

March 11, 2016

Dear Colleagues:

I am writing to outline the proposal for the new retirement program I am bringing to The Regents later this month that includes new retirement benefits for future UC employees.

As a reminder, the new retirement benefits will apply only to UC employees hired on or after July 1, 2016. Current employees and retirees are unaffected by these changes as accrued pension benefits are protected by law and cannot be reduced or revoked.

Before getting into the specifics of my proposal, I want to share with you my thinking behind it.

The University of California is a very special institution. There are other fine universities, but there is no other university on the planet that contributes as much to the public, in as many ways as UC does. Arguably, no other single institution does as much for so many.

And at the heart of everything we do, and the excellence UC is renowned for, are our talented faculty and staff. Our people are what make UC great.

Maintaining excellence on such a massive scale is no small task. And it does not come cheaply.

Everything we do – from teaching students, to treating patients and training the next generation of doctors, to redefining the boundaries of what we know, to creating technologies that give rise to new industries, to helping to ensure the vitality of California's agricultural resources, and everything in between, requires significant financial resources.

When I accepted the opportunity to lead UC two and a half years ago, it was clear to me that one of the most important goals of my presidency would be to maintain UC's excellence while ensuring a solid financial foundation for UC's future.

This core principle of protecting both UC's excellence and its long-term financial health was the basis for last year's multi-year funding agreement with the State, and is the primary driver of my retirement proposal.

The budget agreement with the Governor and the Legislature last year marked a significant milestone in support of this goal by creating an era of increased State funding and financial stability for the University. Importantly, the agreement reflects the State government's recognition of the need to invest in UC.

Under this agreement, UC is receiving nearly \$1 billion in new annual revenue and one-time funding over the next several years, which will help ensure the University's long-term financial stability and provides critical funding for many UC priorities.

Among other things, this funding allows us to budget for regular pay increases for faculty and staff over the next several years, and make merit-based pay a more regular component of our systemwide salary programs.

The \$1 billion includes \$436 million in one-time funds to help pay down our unfunded pension liability, which is key to ensuring the long-term fiscal solvency of the UC pension plan.

To help secure the financial stability of UC and as part of the agreement, I am proposing to The Regents that they approve implementation of a new set of retirement benefits for future UC employees hired on or after July 1, 2016, that limits the pensionable salary for future UC employees, mirroring the cap on pensionable pay for state employees under the 2013 California Public Employees' Pension Reform Act (the "PEPRA cap").

Following completion of the budget agreement, which was approved by The Regents, I convened a systemwide task force to suggest options for the new retirement benefits for future employees, consistent with the PEPRA cap.

Task force members included faculty, staff, and representatives from the Academic Senate, the Staff Advisors to The Regents, the Council of UC Staff Assemblies, UC labor unions, and UC administrators.

The task force submitted its recommendations to me in December, and during January and February, I invited members of the entire UC community to share with me their thoughts about those recommendations.

I want to thank the task force members for their good and thoughtful work, and also the hundreds of faculty and staff who shared their comments, concerns, and ideas with me.

Many of you expressed concern that a new set of retirement benefits could harm the University's ability to attract and retain top-tier faculty. Improving overall employee compensation and the stability of the UC pension plan were also common concerns. Another concern many of you raised was the need for more retirement education and services to help employees prepare successfully for retirement.

For those of you who shared your views with me, I want you to know I paid close attention. My proposal addresses not only these concerns, but other priorities as well.

Building upon the work of task force, and after much discussion with numerous stakeholders and careful consideration of the input I received from faculty and staff, I will be bringing a package proposal to The Regents that will allow us to:

- ensure UC's long-term financial stability, including keeping the UC pension plan strong and continuing to pay down our unfunded pension liability;
- within the fiscal constraints we face, maintain the caliber of UC personnel and the University's excellence by offering attractive overall compensation, including retirement benefits, for new faculty and staff;
- focus on overall employee compensation by (1) allowing UC to budget for regular pay increases for faculty and staff, and (2) making merit-based pay a regular component of systemwide salary programs to reward employees based on their contributions to the University;
- preserve UC's quality, which requires recruiting and retaining quality personnel, especially faculty, by devoting resources to help campuses attract and retain faculty and key staff, and improve the student experience; and

– offer enhanced retirement education and counseling services to all UC employees, as part of the University’s commitment to help employees be “retirement ready.”

Regarding the new retirement program specifically, I am proposing that future employees hired on or after July 1, 2016, be offered a choice between two options:

Option 1 – Pension + 401(k)-style supplemental benefit: The current UC pension benefit capped at the PEPRA salary limit (currently \$117,020) plus a supplemental 401(k)-style benefit for eligible employee pay up to the Internal Revenue Service limit (currently \$265,000).

Option 2 – New 401(k)-style benefit: A new stand-alone 401(k)-style plan with benefits-eligible employee pay up to the Internal Revenue Service limit (currently \$265,000).

Since we compete in a global market for faculty, often against elite private institutions that can typically pay more than UC, maintaining a pension benefit along with a 401(k)-style supplement is important to attracting and retaining the caliber of personnel we need to maintain UC’s excellence.

At the same time, our workforce is highly diverse and people have different retirement needs and goals. A new stand-alone 401(k)-style retirement benefit allows us to offer an attractive retirement benefit to employees who work at UC for only a few years and value a portable retirement benefit they can take with them, and/or who prefer to personally manage their retirement savings.

You can find a chart that further summarizes the features of the two options online [here](#).

In short, I believe this proposal supports the University’s ongoing excellence and will significantly bolster the long-term financial stability of UC and its retirement program, while providing critical funding for other University priorities.

I again want to thank the task force members, and the many faculty and staff who shared their views with me. The input I received from the task force and the University community was invaluable in formulating this proposal.

Yours very truly,

Janet Napolitano
President