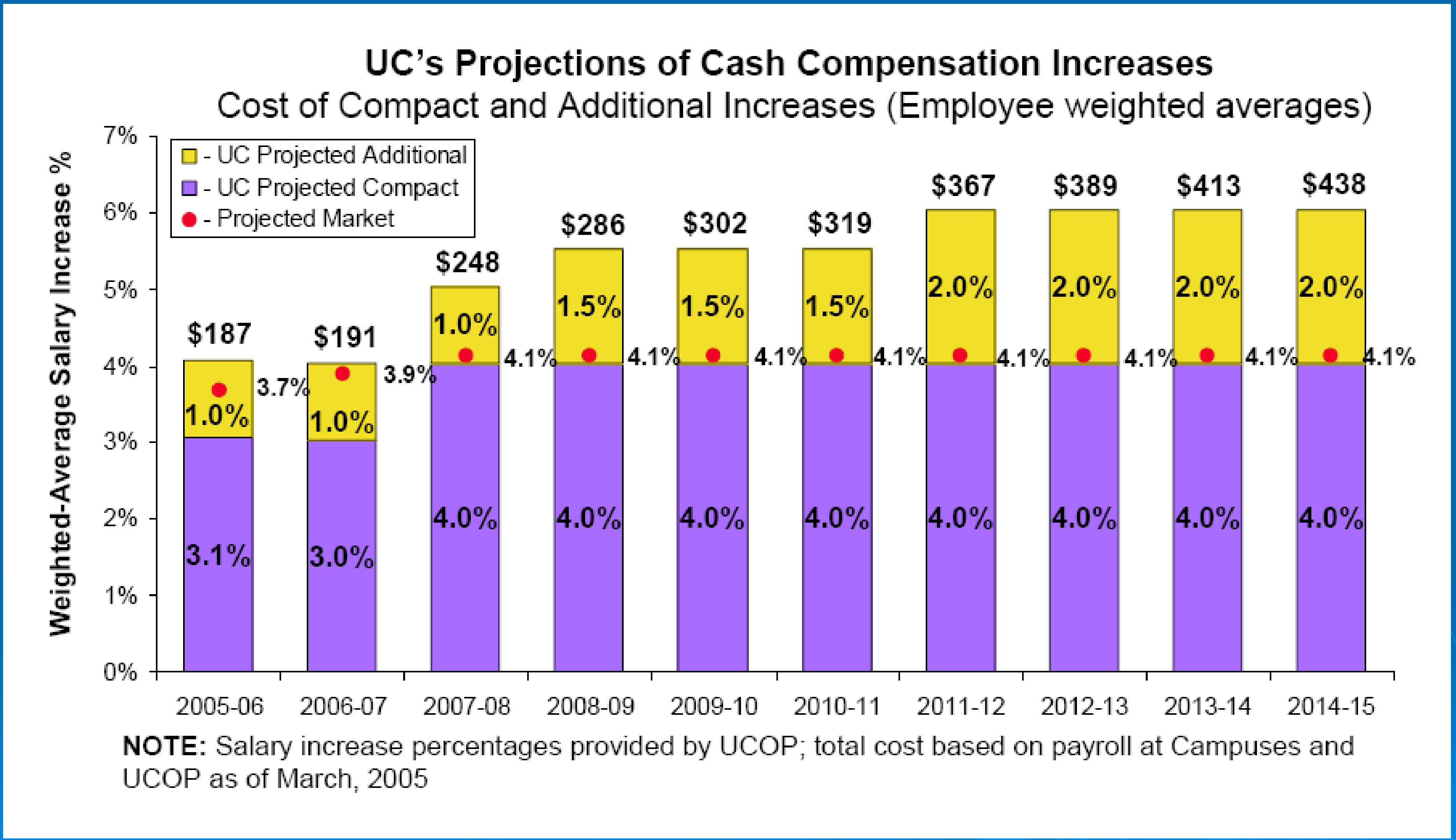
To establish goals to obtain, prioritize, and allocate funds, to the extent they are available, to increase salaries to achieve market comparability for all groups of employees over the ten-year period from 2006-2007 through 2015-2016.

– From Item RE-61, approved by Regents, Nov 16, 2005

# Schedule of Raises

| | | | |
|---|---|---|---|
| 2005-6 | 4.1% | 2010-11 | 5.5% |
| 2006-7 | 4% | 2011-12 | 6% |
| 2007-8 | 5% | 2012-13 | 6% |
| 2008-9 | 5.5% | 2013-14 | 6% |
| 2009-10 | 5.5% | 2014-15 | 6% |

# Schedule of Raises




– From Item RE-61, Regents Finance Committee, Sep 22, 2005

Lag behind market: 15%

Projected market raises: 13.2%

# Benefit Cut:
# Pension Contributions

- No UC or employee contributions since 1990.
- Restart of contributions planned for July 2007.
- UC has suggested a 16% contribution by 2013: half from UC, half from the employee.

