GENERAL FACULTY MEETING

“Your APU and You”

Thursday, March 10, 2005
Conference Room 107
Leichtag Building

David N. Bailey, M.D.
Deputy Vice Chancellor for Health Sciences
Dean for Faculty & Student Matters
“DEFINED BENEFIT” vs “DEFINED CONTRIBUTION” Plan:

Defined Benefit Plan - a type of retirement plan that specifies how much in benefits it will pay out to a retiree (advantages long-term employees; account is non-portable)

Defined Contribution Plan - “individual account plan” into which the employer pays a specified amount of money annually, along with the employee (employee controls investments; account is portable)
UC DEFINED BENEFIT PLAN:

All employees (faculty, staff, administration)

Set by formula:

• Age factor -
  50 years = 1.10%
  Increases 0.14%/Year
  60 years = 2.50% (Maximum)

• Years of service

• Highest average COVERED compensation
  over 36 CONSECUTIVE months (HACC)
“UC DEFINED BENEFIT PLAN”: (cont.)

RETIREMENT CALCULATION:
(Age Factor) X (Years service) X (HACC)
FOR MAXIMAL RETIREMENT BENEFIT:

Be at least age 60 (maximum age factor of 2.5%)

Have worked at least 40 years
THE “OTHER” VARIABLE:
“Covered” Compensation

BIG QUESTION:
What is “covered” compensation????
UC “COVERED” COMPENSATION:

Originally only “X” (base salary) was covered

Development of APU (Academic Program Unit) Concept:

Scale 0 (Only X covered)

TO

Scale 9 (2.25 X covered)

(Note: linear to APU 5, 1.5 X; deviation from linearity at APU 6, 1.65 X)
RESTRICTIONS ON APU FORMATION:

Must be defined on academic basis only - not on financial

Must be large enough to be “credible” (cannot be one person) (systemwide is considering making them at least 10 people)

Must guarantee financial viability for 3-5 years to avoid violation of IRS rules on “pension-spiking” etc.; must submit financial plan; group must guarantee coverage of all members
APU-DRIVEN DEFINITIONS:

$X' = \text{Multiple of base salary (X)}$
$\text{covered for benefits (APU 1, 2, or 3) (0.1X, 0.2X, 0.3X)}$

$Y' = \text{Difference between APU scale and } X'$
$\text{(e.g. at APU 5, } X' = 0.3 \times X, \ Y' = 0.2X)$

Note: Until several years ago, $Y'$ was taxed at 14.91% and could not be paid from state or federal income sources; such tax may be restored in the future.
“COVERED” COMPENSATION IS NOW:

\[ X + X' + Y' \]
AS AN ASIDE:

Not only the retirement benefit is affected by APU but also the other benefits are affected (e.g. UC term life insurance)
APU DISTRIBUTION BY NUMBER OF FACULTY: (AY 2003-04)

APU 0 = 155 (1.0 X)
APU 1 = 60 (1.1X)
APU 2 = 63 (1.2X)
APU 3 = 328 (1.3X)
APU 4 = 51 (1.4X)
APU 5 = 72 (1.5X)
APU 6 = 39 (1.65X)
APU 7 = 37 (1.8X)
APU 8 = 6 (2.0X)
APU 9 = 21 (2.25X)
PROPOSALS:

Replace defined benefit plan with defined contribution plan for all state employees and university employees hired after January 1, 2007 (Governor’s proposal)

Systemwide contemplation of defined contribution plan on Y (expense problems)

Restrictions on APU sizes and levels
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