Joint Benefits Committee Report

CUCRA/CUCEA Joint Hybrid Meeting at UC Davis

October 25-26, 2023

Overview:

This Fall's JBC Report focuses on issues that have continued to be discussed by CUCRA and CUCEA, including: I. The establishment and the initial meeting of the UC Retirement Advisory Committee; II. UCRS Contribution Holiday (an issue that was discussed at a recent Regents' Meeting); III. Deloitte Report on Via Benefits presented to the Committee; IV. Comparisons of UC COLAs and CalPERS COLAs; V. Current response time for Retirement processing and remaining issues with RASC; VI. Survivor Benefits; VII. Yields on STIP, TRIP and T-Bills; and VIII. UC Emeriti meet with Regents.

I. New UC Retiree Advisory Committee:

After a long gestation period a Retiree Advisory Committee appointed by UC Vice President Cheryl Lloyd was convened for an initial meeting on August 31, 2023. Members include Cheryl Lloyd, Jay Henderson, Chuck Haines (Vice Chancellor UCSB), Joel Dimsdale, Dan Hare, John Meyer, Eric Vermillion, Jo-Anne Boorkman. The committee charter is found as Appendix I of this report.

There was discussion whether the advisory committee should be expanded to include a healthcare facilitator and a campus retiree center coordinator. Administration felt that the current membership was adequate and that such individuals could be invited as necessary, either as full members or as *ad hoc* consultants.

The group discussed needing to upgrade UCNet so that it would be used more widely but acknowledged that retirees are oriented primarily towards their local campuses rather than UC Systemwide, and yet benefits and benefits communications come from Systemwide. Many retirees are oblivious to Systemwide and look to their local campuses for information and support. However, the individual campuses themselves have substantial differences in their reporting structure and the amounts of support received for their retiree centers. Periodically, one campus or another is pressed for facilities and staffing, which affects the ability of the local campuses to provide guidance.

Committee members flagged improving communication as a vital goal for the Advisory Committee. Heretofore, Administration has drafted retiree communications with limited input from retirees. In the future, all communications to retirees should be reviewed by designated retirees in coordination with the Advisory Committee. Many retirees are less computer savvy. Active employees and university consultants may be less aware of the sorts of concerns retirees have with university communications. For example, recent communications from the university regarding Roth IRAs were confusing and some retirees were alarmed about identity theft when Fidelity notified them that they had newly established Roth IRA accounts.

It is important that Emeriti/retirees be involved at all stages (especially the early stages) of RFP development, for proposals that have significant consequences on retirees. Those who develop the RFP proposals need a clearer understanding of the impact a final proposal may have on the lives of retirees once a contract has been implemented. As we have noted in earlier JBC reports, fallout consequences can be distressing and costly both to emeriti/retirees and UC.

There was extensive discussion of out-of-state health benefits (see below). Bernadette Green briefed the committee on operational status of RASC and processing survivor benefits (see below).

We were forewarned that health insurance premiums will be substantially increased during this fall's Open Enrollment.

The next Advisory Committee is scheduled for 9:30-11:30 a.m., Wednesday, October 25 at the Buehler Alumni Center at UC Davis.

II. UCRS Contribution Holiday

The JBC spent significant time discussing questions about the UCRS Contributions Holiday. These questions were prompted by the Regents discussion of the latest UCRP Experience Study at the July 2023 Regents meetings. A video of the Regents discussion is available below, and much of their discussion focuses upon what they believe are the consequences of the 20-year contribution holiday from 1990 - 2010. The video is at:

https://regents.universityofcalifornia.edu/meetings/videos/july2023/july2023.html#board7.19. The relevant discussion starts about 1:59.00.

The JBC report includes its research delving into the history of the reasons the Regents initiated the UCRS Contribution Holiday that lasted 20 years. With assistance from UCOP staff, JBC identified documents that shed light on circumstances surrounding the decision and the unexpected and unforeseen consequences to faculty and staff. The findings are found in Appendix II as a FAQ.

III. Deloitte Report on Via Benefits Presented to the Committee

For many years, JBC has called for an assessment of out-of-state retiree health benefits, which are provided to ~5000 subscribers by Via Benefits. The concern was that despite increasing insurance costs, the amount of funds allocated yearly to these retirees has never been increased. Furthermore, the out-of-state retirees receive less yearly support ($3000) than in state retirees (~$4000 this year). Periodically, we have heard complaints that the Via Benefits enrollment process is ponderous and that in certain geographical markets, only limited insurance options are possible with the current allocation. We have also been asked repeatedly whether out-of-state retirees could join the United Healthcare Advantage PPO as an option.

Deloitte consultants shared a preliminary report that addressed two questions:

1. Whether the current United Health Advantage PPO plan may be extended to out-of-state retirees. United indicated it would not be willing to allow out-of-state retirees to select this plan unless all out-of-state employees were forced to drop Via Benefits and move to the United Plan or else to make the UCH the default choice for new out-of-state retirees. The feeling was that this would be too disruptive for retirees. On the other hand, when the United contract is renegotiated, it would be useful for the University to revisit this issue.
2. Whether the cost allocated for Via was adequate. Note that Deloitte did not assess whether the coverage was adequate or good or whether the process of dealing with Via was efficient or whether patients were satisfied with the Via plans. In addition, they reported no data on geographical market areas that have been suggested as problematic; instead, data were reported out nationally. No attempt was made to assess quality of the plans.

3. Deloitte reported that in the interval, 2014 to 2023, the University had increased its insurance contributions for in-state employees. In 2023, the UC contribution increased to $333 per member/month. In that same roughly 10-year interval, there was no increased allocation for out-of-state retirees. For their analyses, Deloitte examined costs for a hypothetical 75-year-old, which is roughly the average age of out-of-state retirees. Deloitte reported that for most out-of-state retirees, the $3,000 allotment was sufficient to purchase a "high end" Medicare Supplemental insurance product (e.g., Plan N + prescription drug plan). Deloitte inferred that the $3,000 allotment put into what amounts to an HSA account was sufficient to cover other costs, such as prescription copays because 44% of employees did not exhaust their HSA allotment by the end of the year. They presented no data to address whether people were selecting less generous PPO plans or whether retirees knew how to submit bills. Nor did they present data for costs at other retiree ages. We were not given the preliminary slide deck.