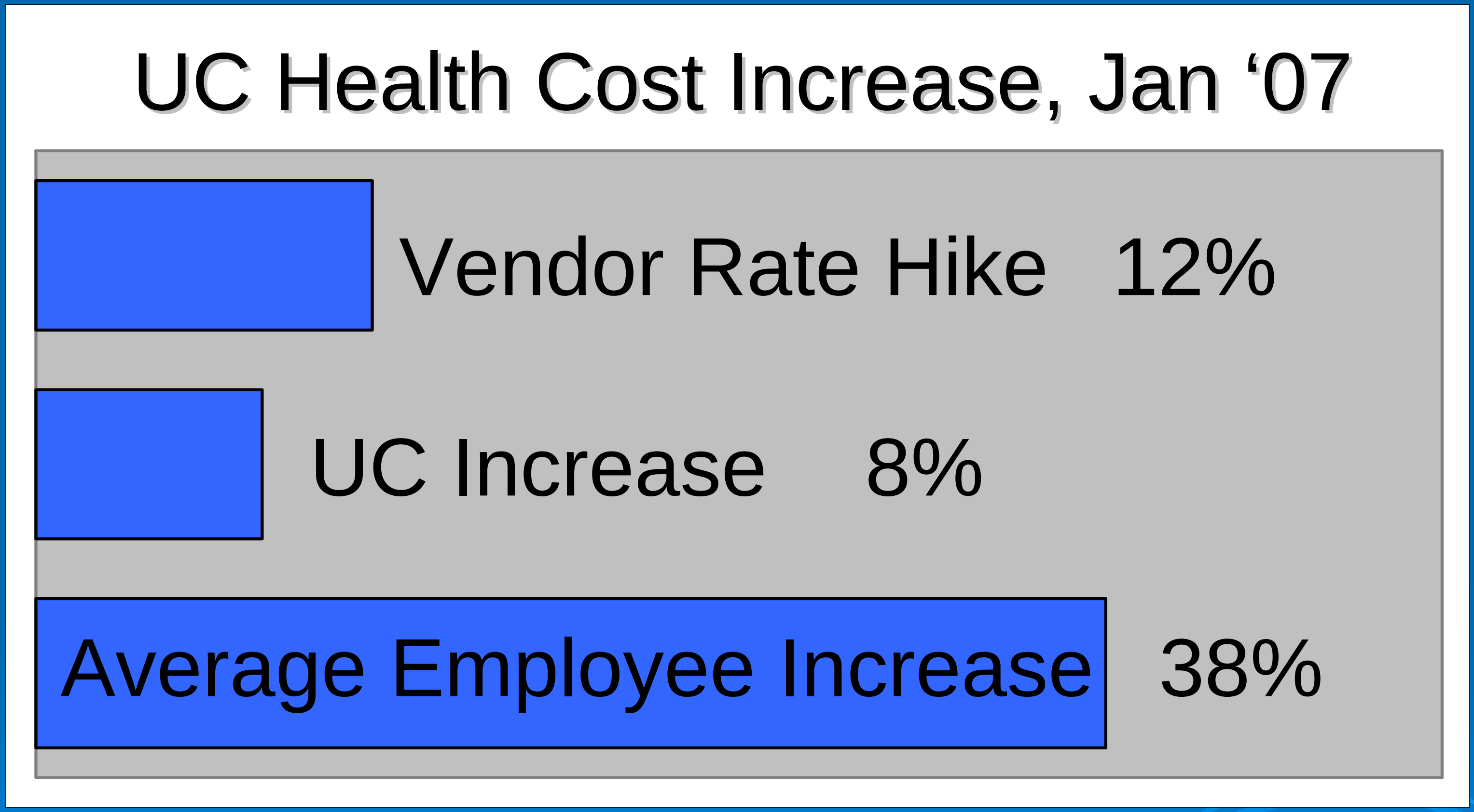
# Expected Phase-in of Employee UCRP Contributions

**July 2007:** 2% payroll deduction moved from DCP to UCRP (4% for earnings above $94,600)

| | | | |
|---|---|---|---|
| **2008** | 1% additional deduction | **2011** | ditto |
| **2009** | ditto | **2012** | ditto |
| **2010** | ditto | **2013** | ditto |

8% total employee deduction by 2013

# Benefit Cut: Health Insurance



# Health Cost-Shifting Trend

| | UC Share | Employee Share |
|---|---|---|
| 2001 | 97% | 3% |
| 2006 | 88% | 12% |
| 2007 | 85% | 15% |
| 2010 | 68% | 32% |

# Sample Health Cost Increase for Individual Employee, Jan '07

- Health Net, family option, band 2 ($43-86K)
- 2006 rate: $111
- 2007 rate: $170
- Monthly increase = $59
- Annual increase = $708

# Health Hike Measured as Pay Cut

Annual increase: $708

For $70,000 salary: 1% pay cut

For $47,000 salary: 1.5% pay cut

# Pay Impact of Health Hikes to 2010

| '06 Pay | Plan | 2010 Pay Cut |
|---|---|---|
| $42K | Health Net, single | 2% |
| $50K | Health Net, family | 7% |
| $70K | Health Net, 2 adults | 4% |
| $100K | Blue Cross PPO, family | 10% |

# Benefit Cut: Retiree Health

**Program overview:**

- Continues employee health benefits after retirement.
- Supplements Medicare.

