Overview of UCRP
July 1, 2021 Valuation Report
Prepared by Segal

Presented by
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Actuarial Services Group
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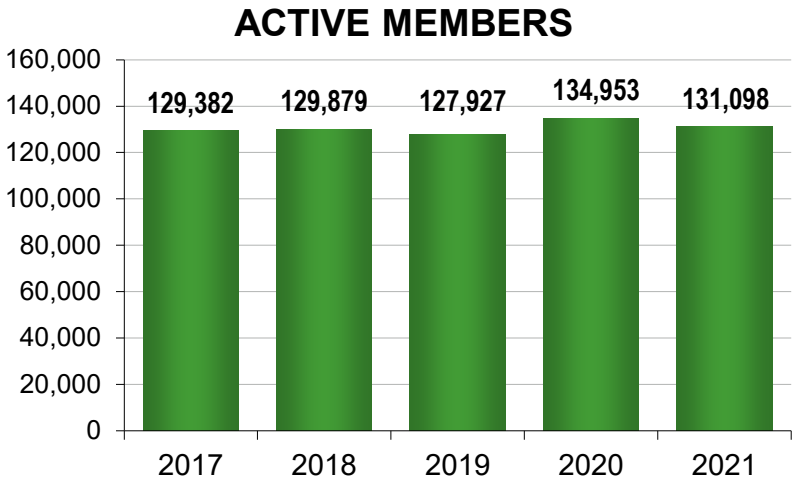
UCRS Advisory Board

December 3, 2021

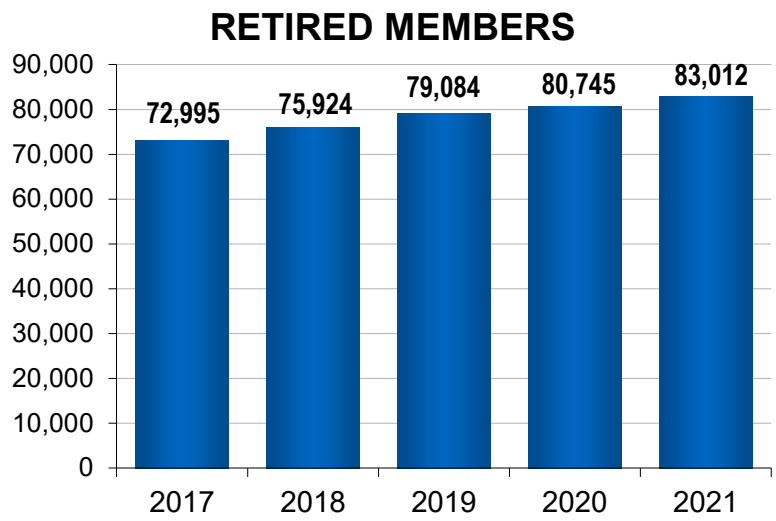
Highlights of 2021 Actuarial Valuation

- Approximately 30.3% market value return for 2020/21
  - Actuarial value return of 11.1% due to five-year smoothing of gains/losses
  - Market value of $91.7 billion is greater than the actuarial value by $10.9 billion
- Changes in key valuation results (on AVA basis):
  - Increase in funded ratio (79% to 83%)
  - Decrease in UAAL ($19.8 to $16.4 billion)
  - Decrease in total funding policy contribution rate (34.5% to 32.7% of pay)
- Increase in funded ratio and decrease in UAAL and total policy rate primarily due to:
  - Higher than expected investment return
  - Partially offset by actual contributions less than expected under the funding policy
- $600 million STIP to UCRP transfer during 2020/21 is reflected in valuation results
  - STIP transfer for up to $700 million for 2021/22 was previously authorized
  - These transfers, along with employer and member contributions are projected to fall short of the Total Funding Policy Contribution by about $700 million in 2021-22

UCRP Demographics



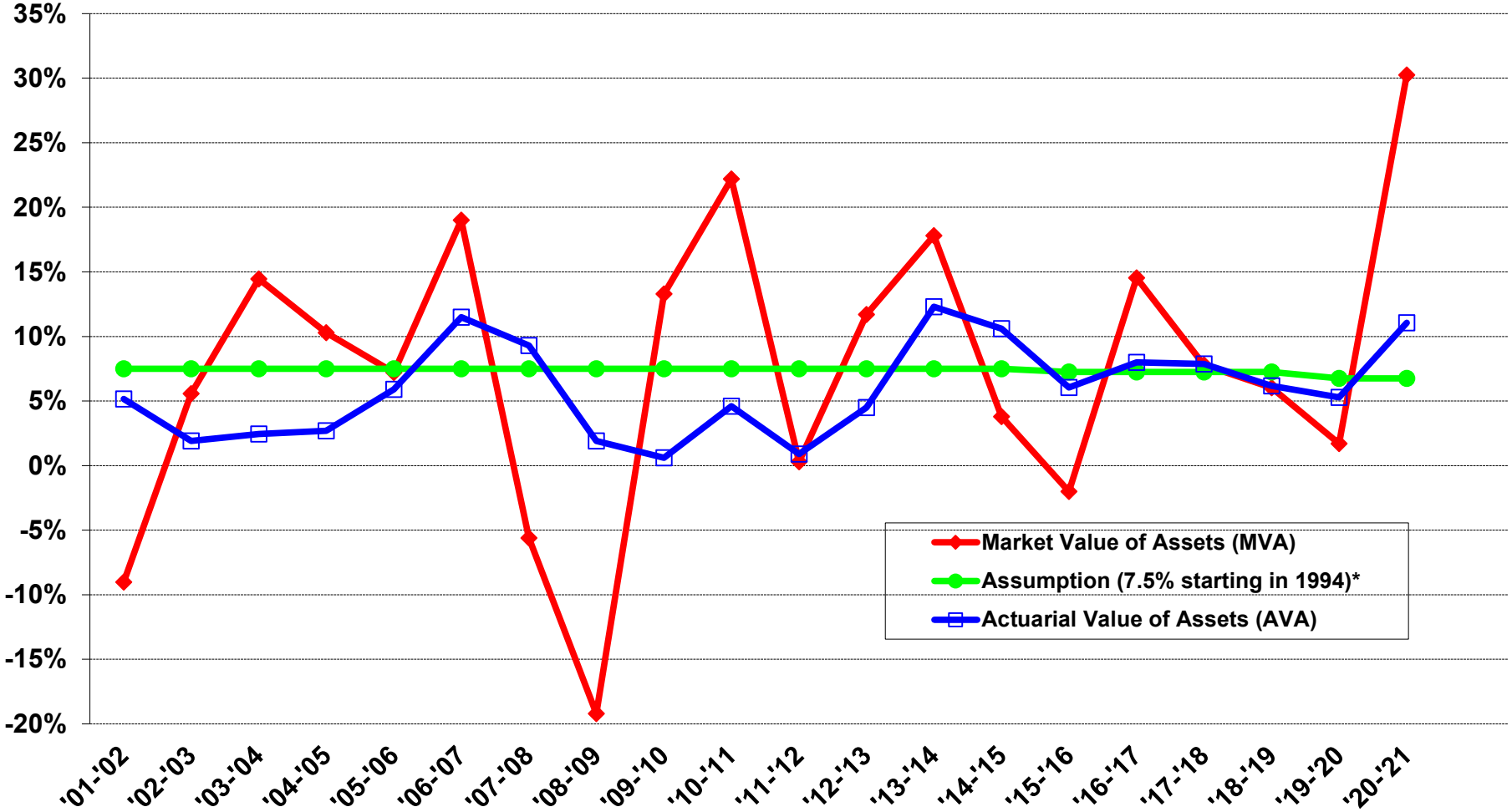
	2021	2020
Active Members	**131,098**	**134,953**
• Average Age	45.0	44.8
• Average Service	9.6	9.4
• Average Compensation	$109,434	$105,263



