

UC Benefits Cost Shifting

Presented to the Berkeley Faculty Welfare Committee

Fall 2006

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PREFACE

Background. Currently, three UC staff unions—AFSCME, CUE, and UPTE—are engaging in coordinated bargaining (bargaining together) with the administration over pension contributions. While the academic union, UC-AFT, is not bargaining over pension contributions, it supports the staff unions’ work.

Purpose. Clearly, we cannot do justice to the scope and complexity of the issues and of the negotiating process in a single brief presentation. Our purpose today is not to cover the issues comprehensively or to persuade you of anything, but rather, to exchange perspectives and information, raise some questions, and begin a dialogue that we hope may continue.

Disclaimer. As representatives of Berkeley campus union locals, we believe the concerns and perspectives presented here broadly reflect those of the Berkeley Labor Coalition and of the systemwide UC Union Coalition. However, this presentation has not been formally endorsed by the unions, and is not an official position statement.

MERCER'S ASSESSMENT OF UC COMPENSATION

The administration claims that UC salaries are below market as much as 15% but the benefits package is so far above market that total compensation is “competitive overall.”

See UCOP's “Update on Total Compensation” at

http://atyourservice.ucop.edu/news/general/total_compensation_update.pdf

RE 61, approved by the Regents in September 2005, at

<http://www.universityofcalifornia.edu/regents/regmeet/sep05/re61.pdf>

and the “Competitive Review of Total Remuneration” by Mercer Human Resource Consulting at

http://www.ucop.edu/hrap/pdfs/day2/4b_remuneration.pdf

The unions are concerned by the lack of transparency in this report about the underlying data and the choice of comparators. Unions also take issue with the general claim that UC is now “competitive overall” as well as with the figures applied to specific groups of UC employees.

RE 61: PLANNED CHANGES TO “OVERALL COMPENSATION STRATEGY”

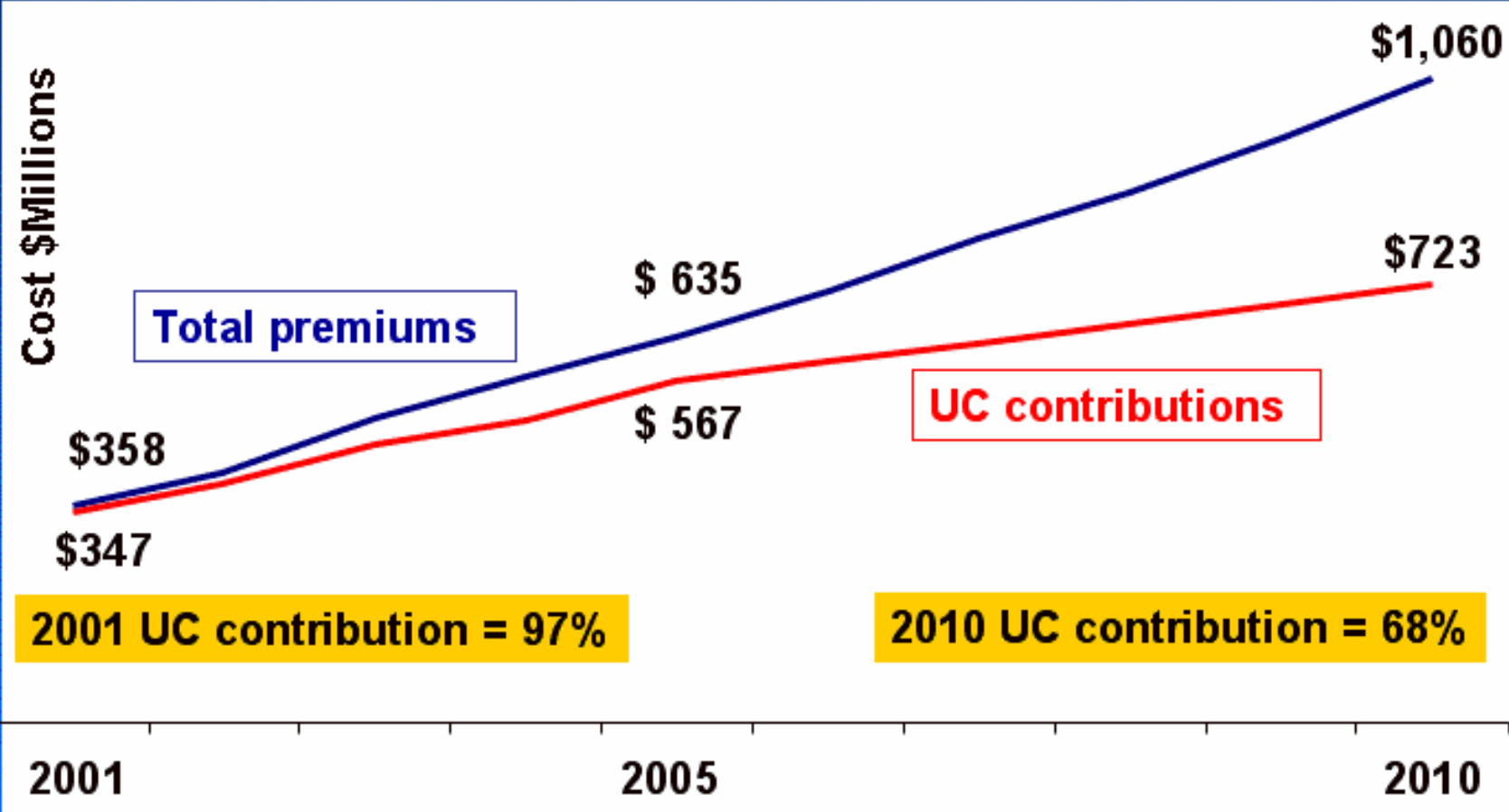
- 1) Reductions in the value of health and retiree benefits by raising costs and/or reducing benefits. (Note: Health premiums for retirees depend on employee premiums and will increase at the same rate.)
- 2) The possibility or likelihood of reductions or even elimination of retiree health benefits, as noted elsewhere on the UCOP website: “UC's contribution toward the monthly cost of medical and dental coverage is determined by UC and may change or stop altogether.” See http://atyourservice.ucop.edu/employees/retirement/retirement_now/health_insurance.html
- 3) Salary raises for UC employees in the next 10 years, *subject to available legislative funding (except for top executives whose salaries may be supplemented by private funding)*.