# Retiree Health

| Yrs Service | % of employee health benefit |
|---|---|
| 20 | 100% |
| 10 | 50% |

Example: Health Net, 2 adults, 2006 rate
100%: UC pays $584, you pay $90

# Retiree Health Cuts

**Current**

All employee health hikes apply directly to retirees – i.e., your retiree health benefits are already eroding due to UC cost-shifting.

**Future**

- Expected within 2-3 years
- Sharply higher premiums before age 65
- Stricter eligibility for new hires

# Retiree Health Cut Measured as Pay Cut

Benchmark value of benefit:
5% of pay

Estimated pay cut by 2010:
1-2%

# Combined Impact of Benefit Cuts

**2007:**

Pay cut of 2.2 - 3.8%

(pension + health)

**by 2013:**

Pay cut of 10 - 20%

(pension + health + retiree health)

# Total Compensation Plan: Balance Sheet

Gain from market raises: 13.2%

Loss from benefit cuts: 10-20%

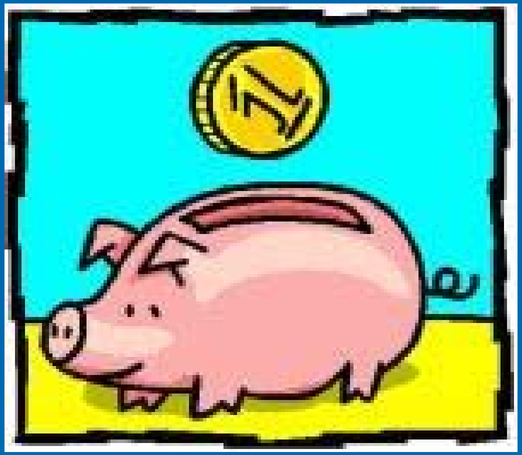
# UC Compensation Actions, 2006

- **Mar ’06:** Regents announce pension contribution startup for July ’07.
- **Sep ’06:** UC announces ‘07 health hikes.
- **Sep ’06:** UC announces ’06-07 COLA. From a 4% state allocation, UC offers academic employees only 2%.

Are the promised market raises for real?

Or does UC simply intend to impose benefit cuts, period?

# Total Compensation Plan



# Academic Senate Position: Yes on Pension Contributions

"With the support of the Academic Senate, the Regents voted in March 2006 to reinstate contributions to UCRP as of July 2007."

"It would be irresponsible to allow UCRP to fall significantly below 100% funded status."

– Memo to UC faculty from John Oakley, Chair, Academic Council, May 25, 2006

# Other Senate Positions

- Called for equivalent market raises.
- Retiree health cuts: Feb ’06 position statement supported some UC proposals, opposed others.
- Employee health cuts: we do not know the Senate’s position.

# UC-AFT Appeal to Faculty

Please join the UC Union Coalition in opposing UC benefit cuts.

**What you can do:**

- Arrange a presentation in your department.
- Pass a faculty resolution in your department.
- Develop a faculty petition.
- Work with the Social Sciences Benefits Committee.
- Join UC-AFT – build a union voice for faculty.

# End of Part 1

*Prepared by UC-AFT*
*Local1990 (UCLA) & Local 2226 (UCI)*
**www.uc-aft.net**

# Your UC Benefits Under Attack

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# Part 2:
# The Pension Issue

**Contents**

- Overview of Benefit Cuts/Pay Cuts
- UC Pension: Are Contributions Needed?
  - UC's Position
  - UC-AFT's Position
  - Academic Senate's Position
- Taking Action – Next Steps?

# Projected Benefit Cuts

2007: 2.2 to 3.8% pay cut
(pension + employee health)

By 2013: 10 to 20% pay cut
(pension + employee health + retiree health)

