Appendix F

UC to AFT
October 23, 2013

R.J. UC-AFT
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Athena Buencamino
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UNIVERSITY
OF
CALIFORNIA

The Facts: Retiree Health Benefits

RETIREE HEALTH CARE ELIGIBILITY RULES TO CHANGE ON JULY 1, 2013

The University of California Board of Regents in December 2010 adopted changes to UC's retiree health benefits as one of several measures to put its retirement benefits program on solid financial footing while still ensuring attractive post-employment benefits. Those changes include:

New eligibility rules for employees, except Safety employees, hired on or after July 1, 2013 and for non-grandfathered employees (see information on "Grandfathering" provision in next column).

A 'grandfathering' provision that excludes those nearing retirement as of July 1, 2013 from the new eligibility rules.

Over time, increased cost sharing between retirees and UC for retiree health insurance.

The changes were proposed by President Mark G. Yudof and have support from the Academic Council, UC's staff advisor to the Regents, and the leadership of the Council of UC Staff Assemblies.

For represented employees the changes are subject to collective bargaining.

NEW ELIGIBILITY RULES FOR RETIREE HEALTH CARE, EFFECTIVE JULY 1, 2013

To encourage longer service, UC has adopted a new graduated eligibility formula to determine how much it pays toward retiree health insurance premiums.

The formula, which raises from 50 to 56 the minimum age at which retiring employees will be eligible for a UC contribution, is based on both the employee's years of service and age (in whole years) at retirement. UC's contribution to health care premiums increases significantly for employees who retire closer to the age at which they are eligible for Medicare.

The new rules will affect all UC employees, except Safety employees, hired on or after July 1, 2013, and employees hired before that date who do not come under the grandfathering provisions (see below).

A chart showing the graduated eligibility formula in more detail is on page 3 of this fact sheet.

'GRANDFATHERING' PROVISION

UC faculty and staff will remain under current retiree health care eligibility rules if, by June 30, 2013, they meet both of the following criteria:

- Have five years of UCRP service credit
- Their age (in whole years) plus their years of service credit is equal to, or greater than, 50

As an example, a 45-year-old employee with five years of service credit on June 30, 2013, will remain under the current eligibility rules. A 40-year-old employee with five years of service credit on that date would not.

Note that for purposes of determining eligibility for this grandfathering provision, a member's age on June 30, 2013, will be rounded up from half a year (.5) or more to the next whole year. For example, if an individual is 36 years and 7 months on June 30, 2013, the rounded age would be 37.

Regents approved the exemption to protect UC faculty and staff who are or will soon be eligible for retirement as of July 1, 2013 and don't have time to plan for the new eligibility rules.

Almost half of all current faculty and staff are projected to remain under the current rules for the retiree health program.

INCREASED COST SHARING FOR RETIREE HEALTH INSURANCE PREMIUMS

In 2012, UC pays, on average, 83 percent of the cost of retiree health insurance premiums. Regents have approved a plan to gradually reduce that amount over time until it reaches a floor of 70 percent. The level of the UC contribution will be reassessed annually.

PROTECTIONS FOR THOSE WITHOUT MEDICARE

For the current time, the President has determined that new cost-sharing provisions should not be applied to the relatively small number of retirees age 65 and older who are ineligible for Medicare, since they would be disproportionately affected by the increases. Instead, that group of retirees will pay premiums that are linked to employee premiums.

Current retirees below the age of 65, and therefore not yet eligible for Medicare, will continue to be grouped with active employees, which results in a lower retiree premium.

FINANCIAL SUSTAINABILITY

The changes in retiree health benefits stem from UC's urgent need to provide competitive retirement benefits while addressing the soaring cost of health care.

UC currently faces a $14 billion unfunded liability for retiree health care and must report a portion of the liability each year on its balance sheet.

In 2009-10, UC spent $250 million on health care for it retirees and their family members. The cost, which is paid for through departmental assessments from the general operating budget, is projected to increase to roughly $270 million in 2011, even with the approved changes.

As costs rise, UC has less money for hiring faculty, buying lab equipment and providing raises to faculty and staff.

Retiree Health Eligibility

Graduated Eligibility based on Age and Service
Age at Retirement

Years of UCRP Service Credit At Retirement	Current Minimum Age 50	50-55	56	57	58	59	60	61	62	63	64	65
10	50%	0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%
11	55%	0%	5.5%	11.0%	16.5%	22.0%	27.5%	33.0%	38.5%	44.0%	49.5%	55.0%
12	60%	0%	6.0%	12.0%	18.0%	24.0%	30.0%	36.0%	42.0%	48.0%	54.0%	60.0%
13	65%	0%	6.5%	13.0%	19.5%	26.0%	32.5%	39.0%	45.5%	52.0%	58.5%	65.0%
14	70%	0%	7.0%	14.0%	21.0%	28.0%	35.0%	42.0%	49.0%	56.0%	63.0%	70.0%
15	75%	0%	7.5%	15.0%	22.5%	30.0%	37.5%	45.0%	52.5%	60.0%	67.5%	75.0%
16	80%	0%	8.0%	16.0%	24.0%	32.0%	40.0%	48.0%	56.0%	64.0%	72.0%	80.0%
17	85%	0%	8.5%	17.0%	25.5%	34.0%	42.5%	51.0%	59.5%	68.0%	76.5%	85.0%
18	90%	0%	9.0%	18.0%	27.0%	36.0%	45.0%	54.0%	63.0%	72.0%	81.0%	90.0%
19	95%	0%	9.5%	19.0%	28.5%	38.0%	47.5%	57.0%	66.5%	76.0%	85.5%	95.0%
20	100%	0%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%

To find the University contribution for a particular age and number of years UCRP service credit, look down the far left column for the number of years UCRP service credit; then look across that row to the appropriate age. That will show the amount of the University contribution. Example: with 15 years of UCRP service credit at age 60, the retiree receives 37.5% of the University contribution.