BENEFITS COST-SHIFTING HAS ALREADY BEGUN.

HEALTH PREMIUM INCREASES 2007 AND BEYOND

- a) In 2007, the total cost to the University of UC employee health premiums will rise **11.6%**.
- b) The employer will pay only **8%** of that increase. UC employees must pay the rest.
- c) Employees' premiums will rise an average of **38%**, with proportionately larger increases for the lowest paid UC employees (as much as 85%).
- d) A PowerPoint presentation by Michele French, then Executive Director of Policy and Program Design in Human Resources and Benefits, forecasts continuing steep increases in employee health premiums.

Medical Trends



PREMIUMS AND EMPLOYEE SHARE RISING

Both overall costs and the share employees pay are rising rapidly. UC used to pay 100% of health premiums; now they pay 97%. French projects a possible reduction to 68%, based on market comparators, by implication, shifting the other 32% to employees. The effects on current and future retirees, whose premiums are directly tied to those of employees, would be especially devastating.

This is a national problem, and health cost increases are not sustainable over the long term. **But shifting the costs to employees is not a fair or even a viable solution.**

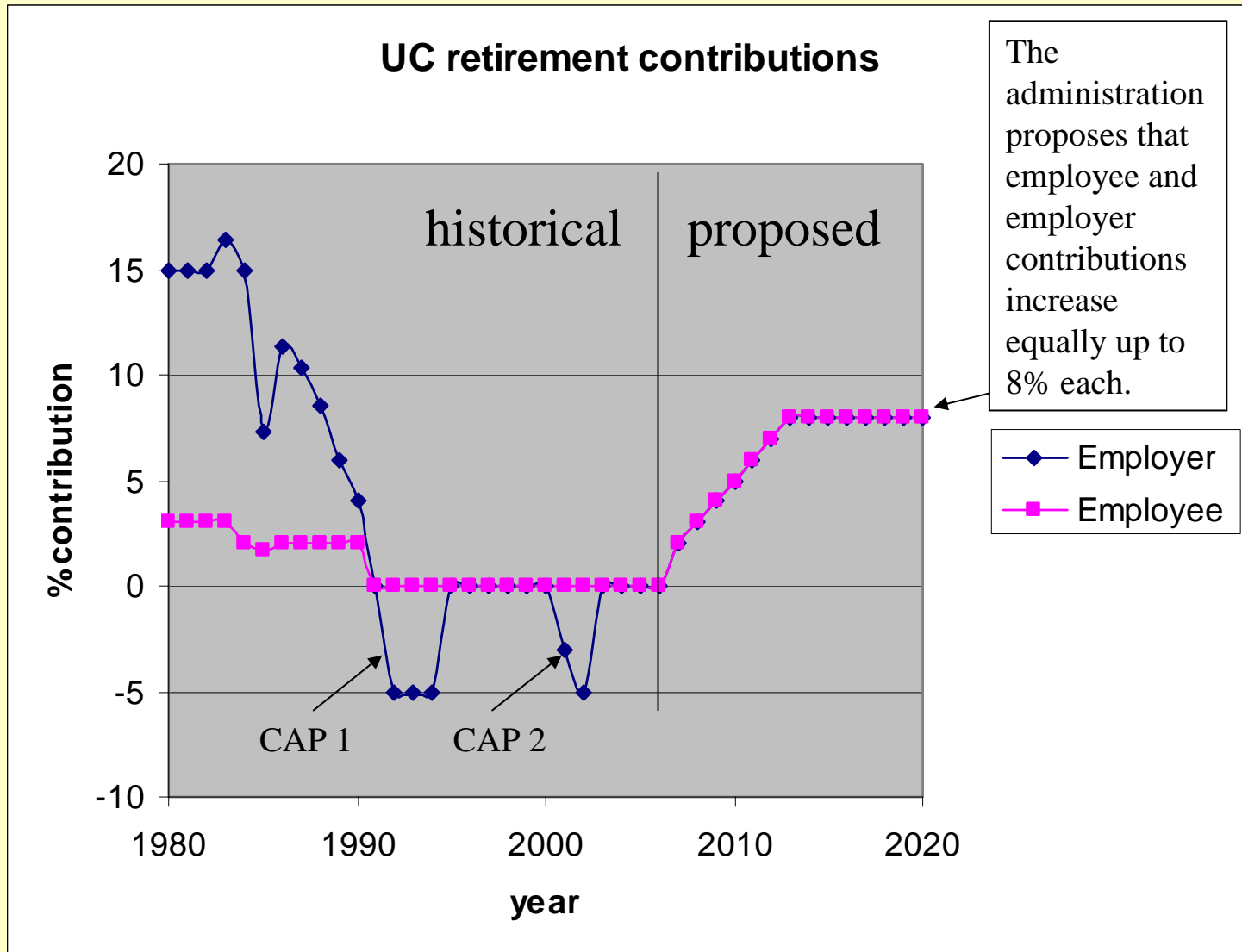
Employers and employees must work together to maintain quality and contain costs. The UC Union Coalition has asked to participate in UCOP's negotiations with providers and to explore the causes of and solutions to rising premiums. UCUC has also invited the administration and the Regents to endorse a long-term solution: single-payer healthcare. The administration rejected both of UCUC's proposals out of hand.

We think the administration needs to work with all of us to better understand and find ways to contain rising health costs.

2) PENSION CONTRIBUTIONS

The administration's initial bargaining proposal to the three staff unions:

- a) Beginning in July 2007, **2% of salary to be redirected** from the DCP into the UCRP. As the Academic Council's Analysis and Recommendation points out, this redirection would be a real and substantial decrease in total compensation.
- b) Thereafter, **employee contributions to be increased** at management's discretion **up to as much as 8%**.
- c) Employer contributions to match employee contributions: **a 50/50 split**.
- d) **No assurance of salary raises** to compensate for rising benefits costs. (The administration insisted on bargaining over pensions well before the regularly scheduled union negotiations that would have allowed bargainers to consider contributions in the context of salary and other compensation.)



References: Historical section based on UC's response to an information request, 2006
 Proposal was presented by UCOP at October 25, 2006 bargaining session.
 CAP 1 -Back calculated from CAP 1 held by Paul Brooks
 CAP 2 -<http://atyourservice.ucop.edu/employees/retirement/cap/index.html>

Forgetting History?