# UC's P.R. Campaign to Support Benefit Cuts

Total Compensation Plan

Pension Fund Crisis

# Total Compensation Plan

“Rebalance” Total
Compensation in 10 Years

More Pay
Fewer Benefits

# Market Raises

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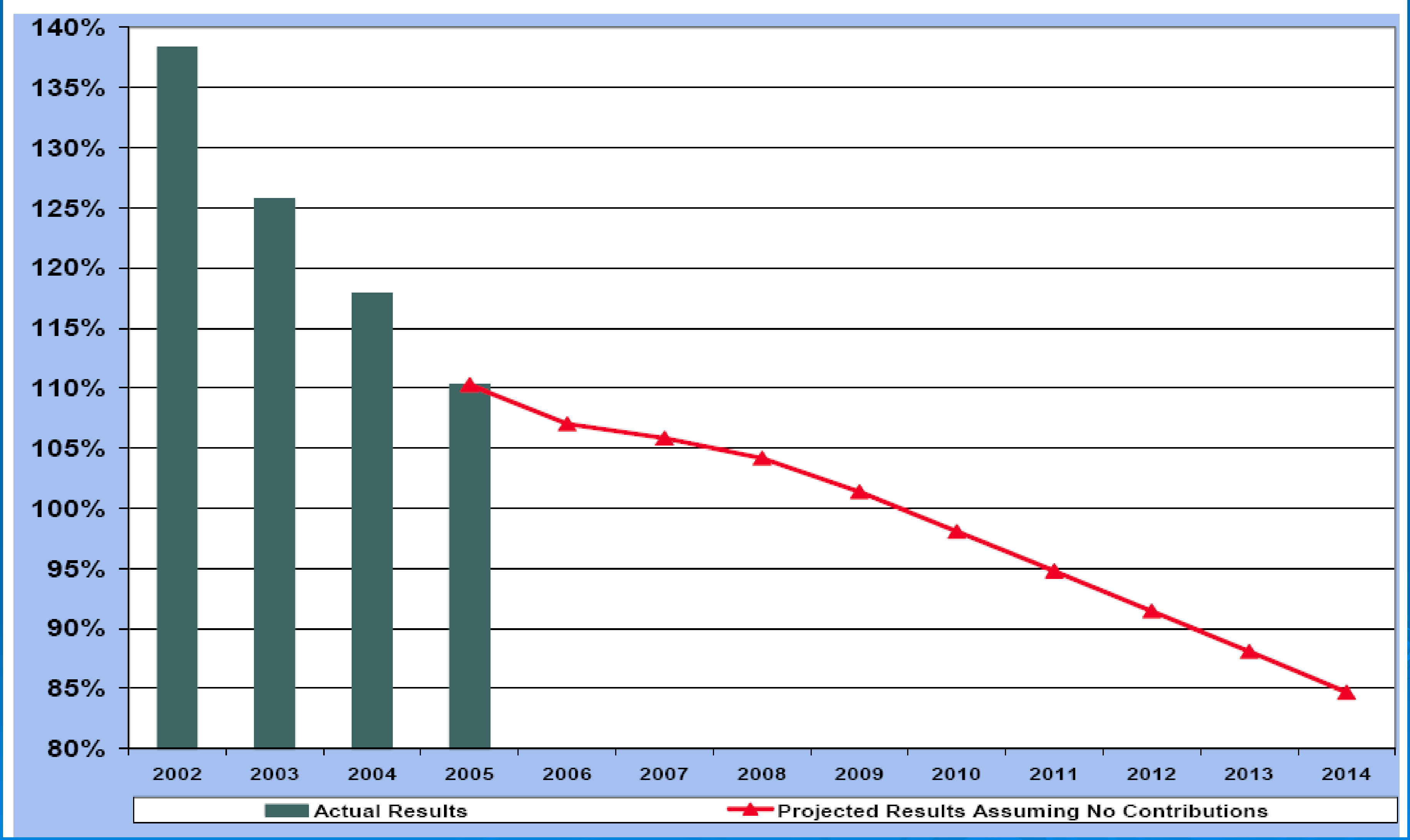
# Pension Fund Crisis

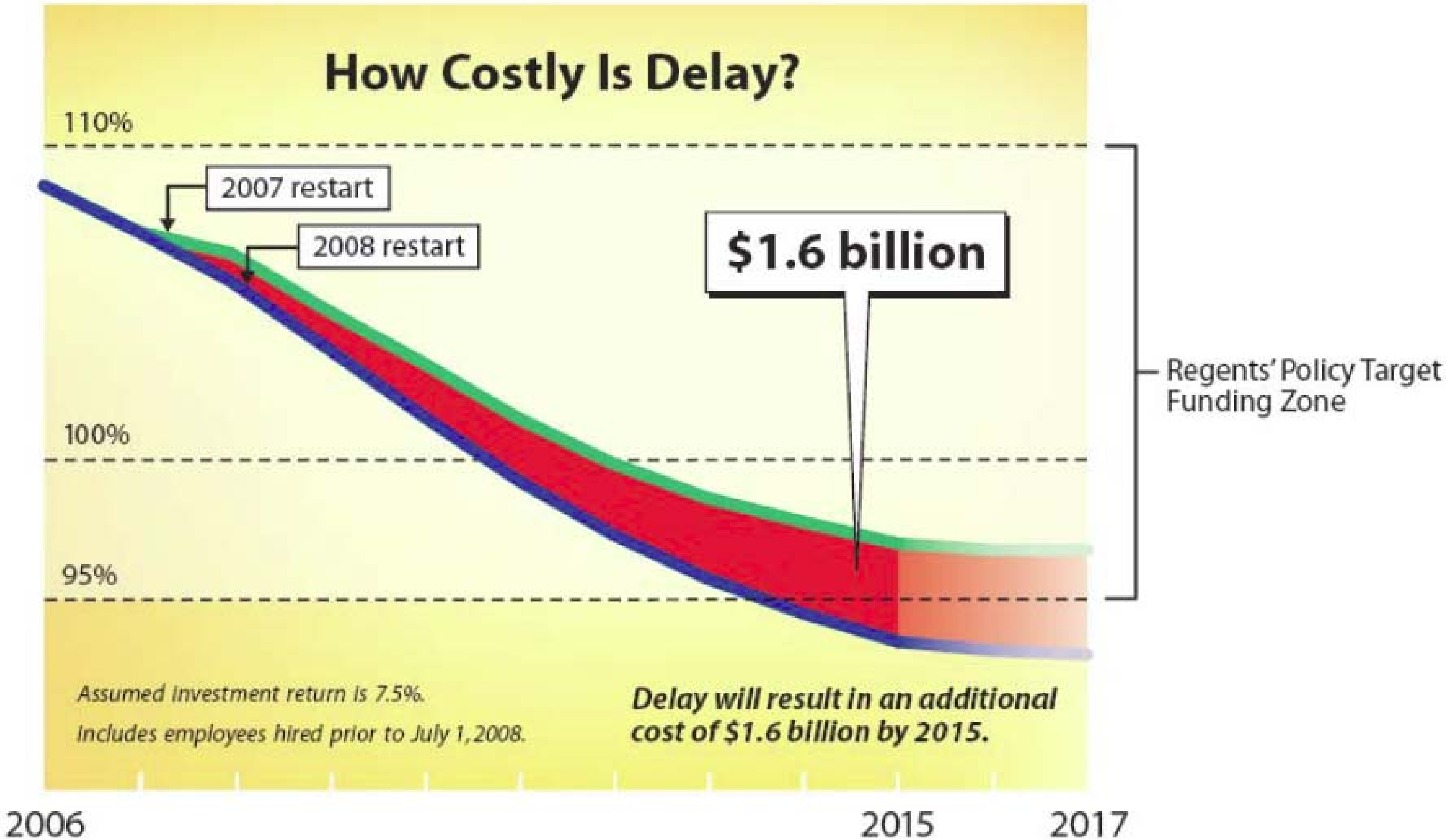
- No UC or employee contributions to UCRP since 1990.
- Mar ’06: Regents announced the restart of contributions beginning July ‘07.
- UC claims the fund is in trouble unless contributions are started ASAP.

