REPORT FROM THE JBC TO CUCEA & CUCRA, AT THEIR JOINT MEETING - 10/28/2010

CUCEA and CUCRA function, among other things, as partners and advisors to the Office of the President on matters relating to retirees, annuitants, and retirement benefits. We provide insights and information to aid in the implementation and conduct of programs.

Following are a number of important issues we discussed at our October 2010 JBC meeting and offer to The Boards of CUCEA and CUCRA for their forwarding in sum or in part, as appropriate:

1 - The President's Task Force on Post-Employment Benefits proposes that as the University increases salaries in future years, the University's share of the cost of health benefits can be reduced. However, those who have retired will be materially negatively impacted, if the University's contributions to annuitant health benefits are also reduced. Obviously, for annuitants, the dollars paid from the pension fund would not increase to match any reductions in University support for health care. We urge the University Administration and The Regents to consider this serious problem in their future decision-making.

In addition, we were pleased to see the proposal to continue the blended rate for health care. Future decisions about annuitant health care benefit costs to the individual should take into account: (a) the costs paid by annuitants for Medicare Part B coverage; (b) their generally larger co-payment costs related to a greater number of doctor visits and prescriptions; and (c) the lack of ability to pay for health care costs using before-tax dollars, as is the case for active employees through the use of Flexible Spending Arrangements. The cost of health care is the sum-total of premiums, deductibles and co-payments, not just premiums.

State funds have been provided in past years specifically to cover increases in retiree health and other benefit costs for all formerly State Funded annuitants. All of these funds, the $14 million included in this year's budget, and any such future allocations should be used by the University only for the purpose intended by the Legislature and Governor. In addition, a comparison of the University health care programs with those provided to State and CSU annuitants should be undertaken on an annual basis. Those annuitants who are not eligible for Medicare benefits should have comparable coverage at costs equivalent to those who do.

2 - Concerns about the **drug programs** continue to exist, and need to be addressed. It would appear that the formulary available to annuitants is contracting rather than expanding since the beginning of Medicare Part D, despite assurances that this would not happen.

3 - We urge that consideration be given in the **High Option program** to the inclusion of **hearing aid and accessory benefits**. This would seem consistent with the values of our health care coverage for an aging population.

4 - The University should consider increasing the maximum dollar limit provided for **dental care**, taking into account the increasing costs of providing dental services, and the modern procedures now included, such as dental implants. The coverage limits have remained the same for many years, while the costs of modern dentistry have increased on an annual basis.

5 - We propose: 1) That The Regents formally adopt a policy that **no UC annuitant** with the equivalent of 30 years of full-time eligible retirement service, and who retired from active status, **should have retirement benefits that would place them below the poverty level**; and 2) That the University should provide a retiree health option for such low income retirees, with no or minimum individual costs.

6 - The University has allowed Fidelity to send to those who are required to take a **minimum required distribution (MRD)** a letter which includes no specific details about their specific distribution, and with the intention that such a letter would only be sent once, thus eliminating the **agreed upon process** which has been in force for many years. The JBC had set forth the desired process on January 20, 2007, and it was agreed to by OP. It is included as an attachment to this report.

There is an **urgent need, before it is too late for this year, for Fidelity** to **immediately develop a procedure and announce it** to everyone required to take a MRD **which would allow them to name the the funds from which the withdrawal will be taken, and when the withdrawal will be made**. Individuals should be able to make such decisions any time during each year, and Fidelity should be required to follow those instructions to the letter.

While we recognize that the University has been working hard to streamline the MRD process, which we commend, by developing a website and telephone system designed to provide communications to annuitants on this topic, it is unfortunate that a **significant number** of annuitants **have no access to the internet**, and therefore hard-copy communication will likely always be required. Further, as we age, many will be dependent on "care-givers," for whom a website may not be understandable or workable in providing essential services to the retiree.

The JBC suggests that with respect to **University policies governing MRDs**, that annuitants be provided with the most liberal arrangement authorized by Federal law, both for the benefit of those individuals, but also to continue the incentive that currently exists for them to provide low-cost teaching and other services to our academic and other programs.

7 - The University should immediately arrange for employees and annuitants to have the **opportunity to convert** their **tax-deferred accounts to a Roth IRA during this calendar year**, because Federal law now allows such conversions without income restrictions, and with the ability to pay the tax due spread over a two year period. Notice should be sent to everyone with tax-deferred accounts as soon as possible, so individuals have time to plan other ways to pay all or a part of the taxes due, from other than the corpus of the funds, in order to maximize the Roth balance.

