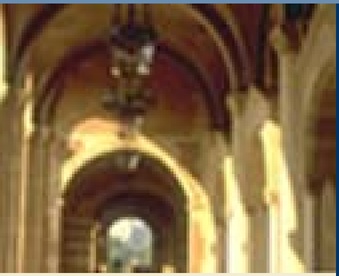


The President's Task Force on Post Employment Benefits

Spring Local Forum

V2

Agenda For Today

- Financial and Funding Issues
- Talent Management Issues
- Scope and work of the President's Post-Employment Benefit Task Force
- Task Force Process and Options
- Next Steps and Timeline

Timeline – President's Task Force on Post-Employment Benefits

Mar 2009 through Mar 2010

Task Force Formation

Steering Committee and Work Team Meetings

Fall Forums

Consultation

Surveys

Apr

Spring Forums

May

Work Team Meetings

Steering Committee Meetings

Jun

Task Force Recommendations

Report to the President

Jul

Regents Discussion

Decision on when Report is made Public

Ongoing Academic Senate Consultation

What is NOT Changing

- Pension Program (UCRP)
  - Pension benefits that current employees have already accrued to date
  - Continuation of a defined benefit plan
  - Retirees will not be asked to contribute to UCRP when active employees begin contributions
- Retiree Health Program
  - Basic program eligibility if you have already retired
  - Continuation of retiree health benefits
- University of California
  - Severe state induced budgetary pressures expected for many years
  - Strong UC advocacy effort to secure State of California UCRP contributions through the annual budget request process

University's Fiduciary and Legal Post Employment Benefits Obligations

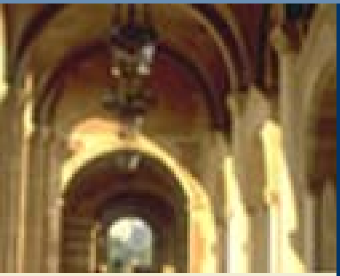
- Under the terms of the pension plan, all of your benefits accrued to date are protected

- The Plan reserves to the Regents the right to change future accruals of pension benefits for current employees*

- Pension and retiree health benefits of new hires can be changed at any time*

- Retiree health benefits are not vested, so changes can be made to retiree health eligibility, plan design, and premiums for both current faculty, staff, and retirees*

