

UCSB
Faculty Association
newsletter

A Membership Organization of Faculty at the University of California, Santa Barbara
P.O. Box 13930, Santa Barbara, CA 93107

UC Santa Barbara Faculty Association

June 2007

What has Become of the UC Retirement Plan?

As UC employees consider the possibility of absorbing salary cuts in the form of UC Retirement Plan contributions, many are looking to the performance of the investment program and asking some tough questions. The June 30 fiscal year data show a steady decline in returns from 14.34% in June 04, to 10.30% in June 05, to the single digit level of 7.10% in June 06. This decline is in stark contrast to the performance of the other two large public pension funds, CalPERS and CalSTRS. In June 2006, CalSTRS had a return of 13.20% or 6.10% higher than UCRP for the same period, while CalPERS had a return of 12.3% or 5.2% higher than UCRP. During the earlier decade between 1990 and 2000, with few exceptions, UCRP had higher returns on its total investment portfolio than did these other public pension funds, but it now appears as if the opposite is true: UCRP now trails the pack.

The high returns of CalSTRS and CalPERS are largely due to investments in international equities and real estate. For example, for fiscal year 03-04, CalSTRS posted a 30.68% return on international equities and 13.2% in real estate. By fiscal 05-06, international equities returned 27% and real estate soared to 35.73%. In 2004, then UC Treasurer Russ set in motion an increase in UC's holdings of international equities and a significant change in UC investment strategy from internally managed funds to externally managed funds (index funds). Yet in 05-06, the UCRP return on investment curve was still headed downhill. Out of the 46 externally managed funds at UC, holding about \$17B in funds for UCRP and GEP (UC's endowment funds), only 18 (39%) exceeded their assigned benchmarks, which leaves the majority, or 28 (61%), falling below their benchmarks in performance. The question is: Why in the lightning-fast world of finance and investment has UC

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New Efforts to Address Salary Disparities Between UC and Comparison Universities

In light of the significant disparities between UC salaries and income earned by our counterparts at our officially designated comparison institutions, UCOP is considering new strategies to increase faculty salaries to competitive levels. In this vein, President Dynes has amended the charge of UCOP's Work Group on Faculty Salary Scales, which is chaired by Provost Rory Hume. The Work Group includes four representatives of the Academic Senate: Academic Council Chair John Oakley (UCD), UCAP Chair and incoming Academic Council Vice Chair Mary Croughan (UCSF), UCFW Chair Susan French (UCLA), and UCPB Chair Chris Newfield (UCSB). Other members of the Work Group are Acting Chancellor Norm Abrams (UCLA), Executive Vice Chancellor George Breslauer (UCB), Provost and Executive Vice Chancellor Virginia Hinshaw (UCD), and Executive Vice Chancellor Ellen Wartella (UCR).

The new charge of the Work Group is to: 1) increase faculty salaries to a competitive position; 2) reduce the proportion of faculty who are paid off-scale; 3) adjust the salary ranges and perform other procedural changes necessary to achieve these goals; and 4) consider creating new scales where necessary to reflect disciplinary needs.

The Work Group has developed a number of recommendations, which include the elimination from APM 620 language declaring off-scales are to be used only in exceptional circumstances, and only in the short term. Perhaps most importantly, the Work Group proposes the construction of a new salary scale, for the purposes of

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UC Retirement Plan Investment Performance (continued)

become the follower and not the leader?

Falling investment returns on a fund as large as UCRP (\$41,970 million in June 2006) are important for another reason: the proposed resumption of contributions to UCRP. If UCRP had attained the investment return of CalPERS (12.3%) for fiscal 2005-6, UCRP would have \$2,182 million more in its coffers than it does now. The normal cost of UCRP for a year is \$1,310 million, and the surplus in UCRP is \$1,670 million. The reason we face resumption of contributions to UCRP is thus only due to poor performance of the fund. Had UCRP performed in a manner comparable to CalPERS we would not need consider resumption of contributions to UCRP.

The declining curve of UCRP returns, especially compared to the stellar performance of the other two California public pension funds, raises serious questions for the faculty who have seen inadequate salary increases to offset increasing cost of benefits and the effects of inflation. Faculty received a 2% salary increase in October 2006 but paid higher health care costs beginning January 2007. If they have to begin contributions to UCRP, it will be a *de facto* compensation decrease of thousands of dollars. The yearly cost to them can be seen by what they now contribute to their DCP plan. In turn, UC will have to allocate system-wide funding for the employer part of this resumption of contributions. Both the University and the faculty have a vested interest in discovering why the returns of UCRP continue to decline.

