JBC REPORT SPRING 2016

<u>Beneficiaries & Distributions:</u> As employers throughout the nation increase reliance on tax-advantaged retirement programs such as the 403(b) Defined Contribution plan, there is a significant risk that the tax-advantaged quality of the program could be lost if distributions are not handled in keeping with the complexities of the regulations governing such programs. Proper conveyance to beneficiaries is required to avoid unplanned taxable events which could result in the loss of as much as 33-40% of the fund balance – thereby losing the benefit of tax-advantaged saving.

1. <u>Beneficiary designations</u> are a central part of tax-deferred retirement programs (403b, IRA) and they are not simply covered in the rules of wills and probate. Systems must be in place to assure proper designation of beneficiaries in the accomplishment of the purposes of the retirement plan.

   We have commented before on the importance of providing for designation of beneficiaries beyond the contingent beneficiary level. Retirement systems have made provision for individuals to designate individuals by name and percent, other systems provide the ability to designate such persons as "per stirpes" (children of the beneficiary in equal percentages), or "per capita" which limits the benefit to the named beneficiary(ies).

   The Fidelity Work Place product which houses the UC Defined Contribution plans does not offer either separate designation of tertiary beneficiaries OR legal designations such as "per stirpes" or "per capita". Fidelity's non-UC plans have means for dealing with such problems. Other qualified Plan and IRA managers also provide these capabilities – this capability is not unusual, however, nor complex.

   <u>Recommendation:</u> The University[1] and Fidelity should take the necessary steps to restore the option for tertiary, per stirpes, and per capita beneficiary designations for tax-deferred accounts if desired by individual program participants.

2. <u>Distributions</u> of small amounts from one-time or short-term employment or teaching are often sent from UC's DC plans to the account holder less the mandatory 20% withholding. These typically produce an unplanned taxable event. (Sometimes there may also be a 10% early withdrawal penalty.)

   Taxable events could be eliminated if the funds were sent via rollover to the recipient's designated retirement account – usually an IRA. Although the former employee must deposit the funds in 60 days in his or her own retirement account to qualify as a rollover, typically they often forget to, or are unable to, add back in the 20% withheld in order to get a full rollover. A check to an IRA account avoids that problem.

   <u>Recommendation:</u> Distributions to former employees must allow the option for such checks to be made out directly to the designated retirement account so that no withholding or penalties would apply.

<u>Medicare Penalties:</u> The coordination of health care insurance strains the understanding of specialists and overwhelms individuals who do not understand the intricacies of such insurance details. There is considerable complexity in the implementation of Social Security and the payment of Medicare premiums.

UC policy requires individuals enrolled in a UC medical plan and eligible for "premium-free" Medicare Part A to also enroll in Medicare Part B and complete a form to assign Medicare to their UC medical plan.

The February 2016 issue of *New Dimensions* called attention to this problem: "*Medicare may impose permanent late enrollment penalties for re-enrollment*." The issue does not seem to be understood generally. (Most of the members of JBC did not remember reading about this penalty in *New Dimensions* although it was featured prominently.) Publicity to individuals has been too general to get their attention. We believe more pointed contacts between UC and the affected parties is required. Although these transitions often happen when an annuitant becomes eligible for Medicare, some long-time employees and retirees who have no idea of this requirement are caught-up in this as a result of changes in their situations.

This permanent penalty is substantial, so help in avoiding it is required.

Recommendation: UC should institute appropriate procedures to communicate directly with employees and retirees as they approach Medicare eligibility age and when their coverage is changing. Such communication should require a response to assure that the affected individuals have received the information.

Living Wage and Elderly Annuitants: Advocacy of a "living wage" by President Napolitano for active employees has been welcomed by the University community. What is less well known is the plight of annuitants who were employed by UC when the equivalent of a living wage was not in place and when the retirement benefit was a maximum of 80% of average compensation. UCRP makes occasional one-time adjustments to maintain purchasing power for annuitants who retired many years ago. The principle of a "living wage" for current employees could also be applied to these annuitants. As stated by President Napolitano: "*This is the right thing to do - for our workers and their families, for our mission and values…*"

Recommendation: The President be asked to undertake a one-time pension adjustment for annuitants whose wages were not consistent with a fair minimum wage at the time of their retirement.

Continuing Items: The JBC watches matters that might dramatically change the character of support for retirement programs. We have commented on:

1. Consultation with the Senate on matters relating to benefits and retirement programs that have been an important FIRST step in developing effective new systems and programs. We believe changes that include prior Senate consultation will be stronger and more widely accepted than ones that do not.

2. Data Breaches: although no adverse problems have been reported by individual users – to our knowledge – some actions to improve security and system reliability have resulted in other systems/security problems. Implementation at Berkeley, for example, of some changed systems has raised concerns about privacy and some new data breaches have been reported. Such massive changes in computing systems, that involve, among other things, changes in academic use and access should include discussion with the Senate. It appears the initial changes did not include such consultation.

3. Beneficiary designation – which has become sufficiently complex that UC's retirement associations, campus retirement centers, and UC HR support programs – should enhance

education for retirees on the importance of beneficiary management/designation for Estate Planning purposes. This is consistent with UC's plans to assure that current employees are "retirement ready."

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[1] UC provided such tools before switching to Fidelity to manage its DC savings plans.