	2021	2020
Retired Members (in Pay Status)	**83,012**	**80,745**
• Average Age	72.5	72.3
• Average Annual Benefit	$46,836	$45,528

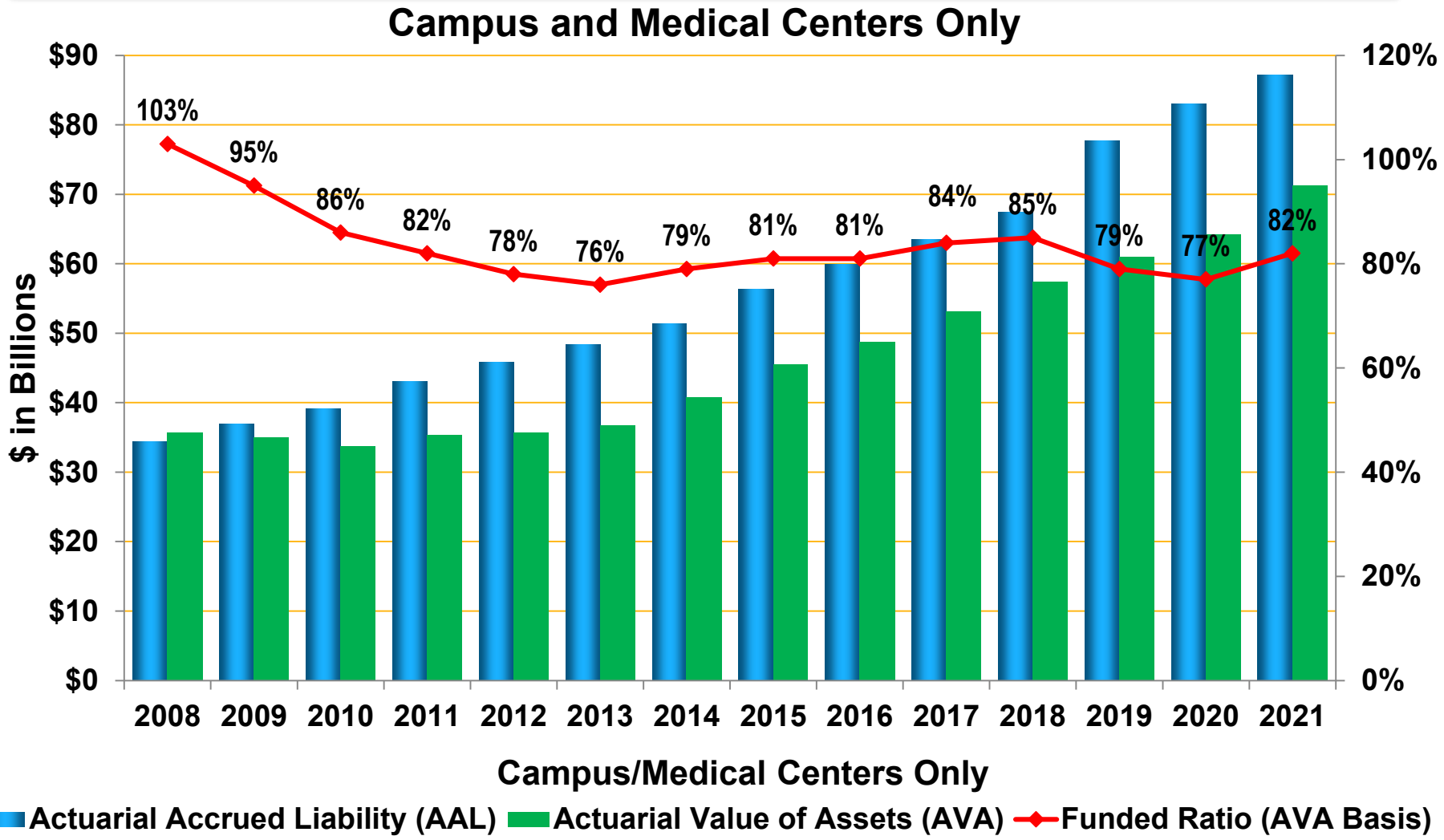
	2021	2020
Terminated Vested Members	**36,949**	**35,278**

UCRP Investment Rates of Return



**Investment rate of return assumption changed to 7.25 percent per annum starting July 1, 2015 and 6.75 percent per annum starting July 1, 2019.*

UCRP Historical Funded Status and Funded Ratio (AVA Basis) as of July 1



UCRP Valuation Results ($ in billions)

	07/01/2021	07/01/2020
Market Value of Assets (MVA)	$91.7	$70.9
Actuarial Value of Assets (AVA)	$80.8	$73.3
Actuarial Accrued Liability (AAL)	$97.2	$93.1
Unfunded AAL – AVA Basis (AAL less AVA)	$16.4	$19.8
Unfunded AAL – MVA Basis (AAL less MVA)	$5.5	$22.2
Funded Percentage (AVA Basis)	83%	79%
Funded Percentage (MVA Basis)	94%	76%
Normal Cost (beginning of year)	$2.6	$2.6
Normal Cost (% of pay, middle of year)	20.54%	20.62%
Funding Policy Contributions (% of pay)*	32.68%	34.47%

* Campus and Medical Centers Segment only

Future Expectations

- Various projections prepared by Segal are included in Appendix A of the valuation report
  - Compares Approved and Total Funding Policy Contributions
  - Shows how current shortfall increases future Funding Policy Contributions
  - Based on contribution rate schedule in effect on July 1, 2021
    - Does not reflect schedule approved by Regents in November 2021
- Projected funded status
  - Assets, liabilities, funded ratio
  - Assuming only Approved Contributions are made
  - Assuming full Total Funding Policy Contributions are made