*PEB changes are subject to collective bargaining for represented groups

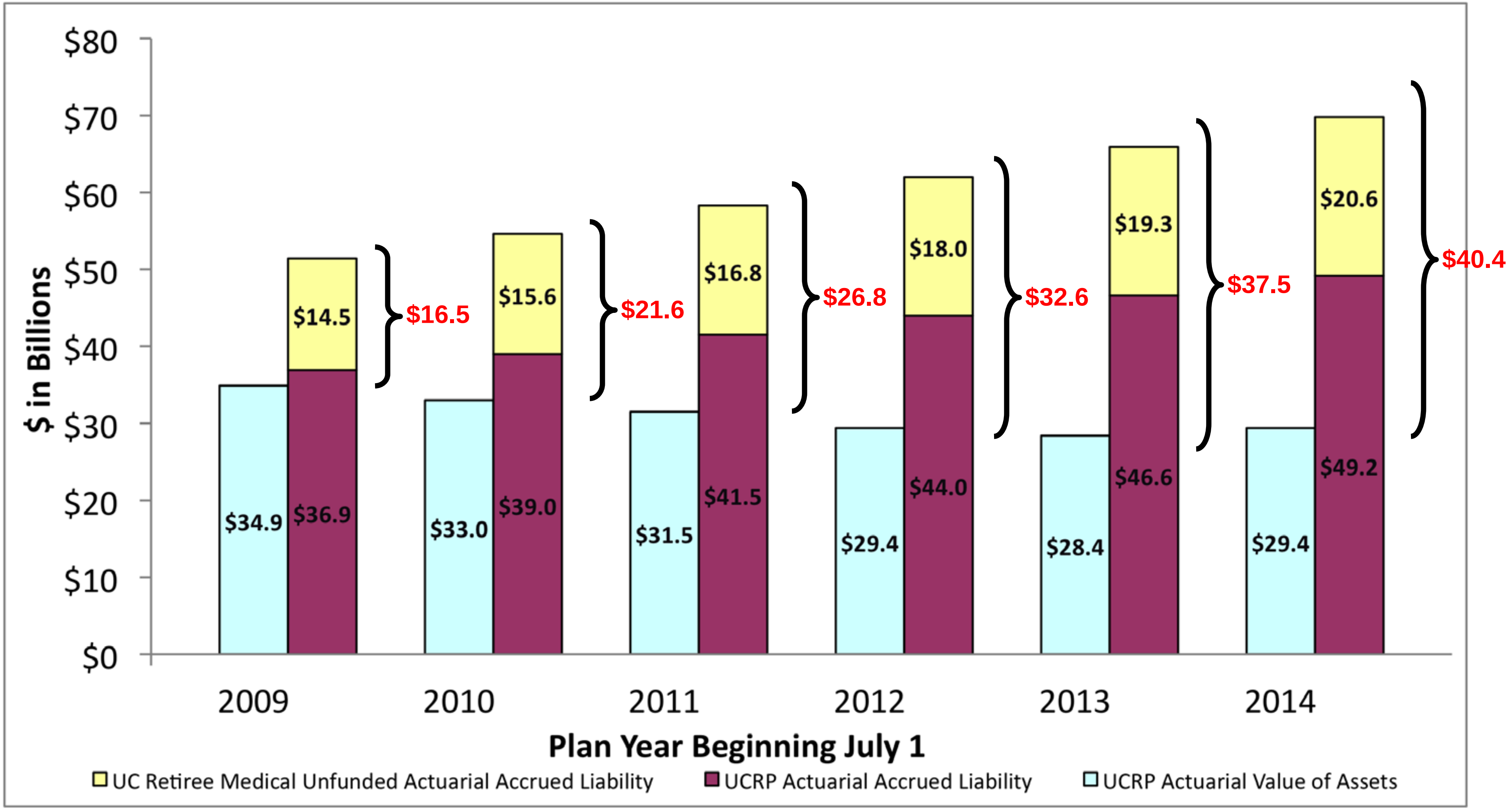


FINANCIAL AND FUNDING ISSUES

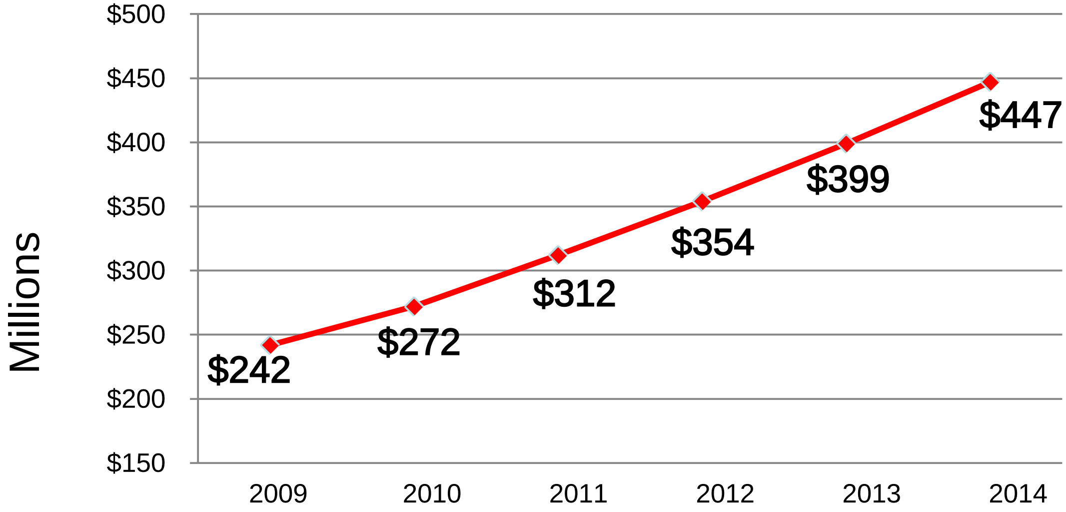
UCRP and Retiree Health Background

- UCRP assets held in a trust, $32.3B Market Value (June 30, 2009)
  - UCRP benefits are paid from this trust
  - Retiree health benefits are not paid from the UCRP trust
- Retiree health benefits are on a pay-as-you-go basis
  - Retiree health premiums are paid using an assessment against all location fund sources
  - Currently retiree health annuitant assessment is $3.12 per $100 of covered payroll, deposited in a separate retiree health trust