   In discussion with Deloitte, some members observed that it would cost approximately $5M to bring out-of-state retirees to the same level of support given to in-state retirees. Rather than declare this to be "too hard" we suggest implementing modest increases to out-of-state retirees so the level of support does not fall even further behind in-state retirees.

Additional analyses should address the lacunae in the Deloitte report, but the committee was struck by the fact that the central issue was a philosophical one: Should the University be providing different benefit coverage for in-state versus out-of-state retirees? Some argued that the richer in-state allocation is not "better" per se, but merely reflects that healthcare costs are more expensive in California markets. This may not be true. The most expensive states for Medigap plans include New York, Vermont, Connecticut, Maine, and Florida[1]. For Advantage plans, the most expensive states are Rhode Island, Michigan, Massachusetts, North Dakota, and South Dakota[2]. Similarly, there is considerable state to state variation in the quality of insurance plans offered. Using 5-star quality metrics, Advantage plan quality is highest in West Virginia, Pennsylvania, Minnesota, and Wisconsin. Conversely, plan quality is lowest in Connecticut and Wyoming[3]. For all these reasons, we are skeptical of the Deloitte findings, as well as assertions that "California costs are higher and that is why retirees receive more money to obtain in-state insurance."

[1] https://www.medicarefaq.com/faqs/most-expensive-states-for-medigap/ accessed 9/10/23
[2] https://www.medicareadvantage.com/costs/average-cost-of-medicare-by-state accessed 9/10/23
[3] https://www.medicareadvantage.com/resources/best-states-for-medicare accessed 9/10/2023

IV. Comparisons between UCRP and CALPERS COLAS

The JBC has been asked to research the calculation of COLAs (Cost of Living Adjustment) for CALPERS pensions and compare these pensions with UCRS pensions. Since a significant number of retirees have service credit in both systems, our results provide the information to describe the calculation of their COLAs from a given Consumer Price Index (CPI).

A summary of our findings is that both CALPERS and the UCRS pensions have some inflation protection. The two systems have the same COLAS for consumer price increases between 2 and 4%. But generally, UCRS COLAs for CPI greater than 4% and less than 2% are more generous than those for CALPERS. Both systems have purchasing power protection that is automatic for CALPERS but requires Regents' approval for UCRS. The report in Appendix III provides the details to help understand this complicated topic.

V. Current response time for Retirement processing and remaining issues with RASC

Many of the briefing meetings have been canceled over the summer months, so we are not able to provide details. However, personnel vacancies at RASC are slowly being filled, and this progress likely presages improved response time. In particular, all 4 insurance liaison positions have been filled so that processing of survivor benefits should improve. In addition, all 9 of the retirement counsellors have been hired. Altogether, about 90% of the 134 RASC positions have been filled, and this should translate into good response time.

The annual June/July retirement season yielded 1800 elections to retire. The average time from receipt to generation of the RASC confirmation was 25 days[4]. It would be helpful to understand the distribution for such data, i.e., what is the standard error, etc.

The RASC phone system has improved its answering times. Callers with Tier 1 issues (e.g., password reset) have a wait time of 45 seconds. Callers with survivor issues wait an average of 2 minutes 12 seconds, and people with general RASC inquiries generally wait 11 minutes (the goal is <5 minutes for hold time).

[4] After RASC generates the confirmation statement, the employee has 15 days to confirm or dispute the contract.

RASC has engaged consultants to redesign the RASC landing page so that it is clearer for retirees.

We encourage RASC to expand the no lapse in pay (NLIP) program. This has been an outstanding program. JBC would be happy to work with RASC to discuss areas where NLIP may safely be expanded. It would be helpful to have such expansions in place by the time of the next retirement season.

Slow (VERY slow) progress has been made in adopting BENET software for bereaved families. UCLA has distributed a survey to learn about retiree experiences with the survivor program.

In response to Regental suggestion, RASC has looked at ways of improving the survivor program. Currently, they average 36 days to process survivor benefits and the goal is <30 days. With the 4 newly hired insurance liaisons, they should be able to meet such goals. Again, we need a measure of the distribution of response times to understand why certain cases take a long time.

Currently, when a retiree passes away, the survivor's health insurance ends the last day of the month of death and then RASC needs to process a transfer to activate the survivor's insurance coverage anew. RASC is extending that time by a month (i.e., insurance ends one month after the last day of the month of death at which point RASC will process an insurance transfer). This will certainly help, but the whole reason for such baroque rules seems unclear. JBC calls on the newly formed Retiree Advisory Committee to negotiate a more reasonable set of rules.

VI. Survivor Benefits

The JBC became aware of a problem in the retiree health insurance system regarding inadvertent cancellation of eligible survivors[5] insurance plans. Persistent complaints of this problem led to consultation with RASC about why this is such a continuing problem. The trigger for these cancellations ultimately stems from deficiencies in the administrative systems and computer records that are used to convert eligible survivors from dependent status to survivor status when death reports come in, either from survivors or from the insurance carriers.

The death of an annuitant is often reported to the insurance carrier before RASC receives the death report. When the insurance company is notified, insurance coverage is continued through the end of the month in which the annuitant died. This is often

[5] http://uclafacultyassociation.blogspot.com/2023/09/survivor-insurance-3-fixes-are-in.html

before the death is reported to RASC. This could be less than 30 days if the death occurred later in the reported month. Apparently, computer records do not identify dependents eligible for survivor status on the death of the retiree before the death occurs. When a death report comes in, a manual processing of the change to survivor status is set in motion. The manual processing initiated by RASC begins after the survivor has submitted the initial paperwork. In a number of cases, this has taken longer than the 30-day coverage per the UC policy agreements with insurance carriers. RASC follows established policy in processing the survivor benefits. The result is that dependent coverage lapses without ~~a~~ seamless conversion to survivor status having taken place.

