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August 17, 2010

Professor Emeritus John B. Oakley
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Dear John:

Thank you for your letter of August 4 regarding the discussion at the June 25th UCRS Board meeting regarding the effects the Government Accounting Standards Board's (GASB's) Preliminary Views on *Pension Accounting and Financial Reporting by Employers* could have on the University of California Retirement System (the Plan).

First and foremost, let me emphasize that the University is committed to adequately fund the Plan to meet existing commitments for pension benefits to our employees. We also believe it is imperative to establish a funding policy for the Plan that is affordable for the University while attracting and retaining our high-quality workforce.

The Financial Management Department at the Office of the President has been closely monitoring the GASB Preliminary Views on *Pension Accounting and Financial Reporting by Employers*. As you know, in 2006, the GASB began a research project to examine whether the existing standards support accountability and transparency, and help people assess inter-period equity. The latter is the degree to which a government raises sufficient resources in a given year to cover that year's costs, as opposed to, for instance, consuming resources accumulated in previous years. In 2009, the GASB developed a *Preliminary Views* containing a set of broad principles and concepts that may lead to changes to the existing standards to improve their effectiveness. Public hearings on the GASB's *Preliminary Views* are scheduled for October 2010. The GASB will then consider the feedback it receives on its future deliberations on a proposed standard. At present, we do not plan to comment on the *Preliminary Views*, but are continuing to monitor the developments on this topic to determine if the University should take a position in the future.

While a lower discount rate would result in a higher unfunded liability for the plan, under the GASB's current proposal, the lower rate would only be applied to a portion of projected payments that are made after the Plan's assets have been depleted. The following information is excerpted from the questions contained in the GASB's Preliminary Views on *Pension Accounting and Financial Reporting for Employers:*

> It is the Board's preliminary view that the discount rate for accounting and financial reporting purposes should be a single rate that produces a present value of total projected benefit payments equivalent to that obtained by discounting projected benefit payments using (1) the long-term expected rate of return on plan investments to the extent that current and expected future plan net assets available for pension benefits are projected to be sufficient to make benefit payments and (2) a high-quality municipal bond index rate for those payments that are projected to be made beyond the point at which plan net assets available for pension benefits are projected to be fully depleted.

Before 2009, the University had no unfunded actuarial liability (UAAL). As of July 1, 2009, the Plan had a UAAL for the first time. The Regents approved restarting contributions to the Plan effective April 2010. The Finance Team of the President's Task Force on Post Employment Benefits is developing recommendations that will be presented to The Regents later this year on a long-term funding policy designed to fully fund projected retirement benefits. It is our intent to make contributions to the Plan according to the approved funding policy to demonstrate a practice of funding the Plan at actuarially determined rates, which would allow us to continue using the long-term expected rate of return on plan investments, 7.50 percent, to estimate the UAAL. Of course, failure to follow The Regents' funding plan as approved later this year would lead to a larger UAAL, as we would be forced to use the lower discount rate on our unfunded liability, to the extent the plan is unfunded. It seems that the GASB is trying to provide additional incentive to keep adequate contributions flowing into the system.

Finally, I share your view that for the University to remain the outstanding institution it has been for more than 140 years, it is imperative for the State to reinvest in the University. It is critical that the University continue to promote awareness on the part of the State and others regarding the University's need for adequate support. We plan to continue to advocate that the State reaffirm its contribution role to the Plan.

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

cc: Provost Pitts
Executive Vice President Brostrom
Executive Vice President Taylor
Senior Vice President Dooley
Vice President Duckett