

## **Questions and Answers about the UC Retirement Plan**

### **REINSTATEMENT OF CONTRIBUTIONS**

#### **Q. Why has UC not required contributions to the UCRP since the early 1990s?**

A. Strong market performance of the late 1990s combined with good management of UC's investments resulted in a large surplus of UCRP assets. The Regents chose to use this surplus to fund the ongoing annual costs of the UCRP. As a result, there has been a "contribution holiday" since the early 1990's, meaning no contributions by UC or its employees have been necessary since then to fund the plan.

#### **Q. Why is it necessary to reinstate contributions?**

A. Because there have been no contributions made to the UCRP for over 15 years, the Plan's surplus has been used to pay ongoing benefit costs, and, as a result, the Plan's funded status has gradually declined. Contributions will need to be reinstated to ensure the plan remains fully funded.

#### **Q. What does "fully funded" mean?**

A. This means remaining as close to 100% funded as possible. As market variations make it practically impossible to achieve exact 100% funding all the time. The Regents have defined a target funding range of 95% to 110%.

#### **Q. What would happen if UC does not reinstate contributions?**

A. If UC does not reinstate contributions to the UCRP, the plan is expected to become less than 100% funded within the next several years, which would mean that there would not be enough money in UCRP to cover all the liabilities.

#### **Q. What level of contributions will employees and UC need to make?**

A. The level of contributions that will be necessary has not yet been determined. The Regents will be evaluating recommendations and will determine what contributions will be needed to maintain the UCRP. Contributions made to the UCRP by employees in collective bargaining units are subject to bargaining.

#### **Q. What is the "normal cost" of the UCRP benefits?**

A. The "normal cost" is defined as the annual cost of a member's benefits earned over his or her career at UC. In the plan's recent history, the normal cost of the UCRP benefits has been 15% to 16% of participants' "covered earnings." Costs were shared in the past, and it is expected that both employees and the University will share in paying the cost of the UCRP benefits in the future.

#### **Q. What is meant by "covered earnings"?**

A. "Covered earnings" is the amount of employees' pay eligible for calculation of retirement benefits. Typically, base pay comprises the bulk of covered earnings, although other forms of compensation are also considered as part of "covered earnings." For more information, see the UCRP Summary Plan Description at [http://atyourservice.ucop.edu/forms\\_pubs/spd/ucrpspdwss.pdf](http://atyourservice.ucop.edu/forms_pubs/spd/ucrpspdwss.pdf)

**Q. Given the Regents' decision in March to reintroduce contributions to the UCRP - does that mean that in 2007 I'll have to contribute 16% of my pay to fund the retirement plan?**

A: No. The Regents decided that there should be a multi-year contribution strategy under which contribution rates will **increase gradually over time** to 16%, which is the normal cost of UCRP. The level of contributions and how the normal cost will be shared between the University and employees is still to be decided.

**Q. In the presentation at the May Regents' meeting, I noticed that UCRP funding is now projected to fall below 100% in 2010 instead of in 2009. What happened?**

A. Funding projections are based on several factors, including future investment performance of UCRP assets, rates of pay increase and demographic changes such as terminations or retirements. The recent re-projection—including stronger than expected investment performance—shows the plan staying fully funded until 2010 instead of 2009. Bear in mind that this projection is based on information available as of March 31, 2006, and that what actually occurs to the funding level in the future can be different from what is projected to happen. For example, a future projection based on *weaker* than expected investment performance could accelerate the estimated time that the plan will fall below 100% funding.

**Q. Why are the Regents pushing to restart contributions in 2007, if the plan will be fully funded into the year 2010?**

A. Waiting to reinstate contributions to the UCRP until after the plan becomes under-funded would be expensive – for plan members, for the University and for the taxpayers of the State of California. The sooner contributions start, the more gradually they can be introduced – lessening the impact on employees' take-home pay, the University budget, and funding needed from the state legislature and other sources.

**Q. Are the contribution levels presented to the Regents at their May meeting the actual amounts UC will ask employees to contribute?**

A. **No, they are examples only.** No decisions on a contribution schedule have been made. The percentages shown in the example are the **total** contributions, which will be divided between the university and plan members in a proportion not yet determined.