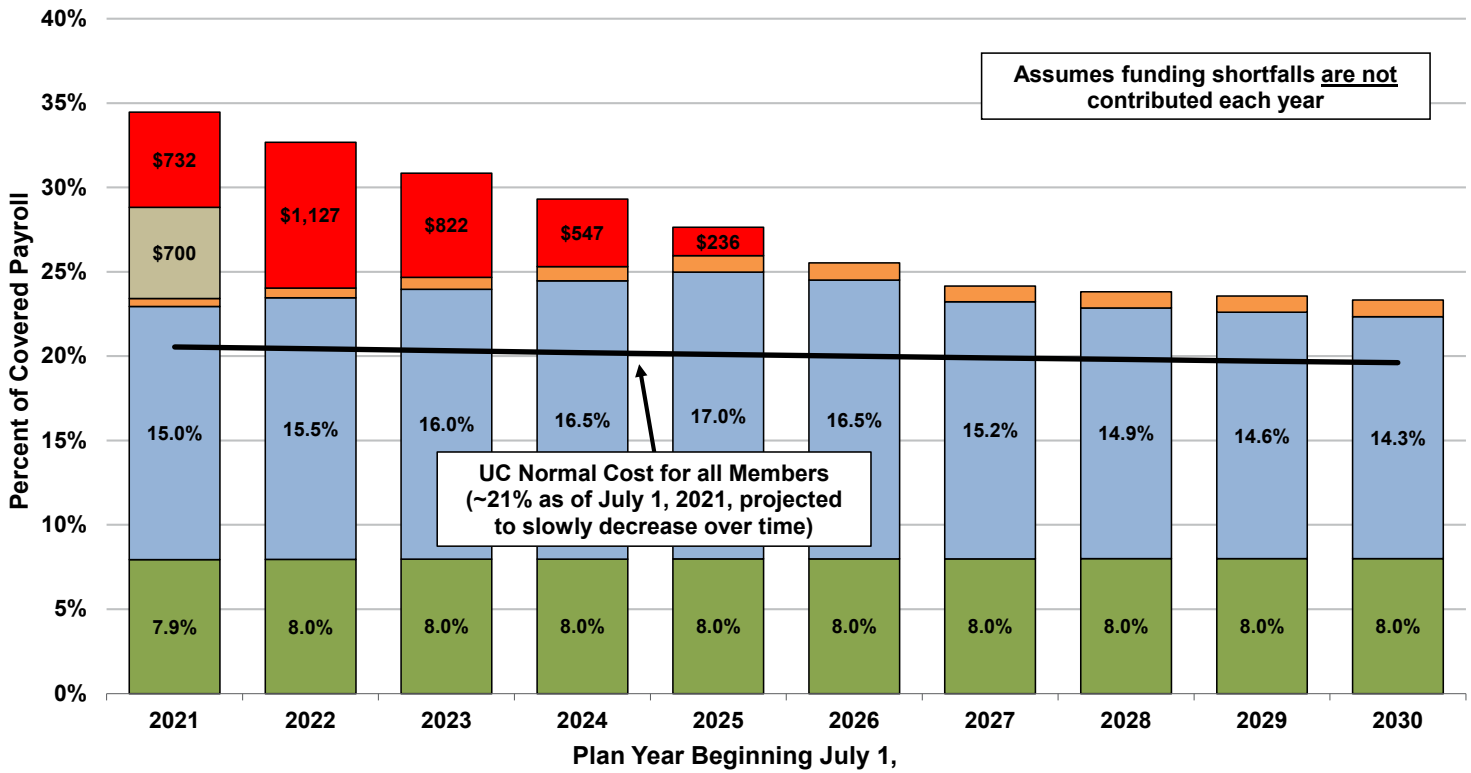
Future Expectations

- Scenario #1
  - Illustrates what would happen if all assumptions are met
  - 6.75% market value return per year beginning July 1, 2021
  - 35% Savings Choice election rate
- Scenario #2
  - Illustrates what would happen if market returns are unfavorable for one year
  - 0% market value return during 2021/2022
  - 35% Savings Choice election rate
- Scenario #3
  - Illustrates what would happen if more new hires elect Savings Choice
  - 6.75% market value return per year beginning July 1, 2021
  - 45% Savings Choice election rate

Projected Contribution Amounts
Campus and Medical Center Segment Only

Scenario #1: 6.75% Market Return Per Year Beginning July 1, 2021 and 35% Savings Choice Election

Campus and Medical Centers Only ($ in millions)



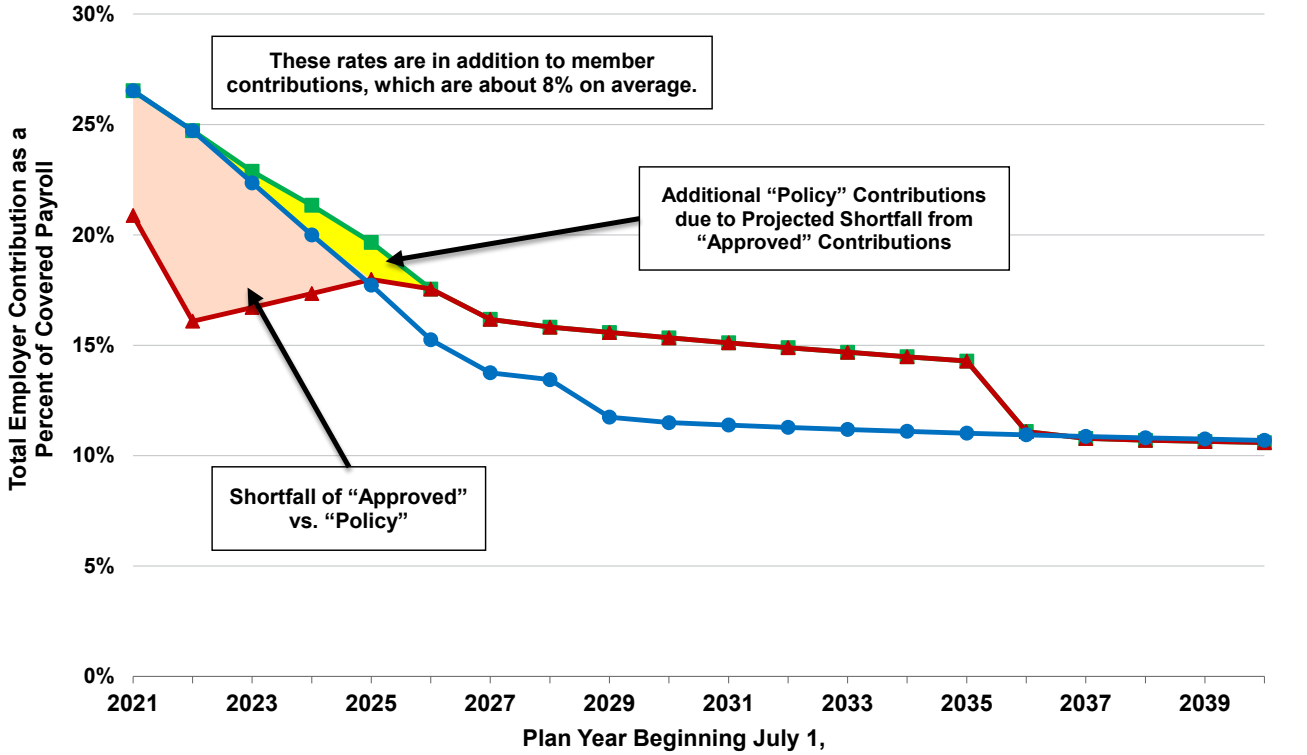
-Assumes total UCRP and Savings Choice active member population remains level for two years, then grows by 0.7% per year thereafter.
-Assumes market value return of 6.75% per year starting July 1, 2021.
-Assumes all actuarial assumptions in the July 1, 2021 valuation are met.
-Includes employer contribution rate increases from 14% to 17% beginning July 1, 2020 with a six-year phase-in.
-Includes STIP (or other sources) transfers through 2021/2022 and assumes only approved contributions are made.
-Includes 2016 Tier and a 35% Savings Choice election rate.

