Special Report

Inequality in America

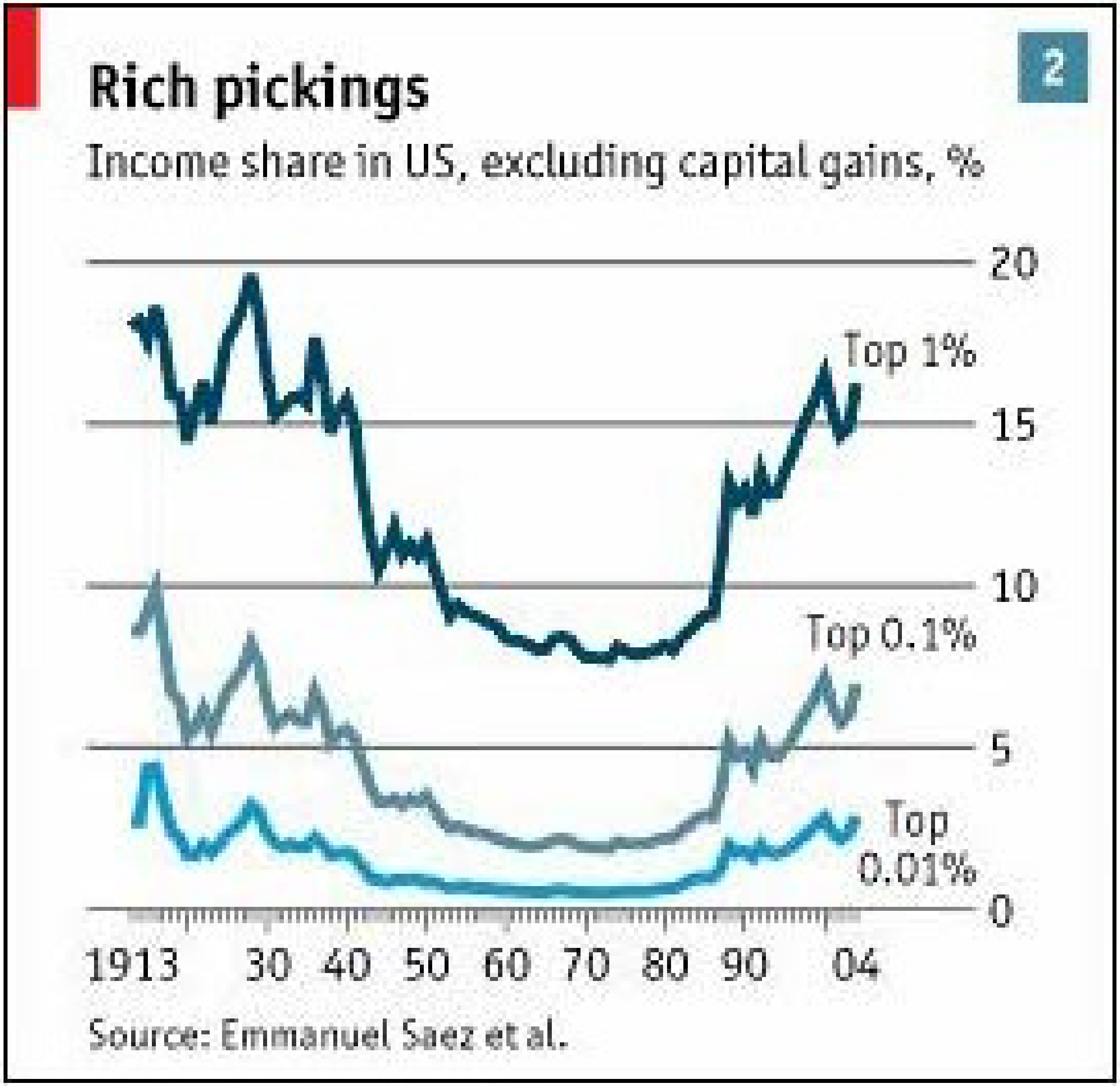
# The rich, the poor and the growing gap between them