- This proposal is contrary to UC's historical practice before the contribution holiday, when most employees paid contributions of 2-3% and UC paid the rest, between 9 and 15%. Why should those proportions change now?
- It requires employees to pay for CAP 1 and CAP 2, the money withdrawn from UCRP in 1992-94 and 2001-03 and put into retirement accounts, ostensibly as compensation for COLAs that the legislature did not fund in those years. Administrators repeatedly assured employees that **the retirement fund was so over funded that it could easily absorb the CAP loss.**

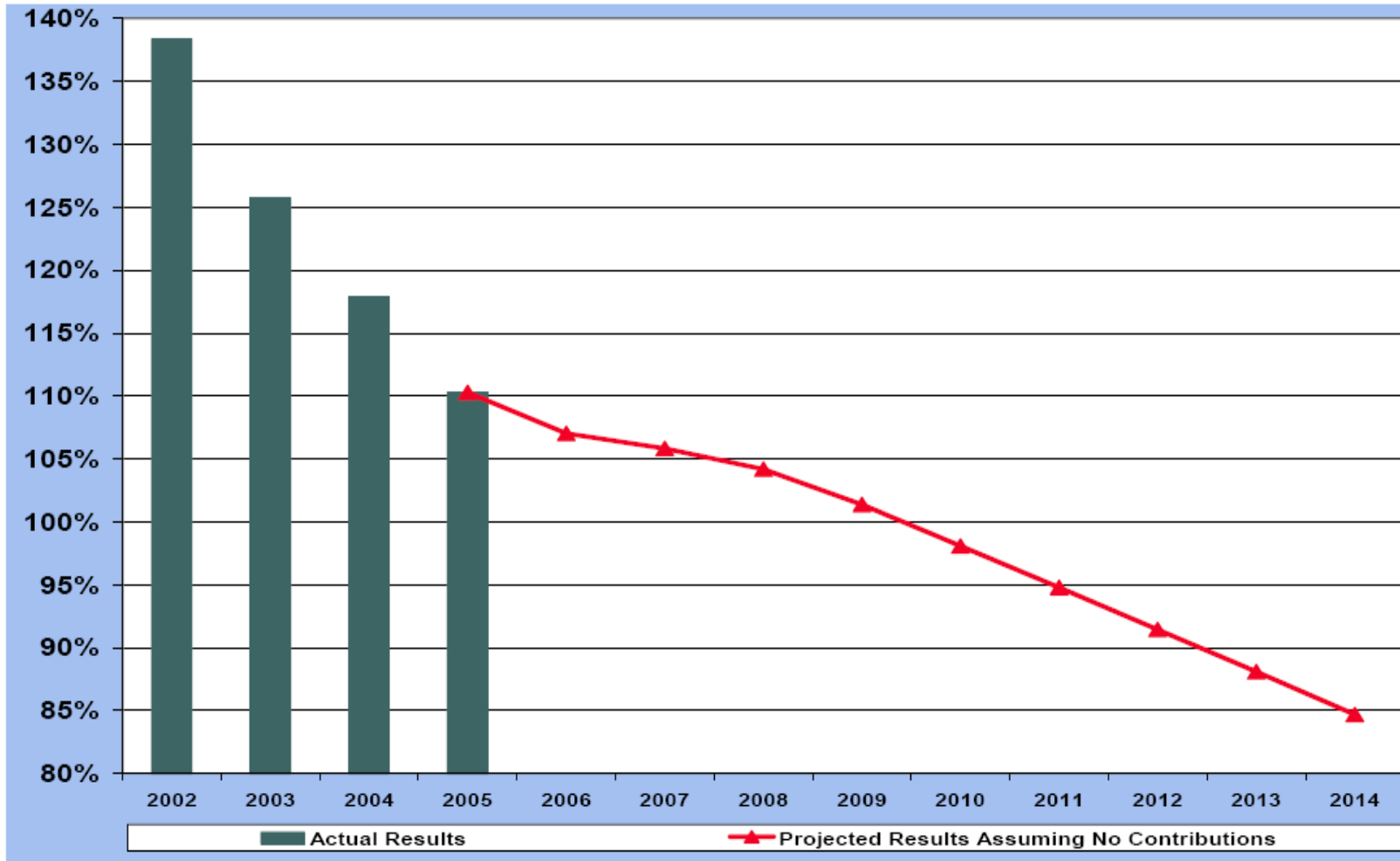
Questions About Pension Contributions

UCUC's actuary, Venuti and Associates, reviewed the information provided by the administration and its actuary, Segal (see report in handouts). They found

