March 9, 2007

Dear Colleagues:

In July 2006, the University of California Regents decided that, in order to protect future employee pension benefits and ensure the long-term health of the UC Retirement Plan (UCRP), contributions from both the University and employees would need to be reinstated in the near future, possibly beginning as early as July 1, 2007.

The move to restart contributions comes after a long funding holiday that began in 1990, when The Regents suspended all contributions to the UCRP because very favorable investment earnings led to a surplus of assets needed to support the ongoing costs of the plan. Although a recent actuarial valuation shows that the retirement plan’s assets exceed its liabilities by 104%, the surplus has been declining steadily. In the meantime, the value of employee benefits required of the plan has continued to increase. The actuarial report submitted to The Regents notes that when the surplus is depleted, the amount required to keep the plan fully funded “will go from zero to the full normal cost very suddenly, i.e. in only one or two years.” Restarting contributions in order to protect the future of UCRP is seen as a prudent measure, especially at a time when failing public and private pension plans are making news across the country.

At their November 2006 meeting, The Regents approved their 2007-08 budget that included a request for funding from the State. This request would enable the University to match General Fund employee contribution levels to UCRP at such time as contributions are reinstated. The Regents Budget further specified the initial employer contribution to UCRP at approximately 3%. The initial contribution by employees would be a redirection into the UCRP of the mandatory contribution that employees currently make to their Defined Contribution Plan (DCP) accounts (just under 2% of pay for most participants). The contribution restart proposed for 2007-2008 is subject to collective bargaining for represented employees, as well as the availability of funding and the UC budget process.

The Governor’s 2007-08 Budget did not include funding for the University’s contribution to the UCRP for those employees supported on the General Fund. While the Governor’s action casts doubt on whether contributions can resume as early as July
2007 the Regents, at their January 2007 meeting, re-emphasized their intent to continue seeking State funding to cover these costs in 2007-08.

Given the above circumstances, and the need for you to prepare 2007-08 extramural research budgets, we are writing to advise you to include the cost of employer contributions to UCRP at 2% of salary as direct costs.

We believe it is important for Principal Investigators and Contract & Grant Officers to be aware that UCRP contributions are expected to be reinstated and we will continue to keep you informed on the status of these matters as negotiations between the University and the State continue.

In addition to the issue of contributions to the retirement system, it is also important that we inform you that both the Regents' and Governor's Budget for 2007-08 included funding to accommodate a 5% increase in General Fund employees' compensation. The 5% increase will address merit-based and equity-based salary increases, health and welfare benefit cost increases, and related cost increases. While the actual amount of salary increases may vary by personnel program and for represented employees who are subject to collective bargaining, we believe it is important for you to reflect a 5% increase in salaries and benefits in your 2007-08 research budgets.

We will provide updated information as it becomes available.

Sincerely,

Steve A. Olsen
Vice Chancellor

Roberto Peccei
Vice Chancellor

cc: Interim Chancellor Norm Abrams
Executive Vice Chancellor Scott Waugh