# Pension Fund Ratio in Decline




– Presented to Regents by Segal Co., Nov 2005

# WHY RESTARTING UCRP CONTRIBUTIONS EARLY HELPS EVERYONE




– UC Fact Sheet, July 2006

# Expected Phase-in of Employee Contributions

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8% total employee deduction by 2013

# Matching Employer Contribution

8% from the employees

+ 8% from the employer

16% total contribution

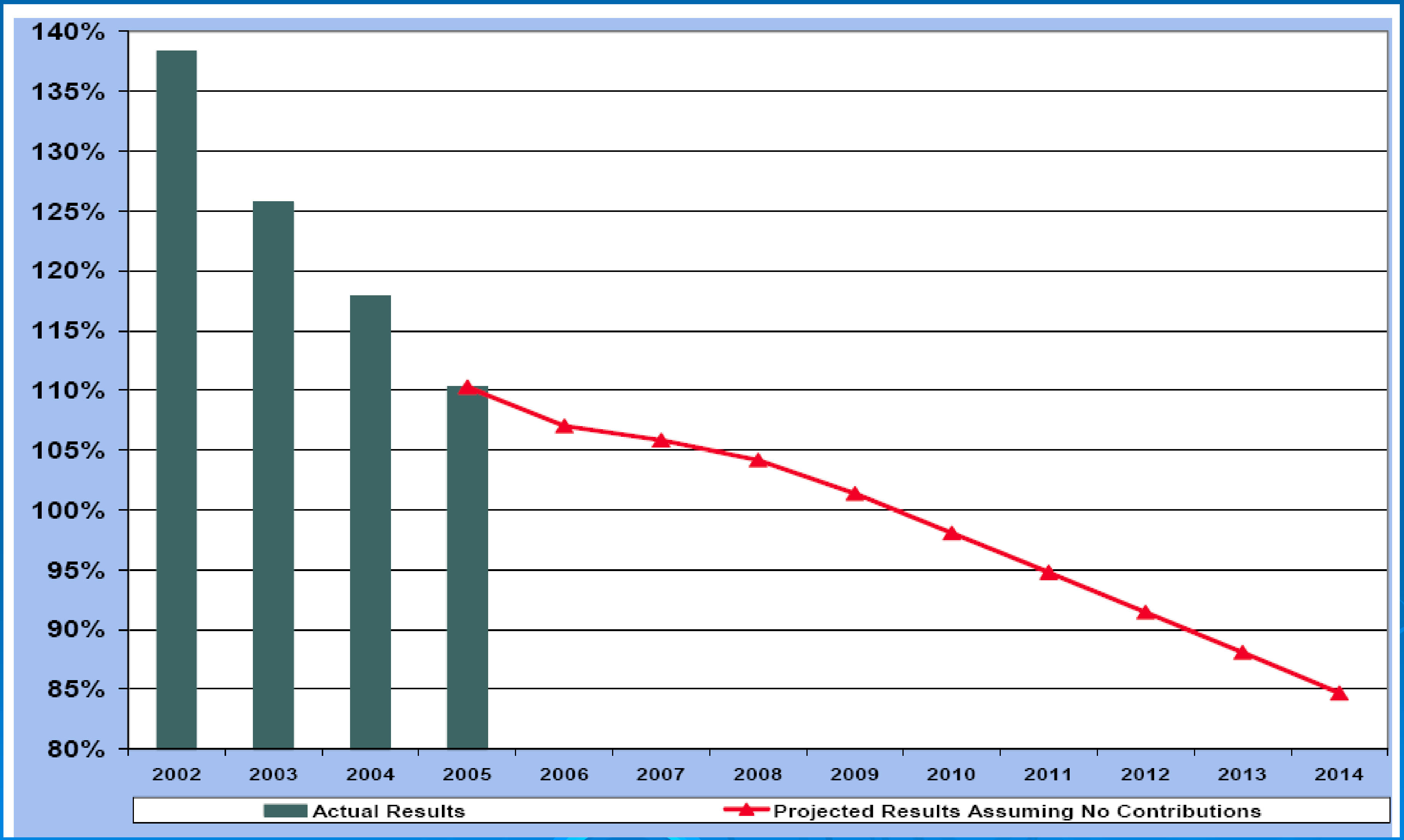
# UC-AFT's Position

- Protesting all the benefit cuts with our partners in UC Union Coalition.
- Not opposed to employee contributions in principle – willing to bargain.
- The necessity for contributions has yet to be demonstrated.