Note:

- An eligible employee hired prior to July 1, 2013 who will not have a minimum of 5 years of UCRP service credit and whose age in whole years and UCRP service credit will be less than 50 as of June 30, 2013 is considered a "non-grandfathered" employee. A non-grandfathered employee who retires between the ages of 50 and 55 years of age with 10 or more years of UCRP service credit will be eligible for "access only" retiree health coverage (no employer subsidy).
- A new eligible employee (i.e. an eligible employee hired on or after July 1, 2013) will not be eligible to retire until 55 years of age. A new eligible employee who retires at age 55 with 10 or more years of UCRP service credit will be eligible for "access only" retiree health coverage (no employer subsidy).

UNIVERSITY of CALIFORNIA

THE FACTS:
CHANGES TO UC RETIREMENT BENEFITS

REGENTS APPROVE CHANGES TO UC RETIREMENT BENEFITS

The University of California faces a $24 billion unfunded liability for its retiree health and pension programs. At a special meeting on Dec. 13, 2010, the UC Board of Regents adopted several measures to put UC's retirement programs on solid financial footing while still ensuring attractive post-employment benefits. UC President Mark G. Yudof proposed the measures after an extensive consultation process with members of the UC community; they have support from the Academic Council, UC's staff advisors to the Regents, and the leadership of the Council of UC Staff Assemblies. Changes for represented employees are subject to collective bargaining.

SUMMARY OF KEY DECISIONS

Retiree Health

- Reduce UC's contribution to retiree health care premiums over time to a floor of 70 percent; in 2012 UC contributes, on average, about 83 percent of retiree health care premiums.
- Change eligibility rules for retiree health care benefits, effective July 1, 2013. The university will provide contributions to retiree health care premiums on a graduated scale based on employee age at retirement and years of UC Retirement Plan service credit. Eligibility for UC contributions will begin at age 56 with 10 years of service credit, with the maximum contribution available to employees who retire at age 65 with 20 years of service credit.
- Faculty and staff will remain under the current retiree health care eligibility rules if, on June 30, 2013, they have five years of UCRP service credit and their age and years of UCRP service credit together equal 50 or greater. Current health care eligibility rules also apply to Safety employees.

A new category ("tier") of pension benefits for future employees

- Offer a modified pension program to faculty and staff who join UC on or after July 1, 2013.
- The new pension "tier" raises the minimum retirement age from 50 to 55 and the retirement age for maximum pension benefits from 60 to 65.
- The new pension tier also eliminates the lump sum cashout and subsidized survivor benefits.
- The total annual cost to UCRP for the new pension tier will be less than the current pension program, and contributions from UC and pension plan members will cover the cost. UC will contribute 12 percent and employees will pay 7 percent.
- Most other aspects of the pension program will mirror the current UCRP.

Financing for the UC Retirement Plan

- Increase employer and employee contributions to the UCRP. In September 2010, Regents voted to increase UC's contribution to 10 percent and employee contributions to 5 percent in July 2012. IN November 2011, they voted to increase UC's contribution to 12 percent and employee contributions to 6.5 percent beginning July 2013.
- Fund a portion of UCRP's annual required contribution with a variety of resources, including restructuring UC's debt and borrowing at low-interest rates from UC's pool of short-term investment funds.
- Work to secure agreement from the State of California to resume paying its share of contributions to the UCRP.

New 2013 Tier Design	
Provision	**Design**
Retirement Income	
Age Factors	2.5% at age 65. See Exhibit 1 for all ages.
Highest Average Plan Compensation (HAPC)	Highest average monthly full-time equivalent base compensation rate received during any period of 36 consecutive months (no $133/mo offset).
Benefit Percentage	Age Factor multiplied by years of service credit.
Basic Retirement Income (BRI)	Benefit Percentage multiplied by HAPC.
Vesting Requirement	5 years
Service Retirement Eligibility	Age 55 with 5 years of service credit.
Survivor Benefits	
Preretirement Survivor Income Eligibility	Eligible survivor of deceased active or disabled member with two or more years of service credit.
Preretirement Survivor Income Benefit	15% of final salary.
Death While Eligible to Retire (DWE) Eligibility	Surviving spouse or surviving domestic partner of active disabled or inactive member who dies eligible to retire.
DWE Benefit	Greater of preretirement survivor income benefit or monthly benefit assuming member had retired on date of death and elected full continuance option with spouse or domestic partner as contingent annuitant. There is an actuarial reduction applied to all of the full continuance option benefit.
Postretirement Survivor Continuance Benefit	None, optional survivor continuance forms of payment available on an actuarially reduced basis.
Postretirement Survivor Continuance Eligibility	NA
Lump Sum Death Benefit Eligibility	Beneficiary of active, inactive, disabled or retired member.
Lump Sum Death Benefit	$7,500
Disabled Income Benefit	
Disability Income Eligibility	5 years of service credit (service credit continues to accrue during disabled period).
Disability Income Benefit	13.1% of final salary; plus 1.7% of final salary per year of service credit greater than five; total not to exceed 25% of final salary.
Disability Income Period	If become disabled before age 65: Later of 5 years or up to age 65; or up to the point at which no longer disabled, if earlier.If become disabled age 65 or older: Later of 12 months or up to age 70; or up to the point at which no longer disabled, if earlier.
Other	
Member Contributions	7.0% of covered compensation effective July 1, 2013 (no $19/mo offset).
CalPERS Reciprocity	Included
Lump-Sum Cashout	None
Inactive Member COLA	None
Postretirement COLA	100% of annual Consumer Price Index (CPI) increase up to 2% per year plus generally 75% of annual CPI increase above 4% (maximum of 6%)

Basic Retirement Income Factors for Each Whole Age		
Age	Current UCRP	New Tier Design
50	0.0110	N/A
51	0.0124	N/A
52	0.0138	N/A
53	0.0152	N/A
54	0.0166	N/A
55	0.0180	0.0110
56	0.0194	0.0124
57	0.0208	0.0138
58	0.0222	0.0152
59	0.0236	0.0166
60	0.0250	0.0180
61	0.0250	0.0194
62	0.0250	0.0208
63	0.0250	0.0222
64	0.0250	0.0236
65	0.0250	0.0250

Revised

Additions shown by underscoring; deletions shown by strikethrough

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Office of the President

TO MEMBERS OF THE COMMITTEES ON FINANCE AND COMPENSATION:

ACTION ITEM

For Meeting of December 13, 2010

UNIVERSITY OF CALIFORNIA POST-EMPLOYMENT BENEFITS RECOMMENDATIONS

EXECUTIVE SUMMARY

The President, based on broad consultation with the University community and extensive review by the President's Task Force on Post-Employment Benefits (Task Force), recommends several changes to University-sponsored post-employment benefits for approval by the Board of Regents.