- 1) The Demographic Experience study that UCRP is required to do every 3 years is out of date. That report reviews assumptions used in the actuarial valuation.
- 2) The administration has not done the stochastic studies that are needed to make a reasoned decision about the need, timing, and amount of contributions.
- 3) The administration has not adequately studied the effects of changes in investing strategy or of the removal of Los Alamos workers from UCRP.
- 4) There is no evidence of an urgency so great that implementation of contributions cannot wait until the necessary data has been gathered and the issues can be addressed in the context of total compensation.

If Venuti is mistaken and there is real urgency, the unions suggest using the billions of dollars saved by the University during the contribution holiday to begin unilateral employer contributions to the plan until it is possible to negotiate **fair agreements taking total compensation into account.**

Pension Fund Ratio in Decline



— Presented to Regents by Segal Co., Nov 2005

What's missing in this graph?

An actuarial model such as this typically requires 25 inputs such as

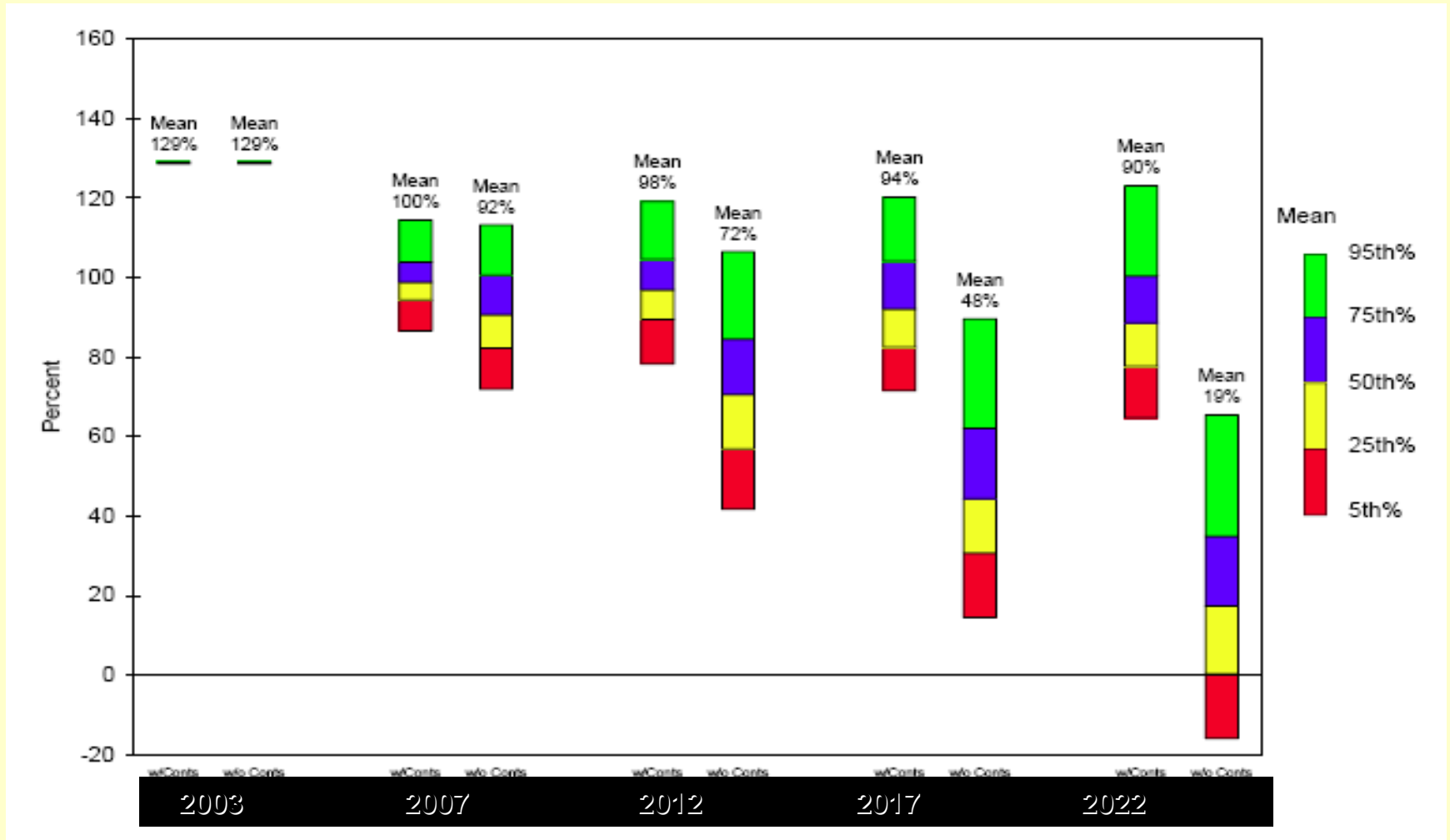
- Inflation
- Employee salaries (subject to bargaining, state budgets, vagaries of UC decisions)
- Employee demographics (age, length of service, retirement rates)
- Investment returns