Along with our counterpart at UCLA, The Faculty Association at UCSB would like to know what steps are being taken by the University to reverse the declining trend in the returns of the UCRP fund and what benchmarks are in place so that action can be taken if necessary to adjust that plan and ensure a competitive return on investments.

[Ed. Note: We thank the UCLA Faculty Association for permission to reprint portions of their original letter to UC Regents Chairman Parsky.]

New Efforts with Salary Inequities (continued)

discussion and analysis, a model that would change the salary scales substantially upwards in order to capture many of the faculty that are now off-scale.

Although these discussions are in the early stages and remain tentative, the Work Group is wrestling with key implementation questions, especially as regards the salary scale modeling. Most obviously, this proposal involves weighty resource issues (including how to pay for a new scale). Likewise, the group will consider how the burden might be shared between system-wide resources and the individual campuses. As discussed, the proposed new scale would reflect a range adjustment that would: 1) raise each step to our present averages for the rank and step (our averages are influenced enormously by the current degree of off-scaleness); and 2) address the salary lag we have according to CPEC: *either 10% (assuming the Comparison Eight Universities' salaries are frozen), or 14.5% (assuming the Comparison Eight Universities' salaries are going up as indicated).*

At present, the committee is developing cost estimates, evaluating impacts on the campus budgets, assessing the impact of the proposed scales on campuses for the general ranks, and studying the effects on the HSCP and impacts on non-state funded Health Sciences faculty. If these recommendations are embraced by UCOP, President Dynes will determine the timeline, the tradeoffs necessary, and how to work with the Governor's proposed budget.

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Restarting the UC Retirement Plan Contributions: Pros and Cons

For the 2007-8 Budget Year, the State did not fund UC Employer Contributions to UCRP

Currently, the status of contributions to UCRP is in limbo. The Regents had adopted a plan to begin contributions by July 1, 2007, but this decision was dependent upon State funding, adequate employer and employee contributions, and collective bargaining. Although the state held to the Compact by increasing UC's base budget by 4%, the Compact also provides that the state fund UC retirement. Given that currently the UC retirement system is slightly over 100% funded and that the state has serious fiscal problems, the Governor and the Department of Finance did not commit to UC to begin funding retirement contributions for 2007-8. In order to fund the retirement plan, UC needs about \$330 million from the state.

UC Wants UCRP Contributions to Begin ASAP

UC is concerned that unpredictable variables, such as financial growth rates in our economy, make it impossible to pinpoint precisely when UCRP will become under-funded, but the longer UC waits to restart contributions, the bigger the financial hole that UC and UC employees will need to pay their way out of. Delaying the restart of UCRP contributions just one additional year will cost UC employees and UC itself over \$1.5 billion dollars over a period of 7 years. Gradually phasing in contributions early means initial contributions are low—in fact only 2% of pay which is the amount that is currently going into DCP accounts.

UC Regents Express Worry over State's Failure to Fund UC Retirement

At the Jan. 2007 meeting of the UC Regents, Regent Hopkinson stated that the University has a fiduciary responsibility to fund the pension plan. A delay of one year in restarting pension contributions results in an increase cost of \$1.9 billion over ten years. Regent Blum reiterated the importance of funding the pension plan, asserting that UC cannot wait another year. He believes there must be a strong effort for UC to return to Sacramento to obtain funding for the pension plan and to make UC a priority in the state budget. If the state will not provide the funding, at minimum UC should receive a note that could be borrowed against to ensure that the pension plan is funded. Regent Lansing added that if the cost of funding the pension plan becomes too great, UC's hospitals will be in jeopardy.

The Academic Council and UCFW Endorse Resumption of UCRP Contributions

The Academic Senate has endorsed the urgency of funding the UC Retirement System pension plan as part of their endorsement of The Regents' declared budget priorities. For UCRP contributions, they say that the current model is not sustainable and that it is becoming increasingly necessary to go to a combined employer-employee contribution.

Many Retirees Support Restarting UCRP Contributions

They feel resumption of UCRP contributions is important for the security of the UCRP Defined Benefit Plan for everyone: current as well as future annuitants. Although such contributions will not affect current annuitants, it will not be long before there are many more annuitants worried about the future security of UCRP.

Many UC Unions, including the AFT, and Other Groups Oppose Resuming UCRP Contributions

UC AFT opposes contributions to UCRP based on projected return of UCRP assets. The AFT forecasts a relatively high rate of return for UCRP assets. They estimate robust returns of 10-11%, while UC's estimates fall in the more conservative 7.5% range. At a time when the state inadequately funds UC, contributing to UCRP translates directly into a cut in compensation in the amount of the contribution. Higher-paid employees may be better able to cope with such a cut than lower paid employees.

What are the Numbers?