Previous Actions: **September 2008**: The Regents approved a funding policy for the campus and medical center segment of the University of California Retirement Plan (UCRP).

February 2009: The Regents approved restarting University and member contributions effective on or about April 15, 2010, subject to collective bargaining as applicable.

September 2010: An Overview of University of California Post-Employment Benefits, including UCRP and the Retiree Health Program, was presented to the Regents. The Regents approved employer and member UCRP contribution rates for Plan Years beginning July 1, 2011, and July 1, 2012, subject to collective bargaining as applicable. The Regents approved a revised amortization schedule (30 years instead of 15) for UCRP unfunded liabilities.

Prior Discussion: **November 2010:** Annual actuarial valuations for UCRP and for the Retiree Health Program were presented to the Regents.

November 2010: The President presented recommendations regarding changes to University-sponsored post-employment benefits for discussion by the Board of Regents.

RECOMMENDATIONS

The President recommends that the Committee on Finance recommend to the Regents that:

(1) The President be delegated authority and discretion to fully fund the Annual Required Contribution (ARC) for the University of California Retirement Plan (UCRP) in the following two phases. From fiscal year (FY) 2011 through FY 2018, the University would contribute to UCRP, to the extent practical, the "modified" ARC, which would include the normal cost plus interest only on the Unfunded Actuarial Accrued Liability (UAAL). Beyond FY 2018, the University would contribute the full ARC payment, which would include the normal cost on the pension, interest on the UAAL, and an amount that represents the annual principal contribution of the 30-year amortization of the UAAL. The President may utilize borrowing from the Short Term Investment Pool (STIP), restructuring of University debt, and other internal or external sources to fund the gap between scheduled pension contributions from the University and employees, and the required funding amount, as described above.

The President recommends that the Committee on Compensation recommend to the Regents that:

(2) UCRP be amended to provide a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55, but retain many of the current features of UCRP in substantially the form illustrated in Attachment 1. The new tier would not offer lump sum cashouts, inactive member Cost of Living Adjustments (COLAs), or subsidized survivor annuities for spouses and domestic partners. For a summary of the proposed changes, see Attachment 2. For represented employees, all changes would be subject to collective bargaining.

~~(3) The Regents decline at this time to establish a program to restore benefits to highly compensated employees that otherwise are constrained by Internal Revenue Code limitations ("401(a)(17) restoration plan") and further, the Regents rescind approval of a 401(a)(17) restoration plan proposed in 1999, and affirm that such program never became effective and that no benefits have accrued or will accrue under its provisions, as conditions for effectiveness have not been met.~~

~~(4)~~(3) The University would lower, over time, the University's aggregate annual contribution to the Retiree Health Program to a floor of 70 percent.

~~(5)~~(4) The University implement a new eligibility formula for the Retiree Health Program for all employees hired on or after July 1, 2013, and non-grandfathered members described in Item ~~6~~ 5 below, that is based on the graduated formula set forth in Attachment 3, using both a member's age and years of UCRP service credit upon retirement, subject to collective bargaining for represented members.

~~(6)~~(5) The current eligibility provisions for the Retiree Health Program be maintained for active UCRP members whose age[1] plus UCRP service credit are greater than or equal to 50 and who have at least five years of UCRP service credit as of June 30, 2013 (referred to as "grandfathered members"). Employees who are active UCRP members on June 30, 2013, but do not meet the grandfathered member criteria (referred to as "non-grandfathered members") shall be subject to the new eligibility provisions described in Item ~~5~~ 4 above. In addition, if a non-grandfathered member retires between ages 50 and 55 with at least ten years of UCRP service credit, he or she would be eligible for "access only" coverage (no employer subsidy). A non-grandfathered employee could still attain the 100 percent UC contribution level at age 65 with 20 or more years of UCRP service credit.

~~(7)~~(6) The University implement an ad hoc COLA for UC-PERS Plus 5 Plan[2] annuitants to restore the purchasing power of their benefit to a level comparable to the benefit of their UCRP counterparts. In addition, the University shall implement an annual COLA provision generally based on the UCRP annual COLA formula, as long as the funded status of the UC-PERS Plus 5 Plan exceeds 100 percent.

~~(8)~~(7) The President be authorized to implement these approved recommendations regarding changes to UCRP, the UC-PERS Plus 5 Plan and the Retiree Health Program and supporting technical details.

BACKGROUND

The post-employment benefits the University of California (UC) offers employees play a vital role in attracting and retaining the caliber of faculty and staff needed to maintain UC as a premier public research university and preserve the quality of the University's service to the public. UC is committed to providing high quality benefit programs. The University's pension benefits are designed to recognize faculty and staff who spend long careers at UC. The University is also committed to focusing its efforts on providing fiscally sustainable post-employment benefits for both current and future retirees. The University faces serious challenges in achieving a fiscal balance between current expenses and long-term obligations. Costs are increasing, UC and its employees are facing increasing contribution levels, and the state has not resumed its funding to be applied to the University's pension fund.

An Overview of University of California Post-Employment Benefits, including UCRP and the Retiree Health Program, was presented to the Regents at their meeting on September 16, 2010. (See http://www.universityofcalifornia.edu/regents/regmeet/sept10/j4.pdf.)

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[1] Measured in full-year increments.

[2] Retired members of the University of California Voluntary Early Retirement Incentive Program (the UC-PERS Plus 5 Plan) were members of PERS while employed at UC. They elected concurrent retirement under PERS and the UC-PERS Plus 5 Plan effective October 1, 1991. These members receive lifetime supplemental retirement income and survivor benefits from the UC-PERS Plus 5 Plan.

The President's recommendations for changes to the University of California Post-Employment Benefits, including UCRP and the Retiree Health Program, were presented to the Regents for discussion at their November 2010 meeting.
(See http://www.universityofcalifornia.edu/regents/regmeet/nov10/j3.pdf.)