What assumptions are being made in the model?

What is the error propagation of this model with different inputs?

This is a graph from the stochastic study done in by Towers and Perrin in 2003. It shows error bars and a propagation in error with different inputs.

Stochastic Study of UCRP, 2003

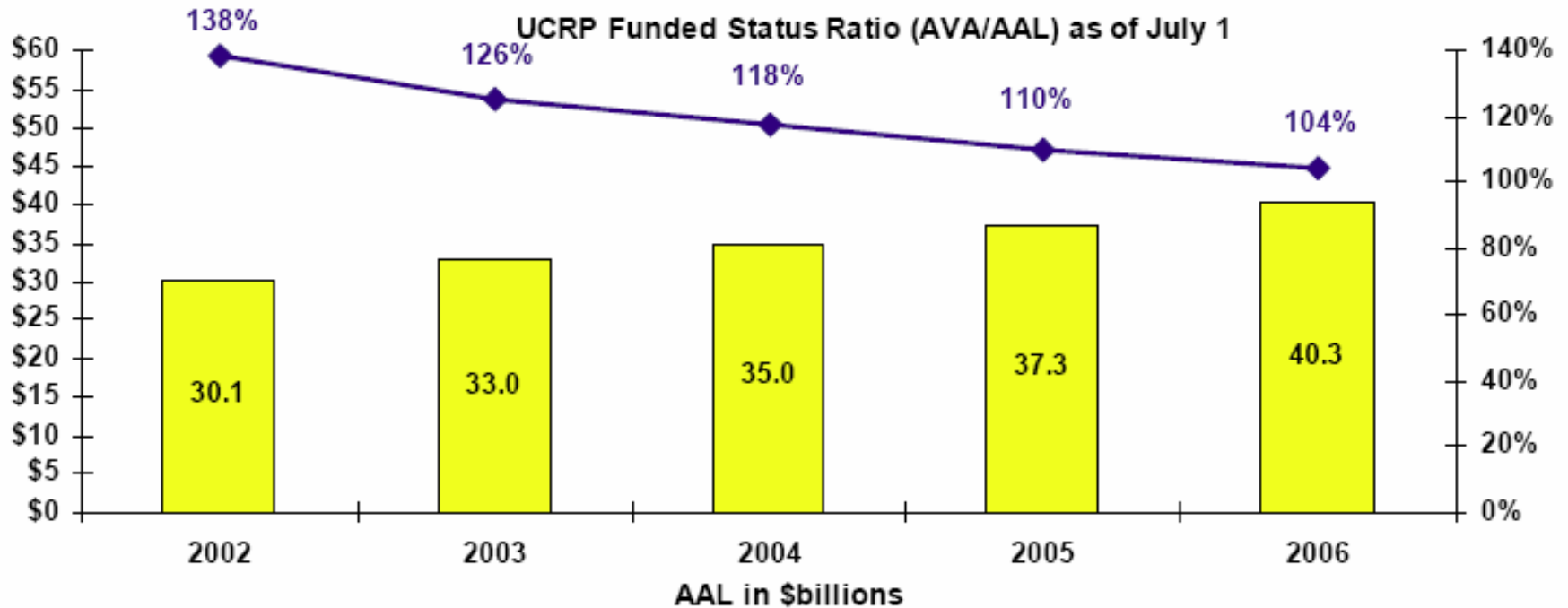


– Presented to Regents by Towers-Perrin Co., May 2003

The unions' actuarial consultant asked why a review has not been done for 2006, especially since employees are being asked to re-start contributions? The administration's reply:

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



This graph appears in UCOP's November 2006 report to the Regents' Committee on Compensation.