The newly established RASC Insurance Team has reduced most of the manual processing time so that it can be completed within a 30-day period, so insurance lapses should be reduced or eliminated. With the new Insurance Team in place, the average processing for contingent annuitants is 36-days.

Current policy dictates the 30-day insurance coverage for survivor beneficiaries following an annuitant's death. JBC requests that the policy be revised to allow for 60-day coverage to assure seamless coverage for contingent annuitants. Advancing insurance premiums to cover the next month would then be adjusted once beneficiary pensions have been established.

It is understood that an interim fix will be initiated, extended through November 2023, for any contingent annuitants to receive continuous coverage to allow for a transition while policy changes are negotiated.

JBC strongly encourages RASC to continue to modernize the administrative processing of dependent-to-survivor status with computer records that show who is an eligible survivor <u>before</u> the death of a retiree, thus avoiding time-consuming manual processing.

We believe on an interim basis, the 30-day grace period will be extended to 60 days. We have been assured that with a 60-day period, conversions can take place without a lapse of coverage. The switch to 60 days will occur sometime between November 1, 2023, and December 1, 2023.

The interim fix will still potentially leave some survivors inadvertently cancelled until the interim fix can occur. During that period, any survivor who is reported as cancelled will be <u>immediately</u> restored to coverage with the manual processing occurring after the restoration.

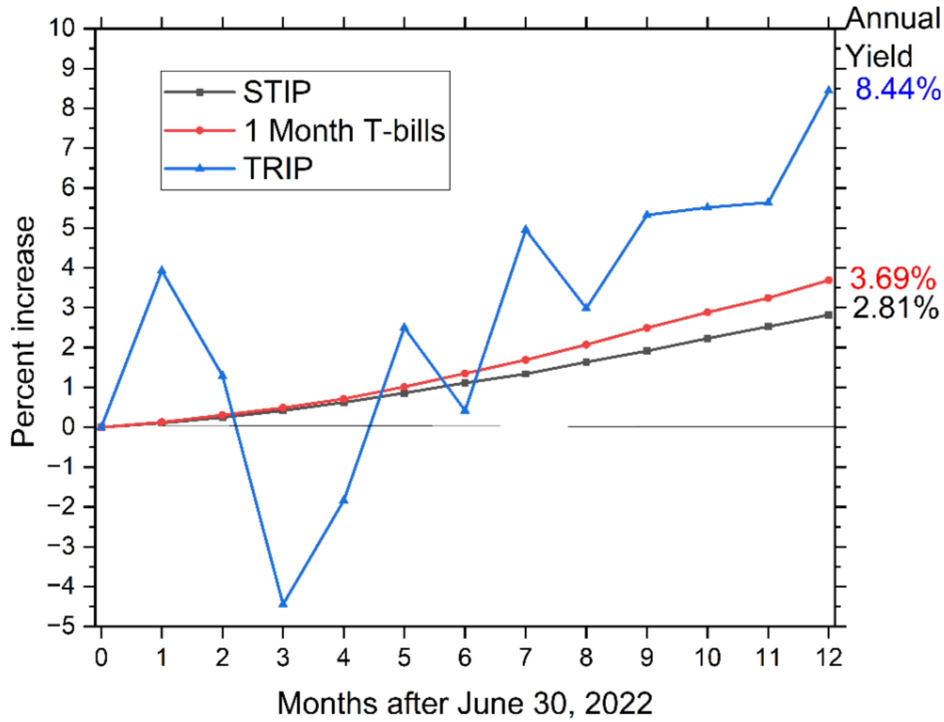
JBC was further alerted to the fact that the brochure "*Your Guide to Survivor and Beneficiary Benefits*" available in print at Retiree Centers and on UCNet stated that "the monthly benefits become payable within 120 calendar days of the retiree's death…UC-sponsored coverage is continuous...In rare circumstances, a delay in processing paperwork may cause a gap in coverage." (p.10). The phrasing is ambiguous and leads contingent annuitants to understand that coverage is continuous. As JBC has learned, the "gap in coverage" hasn't been rare. JBC recommends that the phrasing be clarified and in alignment with policy. The brochure should also indicate the issuing date.

While RASC has made significant progress in shortening the gap, policy for coverage needs to be established, so that needed health Insurance coverage is continuous during processing time to establish an eligible contingent annuitant's benefits in the system.

VII. Yield of STIP, TRIP, and 1 month T-Bills

The JBC has interest in the rates that determine the growth of funds invested in the Short-Term Investment Pool (STIP), Total Return Investment Pool (TRIP), and 1-month Treasury Bills (T-Bills). We have been very concerned that the investment return for the UC 403B Savings Fund has not kept pace with these other fixed income vehicles and that the UC retirees have lost a viable investment tool that provides a 'safe' return. The Savings Fund has generated (approximately) a 70 basis point return on a 1 year basis and slightly less than that on a 3 year basis. This despite the fact that interest rates have been raised steadily by the Federal Reserve Bank.

These STIP/TRIP/T-Bill rates are shown for a somewhat simplified calculation in the following figure where the points indicate the yield for an investment in each fund for a number of months after the initial investment.



The numbers on the right side show the annual percent yield observed between July 2022 and June 2023 for any of the indicated plans.

This figure is based on published monthly yields for STIP and TRIP from

https://www.ucop.edu/investment-office/investment-funds/stip/index.html .

The yields of T-Bills can be found in many places, but here we use results from www.marketwatch.com .