Overview of PEB
Assets / Liabilities / Shortfall

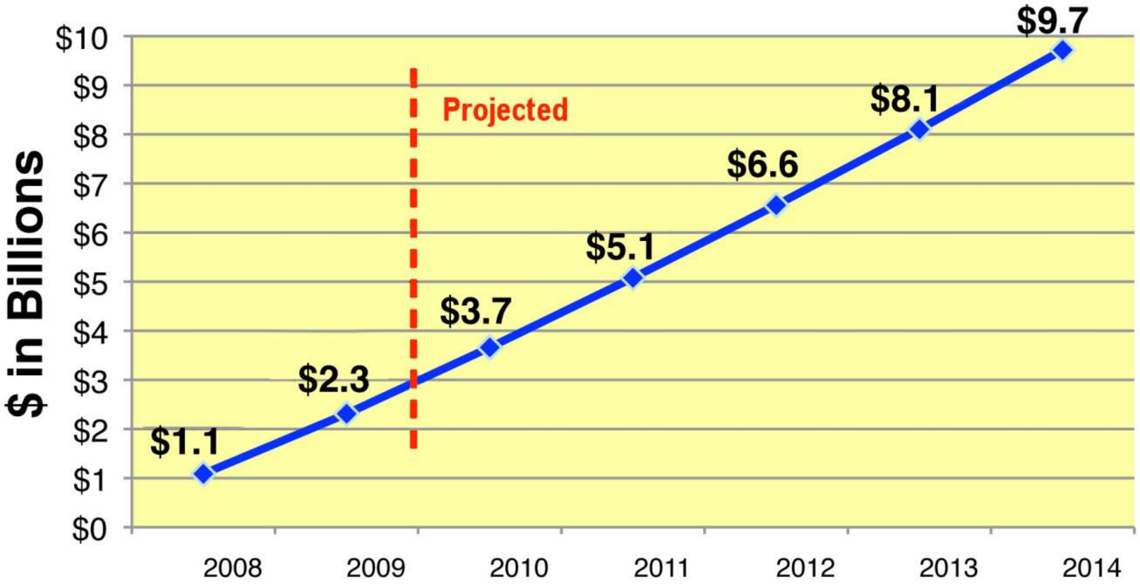


Increasing Retiree Health Program Costs

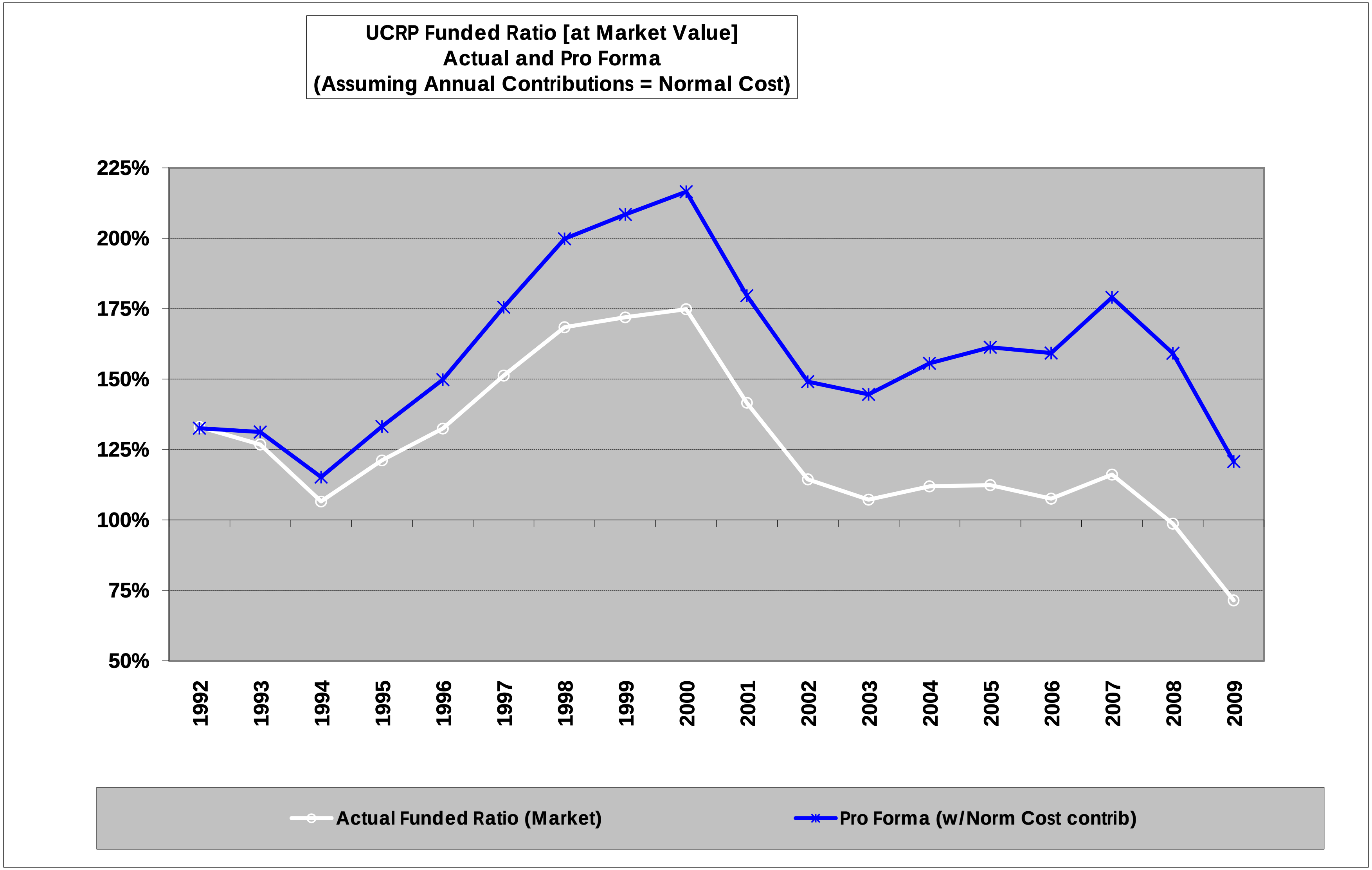


"Pay-as-You-Go" Cash Costs (Millions)

Balance Sheet Obligation (Billions)



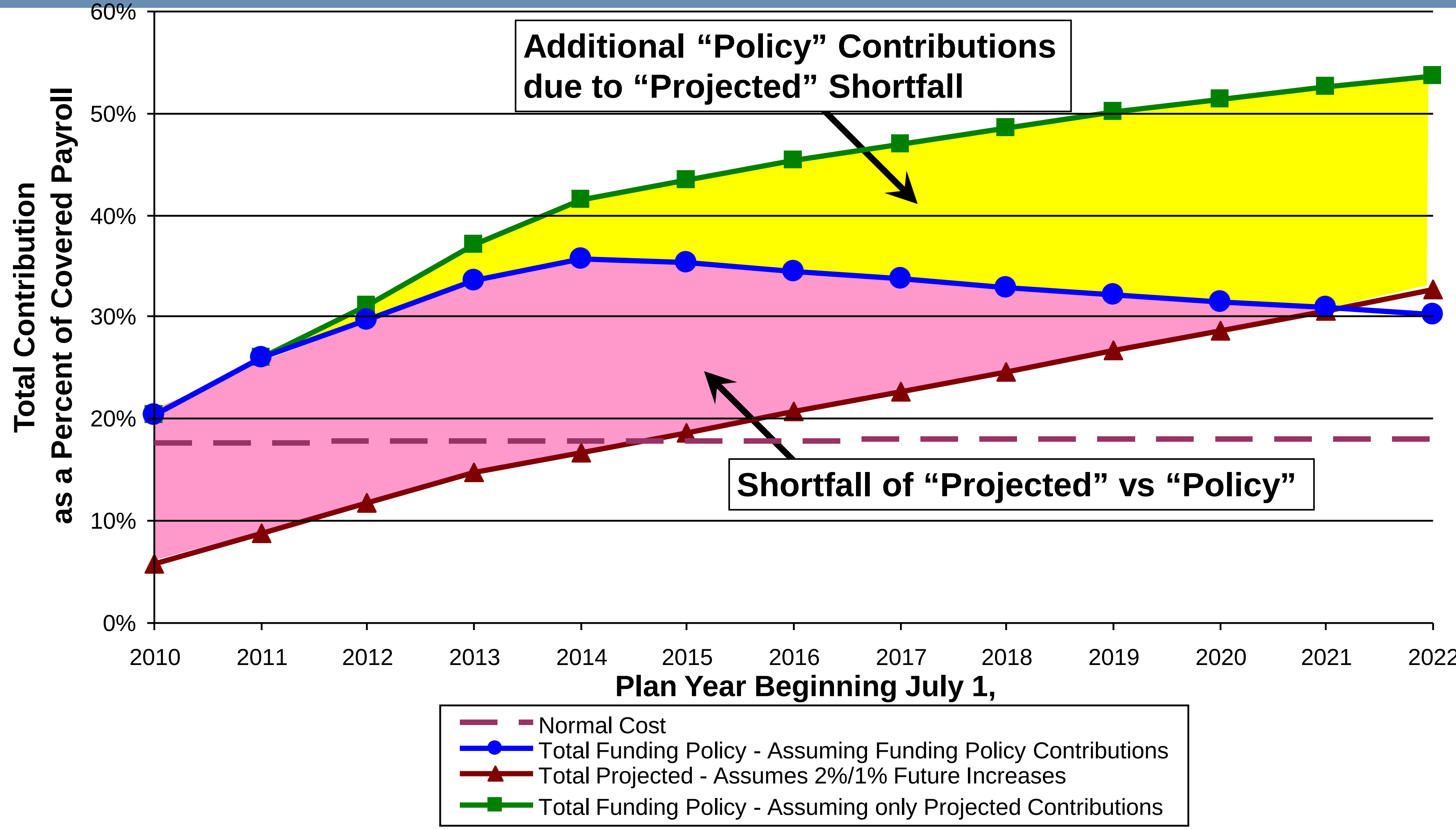
UCRP Long Term Investment Performance Ahead of UCRP Earnings Assumption