**Q. When employee contributions start, will the money that now goes from my paycheck into the DC plan go to UCRP instead?**

A. We expect that, as a first step, UC may re-direct these DC Plan contributions to the UCRP. At this time we do not know exactly when contributions will begin or exactly how much they will be for the University or the employees. These decisions will be made by the Regents when they consider the schedule for restarting contributions. The reinstatement of contributions also depends on the budget process and the collective bargaining process for represented employees.

**NEW Q: I hear that the money I've been putting into the Deferred Compensation Plan since 1990 is going to be transferred to the UCRP. Is this true?**

A: No. Any money that you have already placed in the DCP will stay there. While you are a UC employee, you can move the balance among various investment options. After you leave the University, you can take the balance with you .

**NEW Q: When contributions to the UCRP restart, can I make mine on a pretax basis?**

A: Yes. This means your contribution is made before taxes are withheld, lowering your taxable income. For example, if you pay 25% of your income in taxes and make a pretax contribution of \$100, the contribution really costs you only \$75.

## **SECURITY OF THE UCRP**

**Q. Is there any danger that UC will not be able to pay me the retirement benefits that I've earned?**

A. There have been many news stories about pension plans around the country that have not been able to sustain the benefits promised to their employees. UC is dedicated to ensuring that all UC retirees – present and future – are able to receive the vested retirement benefits that they earn while at the University. This is why UC takes prudent measures to ensure full funding of the UCRP.

## **IMPACT ON CURRENT RETIREES**

**Q. What about retirees who are already receiving a pension benefit from UCRP? Will their pension be reduced?**

A. No. The planned changes will have no affect on the pensions of those who are already retired.

**Q. When contributions are reintroduced for the UCRP, will retirees have to contribute?**

A. No. Contributions will be required only of active employees who are members of the UCRP.

## **DECISION-MAKING PROCESS**

**Q. Who has final authority to make decisions on the retirement plan?**

A. The UC Regents, as plan trustees, have final authority to make decision regarding the UC Retirement Plan.

## **COLLECTIVE BARGAINING ISSUES**

**Q. Is UC required to bargain with unions regarding the contributions to be made by represented employees?**

A. Yes, contributions made to the UCRP by employees in collective bargaining units are subject to bargaining, and UC will be negotiating with the unions that represent UC employees on this issue.

**Q. Will UC seek the input of the unions regarding the reinstatement of contributions?**

A. Yes, UC has already held, and will continue to hold, informal meetings with union representatives, as well as many other UC constituent groups, to begin a discussion about the need for reinstatement of contributions.

## **OTHER QUESTIONS**

**Q. Some people are saying that UC is going replace the UCRP with a defined contribution plan such as a 401(k). Is that true?**

A. There have been no decisions made regarding possible future changes to UC's retirement benefits. However, UC will be evaluating numerous alternatives that could possibly better serve the diverse needs of UC's workforce than the current defined benefit pension plan. UC is committed to keeping all employees informed of any decisions that would affect the UCRP.

**Q. Is UC planning to introduce a two-tier retirement plan?**

A. At this time, the Regents have first focused on restarting contributions in order to keep UCRP fully funded. It is critical that UC remain competitive in total compensation—including salaries and benefits. As such, UC is beginning to consult various stakeholders about future design choices that could be more affordable to new employees than our current plan. The University will take all appropriate actions that may require notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act.

**Q. Is UC planning to eliminate retiree health benefits?**

A. No. The university intends to continue retiree health benefits. The university will continue, as it has in the past, to review its retiree health program to see that it remains competitive and represents reasonable cost to UC and its retirees. Changes may be made to retiree health benefits in the future to sustain the program.

**Q. Is UC planning to offer any kind of early retirement incentive program, such as the VERIP programs of the early 1990s?**

A. No. The University has no plans to offer an early retirement incentive program.

**Q. How much did employees contribute to the UCRP prior to 1990?**

A. Prior to the current "contribution holiday," the cost of funding the UCRP was shared between UC employees and the University. From 1976 through 1990, the level of contributions from employees and the university varied from year to year. One of the Regents' goals is to create a predictable, long-term schedule of contributions, so that employees and the University can plan financially for the future.