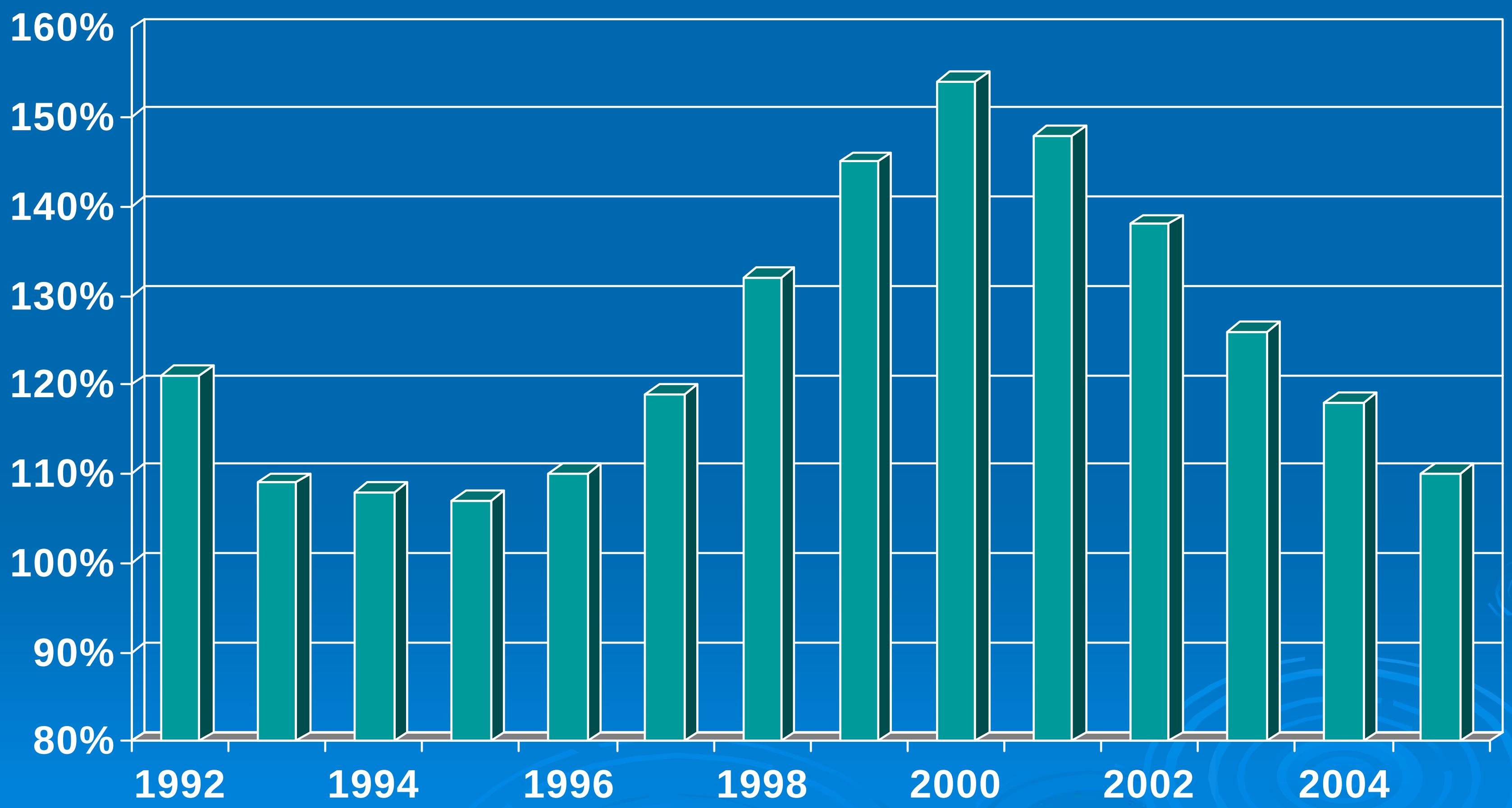
# Venuti Report

- Absence of standard studies.
- Inappropriate certainty in projections.
- Questionable assumptions.
- Need to restart contributions is not demonstrated.

