Changes to UCRP Employer Contribution Rate and Transfers from Short-Term Investment Pool (STIP)

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Summary

- Based on action taken by Regents in 2019, UCRP University/employer contribution rates were scheduled to increase over a period of six years
  - From 14% to an ultimate rate of 17% of compensation
  - University contribution rate is currently 15% as of July 1, 2021
- Favorable investment returns during 2020/21 of 30% on a market value basis allowed for revisiting these contribution rate increases
  - Increase in funded ratio from 77% to 82% on Actuarial or smoothed basis
    - Decrease in Unfunded Actuarial Liability from $19 billion to $16 billion
  - Market value basis: 93% funded and $6 billion unfunded
- Action item for Regents approval in November requested approval to:
  - Decrease University contribution rate to UCRP
  - Make transfers from Short-Term Investment Pool to UCRP
- Regents adopted an amended version of the action item in November

Note: All results shown are based on Campus and Medical Center Segment of UCRP

UCRP Employer Contribution Rate

- Table below compares the rate schedule adopted in 2019 with the new rate schedule adopted in 2021
  - STIP transfers of $500 million per year will be made in 2022-23 and 2023-24
- Adopted rate schedule includes short-term reductions in the UCRP employer contribution rate providing budgetary relief for UC locations
  - Reverts back to current rate and restores increases to ultimate rate of 17%

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Contribution Rate Schedule Adopted in 2019	15.0%	15.5%	16.0%	16.5%	17.0%	17.0%	17.0%	17.0%
Adopted by Regents in November 2021	15.0%	14.0%	14.0%	15.0%	15.5%	16.0%	16.5%	17.0%

Savings Choice UAAL Surcharge Rate

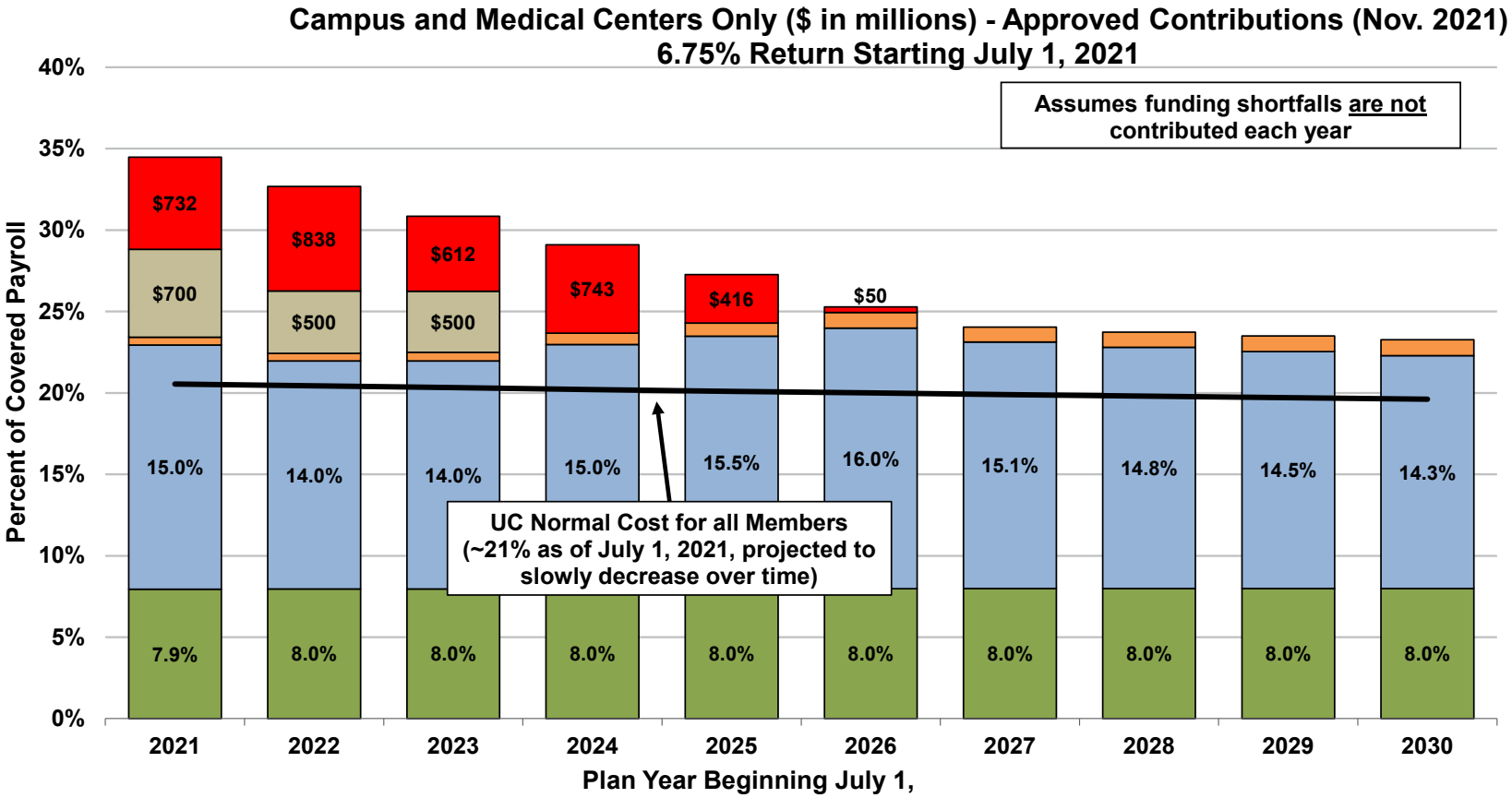
- "Unfunded Actuarial Accrued Liability (UAAL) Surcharge" rate changes
- UAAL Surcharge is an employer contribution to UCRP
  - Employer contributions are made on compensation for active employees who elected "Savings Choice"
  - Helps pay down UCRP's UAAL
  - Not to be confused with the 8% employer contribution to DC Plan accounts for employees participating in Savings Choice