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
PRESIDENT'S RECOMMENDATIONS FOR A NEW TIER DESIGN

In evaluating the post-employment benefits for future hires, the President's Task Force debated the attributes of a defined contribution plan (DC Plan) versus those of a defined benefit plan (DB Plan), such as UCRP. It was widely acknowledged that, as a DB Plan, UCRP has been critically important for recruiting and retaining outstanding faculty and staff – a key component of the University's excellence. By providing incentives for extended service, UCRP promotes the recruitment of talented people and encourages them to pursue a career with the University. The Plan's advantages, however, extend beyond recruitment. The formula-driven benefits provided by a DB Plan such as UCRP make it economically unattractive for faculty and staff to leave the University in midcareer, thus helping UC retain valuable employees who may receive employment offers from competing institutions.

The importance of the retirement income security that UCRP provides to faculty and staff was clearly reflected in the results of the Post-Employment Benefits survey that the Task Force authorized during the course of its deliberations. For all these reasons, the Task Force members had a strong consensus in advocating the preservation of DB Plan benefits for prospective employees.[3]

New Tier Features – Similarities and Differences from Current UCRP

The new tier design retains a significant number of current UCRP features, as described in Attachment 1. However, the new tier design also incorporates significant changes.

Later Retirement Age

Currently, UCRP members can retire starting at age 50, and reach the maximum age factor at age 60.[4] For future employees, the President recommends shifting the earliest retirement age to 55 and making the maximum age factor apply at age 65 under the new UCRP tier. An employee would be still be subject to the five-year vesting requirement and the ultimate benefit would be based on the total years of service credit, the highest average plan compensation (HAPC) over any consecutive 36-month period, and the age factor at retirement.

[3] The feasibility of additionally offering a defined contribution plan for the clinical enterprises will be studied over the coming months.
[4] Currently, a member's retirement benefit is based on the member's highest average plan compensation, years of UCRP service credit, and the relevant age factor, which increases from age 50 to age 60.

Lower Normal Cost

The Normal Cost of the new tier would be fully funded from the beginning and so would not impact UCRP's existing unfunded liability. At 15.1 percent of covered compensation, the estimated long-term total Normal Cost of the new tier is about 20 percent lower than the estimated long-term total Normal Cost of the current UCRP provisions. It is proposed that the University portion for the new tier would be 8.1 percent of covered compensation[5] and the member contribution rate would be 7.0 percent of covered compensation.

The Task Force participants agreed that a new hire tier implemented within UCRP should not include certain benefit provisions currently in the Plan that were considered to be too costly or not in keeping with the new tier design. Attachment 2 illustrates the design changes incorporated in the new tier that work to lower Normal Cost.

Other Recommendations

Addressing the Fiscal Challenge in UCRP

Based on the recommendations of the Task Force, the President recommends that the Regents delegate authority to the President to fully fund the UCRP ARC, to the extent practical, by paying UCRP "modified" ARC (Normal Cost plus interest only on the UAAL) from 2011 until 2018 and using other University resources to make up the gap between the scheduled total pension contribution percentage as approved by the Regents and modified ARC, including borrowing from the Short Term Investment Pool (STIP) and restructuring of University debt.

The first part of the recommendation involves paying UCRP Normal Cost plus interest only on the UCRP unfunded liability until 2018 as an interim financing strategy, and then switching to paying ARC (i.e., Normal Cost with full amortization of UAAL) thereafter. While paying both the principal and interest is the recommended long-term plan, an interest-only payment on UCRP's unfunded liability through June 2018 provides the University with approximately $900 million reduced pension costs from July 2011 to June 2018 (as described in the Post-Employment Benefits Task Force report). This interim financing strategy stops UCRP's unfunded liability from growing, achieves temporary budgetary relief, and moves the University closer to fully funding ARC.

The second part of the recommendation involves leveraging the University's large STIP balance by borrowing the annual funding gap amount from STIP at an agreed upon interest rate for a 30-year period. The borrowed funds would be used to pay the modified ARC in the fiscal years between 2011 and 2018. The amount borrowed would be limited to the annual funding gap between the Normal Cost plus interest on the UAAL and the scheduled total pension contribution percentage as approved by the Regents. The University's borrowing rate would be capped at the current STIP rate, which today is approximately 2.4 percent, much lower than the cost to issue

[5] Estimated University (employer) long-term portion of Normal Cost.

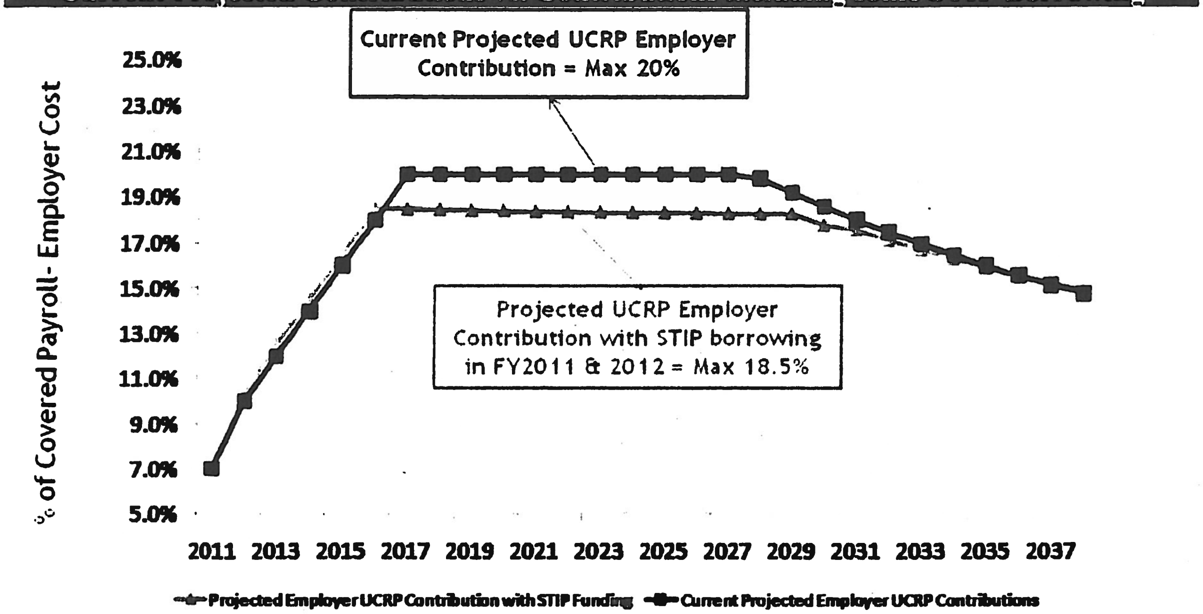
pension obligation bonds, which are another potential source of funding for contributions. If STIP rates were to fall below the cap of 2.4 percent, then the fund sources responsible for repaying the STIP loan would be charged the actual rate. The repayment terms are yet to be finalized, but in an extended period of positive market returns, it is possible that in the future the repayment of STIP could be accelerated. In addition, the total borrowed from STIP will be limited to an amount that does not adversely affect the University's daily liquidity needs.