The results show several interesting features:

A. The yield curve for STIP and T-bills are similar, and both show monotonic increases. This is expected for positive yield fixed income investments. However, the TRIP results show significant variance, and this is caused by the fact that this pool has a significant public equity component. Fluctuation in the stock market causes the oscillation in the pool value and can cause the negative return in the figure. The composition of TRIP as of June 30, 2023 is 51.9% public equity, 47.5% fixed income, and 0.6% cash. We see some months where there is a loss in the TRIP returns.

B. The annual increase in STIP is 2.81% and it is less than the increase of 3.69% for an investment in one-month T-bills. Both investments have yields that are lower than their monthly yield for June 2023.

The monthly rate for STIP is 1.36% for July 2022 and 3.42 % in July 2023. The monthly rate for T-bills is 1.51% for July 2022 and 5.16 % in July 2023. Some retirees have noticed that their investment yields are significantly lower than the widely published recent rates that are higher. The lower observed values are found while the monthly fixed income yields are increasing.

C. One might expect that the yields for STIP and T-bills should be close to each other. However, STIP has significant loans to UCRS and the Mortgage Origination Program (MOP). UCRS holds between 35% to 40% of STIP funds, and MOP loans held 9% of STIP funds on 6/30/2023. These loans reset on an annual fiscal year basis, so about 50% of STIP did not reflect higher rates until 6/30/23. Additionally, the MOP loans have a cap of +/- 1% on the annual rate changes. Presently the short-term fixed income yields are increasing, so the average yield for STIP will be less than for T-Bills. When interest rates start to fall, the lagging resets lead to a situation where STIP will have a larger annual yield than T-bills.

The JBC thanks Marco Merz, Diori Johnson. Chi Tu, and Miguel Mendoza for helpful discussions.

VIII. UC Emeriti Meet with Regents

On July 19th CUCEA president Jo Anne Boorkman, UCI Emeritus Professor of Political Sciences James Danziger and UCSF Emerita Professor Ellen Weber met with the Regents Committee on Public Engagement and Development. They presented highlights from the "*10th Inventory of University of California Emeriti Activity 2018-2021: A Virtual Eleventh Campus*". https://www.cucea.org/uploads/1/3/9/6/139695957/eleventhcampusreport_2018-2021.pdf. Professors Danziger and Weber gave summaries of their activities during this three-year period and how these were impacted by the COVID pandemic. The committee was impressed by the wide-ranging activities UC Emeriti continue to give to the mission of UC at their campuses through teaching, research, and publication. In addition, many Emeriti share their expertise through community service locally, regionally, nationally, and internationally. A link to the session is available on the main CUCEA website at www.cucea.org.

Respectfully submitted by the Joint Benefits Committee:

Chair, Roger Anderson (UCSC)	Selected by JBC
Lawrence Pitts (UCSF/UCOP)	Selected by JBC
Louise Taylor (UCB)	Selected by JBC
Jack Powazek (UCLA)	Appointed by CUCRA
Eric Vermillion (UCSF)	Appointed by CUCRA
Dan Hare (UCR)	Appointed by CUCEA
Dan Mitchell (UCLA)	Appointed by CUCEA
Sue Abeles (UCLA)	CUCRA Chair-Elect
John Meyer (UCD)	CUCRA Chair
Jo Anne Boorkman (UCD)	CUCEA Chair
Joel Dimsdale (UCSD)	CUCEA Chair-Elect

Continued...

Appendix I

UNIVERSITY OF CALIFORNIA
RETIREE/EMERITI ADVISORY COMMITTEE CHARTER

1. Purpose

Engages with university officials (as a part of their stewardship responsibilities to UC annuitants), in a manner to facilitate open communication, clarify program objectives and promote efficient and effective program administration.

2. Responsibilities

- Engage with, provide assessment for, and provide counsel to the Vice President of Systemwide HR regarding benefits to retirees and emeriti
- Review of the suite of medical plans offered to retirees
- Assist with communication and outreach to retiree and emeriti community

3. Members

The UC Retiree/Emeriti Advisory Committee shall consist of 8 members. The 8 members are:

- UC Vice President of Human Resources (Ex-Officio)
- UC Associate Vice President of Total Rewards (Ex-Officio)
- Location Vice Chancellor of Administration/Vice Chancellor of Planning & Budget
- Representative of Senate Health Care Task Force/Academic Senate Appointee
- Council of University of California Emeriti Associations Representative (Chair Ex-Officio)
- Council of University of California Emeriti Associations Representative who also serves on its *Joint Benefit Committee*
- Council of University of California Retiree Associations Representative – Chair (Ex-Officio)
- Council of University of California Retiree Associations Representative who also serves on its *Joint Benefits Committee*

4. Meetings

- Meetings of the UC Retiree/Emeriti Advisory Committee will generally be held at the Office of the President in Oakland, California. Remote meeting option will also be available.
- Notice of all the UC Retiree/Emeriti Advisory Committee meetings will be prepared and distributed by a staff member approximately two weeks before each meeting in order to