Regents UCRP Funding Policy

- Adopted September 2008 for 2009/2010 Plan Year
- Funding policy determines *total* policy contribution level and establishes a 100% long term funding target
- Funding policy starts with Normal Cost plus an amount to amortize the unfunded liability over a 15 year period.
- Regents will determine actual total contributions and the split between employer contributions and member contributions based on:
  - The availability of funds
  - Impact of member contributions on competitiveness of total remuneration
  - Collective bargaining

Total UCRP Contributions
Projected and Based on Funding Policy



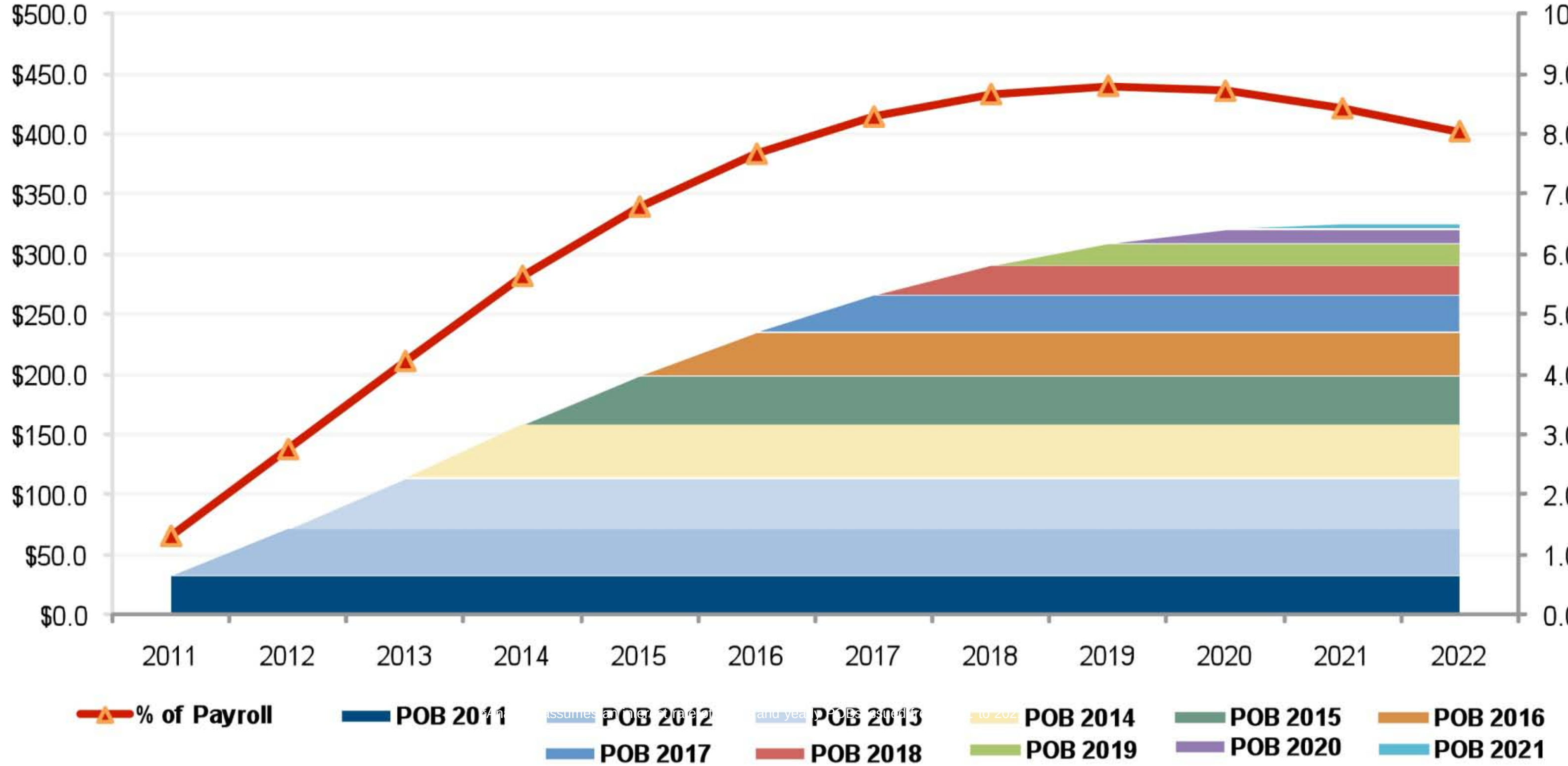
SEGAL

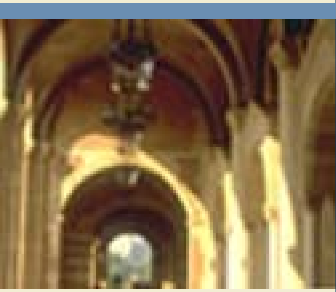
Campus and Medical Centers Only
7.5% MV Return Per Year Starting July 1, 2009

Pension Obligation Bonds

- Issuing POBs to pay a portion of the State contribution of ARC above the planned contribution levels would require payment of debt service each year.
- Debt service would reach a maximum debt service of $324M in 2021 or 8.41% of pay for employees paid from State sources.
- Debt service would be paid in addition to the projected employer contribution of 28% of payroll in 2021.

POB Debt Service – Additional State Contribution Only





TALENT MANAGEMENT CONSIDERATIONS

Talent Management Considerations

While a good deal of discussion has been on the financials surrounding post - employment benefits…the reason an organization offers these or any other pay or benefit programs is to Attract and Retain the Best.

Key considerations:

- Reward long service
- Recognize the value of PEB to employees
- Ensure the programs are sustainable

Post Employment Benefits Survey

The Process:

- Targeted online survey of PEB preferences - based on 2009 Towers Watson National Survey
  - 17,700 faculty, policy-covered staff sent written surveys
  - 23% response rate

- Open on-line survey – 6 questions
  - 9,000 faculty and policy-covered staff responded
  - 3,000 retirees responded (questions focused on health program)

- Full report will be available on-line

Post Employment Benefits Survey

Sample results:

- Post-employment benefits are among the top reasons that faculty and staff come to and stay at UC
- 80% expressed high satisfaction with UC retirement benefits
- 73% said they plan to retire with 20+ years of service
- Many placed higher value on retirement benefits (69%) vs. cash compensation (13%)

Market Alignment by Category
Campus and UCOP

(Data Effective October 1, 2009)

Campus and OP

Indicator	Faculty	SMG	Other Academic	MSP	PSS (Policy)	PSS (Repr)	Service
Cash	-10%	-22%	-4%	-16%	-13%	-19%	-1%
Pension	+12%	+29%	+76%	+48%	+54%	+63%	+87%
Retiree Health	+51%	+59%	+80%	+449%	+469%	+306%	+255%

Figures do not include impact of furloughs

- There have been rigorous discussions about the relation and importance of cash compensation to total remuneration
- Balance and relationship to market will be the key strategic consideration going forward

Data provided by Hewitt and Mercer consulting firms, p. 35, 37, 39, 41, 43, 45, 57 of Oct 2009 Total Remuneration Study.

