

**UNIVERSITY OF WASHINGTON
FACULTY COUNCIL ON RETIREMENT, INSURANCE AND BENEFITS**

The Faculty Council on Retirement, Insurance, and Benefits met on February 6, 2003, at 1:30 p.m. Chair Jim Whittaker presided.

PRESENT: Professors: Bliquez, Boxx, Brandt, Johnson Dugdale, Kochin, Waaland, Whittaker

Ex-officio: Chamberlin, Dougherty, Dwyer, McKenzie, Olswang, Rosales

ABSENT: Professors: Frey, Haley, Martin

Ex-officio: Henley

Guest: Karen Kavanagh

Synopsis:

1. Approve agenda
2. Approve minutes (attached)
3. UW Pension Supplementation: Sommers Bill and Related Information
 Sandra Silberstein
 Jan Sjavik
4. Workgroups: Housekeeping

The meeting was called to order at 1:30 p.m.

Approval of Agenda

The agenda was approved.

Approval of Minutes

The January minutes were approved.

Announcements

Whittaker welcomed Oscar Rosales, the new ASUW representative to FCRIB, and guests Jan Sjavik, Legislative Rep., and Karen Kavanagh, Vice President, Human Resources. Sandra Silberstein, Faculty Senate Chair, may attend late in the meeting.

Pat Dougherty announced that the Eldercare Workshop will be again offered on March 1, which is a Saturday. This is an all-day event – if council members know of an acquaintance or co-worker who is in need of this kind of information, please encourage them to attend.

UW Pension Supplementation: Sommers Bill and Related Information

Background - Whittaker drew Council members' attention to background information on the pension supplementation issue, prepared by Katy Dwyer. Dwyer said the chronology should also include reference to a paragraph in the 2000 and 2001 budget language that reads "You are free to give faculty increased raises if you wish to adjust your pension contribution rates accordingly." Dwyer termed this "a shot across our bow."

Whittaker explained that FCRIB has supported the legislature's plan to phase out pension supplementation, but noted that the current legislative reps do not support the move. This change in philosophy arises from new information from an Eastern Washington economist, Barry Shore, and is a sea change that FCRIB needs to examine.

Dwyer pointed to an actuarial study of the higher education pension plans that was driven by concerns of a staffer on the Senate Ways and Means Committee. The staffer pointed out an inconsistency in the higher ed pension plan under Section 28B.10.423, which states that the pension benefit goal is 60% and rates should be reviewed periodically to achieve that benefit.

Each university was contacted for statistics and supplied the stats of a real person (anonymously). The actuarial review compared higher ed to other state retirement plans and looked at the supplementation plan. The UW plan is a defined contribution plan but, at the moment of retirement, it in effect becomes a defined benefit plan (due to the 60% target for the retirement benefit). The benefit is calculated for each person in the plan when they retire – if the benefit is higher than the 60% target, the benefit stands. If it is lower than the 60% target, it is supplemented by the University.

The actuarial study looked back at the stock market over time and concluded that the UW contribution rate could have been as low as .85 percent, Dwyer said. It also compared the higher ed plan with the PERS plan and found that some retirees were exceeding the 60% rate compared to their work years, which is not in compliance with the statute. But in bad years, said Dwyer, the legislature would have to fund the difference. This caused them to take a hard look at the supplementation provision of the plan.

Helen Sommers subsequently introduced HB2244, which initially removed supplementation retroactively and removed the language that directed the legislature to review the higher ed rates. The UW argued that there are strong legal reasons why a benefit in a retirement plan cannot be removed retroactively. Sommers agreed and removed that provision, but did remove the language that directs the legislature to review higher ed rates and the language that mandates a 60% benefit goal, and removed supplementation for future employees. This bill did not pass, and there is no new bill in the works at this time, but it would be a good idea to keep an eye on the situation, especially in view of the rate increases that are likely to be needed in the PERS, TERS, and LEFF retirement plan rates.