Appendix II

FAQ about the UCRP Contribution Holiday

September 18, 2023

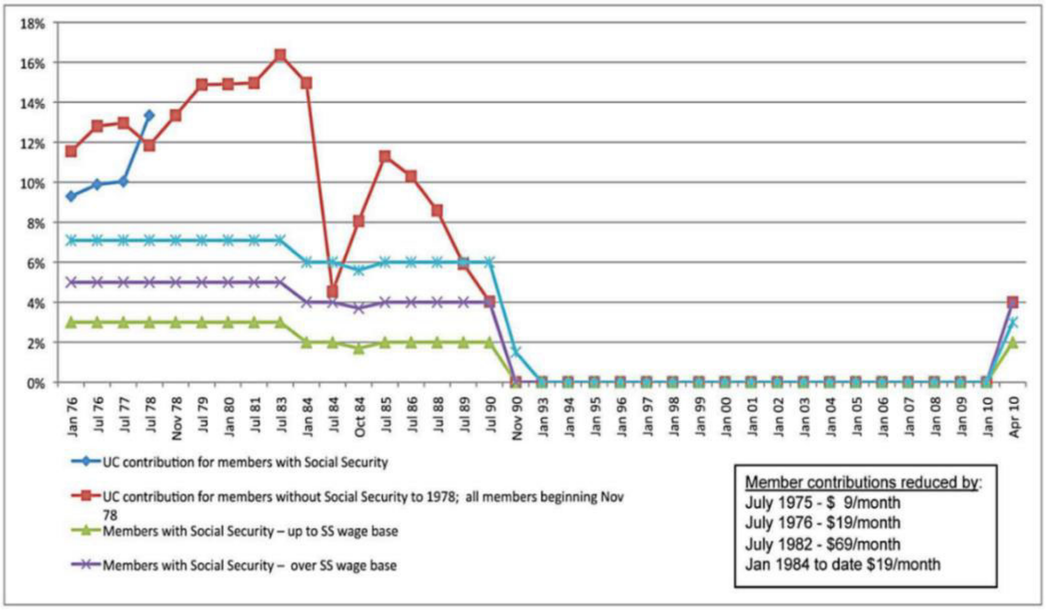
The following attempts to answer some questions that have arisen about the history of the UCRP contribution holiday. These questions were prompted by the Regents discussion of the latest UCRP Experience Study at the September 2023 Regents meetings. A video of the Regents discussion is available below, and much of their discussion focuses upon what they believe are the consequences of the 20-year contribution holiday from 1990 - 2010. Please see https://regents.universityofcalifornia.edu/meetings/videos/july2023/july2023.html#board7.19 . The relevant discussion starts about 1:59.00.

The JBC attempted to address the following questions from on-line documents, though we quickly learned that the most relevant documents were written before on-line storage was implemented. Contact information about where to obtain earlier documents appears below for those interested in pursuing these questions further.

Q1. What were the contributions in percentage of salary for employees and UC before the Holiday?

The answer to this question was easily obtained from the Post Employment Benefits documents from 2010. These documents were once online at http://ucrpfuture.universityofcalifornia.edu/, but that link is broken. The UCFW Task Force on Investments and Retirement (TFIR) maintains a copy of all the PEB documents for their members who want to learn about the history of UCRP.

The graph below is taken from Page 21 of the PEB report. A table of the same information is in Appendix L-10



Q2. What was the budget for UC in 1990?

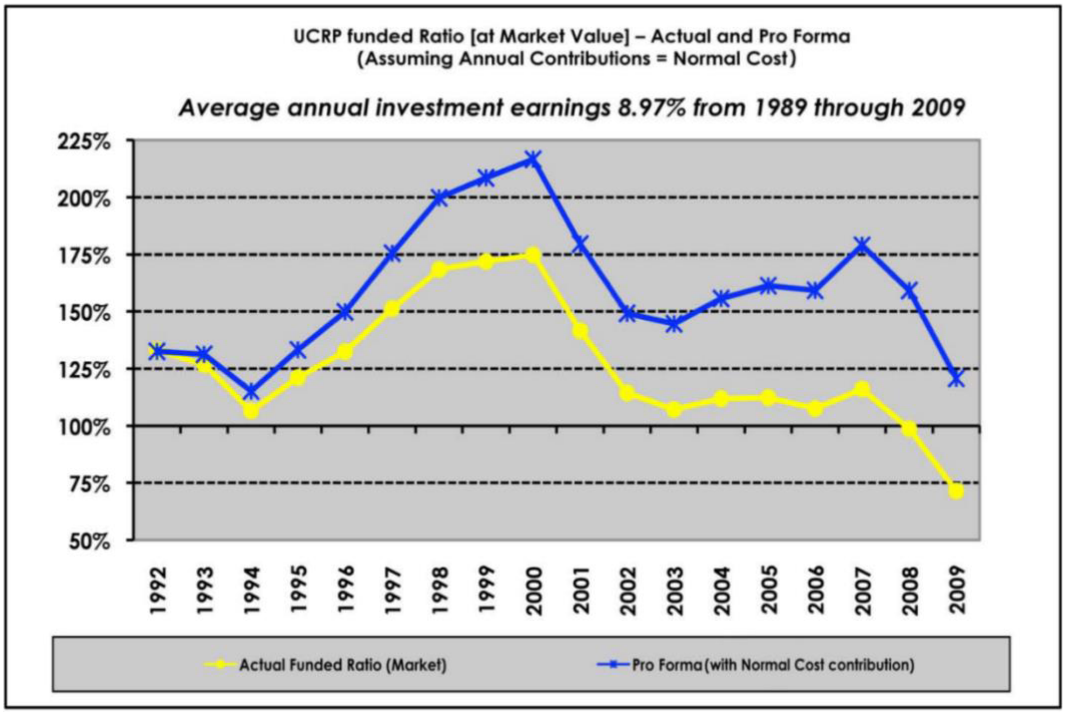
UC budgets were posted on-line starting in 1997 here: https://www.ucop.edu/operating-budget/budgets-and-reports/current-operations-budgets/index.html.

The early on-line budgets often provide historical perspectives. See, for example pages 20-23 of the 1997-1998 budget: https://www.ucop.edu/operating-budget/_files/rbudget/1997-98budgetforcurrentoperations.pdf.

Details of the UC budget from 1990 might be available by contacting UCOP's Office of Budget Analysis and Planning, https://www.ucop.edu/operating-budget/index.html.

Q3. What were the UCRP actuarial funding levels during the holiday?

Historical UCRP funding levels are also in the PEB documents. The figure below and explanation were taken from Page 26 of the PEB report. UCRP was fully funded until about 2008.



- The yellow line shows UCRP's funded ratio from 1992 through 2009 based on market value.
- The blue line is what the funded ratio based on market value would have been if the University and plan members' contributions covered UCRP's Normal Cost. Hypothetically, had contributions been made to UCRP during each of the prior twenty years at the Normal Cost level, UCRP would be more than 120% funded in 2009.

Q4. What Federal and State regulations affected pension plans with excess funding?