Jun 15th 2006 | WASHINGTON, DC

From *The Economist* print edition

**The rich are the big gainers in America's new prosperity**

Getty Images




The Economist June 16 2006

# The UC Retirement Plan (UCRP):

# The proposal, the options, the fight ahead.

**UPTE conference**

**By Paul Brooks, UCB, former UPTE pension bargainer.**

**paul.brooks.upte@unwiredltd.com**

Oct 15 2010

# Acknowledgement
## further information

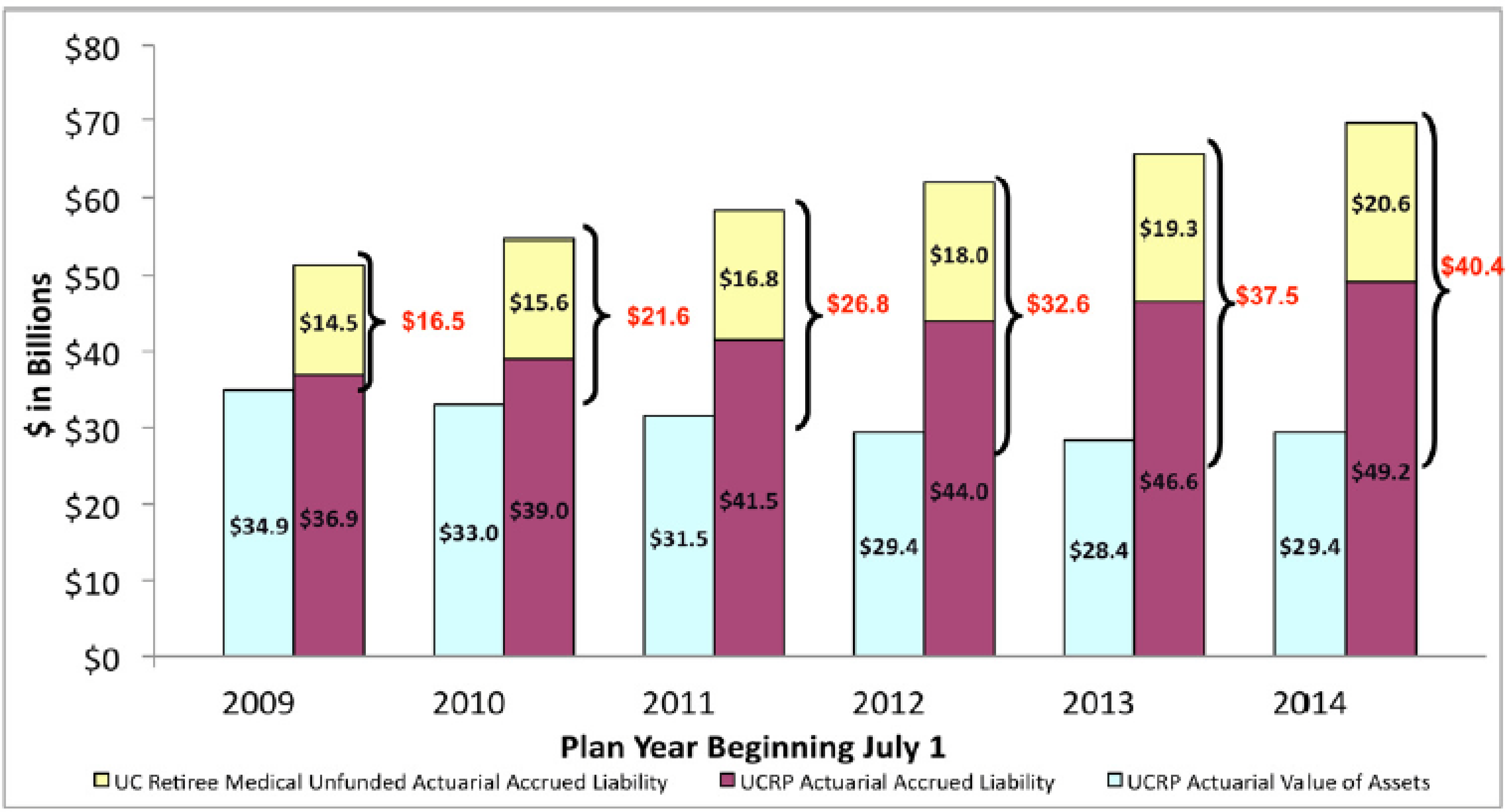
- UC employees acknowledge **Dr. Charles Schwartz**, emeritus professor UCB, for his dedicated research on the UC pension system. His work can be found at: **http://socrates.berkeley.edu/~schwrtz/**

- Attacking the character of the reference writer rather than the facts cited is an Ad Hominem fallacy (described at http://www.nizkor.org/features/fallacies/ad-hominem.html).