Although the Academic Council presented documents to the Regents suggesting exactly how much the UCRP requires for security in the future, they agreed that UC needs a clearer way to calculate their financial needs in general so that others, particularly legislators in Sacramento, can understand how the numbers were derived and what they mean. The Academic Senate agreed to provide to the Regents a detailed set of projections of the full costs associated with achieving the Regents' priorities for UC.

--Susan Gallick, UCLA FA

The Faculty Association Newsletter is an independent venue for sharing and debating ideas pertaining to the challenges faced by the university. If you are interested in pursuing this opportunity, please forward submissions to Carl Gutierrez-Jones (carlgj@english.ucsb.edu), or to Marguerite Bouraad Nash (bouraad@polsci.ucsb.edu).

Join the UCSB Faculty Association

The Faculty Association at UCSB is a voluntary, dues-supported organization of UCSB Academic Senate Members, founded in 1979. The purpose of the FA is to influence the decisions of the University administration and the State Legislature that affect faculty salaries, benefits and working conditions broadly defined. The FA at UCSB supports the Academic Senate in all academic matters and works closely with the Senate on welfare issues. Because it has no state funding, the FA at UCSB can and does engage in lobbying and other non-partisan political activities on behalf of the faculty. Membership in the FA at UCSB is open to all faculty eligible for membership in the UCSB Academic Senate.

If you wish to become a member, please complete the application below.

Application for Membership

I wish to join the Faculty Association at UC Santa Barbara. I agree to pay the following dues (check one) by payroll deduction (in which case, please sign and submit the form below), or by personal check.

- \$5.00 per month for Assistant Professors
- \$7.50 per month for Associate Professors
- \$10.00 per month for Professors

Lecturers with security of employment, please designate the dues that most nearly approximate your salary range. Faculty Association dues are tax deductible, either on Schedule A of your income tax (to the extent that they and other profession related and income-producing expenses exceed two percent of your adjusted gross income), or in some instances on Schedule C (without the two percent limitation). Please check with your tax consultant. Please forward the completed form to:

UC Santa Barbara Faculty Association, P.O. Box 13930, Santa Barbara, CA 93107



**EMPLOYEE ORGANIZATION MEMBERSHIP
PAYROLL DEDUCTION AUTHORIZATION
UPAY 669 (r7/90)**

Please Print or Type

Campus			LOC	Employee I.D.	Date	
Action on this Form to become effective the pay period beginning:						Date
Monthly Deduction						
Last Name	First	Middle Initial		Enroll	Cancel	Monthly Amount
Department Employed at UC			Dues	X		
Title at UC			Initiation Fee			None
Organization Name (include local name & number) UCSB Faculty Association			General Assessment			None
Total						

I authorize The Regents of the University of California to withhold monthly or cease withholding from my earnings as an employee, membership dues, initiation fees and general assessments as indicated above.

I understand and agree to the arrangement whereby one total monthly deduction will be made by the University based upon the current rate of dues, initiation fees, and general assessments. **I ALSO UNDERSTAND THAT CHANGES IN THE RATE OF DUES, INITIATION FEES AND GENERAL ASSESSMENTS MAY BE MADE AFTER NOTICE TO THAT EFFECT IS GIVEN TO THE UNIVERSITY BY THE ORGANIZATION TO WHICH SUCH AUTHORIZED DEDUCTIONS ARE ASSIGNED AND I HEREBY EXPRESSLY AGREE THAT PURSUANT TO SUCH NOTICE THE UNIVERSITY MAY WITHHOLD FROM MY EARNINGS AMOUNTS EITHER GREATER THAN OR LESS THAN THOSE SHOWN ABOVE WITHOUT OBLIGATION TO INFORM ME BEFORE DOING SO OR TO SEEK ADDITIONAL AUTHORIZATION FROM ME FOR SUCH WITHHOLDINGS.**

The University will remit the amount deducted to the official designated by the organization.

This authorization shall remain in effect until revoked by me - allowing up to 30 days time to change the payroll records in order to make effective this assignment or revocation thereof - or until another employee organization becomes my exclusive representative.

It is understood that this authorization shall become void in the event the employee organization's eligibility for payroll deduction terminates for any reason.

Upon termination of my employment with the University, this authorization will no longer be in effect.

This authorization does not include dues, initiation fees and general assessments to cover any time prior to the payroll period in which the initial deduction is made. Payroll deductions, including those legally required and those authorized by an employee are assigned priorities. In the event there are insufficient earnings to cover all required and authorized deductions, it is understood that deductions will be taken in the order assigned by the University and no adjustment will be made in a subsequent pay period for membership dues, initiation fees and general assessments.

Employee Signature	Date
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	X1			6	G	
	X1			6	G	

RETENTION 1 YEAR AFTER INACTIVE - ACCOUNTING OFFICE