At a special meeting of the Regents in October 1990, the Regents adopted a new funding policy that required them to suspend contributions when the smaller of the market value or the actuarial value of UCRP assets exceeded the lesser of the actuarial accrued liability, or 150% of the estimated current liability. See https://ia801002.us.archive.org/0/items/CaliforniaPolicyOptions2012/CPO2012.pdf, p. 189.

A careful analysis of the Regents item for a special meeting in October, 1990, obtained by a request to the office of the Secretary and Chief of Staff of the Regents, https://regents.universityofcalifornia.edu/contact/, showed that the justification for this change boiled down to the following sentence:

"It is likely that contributions to a system which exceeds a reasonable fully funded level either will be prohibited under Federal contracts or subject to a possible excise tax."

An analysis of the IRC regulations governing the excise tax shows that: 1) it only applied to retirement plans of for-profit entities, and 2) it only is charged on the excess balance if the plan is closed before distributing the assets of the plan to its beneficiaries. Consequently, there actually was NO likelihood that UCRP's overfunded balance would be subject to an excise tax; it was not a private plan but a non-profit government plan, and the plan was at no risk of closing.

Neither the Regents item nor the minutes present any documentation concerning the issue of Federal contracts, so this potential threat cannot be evaluated from the available historical evidence.

Q.5 What are the connections between the contribution holiday and the VERIPs?

Without getting into a discussion of the short- and long-term impact of the three VERIPs from 1991 – 1993 on the teaching mission of the University of California, the fact that UCRP funding levels continued to increase after the last VERIP in 1993 until 2000 (see above) suggests that the increase in the number of retirees taking the VERIP had little immediate effect on the funding status of UCRP.

Q.6 Why did contributions resume later than the need was recognized?

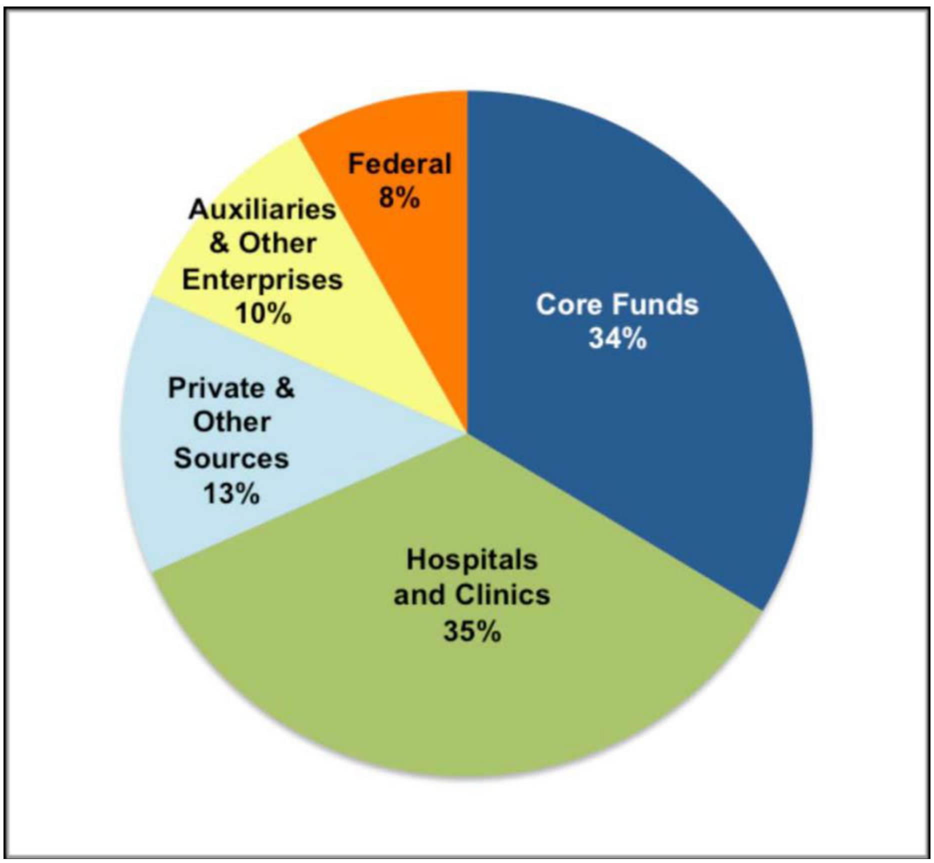
Although various segments of the UC community realized the need to restart contributions well before 2010, the UC administration apparently wanted to hold off restarting contributions until the State was willing to provide funds for the contribution for UC employees paid from "Core" funds, (shown on the graph below) as the State had done before 1990. Unfortunately, UCOP may have forgotten that, whereas CALPERS was funded by statute, UCRP was funded by agreement. The longer that UCOP delayed restarting contributions, the stronger grew the opinion of the State Legislature that it had no obligations to fund those contributions. See pp. 187-189 in the document at the link below for an extended discussion: https://ia801002.us.archive.org/0/items/CaliforniaPolicyOptions2012/CPO2012.pdf.

UCOP also may have overestimated the State's interest in funding UCRP considering competing priorities for State funds.[6] Whatever the combination of

[6] Although the remarks were made after UC restarted its contributions, it is relevant to cite the fascinating remarks that Governor Brown delivered on how UC needs to compete against other Statewide priorities in the Statewide funding arena. See the Regents minutes from the Committee on Finance from September 2013.

reasons, UCOP never did get the legislature to restart its contribution. Meanwhile, every year that UC did not contribute to UCRP, the funding sources for UC employees paid from non-state funds, notably income from the medical centers, auxiliaries, and grants also did not contribute to the retirement benefits of those employees, and UCRP's unfunded liability grew ever greater. The figure below is also from the PEB report (p. 69) and shows the distribution of employees by source of funding.