- Funding Policy Shortfall
- STIP Transfers
- DC UAAL Surcharge
- Employer Contribution
- Average Member Contribution
- Normal Cost

Projected UCRP Employer Contributions Campus and Medical Center Segment Only

Scenario #1: 6.75% Market Return Per Year Beginning July 1, 2021 and 35% Savings Choice Election

Projected UCRP Employer Contributions – Campus and Medical Center Segment Only



Campus and Medical Centers Only

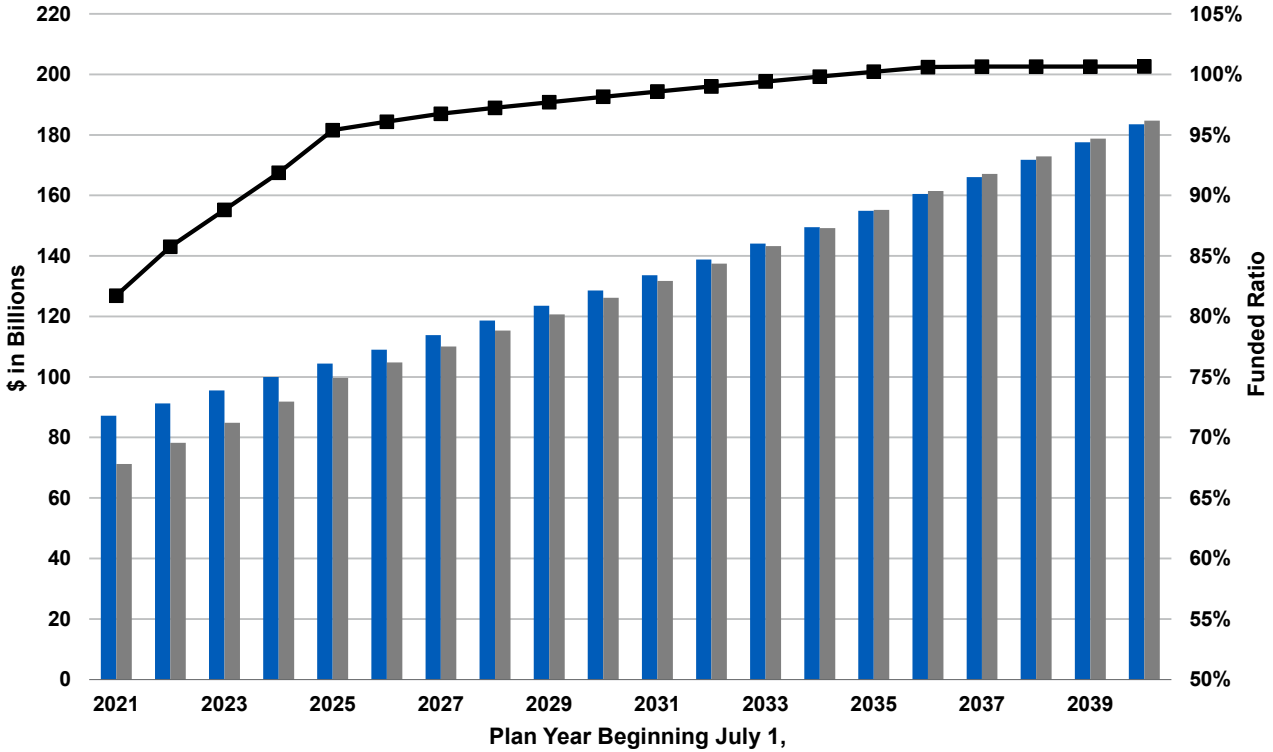
- Assumes active member population grows by 0.0% for two years, then 0.7% per year thereafter.
- Assumes a 6.75% market value return per year starting July 1, 2021.
- Includes STIP (or other sources) transfers through 2021/2022.
- Includes 2016 Tier (35% "Savings Choice" Election).

- Total Funding Policy Contribution - Assumes Approved Contributions Made
- Total Approved Contributions (Includes UAAL Surcharge)
- Total Funding Policy Contribution - Assumes Funding Policy Contributions Made Every Year

Projected UCRP Funded Status
Campus and Medical Center Segment Only

Scenario #1: 6.75% Market Return Per Year Beginning July 1, 2021 and 35% Savings Choice Election

Projected UCRP Funded Ratio – Campus and Medical Center Segment Only
Approved Contribution Scenario