# What's Wrong With This Picture?



# UCRP Funding Since 1992



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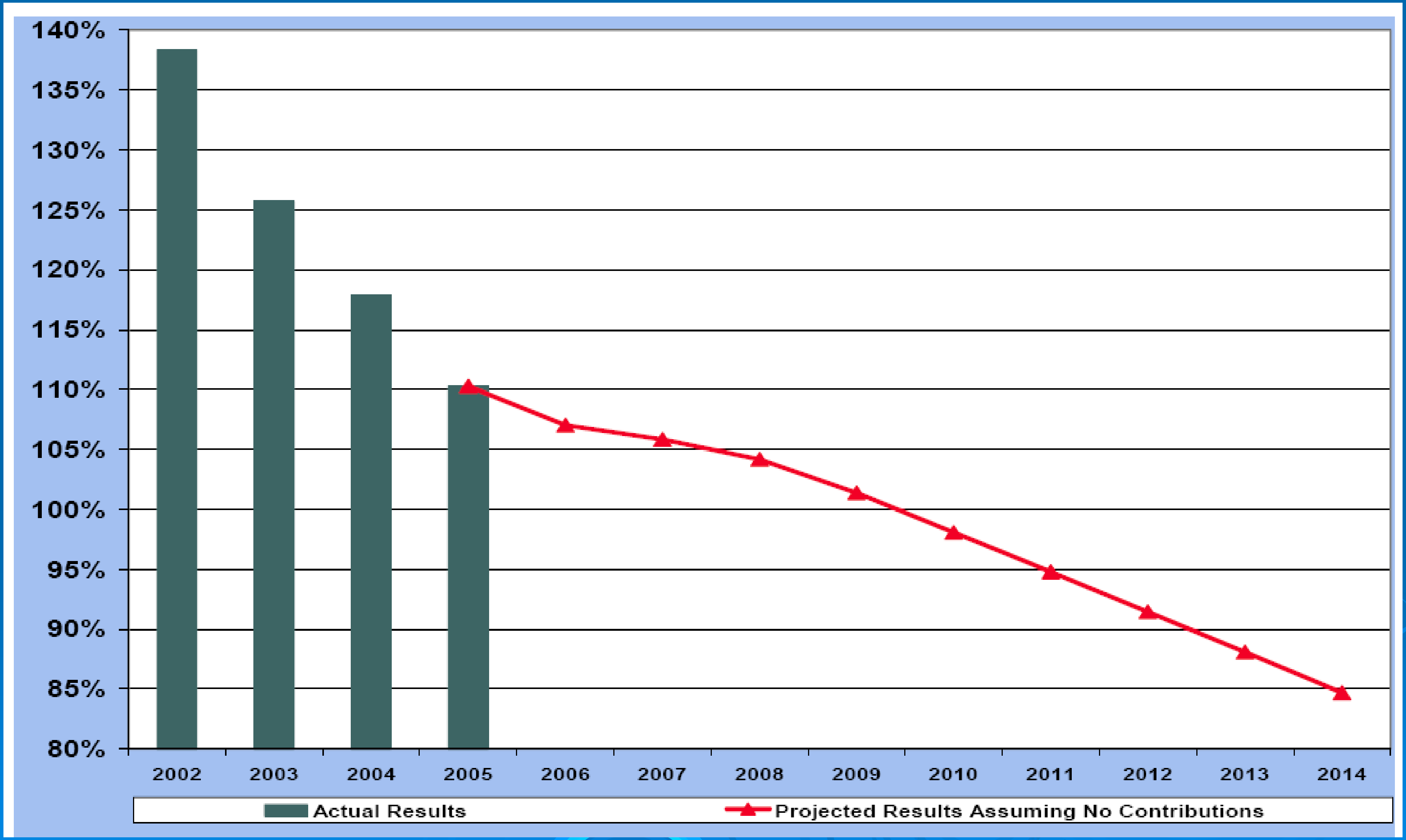