It therefore is most likely that the delay in restarting contributions until 2010 was due to a disagreement about whether the State had an obligation to make contributions to UCRP or not. UCOP ultimately lost that argument and reluctantly began making the UCRP contribution on employees paid from Core funds out of the State's contribution to UC's operations. This also required the employers of UC employees on non-State funds to start their contributions to UCRP as well.



Q7. Where can I find additional information?

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https://regents.universityofcalifornia.edu/minutes/2013/fin9.pdf. Or listen at https://archive.org/details/UniversityOfCaliforniaRegentsAfternoon9-18-2013Part1_866, starting at 29:32 for about 10 minutes.

Regents' Decision-making: Perhaps one thing to consider in light of the length of the contribution holiday is that the decision-making process included: one decision to suspend the contributions, 18 consecutive decisions to continue the suspension, and one decision to restart the contributions.

The Regents regularly receive both a valuation of UCRP's funding status and the UC budget sent to the Governor at their meeting in November. The Regents agendas and minutes from the November meetings from 1991 – 2009 concerning both the UC budget and the UCRP Valuation would be useful to determine how the Regents made their decisions to continue the holiday. Minutes before 1997 could be requested from the Office of the Secretary of the Regents, above. On-line versions of the Regents minutes starting in 1997 can be found at this website: https://regents.universityofcalifornia.edu/minutes-index/. Online agendas are available from 2000 but earlier agendas also may be requested from the Office of the Secretary of the Regents.

Overall financial health of the University: Annual Financial Reports of the University are available from the UCOP Controller's Office, https://www.ucop.edu/uc-controller/index.html, with online reports being available since 2012-13, here: https://www.ucop.edu/uc-controller/financial-reports/annual-financial-reports.html. Earlier reports may be available upon request.

UCRP Valuation: Online summaries of UCRP Valuation reports going back to 2010 may be found on the UCRS Advisory Board website https://ucnet.universityofcalifornia.edu/compensation-and-benefits/retirement-benefits/ucrsab/index.html, after going to the "meetings" webpage and searching for a meeting around or after November. Earlier evaluations might possibly be requested from the Regents Office (above) by asking for the attachments to the relevant Regents items for each November meeting during the contribution holiday.

UC Faculty Salaries and Relationship to Market: Data on the comparison of UC faculty salaries relative to the Comparison 8 institutions are not regularly posted. Prior to about 2006, these analyses were done by the now-defunct California Postsecondary Education Commission (CPEC). Later, the UCOP Vice Provost for Academic Personnel took over this role. Their annual reports were made available to Senate committees on a confidential basis, usually UCFW and/or the Academic Council, and these faculty committees honored the confidentiality agreement. Not only would a violation of confidentiality preclude Senate committees ever seeing such reports again, but it also could jeopardize the willingness of the COMP 8 institutions to voluntarily provide their information to UC.

Summaries of UC faculty salaries to the COMP 8 have been reported in the UC Accountability Report in the "Faculty and other Academic Employees" section, https://accountability.universityofcalifornia.edu/2023/ since the first Accountability Report was released in 2009. Summaries can be found as far back as 1997-98 by looking at earlier Accountability reports. For example, inserting "2015" for "2023" in the link above displays the Accountability Report from 2015 with COMP 8 comparisons going back to 1997-98. Going back to the first Accountability Report in 2009 does not yield any data earlier than 1997-98, however.

CPEC was abolished by Gov. Brown in 2011. The State no longer maintains the CPEC website. Documents for the years 1974-1997 have been transferred to an archive at the California State University at Dominguez Hills: http://digitalcollections.archives.csudh.edu/digital/collection/p16855coll5/search/searchterm/california%20post-secondary%20education%20commission%20reports%20and%20records%2C%201974-1997!reports%20(documents)!CPEC/field/source!genre!all/mode/exact!exact!all/conn/and!and!all. Faculty salary reports can be found by searching for appropriate key words, such as "faculty" and "salary." Additional CPEC documents since 2004 are available at: https://eric.ed.gov/. The last CPEC study of 2005 can be found at: https://files.eric.ed.gov/fulltext/ED528209.pdf. We do not know where any CPEC documents between 1997 and 2004 might be.

The UC Vice Provost for Academic Personnel and Programs: https://www.ucop.edu/academic-personnel-programs/ might be contacted for additional detail on recent reports comparing UC faculty salaries to the COMP 8 and for any CPEC studies prior to 1997 that they might still retain.

Appendix III

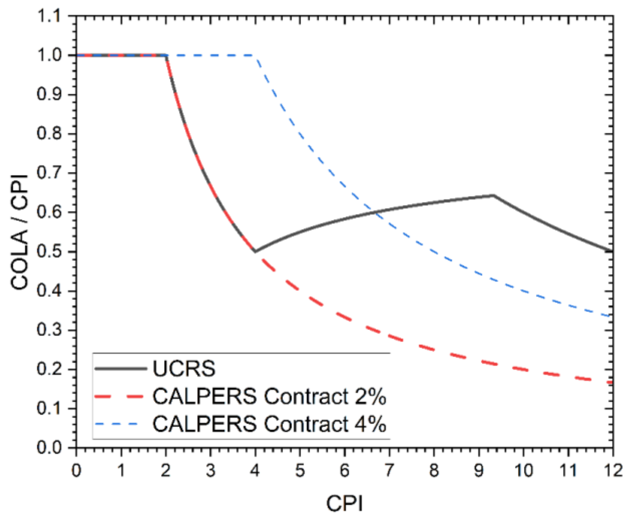
III. Comparisons between UCRP and CALPERS COLAS

JBC has been asked to research the calculation of COLAs (Cost of Living Adjustment) for CALPERS pensions. A significant fraction of UC Retirees has service credit with CALPERS because of employment with schools, CSU, Community Colleges, Cities, Counties, and State government before they come to UC. These Retirees get pensions from both CALPERS and UCRP and they may be eligible for certain reciprocity benefits, such as credit towards vesting and Highest Average Plan Compensation. The total pension is derived from the combination of the CALPERS and UCRP pensions, and this report compares the calculation of COLAs and purchasing power increases for both plans.