While debt service repayment would have to be built into the operating budget, the relatively low borrowing rate limits the amount to between 0.3 percent and 0.8 percent of payroll over the 30-year term of the STIP loan. The repayment source for the loan would be distributed proportionally among the fund sources that currently pay into UCRP.

Due to restrictions on some STIP funds and the length of the borrowing period, certain exceptions would need to be granted. The Chief Financial Officer (CFO) and his staff are currently conducting a review of the 76,000 accounts in STIP, many of which are restricted. The CFO envisions coming before the Regents in March for any additional approvals that may be required. This will allow time to execute the STIP borrowing plan before the end of the fiscal year.

Under current modeling projections, the University's contributions increase annually by two percent to reach an imposed limit of 20 percent by FY 2017-18 and plateau at this cost until 2028, decreasing slowly thereafter in line with the decrease in ARC. Borrowing the University's annual funding gap from STIP in FY 2011-12 and FY 2012-13 ($1.1 billion and $0.9 billion, respectively) could reduce the University's maximum contribution to 18.5 percent from FY 2017-2028 instead of 20 percent, as shown in the graph below.

**Employer UCRP Contribution:
Current Projected Contributions vs. Contributions including some STIP Borrowing**



Assumptions:
-New tier as described within this item is implemented by FY 2013.
-STIP borrowing at 2.5 percent interest for a 30-year term, interest only payments until FY 2031, principal and interest payments from FY 2031-2042. Debt service payments included in "Projected Employer UCRP Contribution with STIP Funding."

If the anticipated 18.5 percent employer contribution level proves harmful to UC's other programs, then the Regents might consider other financing options, including restructuring the University's debt and redirecting cash flow savings to meet the annual contribution to UCRP, and/or taking a portion of earnings on the portion of STIP not borrowed and redirecting that income to meet the annual contribution to UCRP.

~~Restoration Benefits~~

~~In 1999, the Regents approved a proposal to restore to highly compensated employees pension benefits that otherwise would be lost due to limitations in the Internal Revenue Code (section 401(a)(17)). Such approval however was subject to a favorable determination by the Internal Revenue Service and to concurrence by the President and the Chairs of the full Board and of the Committee on Finance on implementation of the proposal. Such concurrence on implementation has not occurred and accordingly the proposal, which was documented in a draft addendum to the UCRP known as "Appendix E," has never gone into effect. Among its recommendations, the Task Force proposed that the University establish a similar 401(a)(17) restoration plan, effective July 1, 2013. Due to the budget challenges currently facing the University, the President recommends that the Regents decline to adopt this recommendation. Additionally, in order to avoid any confusion over the status of the 1999 proposal, the President further recommends that the Regents formally rescind their approval of a 401(a)(17) restoration plan proposed in 1999~~

~~and affirm that such proposal never has gone into effect and that no benefits have accrued or will accrue under its provisions.~~

UC-PERS Plus 5 Plan

Members of the University of California Voluntary Early Retirement Incentive Program (the UC-PERS Plus 5 Plan) were members of the Public Employees' Retirement System (PERS) while employed at UC who elected concurrent early retirement under PERS and the PERS Plus 5 Plan effective October 1, 1991. These members now receive lifetime supplemental retirement income and survivor benefits from the PERS Plus 5 Plan. The PERS Plus 5 Plan is not part of UCRP and its assets cannot be used for any purpose other than paying PERS Plus 5 Plan benefits and administrative expenses.

As of July 1, 2010, the PERS Plus 5 Plan had 695 annuitants receiving benefits with total annual benefits in pay status of $4.8 million. Since it is a closed plan covering only retired members and their survivors, there will be no new entrants who would qualify for benefits and thereby increase future obligations. Based on current PERS Plus 5 Plan valuation assumptions, it is not expected that any future contributions will be required.

Below is a table showing the PERS Plus 5 Plan assets, present value of future obligations, surplus assets, and funded percentage as of July 1, 2010.

PERS Plus 5 Plan Assets and Liabilities as of July 1, 2010

Plan Assets	**Present Value of Future Obligations**	**Surplus Assets**	**Funded Percentage**
$59.4 million	**$35.5 million**	**$23.9 million**	**167%**

Unlike UCRP, the PERS Plus 5 Plan has no retiree COLA provision. As of July 1, 2010, the retained purchasing power of its annuitants' benefits was approximately 79 percent, whereas their UCRP counterparts, who retired at the same time, had retained purchasing power of approximately 91 percent.

Based on the Task Force recommendation and prior reviews, and due to the loss in purchasing power experienced by PERS Plus 5 Plan annuitants, and in consideration of the funded status of the PERS Plus 5 Plan, the President recommends implementing an ad hoc COLA for the PERS Plus 5 Plan annuitants of 15.19 percent effective on April 1, 2011. This would restore the purchasing power of PERS Plus 5 benefits to the same level as benefits for their UCRP counterparts. In addition, the President recommends implementing an annual COLA provision using the equivalent UCRP COLA formula. The proposed annual COLA would be paid annually, as long as the funded status of the PERS Plus 5 Plan exceeds 100 percent. This would maintain the purchasing power of PERS Plus 5 Plan benefits going forward at the same level as benefits for their UCRP counterparts. These recommendations reduce the current PERS Plus 5 funded status to approximately 131 percent and the surplus assets to approximately $14.2 million.