Campus and Medical Centers Only

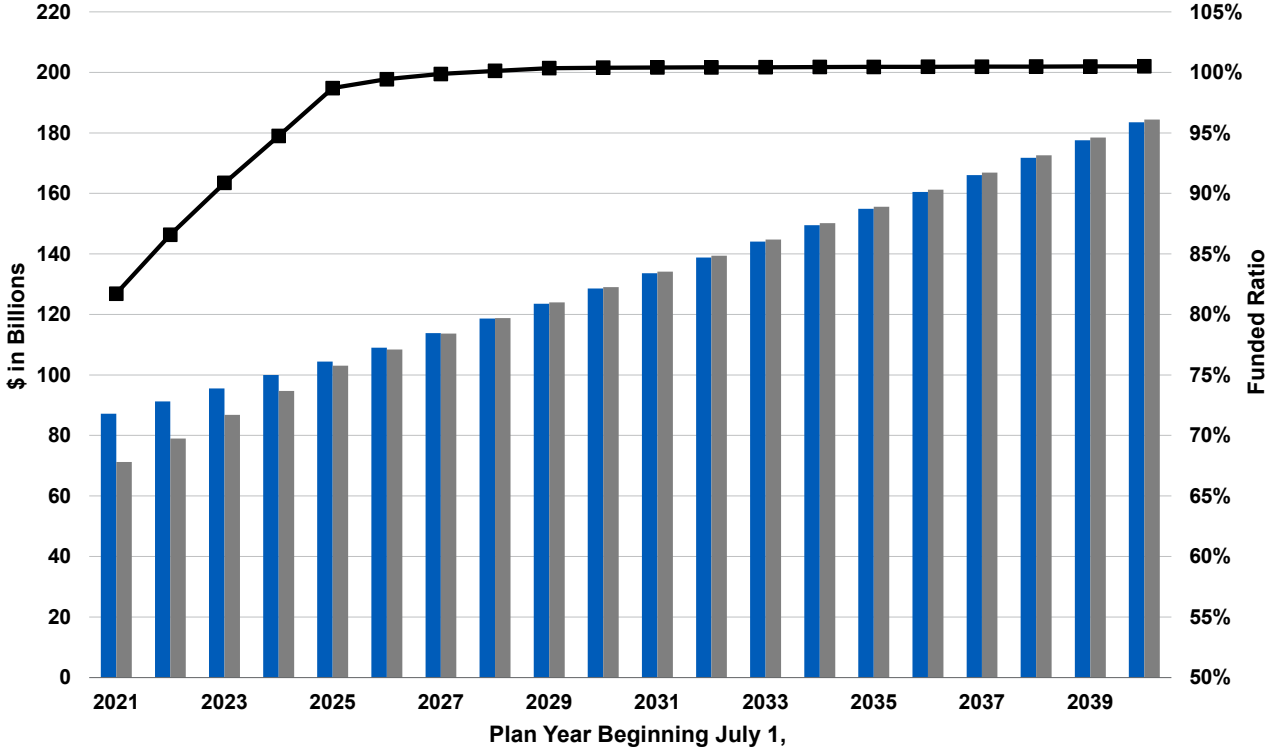
-Assumes active member population grows by 0.0% for two years, then 0.7% per year thereafter.
-Assumes a 6.75% market value return per year starting July 1, 2021.
-Assumes approved contributions are paid each year.
-Includes STIP (or other sources) transfers through 2021/2022.
-Includes 2016 Tier (35% "Savings Choice" Election).

Actuarial Accrued Liability (AAL)
Actuarial Value of Assets (AVA)
Funded Ratio

Projected UCRP Funded Status
Campus and Medical Center Segment Only

Scenario #1: 6.75% Market Return Per Year Beginning July 1, 2021 and 35% Savings Choice Election

Projected UCRP Funded Ratio – Campus and Medical Center Segment Only
Total Funding Policy Contribution Scenario



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Actuarial Accrued Liability (AAL)
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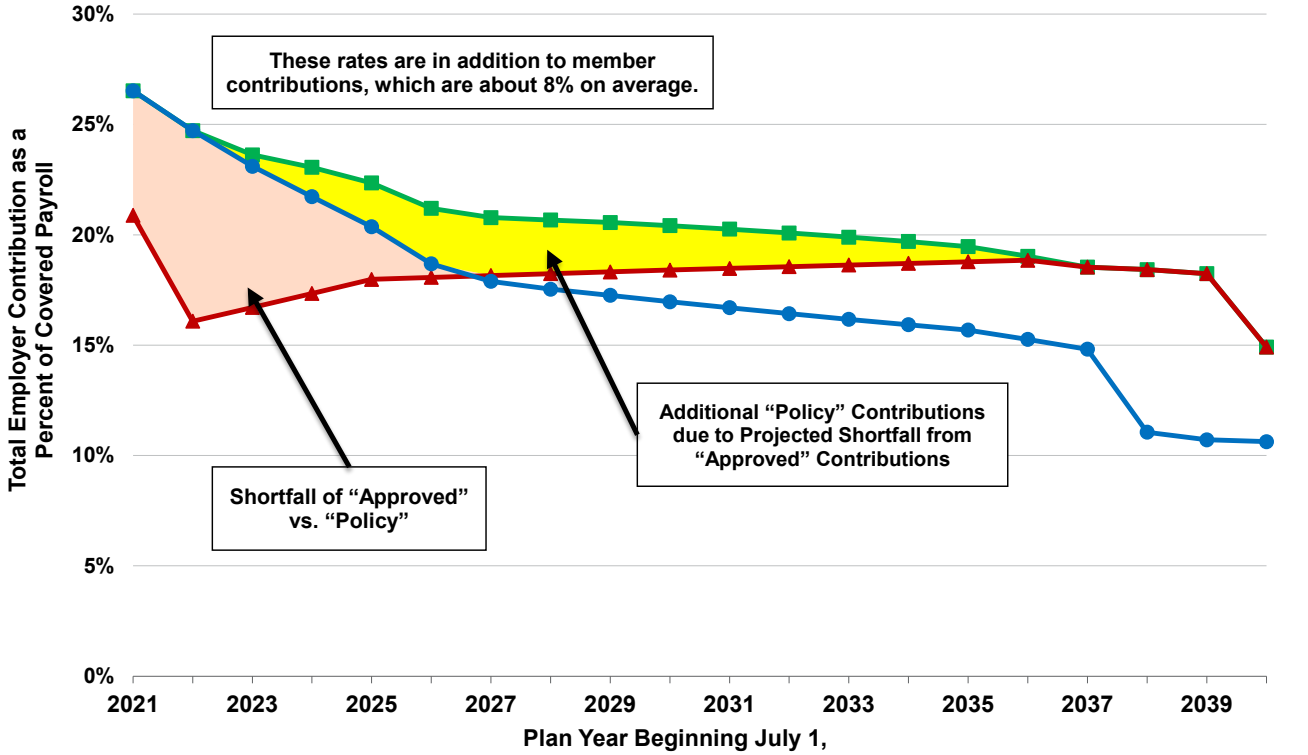
Projected UCRP Employer Contributions Campus and Medical Center Segment Only

Scenario #2: 0% Actual Market Return for 2021/2022 and 35% Savings Choice Election

