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2005-07 Faculty Representative,
Board of Regents of the University of California
2006-07 Systemwide Chair,
Academic Senate of the University of California
2009-11 Vice Chair,
Davis Division of the Academic Senate
2010-11 Chair, University of California Retirement System Advisory Board

August 4, 2010

Professor Mark G. Yudof
President, University of California
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

Dear Mark:

I mentioned in my earlier letter of today to you that I would also be writing you on one particular matter that arose during the-open session portion of the UCRS Board meeting on June 25, about which I wish to convey to you my immediate concern.

The particular item of discussion occurred with Mr. Paul Angelo of The Segal Company (The Regents' Consulting Actuary), who reviewed with the UCRS Board the document published on June 16, 2010 entitled "Preliminary Views of the Government Accounting Standards Board (GASB) on Major Issues Related to Pension Accounting and Financial Reporting by Employers."

During our discussion of the document in the open session portion of the UCRS Board meeting, Mr. Angelo noted that one provision in the new GASB standards could require valuation of the actuarial liabilities of UCRP for accounting and financial reporting purposes by using a discount rate lower than the 7.5 percent discount rate currently used by The Regents, in the absence of an established practice of funding UCRP at the actuarially determined rates.

In other words, should the new GASB standards, as proposed, be adopted for implementation, the funded status as reported for UCRP in UC's financial statements would be recalculated – showing a lower funded status – if UC cannot show funding sources upon which auditors can rely to affirm a consistent contribution to UCRP from those funding sources, including the State of California.   Note that, because these proposed new GASB standards affect only financial reporting, this increase in the actuarial calculation of the UCRP liabilities would not necessarily have any impact on actual cash contribution requirements. Nevertheless, a worsening of the funding ratio for UCRP even if only for financial reporting could increase the concerns about the long-term funding of UCRP and the related burden to the University and its employees.

This letter is sent in a personal capacity and not as a representative of the University of California.

While the UCRS Board also heard from Vice President Patrick Lenz at its meeting of June 25 in open session about the work that he and his staff have been undertaking to address past recalcitrance by the State to reaffirm its historic role in the funding of UCRP, the proposed new accounting rules added more concern about the position of UCRP with respect to the funding of contributions from all fund sources. To wit, if the new GASB standards were to be adopted and the State of California were not to reaffirm its contribution role to UCRP, I believe that the State would not only be taking a non-positive step by withholding contributions on a year-to-year basis, but would also risk further long-term damage to UCRP by causing a worsening of its funding ratio in its financial reports, if not in its actual contribution requirements.

Individual members of the UCRS Board urged Director Gary Schlimgen and Mr. Angelo to bring this matter to your attention and that of the Board of Regents as soon as possible. In the same vein, I urge you and Regents Chair Russ Gould to discuss this particular matter in greater detail with Mr. Angelo as soon as possible so that the on-going funding discussions with State leadership on regarding UCRP can be fully informed as to the implications and ramifications that are ahead.

Sincerely,

cc: Members of the UCRS Advisory Board, 2010-2011
Professor Henry Powell
Professor Dan Simmons
Professor Robert Anderson
General Counsel Charles Robinson
Chief Financial Officer Peter Taylor
University Counsel Barbara Clark
Director Gary Schlimgen