Why are actuarial liabilities increasing so rapidly?

A 34% increase in 5 years? Where are the error bars?

What are the input assumptions? Where was this model published?

<http://www.universityofcalifornia.edu/regents/regmeet/nov06/11c.pdf>

Recent Changes in Fund Management

Until 2000 the fund was managed in house with very low overhead (12 million dollars annually). In several closed sessions the regents agreed to transfer the management of the assets to private firms. These sessions included critiques of the internal funds management, which should not have been in closed session. CUE challenged these closed sessions in court and they were found to be illegal.

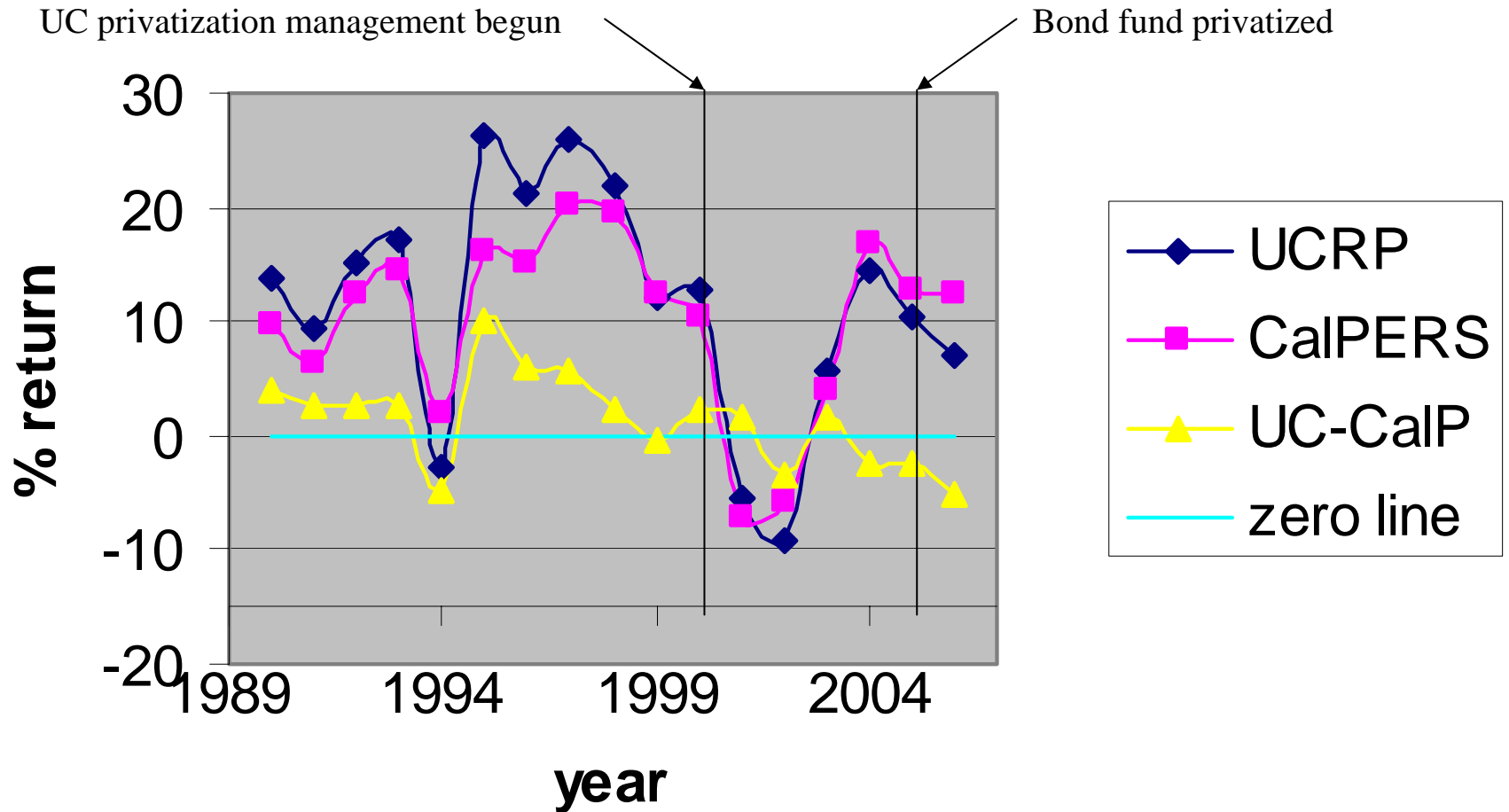
The argument for outside management was based on the claim that the fund was not diversified enough for safety.