The Problem: UCRP is facing a $20 billion dollar deficit by 2014, retiree health costs increase this by another $20 billion.

TASK FORCE FINAL REPORT July 2010

**PEB Assets and Liabilities for Campuses and Medical Centers**



# Definition of terms

- A **DBP** is a defined benefit plan.

At retirement, employees are guaranteed a certain retirement pay for the rest of their lives. It is the responsibility of the retirement fund, usually managed by the employer, to guarantee this.

- A **DCP** is a defined contribution plan.

At retirement, an employee has only the funds he has saved in instruments savings plans such as a 403B or 401K. There is no guarantee of a specific retirement benefit.

# Pension history

- During the 1980’s various other acts were passed that made DBP much less attractive to employers.  Most dismantled their plans.
- In 1979 80% of all workers with a pension were covered by a DBP.
- By 2004 only 20% of employees in private firms were in DBPs.

Source: Rasmus, J. 2005. The war at home.  Kyklos productions, LLC.

# DCPs a poor substitute for DBPs

- 401Ks (a DCP) have underperformed DBPs.
- To retire at 65, a person should have 8-9 times their annual salary in a 401K.
- Most employees with 401Ks are not contributing enough.
- Part of the problem is that employers only match the employees contribution, say 3%/3%, or 6%/6% at best.
- DBPs historically have had a split more like 3% employee/ 8-15% employer.

Hacker, J. S. 2006. The great risk shift. Oxford Univ. Press.
Rasmus, J. 2005. The war at home. Kyklos productions, LLC.

# Pension we have at UC.

- Due to union pressure we still have a DBP.
- The DBP is a great benefit that helps to make up for lower wages.
- It has been great for the taxpayer, as no public money has been put in to the DBP in 19 years.
- 2% of our pay now goes into the DBP.

# DCP's are not adequately funded

- "Employers have taken advantage of the switch from DB to DC to cut the level of their payments drastically."
- "In America total (employee and employer) DC contributions at the last estimate were … still only 9.8%."

- "The trouble with pensions" p.93, in: The Economist, vol. 387 No. 8584. June 14th – 20th , 2008.

# The Result:

- It makes sense for employers to switch from a DBP to a DCP to save money.
- It is hugely profitable for the investment industry to then manage this money for the average employee. They want this change to occur.
- The average employee will have a very small pension since they and their employer do not contribute enough to their DCP. They can be charged excessive fees, and their DCP does not earn a high interest rate.