# Unknown Variables

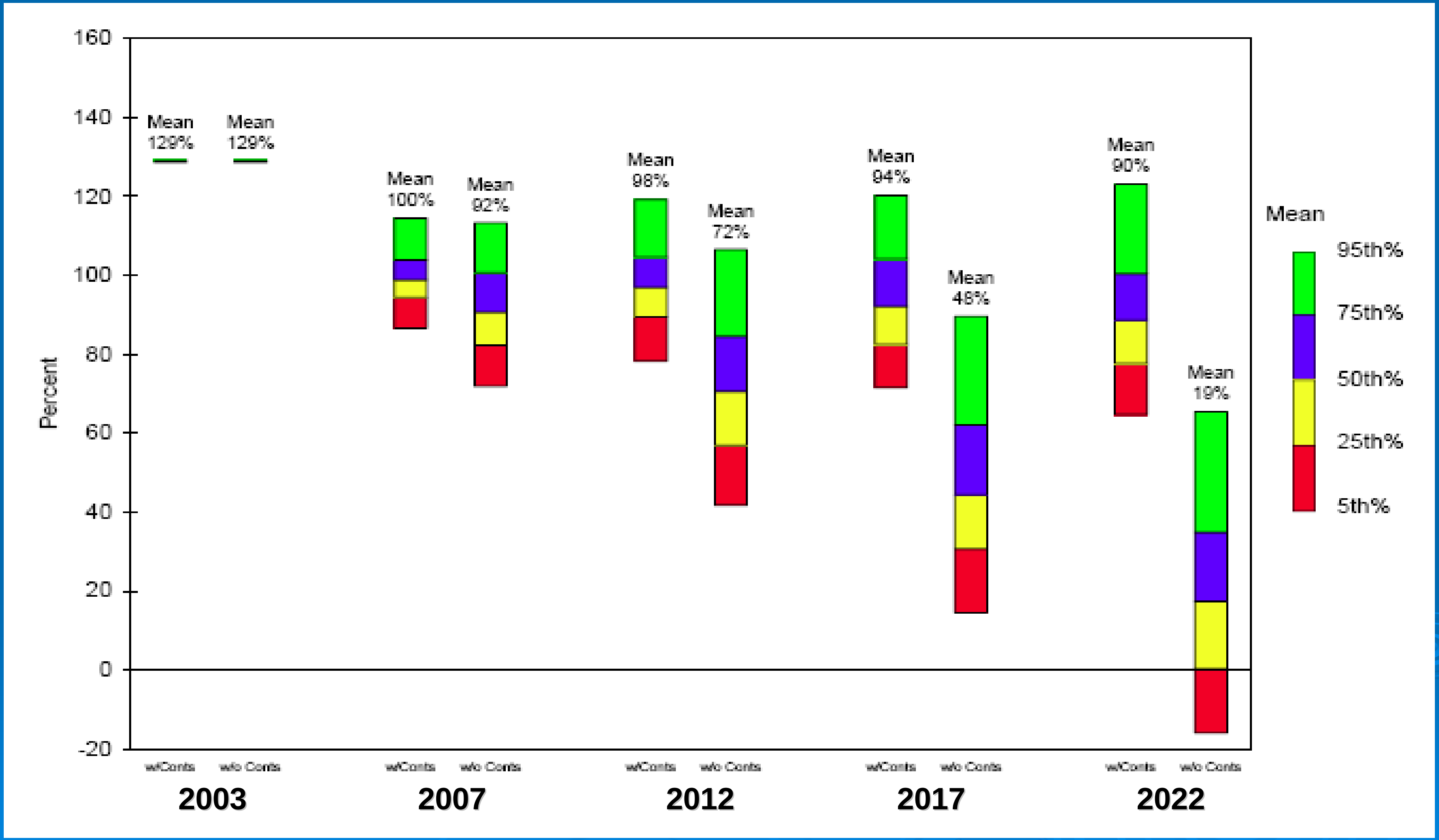
- Investment returns
- Inflation
- Employee salaries (subject to bargaining, state budgets, vagaries of UC decisions)
- Employee demographics (age, length of service, retirement rates)

# Questions that Actuaries Ask

What is the range of possible and probable funding requirements over the next ten years?

– Segal Company, Nov ’04 newsletter

# Stochastic Study of UCRP, 2003




– Presented to Regents by Towers-Perrin Co., May 2003

# Experience Study

- Key tool for actuarial forecasts, decisions on current and future funding levels.
- Retirement rates, withdrawals, mortality, disability, salaries.
- Required by UCRP every 3 years.
- Last study conducted Nov 2003.

# Why No Experience Study or Stochastic Study?

While we appreciate your advice on “best practices,” our actuary, the Segal Company, feels that a stochastic study in this case would introduce many variables into the analysis that would unnecessarily complicate the picture.

– UC response to David Venuti, May 26, 2006

# Projection Assumptions

| | UC | PERS | STRS | U.S. Avg |
|---|---|---|---|---|
| Returns | 7.5 | 7.75 | 8.0 | 8.0 |
| Salaries | 5.5 | 3.25 | 4.25 | n/a |
| Inflation | 4.0 | 3.0 | 3.25 | 3.5 |

# Significance of Assumptions

- Under current assumptions, UCRP would need 10.5% average return to avoid decline.
- UC projects a 7.5% return – i.e., a 3% gap.
- But suppose UC adjusted two assumptions:
  - 4% salary increases instead of 5.5%
  - 3% inflation instead of 4%
- This would close 2.5 of the 3% gap.
- An 8% return would then avoid a decline.

# How Great Is the Risk to UCRP?

UC's P.R. Message:

- Your pension is in danger.
- We'll face a fiscal emergency if the fund drops below 95%.

# Facts About UCRP – June '05

Actuarial assets: $41 billion

Actuarial liability: $37 billion

Payments for the year: $1.3 billion,
or 3% of assets

97% of assets are not needed
immediately, held in trust for future benefits

# U.S. Public Pension Ratios, 2005

UCRP: 110%

U.S. Average: 85%

CalPERS: 83%

CalSTRS: 86%

Less than 10% of U.S. public pensions are funded at over 100%.

Sources: www.publicfundsurvey.org; National Association of State Retirement Administrators

# Academic Senate's Position

"With the support of the Academic Senate, the Regents voted in March 2006 to reinstate contributions to UCRP as of July 2007."

"It would be irresponsible to allow UCRP to fall significantly below 100% funded status."

– Memo to UC faculty from John Oakley, Chair, Academic Council, May 25, 2006

# Market Raises

"If any benefits are changed, there must be no deterioration in UC's competitive position in total remuneration….Additional cash compensation must be provided equivalent to the reduction…."

– Oakley memo

# UC-AFT Appeal to Faculty

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