Several regents, including Gerald Parsky (Chair of the Committee on Investments, and also chair of Aurora Capital Partners in 2000) were heavily involved in the financial services industry. <http://socrates.berkeley.edu/~schwartz/WHPF5.html> p. 6.

We don't know what the fees are. But assuming a minimal management fee by an external financial firm of 0.5% annually, fees for the \$40 billion retirement fund would cost \$200 million each year.

As Professor Schwartz has demonstrated, fund management by the external financial consultants appears to be **less successful than that of the internal management team** (see handouts). Although they claim that the fund is safer due to diversification, we have not received the risk assessment data to support that.

UC and Calpers Retirement Return



Reference: compiled from the table on page 7 of
http://socrates.berkeley.edu/~schwartz/UCRP_Data&Questions.pdf

At the present time, the bargaining unions are gathering information by submitting requests for information to the University.

These questions include but are not limited to

- 1) What would the fund be worth today if CAP 1 and CAP 2 had not been taken out (borrowed?). The initial answer is that this is not relevant to bargaining over contributions!
- 2) What is the noise level of projections of fund liability?
- 3) How sensitive is the model to various inputs such as pay increases, or fund performance?
- 4) Have funds been granted that were not earned by the regular formula, such as special offers of retirement pay for executives?
- 5) What is the effect of the money transferred to Los Alamos?

It is not yet clear what proposals the unions will have. It is clear that serious questions have to be asked about the privatization of management of the fund.

So where are the raises?
Proposed Schedule—RE 61

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%

UC Academics' Raises in 2006:

$$4\% = 2\%$$

- As we now know, the Legislature's allocation of funds for 4% raises does not translate into a 4% increase in UC employee paychecks.
- In 2006, of the 4% allocated by the legislature for salary raises (a last-minute increase over the expected 3%), UC academics received only 2% as a COLA. Administrators claimed that the rest was needed for merit raises--and increased benefits costs!
- In 2007, the small COLAs for many UC employees, including many UC academics, will be virtually eliminated by their increased benefits costs. That is not just restructuring of compensation; it is a large pay cut, especially for middle and lower income families.

Any input from the faculty during this bargaining process will be most welcome. The bargaining unions can submit “Requests for information” (RFI’s), and would be interested in comparing notes with Senate faculty about the answers we do or do not receive.

List of Handouts

Venuti Report (<http://berkeleyaft.org>)

University of California Retirement Plan Contribution Rates 1976-1993,
(<http://cft.org/councils/uc/index.html>)

Academic Council Analysis and Recommendation
(<http://www.universityofcalifornia.edu/senate/>)

Many Eyes on the Pension Prize, Cathy Cockrell, Berkeleyan, 26 Oct.
2006 (available on the Berkeley campus website at
<http://www.berkeley.edu/news/index.html>)

Charles Schwartz, UCRP Data and Questions and Performance Reports
for UC's External Investment Managers
(<http://socrates.berkeley.edu/~schwartz/>)

Additional References

Update on Total Compensation, At Your Service,

(http://atyourservice.ucop.edu/news/general/total_compensation_update.pdf)

RE 61, approved by the Regents in September 2005

(<http://www.universityofcalifornia.edu/regents/regmeet/sep05/re61.pdf>)

Competitive Review of Total Remuneration, Mercer Human Resource

Consulting (http://www.ucop.edu/hrap/pdfs/day2/4b_remuneration.pdf)

Why Aren't We Sleeping, Michele French, Presentation to UC
Leadership Conference May 2005

(http://cft.org/councils/uc/PENSION/french_2.htm)