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PERS AND UCRS--A STUDY IN CONTRASTS

by Bruce Poyers

The California Public Employees Retirement System is one of the nation's largest pension funds. It serves 532,500 active members and 219,800 retirees (including survivors and beneficiaries), and has developed a coordinated health benefits program for both of these groups as well. The system's invested assets now exceed \$29 billion, and this portfolio doubles about every five years. In any activity of this magnitude, there are plenty of problems. But PERS has a unique structure for solving them. Its Board of Administration makes all the key decisions, and it is a broadly representative Board which functions effectively as a democratic institution.

UCRS is much smaller, with about 81,000 active members, 8,800 retirees, and invested assets of about \$3.4 billion. Compared to PERS, UCRS should therefore be more manageable, less bureaucratic, and more responsive to the needs of its members. But UCRS has none of these advantages. Instead, it is controlled and operated unilaterally by the President and the Treasurer of U.C. and a committee of the Board of Regents. It is essentially a closed-door system, which makes no provision either for direct representation or for effective input of employees in its key decision-making procedures.

Who Makes the Key Decisions? -- UCRS has an Advisory Board, but it can recommend only. If the President of U.C. disagrees with a recommendation of the Board, he will present it to the Regents, but the Regents then make the final decision--not the UCRS Board or any of its committees. Thus the Advisory Board has been concerned primarily with comparative benefit levels and administrative questions. Its members made no reference to any issue or question concerning the South African investments of UCRS in any of the Board's meetings during the past year. The nine member UCRS Advisory Board has four elected members (two for members of the Academic Senate and two for non-Senate members). But its composition is otherwise an academic question, because in sharp contrast to the PERS Board, the UCRS Board has no real decision-making authority.

The 13 member PERS Board of Administration includes six members elected by the active and retired members of the system, and seven appointed or ex-officio members. Of the seven, one is an elected official of local government, and two are elected state officials (the Controller and the Treasurer). This Board makes all final decisions on all issues affecting investment policy, funding, benefit levels (including health benefits for both actives and retirees), and administration of the system. The Board selects its own President (who is currently an employee representative), its Chief Executive Officer, its investment managers, and its operating committees. Much of the Board's work is done through these committees, but their recommendations are always subject to the approval of the full Board. PERS Board members are reimbursed for their expenses in connection with Board business, but none of them is otherwise paid by PERS, and all of them work at other jobs (except for retired representatives of retirees). Their work for PERS is demanding, and they obviously require time off their regular jobs to be able to perform effectively on behalf of the system.

How Do the Boards Function? -- The PERS Board of Administration meets in public session on a regular monthly schedule. Relevant reports and documents affecting the issues on the Board's agenda are made available to those who attend. On issues of concern to organized employee groups, the PERS Board both invites and considers the comments of their representatives. The members of the PERS Board hear publicly the reports and recommendations of the professional consultants and experts on various issues (including investment policy and procedure), and then make their own decisions as a matter of public record. The

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experts cannot assume the decision-making authority, as they often do in many pension systems, because the PERS Board appears to guard this authority carefully. Most important, the PERS Board reports regularly to its members, and to the legislature, and to the public, on all operations, financial transactions, and investments--including consistent and reliable data on investment returns.

In UCRS, there is nothing comparable to the above PERS procedures (which are taken too much for granted by the PERS membership). In particular, the UCRS Board does not have comparable decision-making authority. Especially on matters affecting basic investment policy, there is no way to know who makes the key decisions in UCRS, because they are made behind closed doors. And the UCRS reports to members on investments and investment returns are sketchy, vague, and misleading compared to PERS reports. In fact, UCRS reporting and disclosure of operating data to its members would not meet the minimum standards required by ERISA for all private sector pension plans in the nation.

How Do the Systems Function? -- PERS benefit levels are significantly higher than those of UCRS, and PERS has done a far better job in recent years in keeping its retirees up with the cost of living. PERS has probably been outpacing UCRS in benefits in recent years because of superior investment performance. Unfortunately, UCRS does not make the data available to permit a long-term comparison. PERS has reported for many years on their realized (book-value) rates of return, while UCRS gives glowing reports of its unrealized increases in market values. These reports tell little about the actual condition of the pension fund. (They would be significant only if all UCRS investments were to be liquidated at the time of any particular report.)

The difficulty in comparing investment performance in the two systems relates to an even more significant difference between UCRS and PERS--in the allocation of their investment assets. UCRS allocates 70-80% of its portfolio to common stocks; PERS diversifies much more, keeping its common stock allocations in the 30-35% range. PERS further allocates fully half of this total to an index fund, which strictly limits the risks involved in this 17% portion of its total portfolio. The question which confronts UCRS is what will happen if the economy goes into another deep recession? The answer is that the system would still have the legal obligation to pay the benefits it has promised to U.C. employees. But the longer the stock market and the economy remained in trouble, the more the system would have to rely on the state legislature to fund these benefit payments.

A final comparison is important to note: PERS provides a staff and a program to coordinate health benefits for both actives and retirees, while UCRS makes no such effort. For some years it has been possible for UCRS to integrate its employees into the PERS health benefits structure, where U.C. employees could probably get better coverage, with more options, at less cost. There is no indication that UCRS staff has ever seriously evaluated this option.

Conclusion -- Even a cursory comparison of PERS and UCRS reveals some enormous differences in their operations, in their effectiveness, and in their responsiveness to the employees whose retirement savings they are entrusted to protect and enhance. These differences are directly related to the vast difference in the governing structures of the two systems. PERS is democratically structured, with direct and effective representation and input from employee representatives, and with a decision-making process that is open and accessible. UCRS is a closed-door hierarchy, with no direct representation of faculty or staff employees in a decision-making process that makes it impossible to trace the lines of responsibility.

Some of the undemocratic characteristics of UCRS came into the spotlight that has been focused for the past year on South African investments. Last spring, an AFSCME representative best expressed the view of many U.C. employees by stating to the Regents, at their public hearing in Berkeley, that "We don't want blood on our pension dollars." Now AFSCME and AFT and other unions with newly authorized bargaining rights and responsibilities at U.C. will have the opportunity to resolve their long-standing frustration with a system which uses their pension savings for investments they cannot condone, and which further denies them an effective voice in the making of key decisions on retirement and health care benefits, funding, and administration.

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