Market Alignment by Category
Medical Centers

(Data Effective October 1, 2009)

Medical Centers

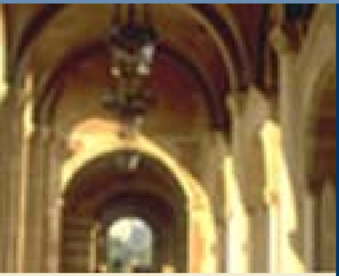
Medical Center total remuneration has moved closer to market alignment due to a concerted approach

Indicator	SMG	Staff Physicians	MSP	Nurses	PSS (Policy)	PSS (Repr)
Cash	+3%	-18%	+5%	-3%	-5%	0%
Pension	+100%	+40%	+70%	+22%	+37%	+33%
Retiree Health	+372%	+269%	+600%	+199%	+539%	+506%

Data provided by Mercer consulting firm, pp. 71, 73, 75, 77, 79, 81 of Oct 2009 Total Remuneration Study.

Talent Management Considerations

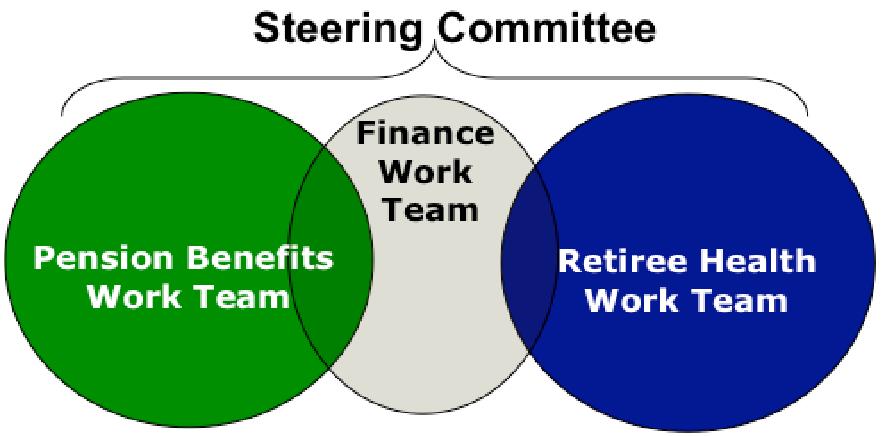
- Defined benefit scenarios are the primary options
- We stand out among our competitors with these benefits…we want to keep the edge
- We are considering scenarios that are sustainable…
  - with rational adjustments
  - with more market alignment
- Our overall direction is consistent with your feedback



TASK FORCE – PROCESS AND OPTIONS

PEB Task Force Charge

Using the Task Force's Guiding Principles



- Assess and analyze the impact of:
  - **Market Competitiveness**
  - **Work Force Behavior**
  - **Employee and Labor Relations**
  - **Legal Implications and Risks**
  - **Current and Long-term PEB Funding Options**
  - **Impact on UC Financial Integrity**
- Make recommendations to the President which allow the Regents to meet:
  - **Fiduciary Obligations**
  - **Educational Responsibilities**

UCRP Benefits for New Hires
Potential Alternatives

Lever	Current Plan	Range of Options*
Age Factors	Minimum age 50 2.5% at age 60	Minimum age 55 1.5 to 3% at age 65
Maximum Benefit	100%	80% - 100% (with or without Social Security)
COLA	Generally 2% with a 6% cap	Generally 2% with a 5% cap or lesser of CPI or 2% with periodic ad hoc increases
Employee Contribution Employer Contribution	2%/4% (through 6/11) 4% (actually ~16%)	5% or more upon hire 7 – 9% Target
Plan Design	Defined Benefit Plan	New Tier - Defined Benefit or Defined Contribution Choice
Current Normal Cost Total Normal Cost Target	17.6%	 12%

***Does <u>NOT</u> reduce UCRP Unfunded Actuarial Accrued Liability; only applies to future benefits.**

*PEB changes are subject to collective bargaining for represented groups

Task Force Considerations for Current Faculty and Staff - Pension

- Faster ramp up of contributions for both employer funding sources and for active members*

- Extending choice to current faculty and staff*

- Complete stakeholder discussions on risks and impacts of applying new tier defined benefit options to current faculty and staff for future pension benefits*

*PEB changes are subject to collective bargaining for represented groups

Retiree Health Benefits Potential Alternatives

Lever	Current Plan	Range of Options*
Minimum Eligibility Age	Age 50	Age 55 - 65 (Age 50-55 access only)
Graduated Eligibility based on Service	10 - 20 years (50% to 100% of UC contribution)	10 – 30 years (0% to 100% of UC contribution)
UC Contribution	≃ 89% of blended premium	Phase in 70% - 80% blended or unblended premium
Actuarial Accrued Unfunded Liability	$14.5 billion	$9.2 to $10.4 billion
Normal Cost Target Normal Cost	7.9% of payroll	 3% - 4% of payroll

***Reduces unfunded liability for Retiree Health Benefits**

*PEB changes are subject to collective bargaining for represented groups

Blended vs. Unblended Premiums

Medical Plan Rating Groups

Blended

•Faculty and Staff
plus
•Non-Medicare Retirees
(117,700)

•Medicare Retirees
(22,000)

Unblended

•Faculty and Staff
(107,400)

•Non-Medicare Retirees
(10,300)

•Medicare Retirees
(22,000)

Task Force Considerations for Current Faculty and Staff – Retiree Health

- Grandfathering basic program eligibility based on age and service*
  - Not level of UC contribution
- Program policy changes*
  - Pay bands, blended or unblended rates
- Mitigating the impact of proposed changes for those not eligible for Medicare