UNIVERSITY OF CALIFORNIA RETIREE HEALTH PROGRAM PRESIDENT'S RECOMMENDATIONS FOR CHANGES

Retiree health benefits are a valuable tool in the University's recruitment and retention efforts, and the results of the Post-Employment Benefits survey authorized by the Task Force attest to this fact. Access to affordable, quality health care coverage in retirement is a priority to UC employees and retirees alike, especially in light of skyrocketing healthcare costs. Consequently, the Task Force overwhelmingly recommended that the University continue to provide retiree health benefits. However, consistent with market trends, the Task Force recognized that changes with respect to premium cost sharing must be implemented over time. Additionally, new eligibility rules would encourage longer service with the University, thereby reducing costs as retirees' health care coverage provided by UC integrates more quickly with Medicare coverage.

The cost of the retiree health program is not pre-funded but rather included in the University's operating budget on a pay-as-you-go basis. Retiree health benefits are not paid from the UCRP trust. Program options, benefits, and rates are subject to change or termination each year and are not accrued or vested benefit entitlements.

Retiree Health Program – New Eligibility Criteria

The President recommends that new eligibility rules go into effect on July 1, 2013, for all new employees and existing employees who do not meet the "grandfathering" requirements described below. The new rules would be based on a formula that multiplies an age factor times UCRP service credit to determine the percentage of the University contribution. (See Attachment 3.) The formula increases the minimum age for the University contribution and provides a lower contribution for shorter University service, as follows:

- **Age 50-55** – Non-grandfathered Members / **Age 55** – New Employees: access only for non-grandfathered members who retire between ages 50 and 55 and for new employees who retire at age 55. "Access only" means these retirees would pay the full cost of their coverage, that is, no employer subsidy.

- **Age 56 to 65** – Non-grandfathered Members and New Employees: graduated contributions based on years of UCRP service credit and age. The two separate factors used in the new formula, age and service credit, are combined to determine the level of the University contribution to health premiums. (See Attachment 3.) An employee who retires at age 65 with 20 or more years of UCRP service credit would receive 100 percent of the University contribution to health insurance premiums.

Retiree Health Program – "Grandfather" Provision

In considering potential changes to retiree health eligibility, the Task Force recognized that applying new eligibility requirements to all employees could have unintended consequences where a large percentage of the workforce is currently eligible to retire or has many years of UCRP service credit. Approximately 25 percent of the existing active population is at least 50 years old with a minimum of five years of UCRP service credit and is technically eligible to retire. An additional 30 percent has age plus UCRP service credit greater than 50. A wave of retirements was envisioned by individuals trying to secure retiree health coverage under old eligibility rules before new rules took effect. Finally, there were concerns about the ability of those between age 50 and 56 to obtain coverage outside the University and about their ability to readjust retirement planning to provide for large medical premium costs.

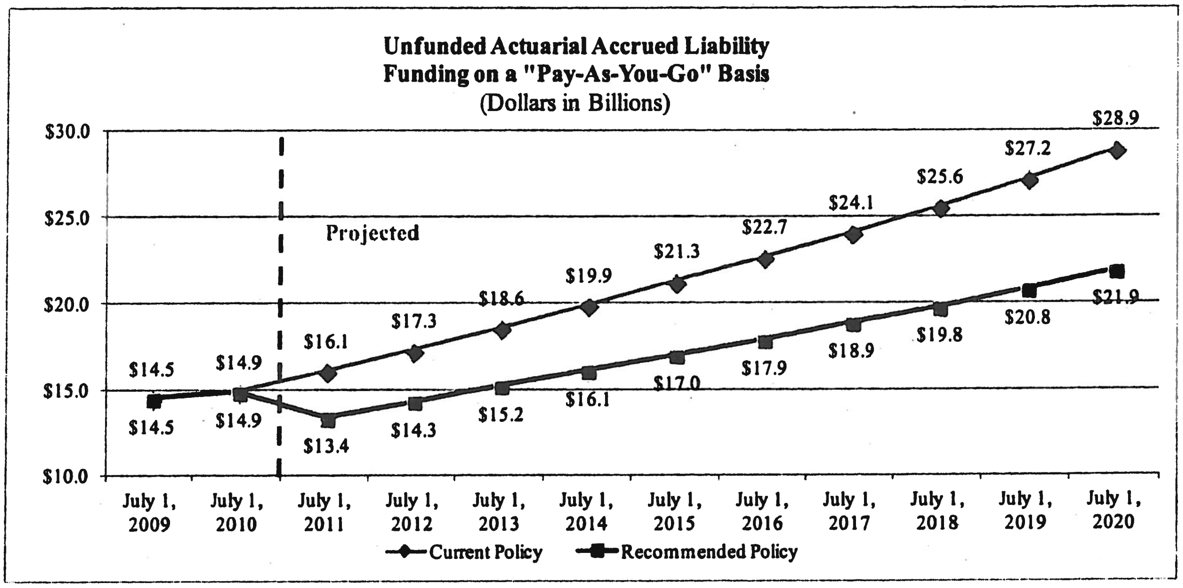
For these reasons, the President recommends that faculty and staff with age plus UCRP service credit greater than or equal to 50 and who have at least five years of UCRP service credit as of June 30, 2013, be "grandfathered" under the current graduated eligibility rules.

Retiree Health Program - Lower UC Maximum Contribution

The President also recommends that, over time, the University lower its maximum aggregate contribution toward the retiree health premiums to a floor of 70 percent. This recommendation would apply to all eligible recipients, regardless of grandfathering. Each year, during the annual health plan renewal process and in the context of overall budget resources, salary adjustments for active employees, and COLAs for retirees, the administration should reassess the level of the University contribution, the appropriateness of an additional 3 percent reduction in the contribution, and whether the floor should be 70 percent or a higher amount.

In contrast to its UCRP recommendations, the Task Force recommendations for the Retiree Health Program have an immediate impact on both the program's total Normal Cost and unfunded liability. The recommendations, if fully implemented, would reduce the unfunded liability for retiree health from $14.9 billion to $12.7 billion and the long-term Normal Cost from 8.2 to 4.7 percent of covered compensation. However, the recommendations also have a long phase-in period for current faculty, staff, and retirees to allow them to plan for the proposed changes.

