

# Is Your Retirement Safe?

## TFIR Responds

Recently, The Senate Source sat down with Robert Anderson, chair of the University Committee on Faculty Welfare's Task Force on Investment and Retirement (TFIR), to discuss the current status of the UC Retirement Plan (UCRP), through which UC faculty and staff receive a Defined Benefit (DB) pension for life following their University employment. UC and its employees have not had to contribute to UCRP for 18 years – an unprecedented contribution holiday. But increasing fund obligations and recent market declines dictate that UCRP contributions must resume soon with a still yet-to-be determined employer-employee mix if the plan is to continue to be able to meet its obligations. TFIR Chair Robert Anderson posits that, in this case, an ounce of prevention may be worth several pounds of cure.

**Q:** Why does UC need to restart contributions? How long should we expect contributions to last? What will they look like in the first year?

*A: Each year, employees earn additional service credit that adds to UCRP's liabilities. This additional service credit needs to be funded through a combination of employer and employee contributions. It is highly unusual for a pension plan not to require contributions, and so UC is simply returning to the "normal" state in which contributions are required to cover the additional service credit earned; in all likelihood, the University will require contributions every year, going forward. The Senate is urging the University to start employer contributions next year, but to defer employee contributions until salaries have been raised to competitive levels.*

**Q:** What would happen if UCRP were less than fully funded?

*A: The basic UCRP benefits are contractual obligations by the University to its employees and retirees. If there were insufficient funds in the UCRP trust fund, the University would be obligated to pay the benefits using whatever other resources it had available. In practice, this would mean the University would have to make even larger contributions each year to UCRP. Certain UCRP benefits, such as ad hoc cost of living adjustments (COLAs), which the University has paid to maintain the purchasing power of long-term retirees, may not be contractually required; thus, a shortfall in funding could jeopardize payment of these ad hoc COLAs.*

**Q:** Can you help us understand UC's investment strategy? Is it designed to weather a serious recession?

*A: The UCRP investment strategy is intended to fund benefits in the long run. A portion of the portfolio is kept in relatively stable assets, such as short- and medium-term bonds. The bulk of the portfolio is kept in assets such as stocks and real estate that should produce higher returns in the long run, but which may exhibit significant volatility in the short run. Like any pension plan, UCRP's investment policy is designed to anticipate the reality that recessions occur periodically, and that assets such as stocks typically decline*

*significantly during a recession. The decline in asset values over the last year is in line with declines experienced in a number of previous recessions.*

Q: If my Defined Contribution (DC) allocation is redirected to the DB plan, what becomes of my DC plan?

*A: While the redirection of DC contributions – currently about 2% of most employees' salaries – would not result in a reduction in take-home pay, it would significantly reduce the total value of employee compensation; accordingly, the Senate opposes redirecting employee DC contributions to UCRP until salaries have reached a competitive level. If the DC contributions are redirected to UCRP, each employee's current DC accumulation will stay in that employee's individual DC account and continue to accumulate investment gains or losses, depending on the movement of the markets. The accumulation at retirement can be used to supplement the benefits provided by UCRP. Employees and retirees can choose how their DC accumulations are invested.*

Q: Is the DC redirect adequate to cover the employee contribution portion once DB contributions are restarted?

*A: Once salaries have reached competitive levels, it is likely that the employee contribution will be approximately 5% of salary, which is in line with the employee contribution to the California Public Employees Retirement System (CalPERS) and competitive with the arrangement for faculty at competing universities. Thus, the employee contributions ultimately are likely to be higher than the current employee DC contributions.*

Q: What resources does UC provide to help employees decide how to structure their 403(b), 457(b) and DC accounts?

*A: The Fidelity Retirement Services website (<https://login.fidelity.com/ftgw/Fidelity/NBPart/Login/Init?AuthRedUrl=https://workplaceservices100.fidelity.com/NBHome.html>) includes extensive information to help employees determine how much to save and how to invest. In addition, UC provides an annual mailing to employees with estimates of their plan accumulations and information on how increasing their savings would affect their current take-home pay and their resources in retirement.*

For more information on UCRP and UC's investment policies and practices, please see the University Treasurer's website: <http://www.ucop.edu/treasurer/> .

Click [here](#) to read President Yudof's recent message to the University community about UCRP funding. The Academic Senate's recent statement on UCRP provides additional information:

<http://www.universityofcalifornia.edu/senate/committees/council/ac.ucrp.0707.pdf> .