*PEB changes are subject to collective bargaining for represented groups

Risk of Potential PEB Changes on Current Faculty and Staff

- Total remuneration
- Employee relations impact
- Recruitment
- Retention
- Workforce segmentation

PEB changes are subject to collective bargaining for represented groups

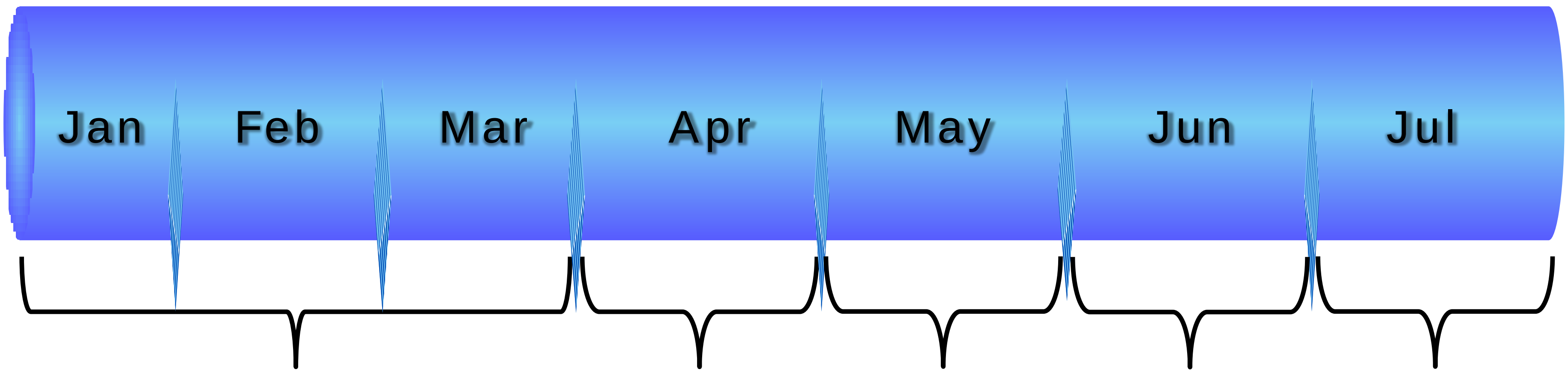
Public Reactions to Post Employment Benefit Programs

- Public Opinion
  - Ongoing negative opinion pieces on public employees' benefits
  - 2009 Field Poll (random phone survey of 1,005 voters)
    - 60% favor a cap on public pension benefits
    - 56% favor a Defined Contribution plan only
    - 51% favor reduced benefit formulas
- Public employers beginning to address unfunded liabilities
- Prior proposals for CalPERS
  - <u>Pension</u>
    - Reduce benefits to level in effect before January 1, 2000 increases
    - Increase employee contribution to 10%
  - <u>Retiree Health</u>
    - Increase service requirement for full benefit to 25 years
    - Reduce State contribution to 85% of average HMO premium

National Health Care Reform

- Full effect on UC's retiree health program and liabilities not yet known
- Higher Medicare payroll tax for high earners
- Dependents covered to age 26 under UC plans
- UC will need to carefully monitor issues related to the "Cadillac Tax" (effective 2018)
- UC will closely monitor this reform package and the reconciliation process as it is implemented

Timeline
President's Task Force on Post-Employment Benefits



Work Team Meetings

Consultation

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Spring Forums

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Steering Committee Meetings

Task Force Recommendations

Report to the President

Regents Discussion

Decision on when Report is made Public

Ongoing Academic Senate Consultation

Websites

- *http://www.universityofcalifornia.edu/new/ucrpfuture/emp task.html*
  - PEB Task Force Website
  - Post Employment Benefits Survey results will be available in May
- *http://www.universityofcalifornia.edu/regents/regmeet/nov09.html*
  - Finance Committee – November 18, 2009
    - Annual Pension Valuation Report and Presentation (Segal Company) and
    - Annual Retiree Health Valuation Report and Presentation (Deloitte Consulting)
- *http://www.universityofcalifornia.edu/news/compensation/comparisons.html*
  - The Complete 2009 Total Remuneration Study and Fact Sheet
- *http://www.universityofcalifornia.edu/senate*
  - Assuring Adequate Funding for UCRP
  - Evaluating UCRP Investment Returns
  - Market Volatility and the Lump Sum Cashout