The following chart illustrates how the President's recommendations, if approved, would reduce the unfunded liability of the Retiree Health Program.



Notice:

The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act, whenever any such action is required.

Attachments:

1. Chart - Current UCRP Features included in the New Tier Design
2. Chart - Current UCRP Features NOT included in the New Tier Design
3. Chart - Recommended Retiree Health Eligibility

ATTACHMENT 1

Provision	Current UCRP Features included in the New Tier Design
Guaranteed Income from a Defined Benefit Plan	Same as current UCRP
Maximum Age Factor	2.5 percent; same as current UCRP
Reduction for Early Retirement	5.6 percent per year; same as current UCRP
Highest Average Plan Compensation	36 consecutive months; same as current UCRP
Maximum Benefit	Included, 100 percent of HAPC or IRC limit, whichever is less; same as current UCRP
Vesting Requirement	5 years; same as current UCRP
Post-Retirement COLA	Included, same as current UCRP
Disability Benefits	Included; similar to current UCRP (subject to comprehensive review by administration)
CalPERS Reciprocity	Included; same as current UCRP

ATTACHMENT 2

Provision	Current UCRP Features NOT included in the New Tier Design
Lump Sum Cashout	No choice of a Lump Sum Cashout; retirees must take the pension as monthly income.
Inactive Member COLA	No Inactive Member COLA, which provides an inflation adjustment to the HAPC for vested individuals who leave UC employment but retire at a later point.
Subsidized Survivor Benefits	Currently, UCRP provides a partial survivor benefit to eligible survivors, including spouses, domestic partners, children, and dependent parents, who survive the retiree, without an actuarial reduction in the pension paid to the retiree. Under the new tier, a retiree may still choose to provide a survivor benefit, subject to an actuarial reduction in the pension paid to the retiree.
Social Security Supplement	Under the current UCRP terms, employees with Social Security who retire before age 65 receive a temporary supplement from UCRP, paid through the month of their 65th birthday (or through the month of death, if earlier). This supplement temporarily restores the $133 reduction applied to a member's HAPC to account for the University's contributions to Social Security. The new tier will not include the temporary Social Security supplement for retirees under age 65 or the $133 offset to HAPC.
Retirement Age	Currently UC members can retire starting at age 50, and the maximum age factor is available at age 60. For future employees, the President recommends shifting the early retirement age to 55 and making the maximum age factor apply at age 65. An employee would be eligible for minimum benefits at age 55 with 5 years of service.
Estimated Long-Term Normal Cost	15.1 percent of covered compensation
Employee Contribution	7.0 percent of covered compensation; does not include the $19 per month offset to member contributions.
Estimated University Portion of Normal Cost	8.1 percent of covered compensation

Recommended Retiree Health Eligibility

The following chart shows the eligibility factors derived by multiplying the age factor times the service credit factor:

Recommended Graduated Eligibility based on Age and Service
Age at Retirement

Years of UCRP Service Credit at Retirement	Current Minimum Age 50	50-55	56	57	58	59	60	61	62	63	64	65
10	50%	0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%
11	55%	0%	5.5%	11.0%	16.5%	22.0%	27.5%	33.0%	35.0%	44.0%	49.5%	55.0%
12	60%	0%	6.0%	12.0%	18.0%	24.0%	30.0%	36.0%	38.5%	48.0%	54.0%	60.0%
13	65%	0%	6.5%	13.0%	19.5%	26.0%	32.5%	39.0%	42.0%	52.0%	58.5%	65.0%
14	70%	0%	7.0%	14.0%	21.0%	28.0%	35.0%	42.0%	49.0%	56.0%	63.0%	70.0%
15	75%	0%	7.5%	15.0%	22.5%	30.0%	37.5%	45.0%	52.5%	60.0%	67.5%	75.0%
16	80%	0%	8.0%	16.0%	24.0%	32.0%	40.0%	48.0%	56.0%	64.0%	72.0%	80.0%
17	85%	0%	8.5%	17.0%	25.5%	34.0%	42.7%	51.0%	59.5%	68.0%	76.5%	85.0%
18	90%	0%	9.0%	18.0%	27.0%	36.0%	45.0%	54.0%	63.0%	72.0%	81.0%	90.0%
19	95%	0%	9.5%	19.0%	28.5%	28.0%	47.5%	57.0%	66.5%	76.0%	85.5%	95.0%
20	100%	0%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%

To find the University contribution for a particular age and number of years UCRP service credit, look down the far left column for the number of years UCRP service credit; then look across that row to the appropriate age. That will show the amount of the University contribution. Example: with 15 years of UCRP service credit at age 60, the retiree receives 37.5% of the University contribution.

Note:

- An eligible employee hired prior to July 1, 2013, who did not have a minimum of 5 years of UCRP service credit and whose age in whole years and UCRP service credit were less than 50 as of June 30, 2013, is considered a "non-grandfathered" employee. A non-grandfathered employee who retires between the ages of 50 and 55 years of age with 10 or more years of UCRP service credit is eligible for "access only" retiree health coverage (no employer subsidy).
- A new eligible employee (i.e. an eligible employee hired on or after July 1, 2013) is not eligible to retire until 55 years of age. A new eligible employee who retires at age 55 with 10 or more years of UCRP service credit is eligible for "access only" retiree health coverage (no employer subsidy).

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:[1]

ACTION ITEM

For Meeting of May 16, 2012

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – NEW TIER PLAN PROVISIONS

EXECUTIVE SUMMARY

In December 2010, the Regents approved a new benefits tier for the University of California Retirement Plan (UCRP or Plan) to be effective July 1, 2013 (*University of California Post-Employment Benefits Recommendations*). The changes were an outcome of a review by the President's Post-Employment Benefits Task Force that was established in 2009 to develop strategies for dealing with the long-term costs of providing post-employment benefits. The Regents' action in 2010 authorized the amendments that created the new tier for employees hired on or after July 1, 2013. The President now recommends for approval the Plan provisions described below that will clarify the operation of the new tier and the integration of the current and new benefit terms as applied to rehired employees who accrue service under both provisions. The recommended provisions, which also will become effective July 1, 2013, will not increase costs to the retirement Plan.

