REPORT FROM THE JBC TO CUCEA & CUCRA, AT THEIR JOINT MEETING - 4/29/2010

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 April 2010 JBC meeting and offer to the broader membership and UCOP:

1 - In the most recent presentation by the Post Employment Benefits Task Force at various campus Forums, mention was made about the disparity with respect to our comparison eight institutions between pay and benefits, whereas, our salaries lag behind, while our retirement and health benefits far exceed those available elsewhere. The expectation is that our University will be attempting to **increase salaries in future years, while** likely **reducing** at least the **health benefits**. If this is actually done, and reductions in health benefits for active employees are matched by similar reductions for annuitants, this would have a profound negative impact on current annuitants who have locked-in retirement benefits, and those who retire before salary adjustments affect their retirement payments. Obviously the dollars paid from the pension fund would not increase to match any reductions in support for health care. We urge the Task Force to carefully review this matter before making recommendations which could very negatively impact University annuitants.

In addition, there was mention of the **potential elimination of the "blended rate" for health care**, whereby older people would be treated separately from younger employees in the determination of health care costs. This could materially increase the costs of health care coverage for annuitants. This would very negatively impact annuitants and should not be implemented. Clearly, the "blended rate" approach has been used in several ways for the benefit of the group as a whole. For example, those covered by Kaiser on the northern campuses have significantly benefited, because historically the costs of Kaiser-North coverage have been significantly higher than the costs of Kaiser-South coverage.

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-payments related to 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. It would help, if the specific annual allocations of funds from the State to cover cost-of-living increases for all formerly State Funded annuitants were used by the University 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 in the near future. 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 - Consideration should be given to the modernization of the **dental coverage**, to include coverage of more of the costs of dental implants, which are now an important part of modern dentistry.

5 - The **plight of those who retired many years ago** was materially clarified with the recent provision of significant data by Randy Scott and Eleanor Skarakis. The problem involves a relatively small number of individuals, but their identification is constrained by a lack of specific information on the selected survivors' continuance option, and whether individuals retired from active employment or inactive status. We discussed a series of options and have come up with three specific recommendations.

First, we propose that each campus and lab should rapidly determine their interest in and willingness to **provide services to those low income individuals** who could self-identify by responding to an article in New Dimensions and/or local publications about the availability of such assistance at an individual campus/lab. Each participating campus/lab would have to work out a confidential response mechanism for the individual, and proper method through which the campus/lab can offer assistance with specific programs available locally, and/or governmental programs that are available to such individuals. We hope individual campuses have made significant headway in attempting to identify those who need help.

Second, we propose that the **Task Force on Post-Employment Benefits be asked to consider two recommendations** that might be included in their final report: 1) That The Regents formally adopt a policy that no UC annuitant with the equivalent of 20 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 all low income retirees, with no or minimum individual costs.

6 - At the February 26 meeting of the UCRS Advisory Board an item was presented that, if implemented, would end the current **University policy that allows those annuitants who are on recall to delay minimum required distributions (MRDs) for each year they are on recall**. The JBC believes this change could have several serious negative consequences for the University, as well as being disadvantageous to those who have taken advantage of this policy in the past.

For those individuals who do not need the income from such distributions, they would no longer be able to maximize the tax-deferred balance, based on the investment earnings on the full amount in their tax-deferred account, rather than a diminished amount each year. Since Federal law allows such deferrals, the University should not give up this benefit for annuitants who qualify for such deferrals.

Members of our Committee are aware of many annuitants who have been willing to provide teaching support to their academic departments because of their ability to defer Minimum Required Distributions. Such teaching has been a relatively low-cost option for the University, and could be an even more important benefit to the University in the future, as budget deficiencies grow over time. There is at least one academic department that has routinely offered recall to all annuitants who want such an arrangement, which benefits their academic programs in several ways---primarily teaching courses and working with individual students.

In the staff description of this item, it seemed clear that the proposal to eliminate deferral of MRDs was being offered because Fidelity has to administer the current policy in an ad hoc fashion, rather than simply using their current automated system. The impression was given that our current policy was unique, and that "the industry standard" does not allow such deferrals. However, members of our Committee are aware of business firms that have the same policies as the current University policy, so this would appear to be an inaccurate excuse for suggesting the policy change.

The JBC suggests that the University continue to provide annuitants 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. The inclusion of Roth IRAs under the University umbrella is a great advantage for University people because of the breadth of investment options available, and the low cost structure of University offerings. 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 - It is hoped that, in the very near future, those who took the **PERS/VERIP** will 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.

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. The JBC is aware of the fact that the Task Force on Post-Employment Benefits and related work groups are in support of these recommendations.

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 support 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, 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.

We are encouraged 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.

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[Note: Member Larry Pitts is on temporary leave.]

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