Annual COLAs

Both plans are similar for the calculation of annual COLAs. Each used an annual measure of the CPI (Consumer Price Index) with some differences in their specific methodologies: The CALPERS CPI is based on the US Urban Consumer CPI during a year starting January 1 and ending December 31. COLAS become effective in the next year on May 1. The UCRP COLAs are based on the increase in the California-specific annual CPI measure for Urban consumers across the metropolitan areas of San Francisco and Los Angeles. The measurement spans from February of the previous year to February of the current year. UCRP provides an annual COLA that generally matches the increase in the CPI up to 2%, plus 75% of the CPI increase of more than 4% up to a maximum COLA of 6%. COLAs are effective on 1 August 1 of the same year that the annual increase is calculated.

The figure shows the calculation of COLAs for UCRP and CALPERS as a function of CPI. The figure has two dashed lines (red and blue) that show the COLA calculation for agencies that contract for maximum COLAs that equal either 2% or 4%. We show the 4% contract COLA calculation only for illustration, because more than 96% of CALPERS agencies have 2% contracts. Perhaps the most striking feature in the figure is that the two systems have identical COLAs for CPI less than or equal to 4%! The UCRP COLA formula provides larger COLAs for CPI values greater than 4%. This is primarily due to the fact that three quarters of the CPI increases above 4% (up to 9.33%) are included in the COLA formula. However, it's important to note that the UCRP annuitant COLA is capped at 6%. The blue dashed line shows that public agencies with 4% contracts have larger COLAs for CPI less than 6.67%,



Another important difference between UCRP and CALPERS is the existence of two "banks" for pension payments. Each annuitant's COLA percentage for a specific year depends not only on the CPI increase that year, but also on the cumulative increase in the CPI since the member retired. For this purpose, two "banks" are maintained, an "inflation bank" and a "COLA bank", which are then used to determine the total COLA amount that an annuitant is entitled to each year. There appears to be no such adjustment for CALPERS.

A description of the Banks and other explanation of UCRP COLAs is found at: https://hr.ucr.edu/sites/default/files/2023-05/cola-webinar-on-04-27-2023-at-10-am.pdf)

Purchasing Power COLA adjustments

The figure shows that for CPI greater than 2%, generally speaking, the COLAs for both CALPERS and UCRS are smaller than the actual CPI, and this will result in a decrease in the purchasing power of the pensions, which can become a significant concern over years of retirement. Both systems have mechanisms in place to partially restore purchasing power, with CALPERS implementing an automatic adjustment, while UCRP necessitates approval from the UC Regents for such changes. CALPERS will adjust the purchasing power (Purchasing Power Protection Allowance, PPPA) to be at least 75% for school and State members and 80% for local and public agencies. The UCRP purchasing power is intended to ensure that purchasing power remains no lower than 75%. However, any ad hoc COLA adjustments to achieve this level requires approval from the UC Regents. In the most recent UCRP ad hoc COLA adjustment, purchasing power was increased to 85% to minimize need for frequent adjustments in the future.

A more quantitative look at the erosion of purchasing power is shown in the following Table which shows the number of years that it will take to erode purchasing power by 25% from 100%. The table makes the unrealistic assumption that the indicated CPI is constant at an elevated value for 8 to 25 years, but it shows that the funding formula for UCRS results increases the time for reduction of purchasing power by up to 4 years longer than for PERS. However, the years required for UCRS purchasing power decrease may occur for many retirees in times of high inflation. The table gives an estimate of the years required to fall to 75% of initial purchasing power for either the PERS or UCRS systems. Since we are considering people who have service for both systems, the purchasing power will decrease over a period of time between the values in columns 2 and 3. The difference in column 4 will be less than the indicated value. The Table is the result of constant decrease (arithmetic) in purchasing power. A more realistic measure calculated with proportional decrease will give different but similar results.

Table

CPI %	Years for PERS	Years for UCRS	Years for UCRS – Years for PERS
0	No loss	Power increase[a]	
1	No loss	Power increase[a]	
2	No loss	No loss	
3	25	25	0
4	12.5	12.5	0
5	8.33	11.111	2.781
6	6.25	10	3.750
7	5	9.09	4.091
8	4.16	8.333	4.173
9	3.57	7.692	4.132

[a]This assumes that a retiree has accumulated sufficient credit in the Banks to fund the COLA at 2% for CPI less than 2%. Persons who have recently retired will not have this credit.

Summary:

Both CALPERS and UCRP have COLA adjustments where both systems have generally the same adjustment for CPI between 2% and 4%. The more generous

UCRP COLAs that occur during years that have a larger CPI and the UCRP Inflation and COLA bank features mean that more years must pass before an ad hoc purchasing power adjustment is necessary. The COLA amount is not solely determined by CPI increases; it also depends on how long a retiree has been retired. Therefore, it's not appropriate to predict when retirees would receive the most generous annuitant or ad-hoc COLAs. For instance, if someone retires during a period of high inflation with consistent CPI increases above 2%, they'll accumulate the CPI increases exceeding 2% in the inflation bank. Consequently, in years when CPI is below 2%, these retirees receive COLAs exceeding 2% due to the accumulation in the inflation bank. Both banks accumulate from the member's initial eligibility for a COLA. Therefore, when economic conditions warrant using either of the banks, it is possible to pay different annual COLA amounts in the same year to different annuitant groups depending on the year in which the members retired and the resulting amounts in the inflation bank and COLA bank. Although the desired PPPA is comparable for both systems, but the CALPERS PPPA adjustment is automatic, while UC Regents must approve a PPPA.

We did not investigate the actuarial funding of the two systems, nor the pension aspects of the UCRS PERS +5 cohort. The JBC thanks John Monroe and Hyun Swanson for helpful discussions.

The reader can use the following link to get more explanation of the CALPERS pension: https://www.calpers.ca.gov/page/retirees/cost-of-living