RECOMMENDATION

The President recommends that the Committee on Finance recommend that the Regents supplement the *University of California Post-Employment Benefits Recommendations* approved in December 2010 to amend the University of California Retirement Plan (UCRP or Plan) as follows:

A. Determine eligibility for membership in the new benefits tier (2013 Tier) in the UCRP using the date on or after July 1, 2013 on which an employee satisfies the UCRP eligibility criteria, which may be later than the employee's hire or rehire date.

B. For those UCRP members who accrue service under the current plan terms (Current Plan Terms) and the 2013 Tier (referred to as "multi-tier members"), clarify that:

(1) A member accruing service under the Current Plan Terms who terminates from University employment and is subsequently rehired on or after July 1, 2013 will

[1] of interest to the Committee on Compensation

not be deemed to have incurred a "break in service" (and therefore will continue to accrue service under the Current Plan Terms) if he or she returns to University employment in an eligible position before the first day of the second month following the month in which the member terminated employment.

(2) If a multi-tier member elects to receive benefits accrued under the Current Plan Terms before reaching age 55, which is the earliest retirement date provided under the 2013 Tier, the member's monthly benefit attributable to service under the 2013 Tier will start automatically when the member reaches age 55, but not before.

(3) Multi-tier members must elect the same form of monthly retirement income and the same contingent annuitant, if applicable, for benefits accrued under Current Plan Terms and benefits accrued under the 2013 Tier except if a member elects the lump sum option for the Current Plan Terms benefit, which is not available under the 2013 Tier.

C. The President be authorized to implement these approved provisions, and supporting technical details.

BACKGROUND

Immediately following approval of the 2013 Tier by the Regents in December 2010, a Post-Employment Benefit (PEB) Implementation Team was formed to facilitate implementation. The PEB Implementation Team sought input from UCOP Human Resources personnel and the Office of the General Counsel in analyzing potential issues and developing potential solutions in making the 2013 Tier operational. As part of the consultative process, the recommendations were discussed with systemwide Human Resources professionals, the appropriate Academic Senate committee, and the University of California Retirement System Advisory Board.

The recommended provisions are necessary to properly implement the 2013 Tier and to efficiently administer UCRP. Most apply to the benefits of multi-tier members. They have been drafted to ensure that the rights associated with benefits accrued under the Current Plan Terms are preserved and that UCRP policies and procedures are consistently applied across all Plan tiers.

<u>Recommendation #1 –Membership Eligibility Date for the 2013 Tier</u>

The recommendation in the December 2010 Regents item states that the "*UCRP be amended to provide a new tier of pension benefits applicable to employees hired on or after July 1, 2013.*" However, many employees are hired into positions that are specifically precluded from UCRP membership, including per diem employees, visiting appointees, and employees whose initial appointments of less than 50 percent time and/or less than one year do not satisfy minimum eligibility requirements. The recommended provision will confirm that employees hired (or rehired) on or after July 1, 2013 will qualify for 2013 Tier membership only if they satisfy the definition of "Eligible Employee" under UCRP. Additionally, part-time employees hired prior to July 1, 2013 who subsequently become Eligible Employees after that date will be deemed to be 2013 Tier members.

Recommendation #2 – Integration of Plan Benefit Terms for Members Rehired on/after July 1, 2013

Break in Service

As part of good employment practice, the University generally requires that breaks in service that may have significant consequences be of a reasonable duration. Breaks in service that are followed within a short time by rehire particularly raise questions about the reason for the break and the employee's understanding of the impact. Also, University payroll and human resources systems require time to program changes in an employee's status in order to administer the Plan consistent with its terms.

The recommended provision is intended to address these concerns. It provides that an active member who terminates employment, but returns to work in an eligible position before the first day of the second month following the month in which the member terminated, will not be treated as having incurred a break in service. The provision will apply solely for purposes of determining whether the member continues to accrue benefits under the Current Plan Terms or starts accruing benefits under the 2013 Tier. For example, if a member terminates employment on June 5, 2013 and returns to University employment in a UCRP-eligible position before August 1, 2013, the member will not have incurred a break in service that otherwise would put him or her in the 2013 Tier. All other UCRP members who separate from employment and are rehired into a UCRP-eligible appointment on or after July 1, 2013 will be deemed to have incurred a break in service (except under right to recall and preference for reemployment[2]) and will accrue future UCRP service credit under the 2013 Tier.

Single Retirement Date for Multi-tier Members

Under the Current Plan Terms, the earliest retirement age is 50; under the 2013 Tier, it is age 55. For efficient administration, it is recommended that multi-tier members have only one retirement date. Thus, if a multi-tier member chooses to retire before age 55, he or she will receive only the benefit accrued under Current Plan Terms until age 55, at which time the benefit accrued under the 2013 Tier will automatically begin and the member will receive the combined amount.

Same Payment Options

In keeping with the concept of a single retirement date, the recommended provision would require a multi-tier member to elect the same form of monthly retirement income and the same contingent annuitant,[3] if applicable, for the benefit attributable to service accrued under the Current Plan Terms and under the 2013 Tier, with one exception. A multi-tier member will have

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[2] In accordance with Plan terms, members who are laid off and subsequently rehired into UCRP-eligible appointments during a period of right to recall or preference for re-employment are not deemed to have incurred a break in service for purposes of UCRP membership.

[3] Current UCRP terms stipulate that if a contingent annuitant payment option is elected and the annuitant predeceases the retired member, the retired member's benefit remains reduced.

a vested right to receive the benefit calculated under Current Plan Terms as a lump sum, but that option is not available under the 2013 Tier. Thus, it is recommended that multi-tier members who elect a lump sum for the benefit calculated under Current Plan Terms be allowed to elect any available form of monthly retirement income for their 2013 Tier benefit.

COST IMPACT TO UCRP

The Regents' consulting Actuary for the UCRP, the Segal Company, has analyzed the proposed recommendations and has confirmed that they will not increase Plan costs.

COLLECTIVE BARGAINING

The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act, if any such action is required. The recommendations as they apply to represented employees are subject to collective bargaining requirements.