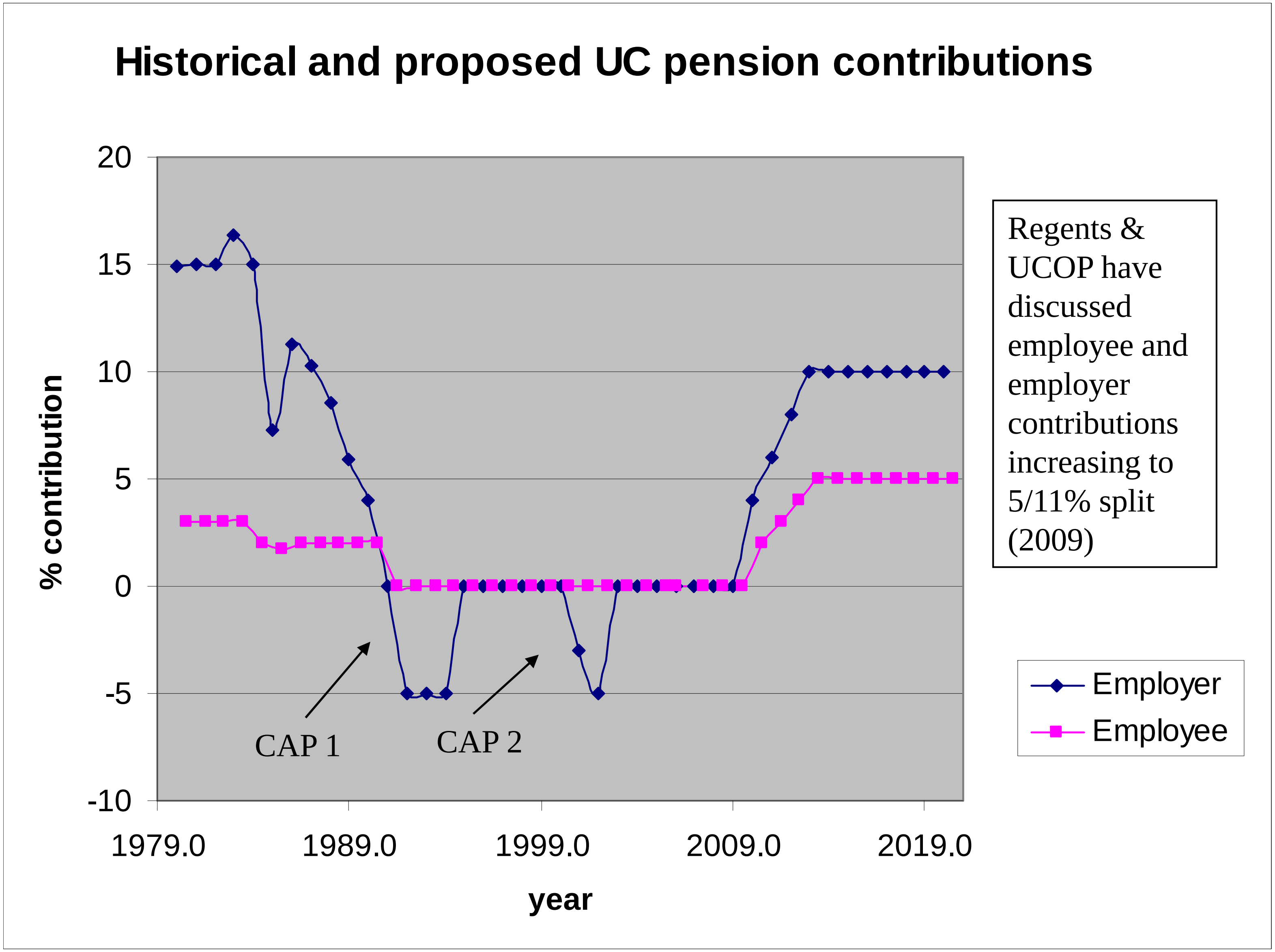
# There are many misconceptions about funding of UCRP

- “Fees have gone up at the University of California by 32%...... and the reason is that pensions have gotten so big for all the faculty and staff that it is squeezing out the student”.
  Meg Whitman, Oct 12 Brown Whitman debate:
  http://video.yahoo.com/watch/8376122/22416277

- **No taxpayers money was put into UCRP for nearly 20 years.**

# UCRP historical contributions.

- Note on the next slide that historically the contributions to the pension plan were 2-3% by employees and variable, but as high as 16% in the 1980's.
- In 1990, the fund was so overvalued that contributions were stopped. The 2% employee contribution was put into a DCP account.
- UC contributions not only stopped but money was taken out for the CAP I and II instead of cost of living increases. UC employees were told they would never have to contribute again.




References: Historical section based on UC's response to an information request, 2006

CAP 1 -Back calculated from CAP 1 held by Paul Brooks

CAP 2 -http://atyourservice.ucop.edu/employees/retirement/cap/index.html

# UC was top performing fund.

- In the 1990’s the UC retirement fund was one of the top performing funds in the nation.
- Therefore contributions did not need to be re-started.
- It was managed at low (probably 0.1% of assets) in-house.
- The manager was Patricia Small.

# Pension fund management change continued.

- In the late 1990's, Regent Parsky organized of closed (secret) meetings where Russ and a consultant, Wilshire Associates, critiqued the fund performance.
- The California Supreme Court ruled these meetings illegal in 2003.
- S & P performance was fabricated and risk assessment was not evaluated.
- Many of the calculations that Russ used were incorrect.
- The supposed loss to the pension fund only amounted to 0.2% per year (less than many management fees)

- http://socrates.berkeley.edu/~schwrtz/ "what's happening to the pension fund parts 1-20".

# Patricia Small loses her job.

- In 2000, the regents retired Patricia Small with a generous severance package that included a clause that she was "not to disparage the regents".
- Wilshire Associates donated $80,000 to the Elect George W. Bush campaign that Regent Parsky was managing.
- http://www.eastbayexpress.com/gyrobase/parsky_s_party/Content?oid=426427&page=3

# Regents & Conflict of Interest: The Need for Joint Governance of UCRP

- In 2000, the first $16 billion of UCRP assets was handed to outside management on the advice of Wilshire Associates, who had been hired to advise the University.