8 - We were gratified to see in the Post Retirement Task Force report the inclusion of our recommendation that those who took the **PERS/VERIP** be treated in like fashion to those who took VERIP I, as was the original intent of The Regents. The funding that was deliberately not provided originally to ensure **annual COLAs** on the "incentive," is now available due to excess earnings in the established "PERS/VERIP Trust Fund." These individuals are declining in number each year, and they have only had equitable treatment in two of the last 19 years, since the program began. The funds should be used for the benefit of this declining group of people, instead of being preserved for refunding to the agencies originally providing the funds, sometime perhaps 40 years in the future when the last individual in the group dies.

With respect to PERS/VERIP, we recommend a) **Permanent annual COLAs** should be provided, with the proviso that if the fund should ever be insufficient to cover the full costs of the commitment, some or all of the COLAs can be temporarily removed until the fund is again sufficient; b) an ad hoc COLA should be instituted immediately, bringing the PERS group up to a level comparable to their UCRP/VERIP I colleagues; and c) the permanent COLA arrangement should follow as soon as possible.

It is also important that Regental support for the current policy of **providing no less than 75% of the original purchasing power for all UCRP annuitants** be continued in perpetuity. Therefore, there needs

to be formal acceptance from all fund sources, including the State, to allow this to exist. We point out that, by law, PERS must provide no less that 75%, and in some cases 85% of original purchasing power, to those covered.

9 - With respect to the **GASB** (Government Accounting Standards Board) mandate (Statement *No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*), it is clear that the current health and retirement benefits amount to only a very small fraction of the projected billions of dollars required to provide for all present and future obligated benefits. What is needed is a deliberate plan, hopefully developed with help from the State of California, to establish a trust fund that could be fully funded over perhaps a 30 or 40 year period; it is clearly a long-term problem.

10 - Finally, with respect to the recommendations from the President's Task Force on Post-Employment Benefits, besides the items already covered above, many of which have been included during many past reports, we want to comment on one specific recommendation, regarding the future Retirement Benefit program. While this matter will concern only those employed by the University three years in the future and beyond, and not our current constituency, we feel obligated to make our views known. There is a proposal to establish a new tier in the pension plan for those employed after July 2013 and much discussion has ensued over the two options discussed in the report---A and B, and a third option---C---set forth in a "Dissenting Statement" from the Academic Senate. Both options A and B include Social Security benefits in determining the amount that would be paid from UCRP, whereas option C would exclude Social Security benefits from the computation. Our discussion has led to the following recommendations from all but one member of the Committee:

We believe that **Option "A" should be eliminated** from deliberations because it would not be competitive with other institutions with which we compare ourselves. With respect to Options "B" and "C," we do not have enough information available to recommend one over the other. Our one dissenting member, Julian Feldman strongly supports Option "C" over Option "B." In any event, we are all concerned about the **risk and uncertainty related to programs that are outside the purview of the University**, specifically Social Security and Medicare. To assume they will always be the same is clearly inappropriate and unacceptable. Therefore, it is essential that the **University commit to revisiting all of their related programs impacted by changes made in those external but related programs, so that annuitants are not adversely affected**.

We were pleased by the inclusion of the Chairs of CUCEA and CUCRA in the efforts of the Task Force on Post-Employment Benefits. We continue to look forward to cordial and cooperative relations with OP staff with whom we deal, for the mutual benefit of the University and its family of annuitants.

Adrian Harris, Chair, UCLA; Julian Feldman, UCI; Jack Fisher, UCSD;
Richard Jensen, UCSC & UCSB; Louise Taylor, UCB

Ex-Officio: Ernest Newbrun, UCSF; Marian Gade, UCB; Lee Duffus, UCSC

[Note: Members Larry Pitts and Charles Hess are on temporary leave.]

Attachment follows

Attachment to 10/28/10 JBC Report

MRD AGREED UPON PROCESS IN FORCE SINCE 2007

1 - Notice should be sent early in the year---hopefully February of each year.

2 - Individuals should be told if the record system shows that they are not required to have a minimum distribution, because of continued employment with the University, or if they must notify the record-keeper of their continued employment. They should also be told how to notify the record-keeper if there is a change in their status.

3 - The amount of the minimum distribution should be stated, based upon the balance at the end of the previous year, or that balance less the amount in the fund as of December 31, 1986, prior to their reaching age 75. All of the figures should be shown.

4 - The default option for the withdrawal should be the end of December, but individuals should be told they can name another time for the distribution, earlier in the year. They should be informed of the process to be used to notify the record-keeper of their preferred withdrawal date, if the default option is unacceptable.

5 - The default option should be a proportional distribution from all funds, but individuals should be told they can name specific funds from which the withdrawal should come. They should be informed of the process to be used to notify the record-keeper of their preferred option, if the default option is unacceptable.

6 - The processes related to 2, 4 and 5 should hopefully be possible by telephone or using the internet, but if not, forms should be developed to minimize effort and confusion.