Projected UCRP Employer Contributions – Campus and Medical Center Segment Only



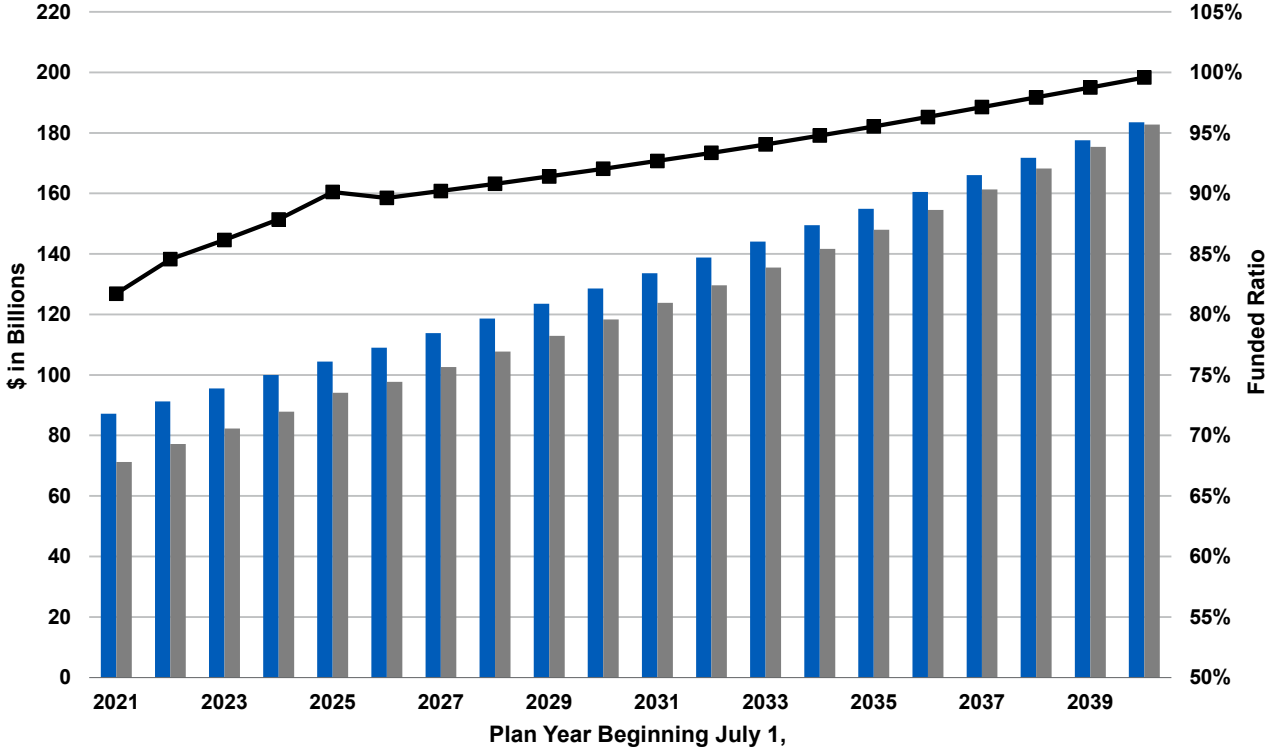
Campus and Medical Centers Only
-Assumes active member population grows by 0.0% for two years, then 0.7% per year thereafter.
-Assumes a 0% market value return for 2021/2022 and 6.75% market value return per year starting July 1, 2022.
-Includes STIP (or other sources) transfers through 2021/2022.
-Includes 2016 Tier (35% "Savings Choice" Election).

- Total Funding Policy Contribution - Assumes Approved Contributions Made
- Total Approved Contributions (Includes UAAL Surcharge)
- Total Funding Policy Contribution - Assumes Funding Policy Contributions Made Every Year

Projected UCRP Funded Status
Campus and Medical Center Segment Only

Scenario #2: 0% Actual Market Return for 2021/2022 and 35% Savings Choice Election

Projected UCRP Funded Ratio – Campus and Medical Center Segment Only
Approved Contribution Scenario



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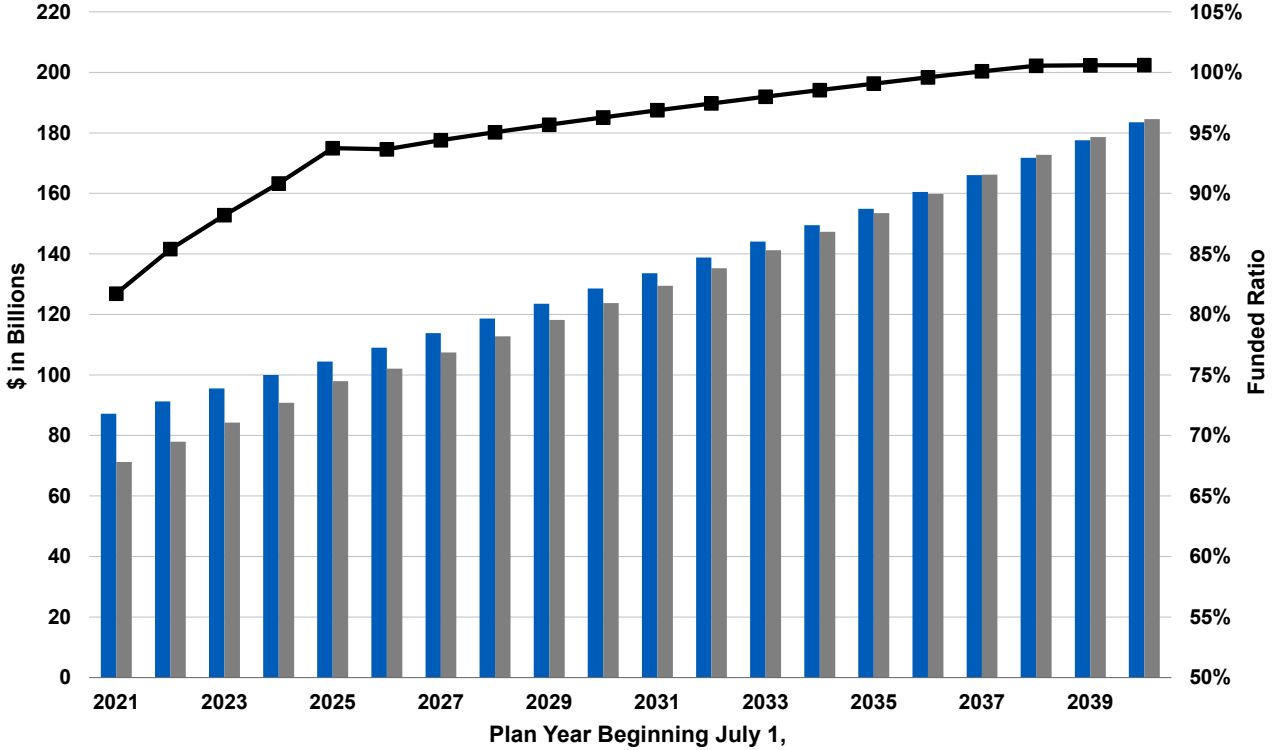