- Wilshire Associates had donated money to the “Elect George W. Bush” campaign in California, which was managed by Gerald Parsky.

- Gerald Parsky denied any connection with this donation.

## UC deal followed big gift to GOP

Lance Williams, OF THE EXAMINER STAFF
Sunday, July 16, 2000

- Printable Version
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### Regent who heads Bush's campaign in state downplays role insteering contract

A University of California regent who heads George W. Bush's presidential campaign in the state steered a UC contract to an investment firm after its boss gave $80,000 to a Republican fund, The Examiner has learned.

In an interview, Regent Gerald Parsky, a Los Angeles financier and a fund-raiser and confidant of the Republican candidate, downplayed his role in hiring the firm for the University of California system.

He said he was unaware of political donations made to Bush and the GOP by executives of the firm.

But according to UC records and informed sources, in recent months Parsky has pushed a sweeping restructuring of the UC's $59 billion pension fund.

http://sfgate.com/cgi-bin/article.cgi?f=/e/a/2000/07/16/NEWS9974.dtl&hw=UC&sn=001&sc=1000

# Wilshire associates given job

- Wilshire associates was given the job of making the changes it had recommended (a clear conflict of interest).
- http://www.eastbayexpress.com/gyrobase/parsky_s_party/Content?oid=426427&page=3
- In Nov. 2000, UC traders sold nearly $11.6 billion in stock. (Who got the commission on that?)
- http://www.eastbayexpress.com/gyrobase/parsky_s_party/Content?oid=426427&page=4

# Regents & Conflict of Interest: The Need for Joint Governance of UCRP

- In 2003, Wilshire Associates was found to be illegally “fast trading” by the SEC.
- There were many other business practices that are not in the best interest of the client.
- Did the fund perform better after 2000 when the UCRP management changed?

# We need Peer Comparisons!

- This information is not readily available.
- These peer comparisons should be put on the UC web page as soon as they are available.
- We need this data regularly and publically available.

# External management fees are equivalent to approximately 2% of salary

- All investment recommendations are that management fees should be kept as low as possible as investment managers do not contribute value compared to indexed funds.
- UCRP now pays 0.5% to external managers, or about $160 million annually. http://socrates.berkeley.edu/~schwrtz/WHPF26.html
- 2% of UC payroll is approximately $160 million. ($1.6 billion is 20% of payroll, in:- http://calpensions.com/2010/09/22/uc-task-force-pensions-frightening-challenge-2/)
- Why is UCRP paying this much to external managers?
- Who is getting this? Who are they affiliated with?

# Main faculty and staff concerns.

- Has the management of the pension fund used actuarial best practices?
- Have there been conflicts of interest managing the pension fund?
- How much money has been removed from the pension fund for management fees?
- How much will employees have to contribute?
- What will the new benefits be?

# The regents voted on new contribution rates for non-represented employees Sept. 16.

Beginning in July 2011, employee members of the UC Retirement Plan (UCRP) will begin contributing 3.5 percent of salary into the plan; UC will contribute 7 percent. The amount will increase again in July 2012, with employees paying 5 percent and UC paying 10 percent.

http://universityofcalifornia.edu/sites/ucrpfuture/news-updates/uc-regents-vote-to-increase-pension-contributions/#more-760

UPTE agreed to 1% for TX/Rx for 7/1/11 and 7/1/12

http://www.upte.org/2010TA-RX/4.pdf page 4.

With the current 2% contribution this means we will contribute 3% in 2011 and 4% in 2012. Note: <u>UPTE has already saved members salary cuts compared to non-represented employees.</u>