Discussion - Jan Sjavik explained that legislative reps work for the faculty, but they also work with the Council of Faculty Reps (CFR) comprised of faculty reps from around the state. If at least five of the six CFR reps agree, that becomes the CFR position on any issue. For the past 2 years, CFR supported HB2244 (later HB2632) which was in line with the FCRIB and UW position.

The lone dissenting voice on the issue in the CFR was from The Evergreen State College, who had doubts about giving up supplementation. At the Fall 2002 meeting of CFR, an economist named Doug Orr spoke to CFR and was persuasive enough that Sjavik decided to bring Orr's point-of-view back to FCRIB and seek further direction.

Sjavik said Orr's position is that the reasonable expectations of stock market performance, with baby boomers drawing their money out of the market for retirement income and reducing demand for equities, is that the stock market is not going to perform at levels that would permit most faculty to retire at 25 years without supplementation. Based on population dynamics, Orr doubted that even the 3% dividends from TIAA-CREF could be maintained.

Levis Kochin said that as the stock market goes down, the right to sell at a fixed price becomes more valuable. Supplementation thus has a greater value now that the stock market is down 30% than it did when the market was up.

Sjavik asked whether giving up supplementation at the cost of having the benefit ceiling removed is a wise move. The legislature might step in and reduce contributions anyway – we might give up supplementation and get something else of value. But the value of what we get in return may prove to be illusory, Sjavik said.

Whittaker asked whether CFR has taken a firm position against giving up supplementation. Sjavik said this could not be done without consultation with the reps constituencies, but after hearing Orr's views they were all concerned that their previous position on supplementation was no longer viable.

CFR could take a position for, a position against, or no position. Sjavik would like direction from FCRIB and the Faculty Senate leadership as to what position to take with his CFR colleagues and with the legislature.

Charles Chamberlin commented that it's almost a question of which crystal ball is clearer – is the legislature going to make some adjustment to the funding based on the 60% target, or do we have to worry about the supplementation. Given a very real 2.5 billion dollar shortfall, Chamberlin thinks the state would be more inclined to tinker with the funding. Chamberlin would not like to see that happen and feels FCRIB should stick with the original position – to cut off supplementation so the state could not point unfavorably to that provision in the law.

Whittaker said in some sister institutions he believes there is a cap on institutional contributions. Steven Olswang confirmed this and added that under this kind of plan when an objective pension goal is reached the faculty member can continue to contribute, but the institution will not. University of Chicago was the first to do this, others may follow suit.

Olswang offered a different perspective on the issue. Supplementation, he said, is a wonderful thing. In essence, it converts a defined contribution plan to a defined benefit plan. No one has qualified for supplementation for 14 years, Olswang said, but an argument could be made that someone may in the future. However, the real danger to the pension plan is the faculty members who are retiring at more than the 60% benefit due to the strength of the stock market. This could lead the state to say that the institution has over-funded the pension plan in violation of the 60% statute. So which should be sacrificed – the de facto "conversion" feature of the plan for new hires or the vast number of people whose current contributions are threatened? Prospective faculty are not likely to ask about supplementation, but to ask about the UW contribution to their retirement. If it's not 7.5%, there will be recruitment problems, Olswang said.

The people who are here now lose nothing if the Sommers bill passes, said Kochin, and that is true all across the state. The guarantee to current contributors cannot be pulled back.

Dwyer agreed with Olswang - the important thing in her estimation is the contribution rate itself. If the rate is reduced from 7.5% to 5.0%, this is the real concern. The current statute directs the legislature to review contribution rates to achieve a 60% benefit. That, not the loss of supplementation, is the greatest risk. If the plan appears to be over-funded, the state's contribution rate can be reduced.

Kochin recommended that Sjavik do what he can to get the CFR reps back on track with the original position. Orr's view of the stock market should not affect this issue at all.

Dwyer has not heard any more discussion of this issue, and did not know whether Sommers was going to bring it up again or not. Sommers, however, does not like the "hybrid" higher ed plan. But with the state 2.5 billion dollars short, Chamberlin said, things could change quickly in March or April. Olswang agreed, and added that FCRIB should support the removal of supplementation if such a bill appears.