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Actuarial Accrued Liability (AAL)
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Projected UCRP Employer Contributions Campus and Medical Center Segment Only

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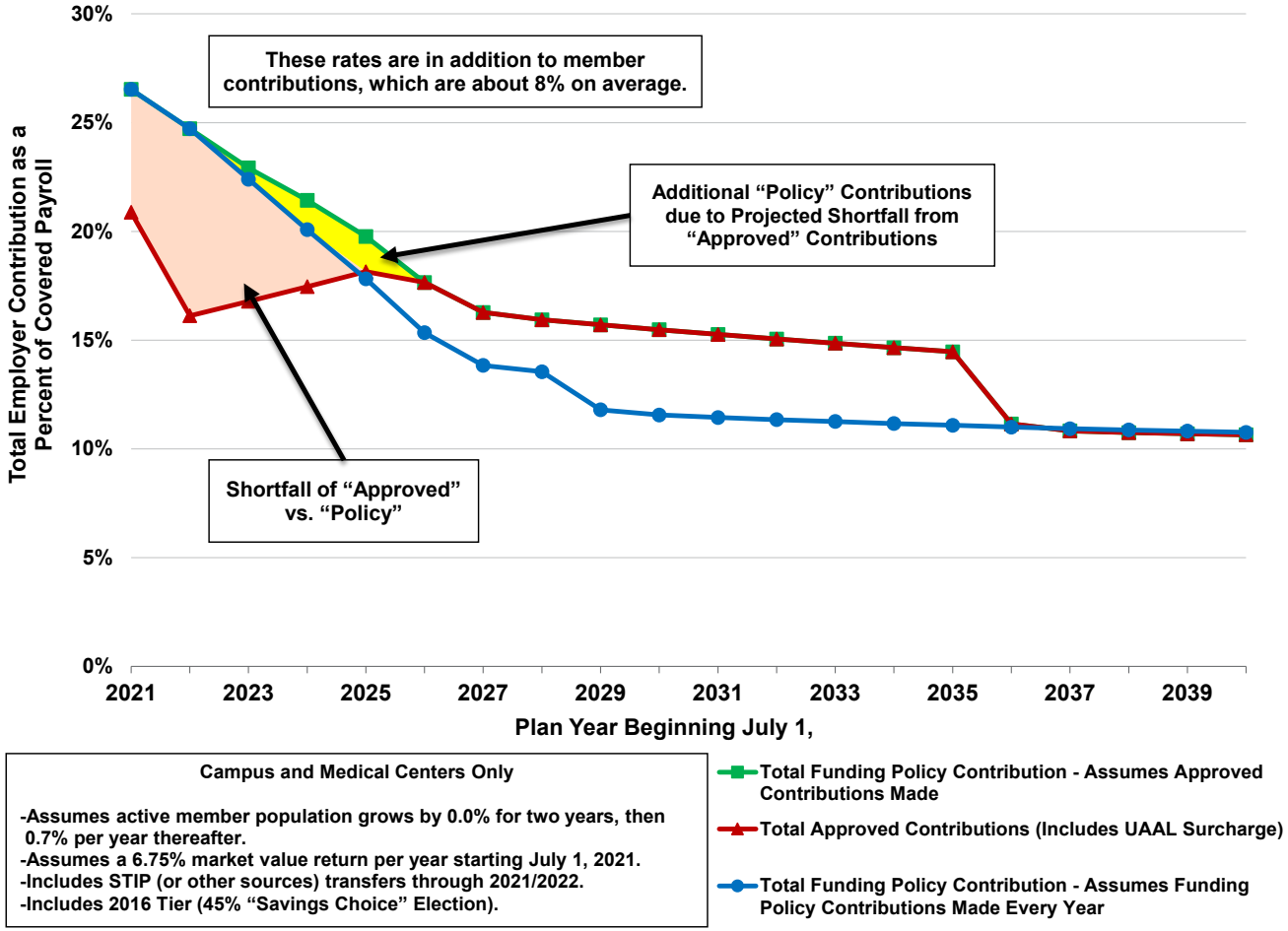
Projected UCRP Employer Contributions – Campus and Medical Center Segment Only



Campus and Medical Centers Only

- Assumes active member population grows by 0.0% for two years, then 0.7% per year thereafter.
- Assumes a 6.75% market value return per year starting July 1, 2021.
- Includes STIP (or other sources) transfers through 2021/2022.
- Includes 2016 Tier (45% "Savings Choice" Election).

Projected UCRP Funded Status
Campus and Medical Center Segment Only

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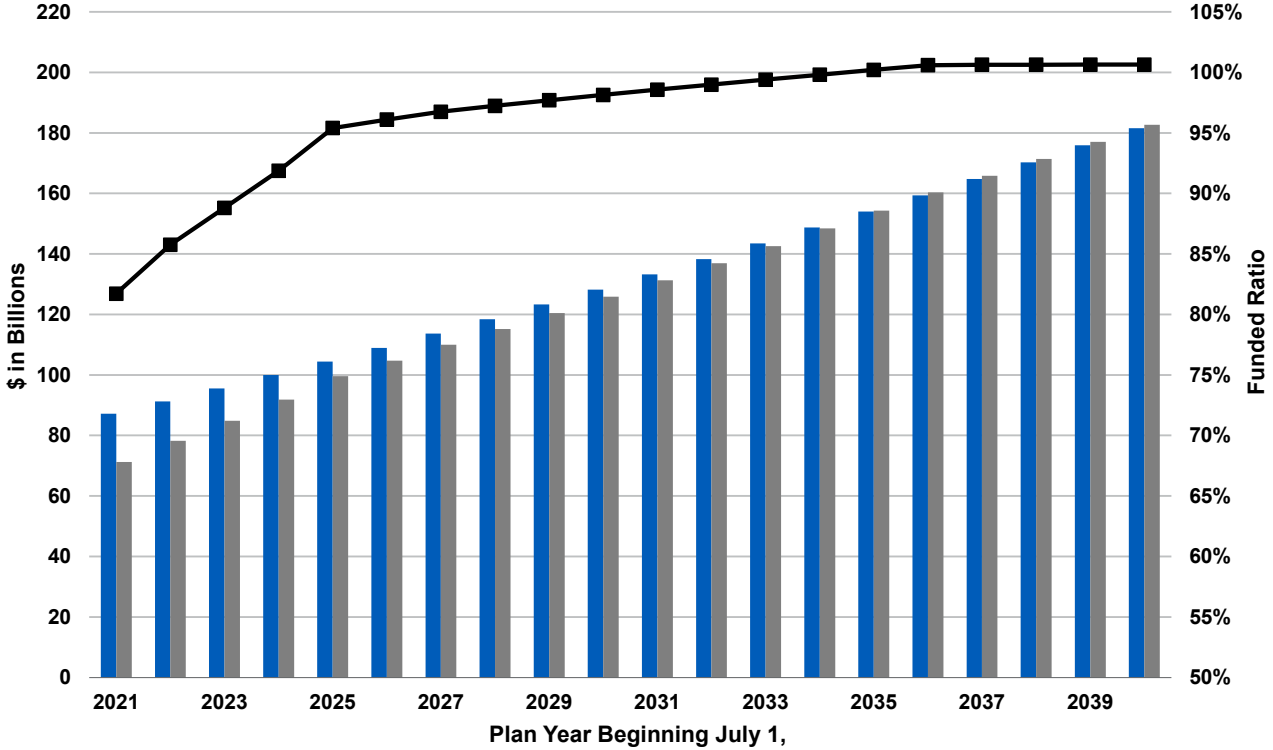
Projected UCRP Funded Ratio – Campus and Medical Center Segment Only
Approved Contribution Scenario



