

June 26, 2009

Dear Chair Blum and University of California Regents

As Chair of the Faculty Association at UCLA, an independent, voluntary organization of Academic Senate members on this campus, I am writing to you about another aspect of the welfare of the University in the current budget crisis. Our letter to you of June 17, 2009 stated our general concern that the University needed to be the central focus of your attention, a topic that generated much media response, including a front-page article in the *San Francisco Chronicle* on June 19, 2009, and just recently a notice in the *New York Times*.

The issue about which I am currently writing is more specific in nature though not less important: resuming contributions to the UC retirement system. Within the past 18 months, the asset value of UCRP has been on a steep decline. As of April 1, 2009, the MVA was about \$29B, down about 7.3% for the first quarter of 2009 and down about a 39% from Dec. 31, 2007, when the MVA was \$47.59B. On Jan. 20, 2009, the FA also wrote to President Yudof, with copies sent to the UC Regents, about starting contributions to UCRP, but the pattern of deferring contributions has continued.

I understand that President Yudof during the Q&A session of the June 17 Academic Assembly meeting made a statement to the effect that when employee contributions to UCRP resume on April 2010, there probably will not be an employer contribution (see the UCLA FA Website at http://www.uclafaculty.org/FASite/Yudof_AcSen_6_17_09.html). The FA would like to respond to his comment.

An employee contribution with no employer contribution violates the UCRP Funding Policy approved by the Regents on Sept. 18, 2008. Section B (3) says “...In no event would the University Contributions be lower than the Member Contributions.” Clearly, no employer contribution and an employee contribution of any amount would violate this recently revised policy.

The amount the UC Regents requested of the State to resume contributions in April 2010 is relatively small: 4% of state-supported UC payroll for the employer to be augmented by a 2% employee contribution. Regrettably, the State most likely has excluded contributions to UCRP for 2009-10 and 2010-11 from the State budget, but this does not relieve the State's obligation to UCRP. The State could have issued an IOU to UCRP to cover 4% of covered compensation that would be paid back when the economy improves. This practice is not new. In 1983-84 the State failed to make the agreed upon contribution to UCRP of 14.3% of UC covered compensation. In that same year the State also failed to make the full required contribution to CalPERS and considered making no contributions to UCRP for 1984-85 as well. After a CA Court of Appeals ruling in 1983-84, the State paid CalPERS the full amount owed and issued an IOU to UCRP to be paid back over a thirty year period based on revised actuarial assumptions.

Alternatively, the University could implement this simple plan for resuming contributions to UCRP with UC funds. The UC contribution would be \$24M for the fourth quarter of 2010 (April, May, June, based on an estimated annual covered payroll of \$2.4B). Even if this contribution level were in place for a year, until April 2011, the numbers are still manageable. UC would only need to contribute about \$96M over the course of a year.

If a direct contribution is not possible, the UC Regents could issue their own IOU to the retirement system with the understanding that as soon as the economy of the State improves, the State will honor its long-standing financial commitment to UCRP. More importantly, an IOU from the Regents would restart the contributions from non-State employers such as the federal government and the UC Medical Centers. Beginning with a 4% employer and a 2% employee contribution for one quarter, UCRP would collect \$22M from the federal government through research grants (based on an estimated annual covered payroll of \$2.2B) and \$26M from the UC Medical Centers (based on an estimated annual covered payroll of \$2.6B), yielding about \$48M

(=\$533,333 on a daily basis) or about twice as much as the proposed State contribution. If the UC makes a contribution rather than issuing an IOU, the employer contributions would be about \$72M. Along with employee contributions of about \$36M, the total contribution from all sources would be about \$108M for one quarter. For a full year at this same contribution level, the total contributions from all sources— employer and employee--would come to about \$433M.

Without either a Regents' IOU or a contribution to UCRP from UC funds, each day the non-State entities at UC do not pay their \$533,333/day contribution toward retirement, the UC Regents end up owing another \$533,333 to UCRP.

People from all corners of the University of California, academic, research, grants, medical schools and centers, administrators, staff— everyone--will feel the bite of contributing to retirement after so many years of not needing to do so and especially in the current budget environment, but that is still not a reason for inaction. It is in the interest of the UC Regents to issue an IOU if not to make actual contributions, so as to trigger the resumption of contributions to UCRP from all of its many and varied stakeholders and begin to rebuild its base.

Thank you for your attention to this matter.

Dwight Read
Chair, Faculty Association at UCLA