# What is the faculty's decision?

- “As painful as it is, the Academic Senate does support the increase in contributions called for in this item,” Simmons said. “But make no mistake, it is a pay cut for all faculty and staff.” Daniel Simmons, chair of the Academic Senate

http://universityofcalifornia.edu/sites/ucrpfuture/

# Proposed options for UCRP

| PLAN FEATURES | CURRENT UCRP | PROPOSED UCRP TIER OPTIONS | | |
|---|---|---|---|---|
| **Minimum Retirement Age** | 50 | 55 | | |
| **Maximum Benefit Age** | 60 | 65 | | |
| **Pension Income** *for 30 years of service* | | Option A | Option B | Option C |
| HAPC: $60,000 | 75% of salary | 45% of salary | 60% of salary | 75% of salary |
| HAPC: $100,000 | 75% of salary | 63% of salary | 72% of salary | 75% of salary |
| **Employee Contribution** | | | | |
| $60,000 salary | 2-4% 2010 3.5% 2011 5% 2012 | 3.5%[1] | 4%[2] | 6.1% |
| $100,000 salary | 2-4% 2010 3.5% 2011 5% 2012 | 5.9%[1] | 5.7%[2] | 6.1% |
| **Employer Contribution** | 4% 2010 7% 2011 10% 2012 | 7.3% | 9% | 9% |
| **Benefit Choice** | Monthly retirement income or lump sum cashout | Monthly retirement income | | |

HAPC = highest salary averaged over 36 consecutive months

[1] *3.5% up to about $60,000 income (determined by the Social Security Administration and is adjusted annually); 9.5% for additional income*

[2] *4% up to about $60,000 income (determined by the Social Security Administration and is adjusted annually); 8.2% for additional income*

http://www.today.ucla.edu/portal/ut/PRN-townhall-172181.aspx

# Proposed pension benefit changes, options A and B.

| Plan Features | Current UCRP | Proposed UCRP Tier options | |
|---|---|---|---|
| Min. retirement age | 50 | 55 | |
| Max. benefit age | 60 | 65 | |
| Max. benefit<br>20 yrs of service<br>30 yrs of service | <br>50% of salary<br>75% of salary | Option A<br>42% of salary<br>45% of salary | Option B<br>48% of salary<br>60% of salary |
| Employee contribution | 2-4% of pay in 2010<br>3.5% in 2011<br>5% in 2012<br>7% in 2013 | 3.5% up to about $60,000* income; 9.5% for income over $60,000 | 4% up to about $60,000* income; 8.2% for income over $60,000 |
| Employer contribution | 4% in 2010<br>7% in 2011<br>10% in 2012<br>12% in 2013 | 7.3% | 9% |
| Benefit choice | Monthly retirement income or lump sum | Monthly retirement income | |

*This amount is determined by the Social Security Administration and is adjusted annually.

This is a clearer text than the previous slide, but does not include option C.

http://www.universityofcalifornia.edu/news/article/23973

# Changes to the retirement health benefits.

- Raise minimum age for retirement health benefits from 50 to 56.
- Increase premiums so that the UC contribution drops from 89% to 70%
- Other changes that increase retirees costs.
- Start a two-tier system in which new hires in 2013 will have the minimum retirement age raised, expect usual retirement to be raised to age 60 with 80% of pay.

http://universityofcalifornia.edu/sites/ucrpfuture/files/2010/10/ff_proposed-changes-at-a-glance-1010.pdf

# A coalition of UC unions has put together a set of shared principles.

- To be presented to the regents on Nov. 16-18,2010.
- Rejection of proposed pension benefit cuts.
- Rejection of second tier UCRP opt-out/ DC plan choice and retiree health changes.
- Willing to consider plans to maintain current benefits.
- Requests an adjustment of actuary standards.
- Return to historical 5/1 UC/employees contribution ratio.

## A coalition of UC unions has put together a set of shared principles –continued.

- Unions will commit to partnering with UC to secure state funds for UCRP.
- Demand joint governance of the pension plan.
- Eliminate supplemental retirement benefits for highly compensate UC employees.

http://changinguniversities.blogspot.com/

# Qualify the Trustees

- A complaint often made on the concept of joint governance is that employee trustees are not competent trustees.
- In Britain it is now the law that pension trustees must be qualified before they can serve. This requires a course of several days time.
- ttp://www.thepensionsregulator.gov.uk/trustees/trusteeKnowledge/index.aspx
- UC should take the lead in establishing a qualification program in the United States.

# Additional Questions

- **Here are some ideas to start the discussion.**

- Ask what management fees are.
- Ask what a peer comparisons of return for UCRP is compared to similar funds like Calpers.
- Ask why stochastic evaluations of the fund are not being done annually and what data is used to generate them.
- Ask why we are now being asked to pay 5% when the maximum we used to contribute was 3%.
- What conflict of interest do the regents have?
- Why are we contributing before the CAP funds have been paid back?