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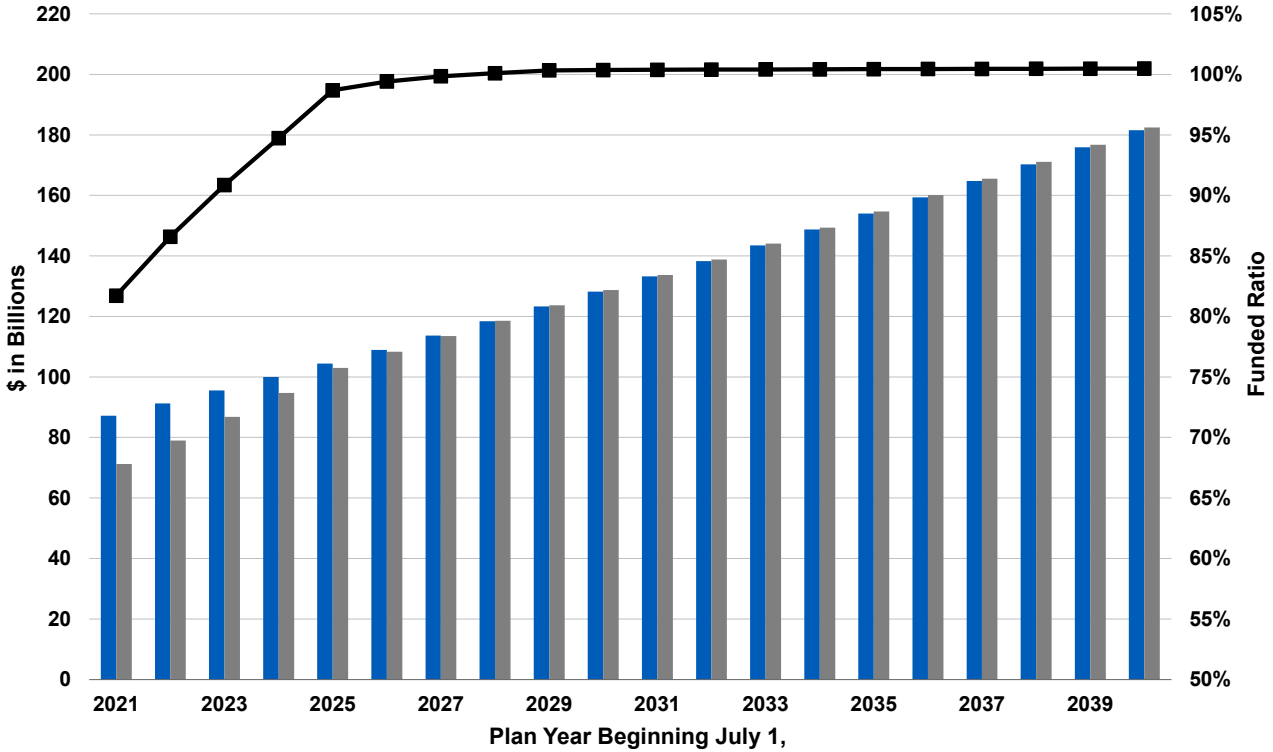

Campus and Medical Centers Only

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-Assumes a 6.75% market value return per year starting July 1, 2021.
-Assumes total funding policy contributions are paid each year.
-Includes 2016 Tier (45% "Savings Choice" Election).

Actuarial Accrued Liability (AAL)
Actuarial Value of Assets (AVA)
Funded Ratio

Assumptions and Methods Used in Projections

- Unless otherwise noted, the cost calculations and projections were made using generally accepted actuarial practices and are based on July 1, 2021 actuarial valuation results. This includes the participant data and actuarial assumptions on which this valuation was based.

Here are some of the important assumptions used:

- Campus and medical center segment only.
- Scenario #1 and #3 assumes market value returns of 6.75% per year beginning July 1, 2021. Scenario #2 assumes a 0% market value return during 2021/22 and returns of 6.75% per year thereafter.
- Reflects choice of either UCRP 2016 Tier or defined contribution (Savings Choice) plan for all new hires on or after July 1, 2021, with the exception of new hires under CNA, AFSCME and UPTE who enter the Modified 2013 Tier. There is an employer contribution, currently equal to 7.0% of compensation, towards UCRP's UAAL on behalf of employees that elect the Savings Choice plan ("UAAL Surcharge").
- Scenario #1 and #2 assumes an election rate of 35% Savings Choice and 65% Pension Choice for new hires on or after July 1, 2021. Scenario #3 assumes an election rate of 45% Savings Choice and 55% Pension Choice for new hires on or after July 1, 2021. Cost of choice of 0.6% of payroll added to UCRP's Normal Cost for new hires in all Scenarios.

Assumptions and Methods Used in Projections

- Assumes level total (UCRP and Savings Choice) active member population for two years and 0.7% per year growth thereafter.
- Transfers from STIP of up to $700 million in 2021/22 is reflected in all Scenarios.
- Employer contribution rate to UCRP is equal to 15% of compensation, increasing by 0.5% per year to a maximum rate of 17%.
- UAAL Surcharge contribution rate is equal to 7% of compensation, increasing by 0.5% per year to a maximum rate of 9%.
- Does <u>not</u> reflect contribution rate schedule approved by Regents in November 2021
- Total of UCRP employer and member contribution rates are assumed to be no greater than the Total Funding Policy Contribution rate for any year with the exception that the employer contribution rate can be no less than the member contribution rate.
- Demographics for future new entrants are assumed to be the same as those for members hired during the two years prior to July 1, 2021.

Other Information

- Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.
- All calculations were completed under the supervision of Eva Yum, FSA, MAAA, Enrolled Actuary who is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.