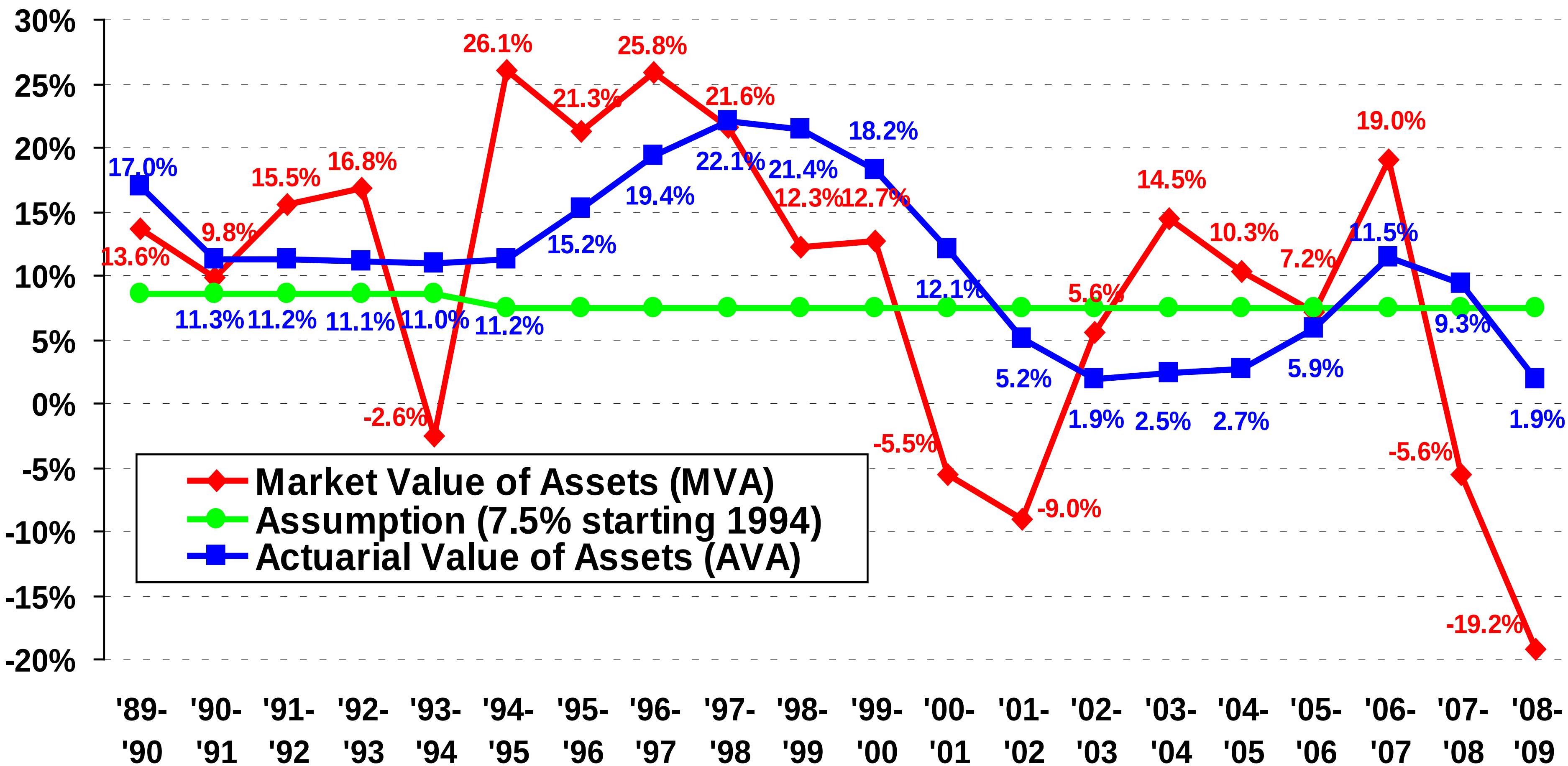
QUESTIONS

EXTRA SLIDES

Examples of Member Contribution Amounts

Monthly Covered Compensation	Monthly Member Contribution	Percent
$2,500 ($30,000 annual)	$31	1.24%
$4,167 ($50,000 annual)	$64	1.54%
$6,250 ($75,000 annual)	$106	1.70%
$8,333 ($100,000 annual)	$148	1.78%
$10,417 ($125,000 annual)	$220	2.11%
$12,500 ($150,000 annual)	$303	2.42%