Pat Dougherty said retirees who lived through the depression are nervous about the removal of supplementation – they wonder who is the most vulnerable if supplementation is removed. Sjavik said that would be the people who come to the profession late and take time out. This would affect women

who have taken time off for child-bearing, and professional staff who have been in the UWRP for a shorter time, especially those who have moved to UWRP from PERS. So it is not a gender-neutral issue.

Dwyer said it does affect disability retirements, which is the reason it is wise to look at disability insurance policies. It is also true that many people who come to the University late have other retirement savings. Their entire benefits package may not be based on the UWRP. Whittaker cited the re-employment policy as a way to increase one's income stream without working full time.

Glen Johnson suggested it would be best to do nothing on this issue, but if higher ed is put in the position of making a choice between giving up supplementation and lowering the contribution rate, supplementation should be given up.

Sjavik said he could ask the CFR reps to change their positions, but they will ultimately support their own faculty senates. He will report the UW Faculty Senate's position at the CFR meeting on March 14, and vote to support removal of supplementation if the issue comes up. He has no idea how the other reps will vote, but thinks CFR will either support the continuance of supplementation or take a neutral position.

In view of the preferences expressed by Council members, Whittaker does not feel it necessary to take another vote on the issue. He will instead reiterate FCRIB's original position to Sandra Silberstein, who will give then direction to Sjavik on the Faculty Senate's position. Whittaker also said he is concerned about the lack of communication on this issue, and would like to find ways to improve that.

Sjavik observed the only thing that is certain is that The Evergreen State College rep will try to preserve supplementation and that Sjavik will vote against it. The other CFR reps' views will be made known at the CFR meeting on March 14.

Dwyer volunteered to poll her peers at the other Washington State schools via email to get their views on the issue, and advise them that the UW remains in support of removing supplementation should the issue arise. This may be of some help with the CFR reps.

Whittaker told Sjavik that he will develop a statement for Silberstein and the cabinet, in order to provide the information needed to support FCRIB's assessment of the situation.

NOTE: Faculty Senate Chair Sandra Silberstein attended the last few minutes of the meeting. Whittaker and Dwyer summarized the foregoing discussion for Silberstein and reiterated FCRIB's assessment that supplementation should be given up if the need arises. Olswang stressed that FCRIB stands pat on this issue and hopes that the Faculty Senate leadership will do the same.

Silberstein said she was not inclined to ignore FCRIB and hopes that the bill will just go away this year. Patti Brandt asked that Silberstein contact the Council for further discussion should she have reason to change her mind and come to the opposite conclusion. Silberstein wondered if it makes sense to have Orr come and debate someone with the opposite view, since CFR's views have changed so dramatically. Or does the Council feel its position is so well-considered that it would not change?

Karen Boxx said that the Council's position is not based on the condition of the stock market, and would not change based on the views of one economist. Larry Bliquez said it's a value judgment the Council has come to over a couple of years of study – supplementation is just not worth as much as knocking down the 60% ceiling that is already there by law. Kochin said that retaining supplementation would hurt existing faculty at the possible expense of faculty who might be recruited in the future.

Whittaker pointed out that the Sommers bill would only affect new hires, whereas the contribution rate could affect everyone. Is this widely understood by the faculty? Silberstein said she believes it is.

Chamberlin said he is more concerned that the legislature may try to find money in the UWRP than he is about the theoretical issue of whether new hires have supplementation and how it may affect them thirty years from now.

Brandt asked whether Silberstein would welcome a brief written position statement from FCRIB, based on these value judgments. Silberstein agreed this would be helpful – Whittaker will draft a position statement Silberstein can share with her cabinet.

Time being short, workgroup reports were postponed until the March 6 meeting. The meeting was adjourned at 3 p.m. *Minutes by Linda Fullerton, Recorder.*