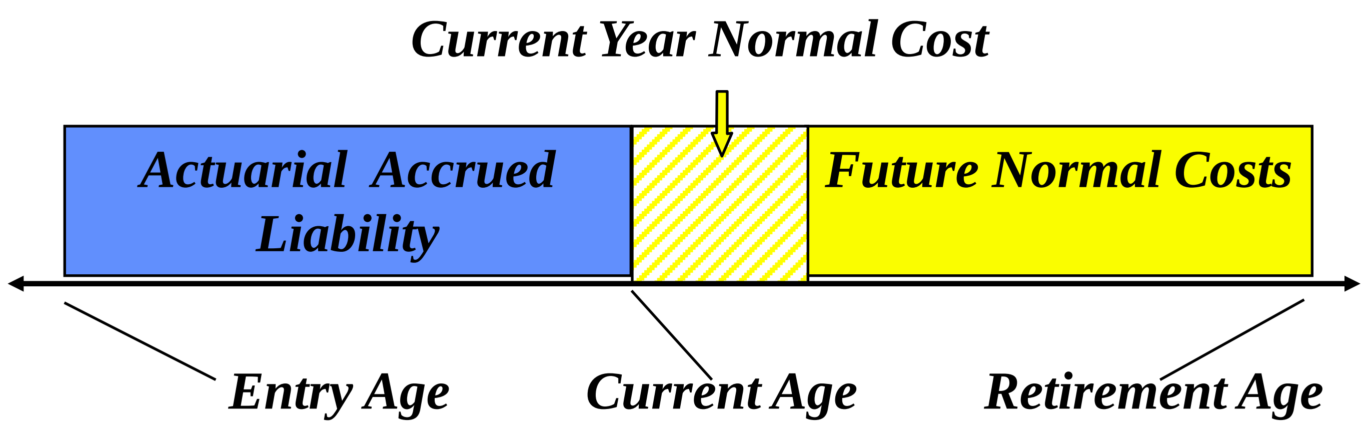
UCRP Investment Rates of Return



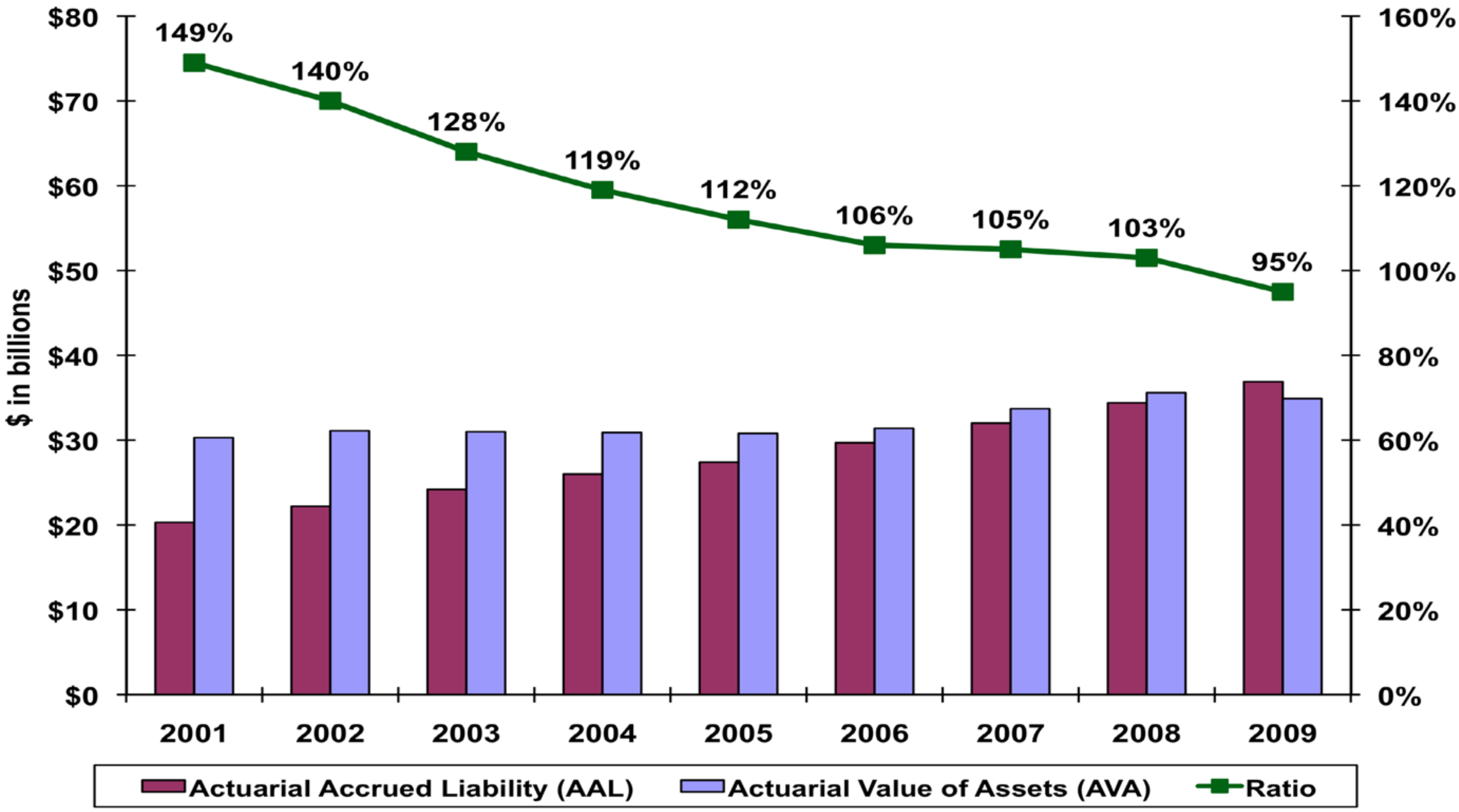
AVA recognizes each MVA return above or below the assumed rate (7.5%) over five years

Funding Retirement Benefits – Elements of Cost

- The **Normal Cost** is the portion of the long term cost allocated to a year of service.
  - Only active members have a current Normal Cost
- The **Actuarial Accrued Liability** (**AAL**) measures the Normal Costs from past years.
  - For retired members, the AAL is the entire value of their benefit



UCRP Historical Funded Status



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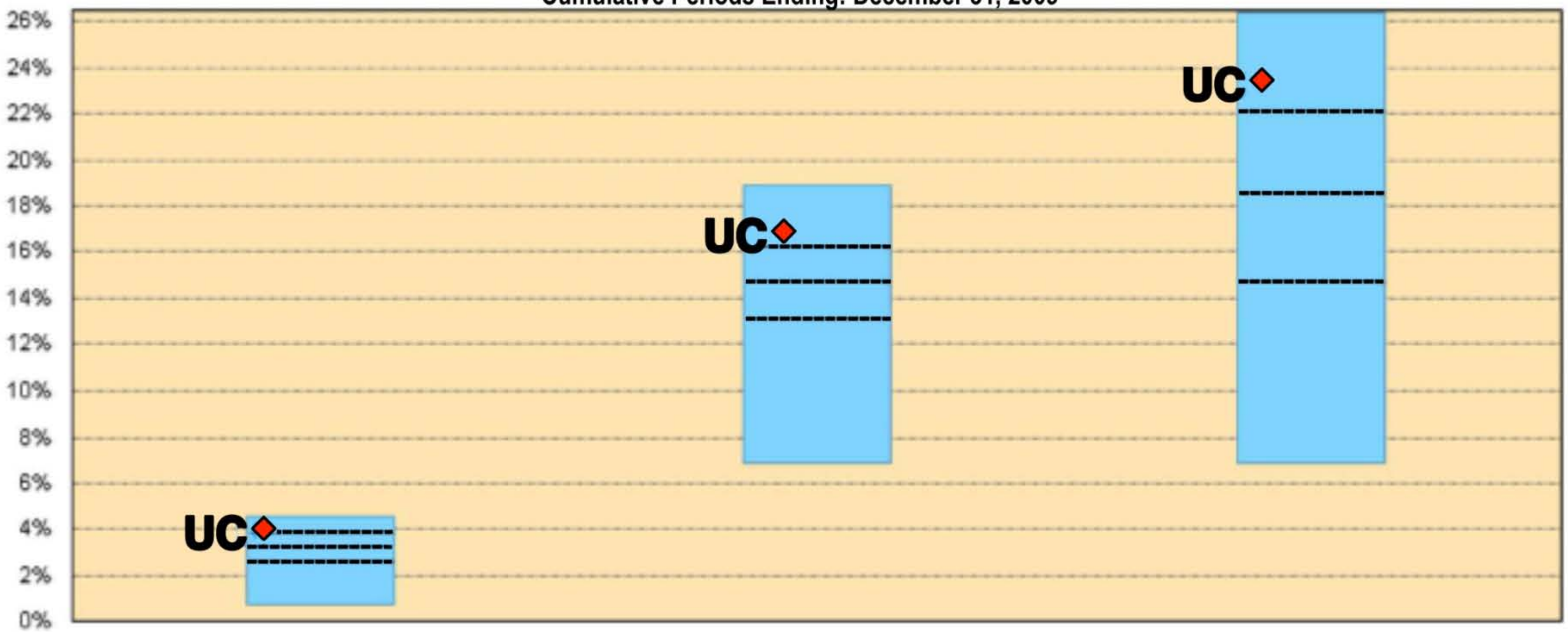
Campus/Medical Centers Only

UCRP Peer Performance Comparison Consistently in Top Percentile

Trust Universe Comparison Service
Performance Comparison

Total Return of Master Trusts > $1B

Cumulative Periods Ending: December 31, 2009



Percentile Rankings	3 Month	Fiscal Year	Cal. Year
5th	4.53	18.89	26.40
25th	3.83	16.23	22.06
50th	3.43	14.71	18.51
75th	2.58	13.10	14.64
95th	0.74	6.90	6.86
No. of Obs	177	177	175
UC UCRP Total	3.82 (26)	16.72 (19)	23.26 (20)