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Contribution Rate Schedule Adopted in 2019	7.0%	7.5%	8.0%	8.5%	9.0%	9.0%	9.0%	9.0%
Adopted by Regents in November 2021	7.0%	6.0%	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%

UCRP Projections

- Next two slides project contributions to UCRP with the adopted contribution rate schedule and STIP transfers
  - First with all assumptions being met including 6.75% returns per year
  - Followed by a projection with 0% return for 2021-22 for illustration purposes
- Graph of UCRP's projected funded ratio follows showing both of the scenarios described above
- All other assumptions are same as used in projections shown in "Overview of UCRP July 1, 2021 Valuation Report" presentation to UCRSAB
- Based on proposed changes, projected contribution to UCRP will not meet future funding policy contribution in short term
  - However, once recent investment gain is fully recognized, proposed contributions meet funding policy
  - One year of low returns would increase projected shortfall
- Projected funded ratio under both scenarios steadily climbs towards 100%

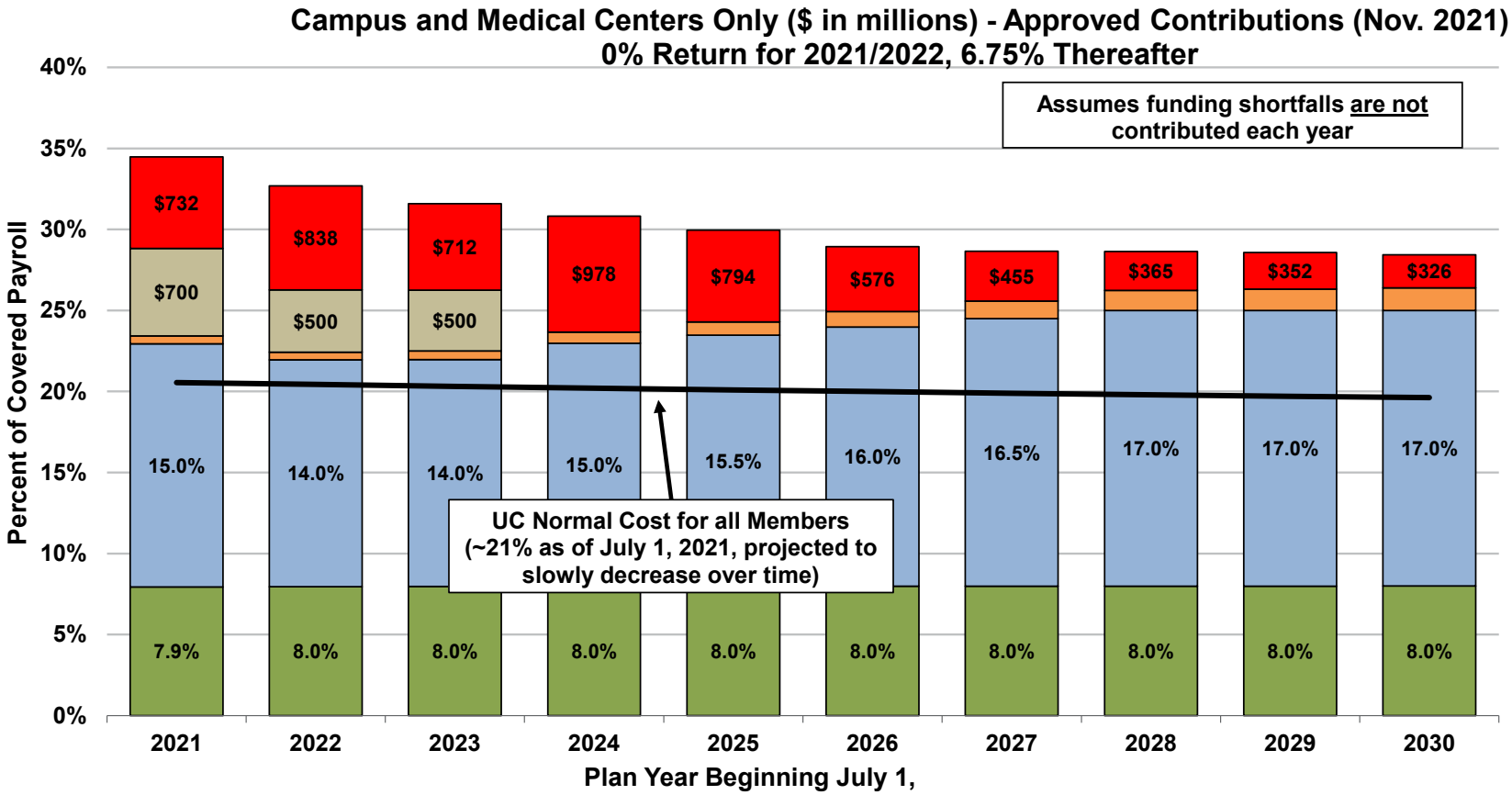
Projected Contribution Amounts
Campus and Medical Center Segment Only



-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 approved STIP (or other sources) transfers through 2023/2024 and assumes only approved contributions, as adopted in November 2021, 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 Contribution Amounts
Campus and Medical Center Segment Only



-Assumes total UCRP and Savings Choice active member population remains level for two years, then grows by 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.
-Assumes all actuarial assumptions in the July 1, 2021 valuation are met.
-Includes approved STIP (or other sources) transfers through 2023/2024 and assumes only approved contributions, as adopted in November 2021, are made.
-Includes 2016 Tier and a 35% Savings Choice election rate.

- Funding Policy Shortfall
- STIP Transfers
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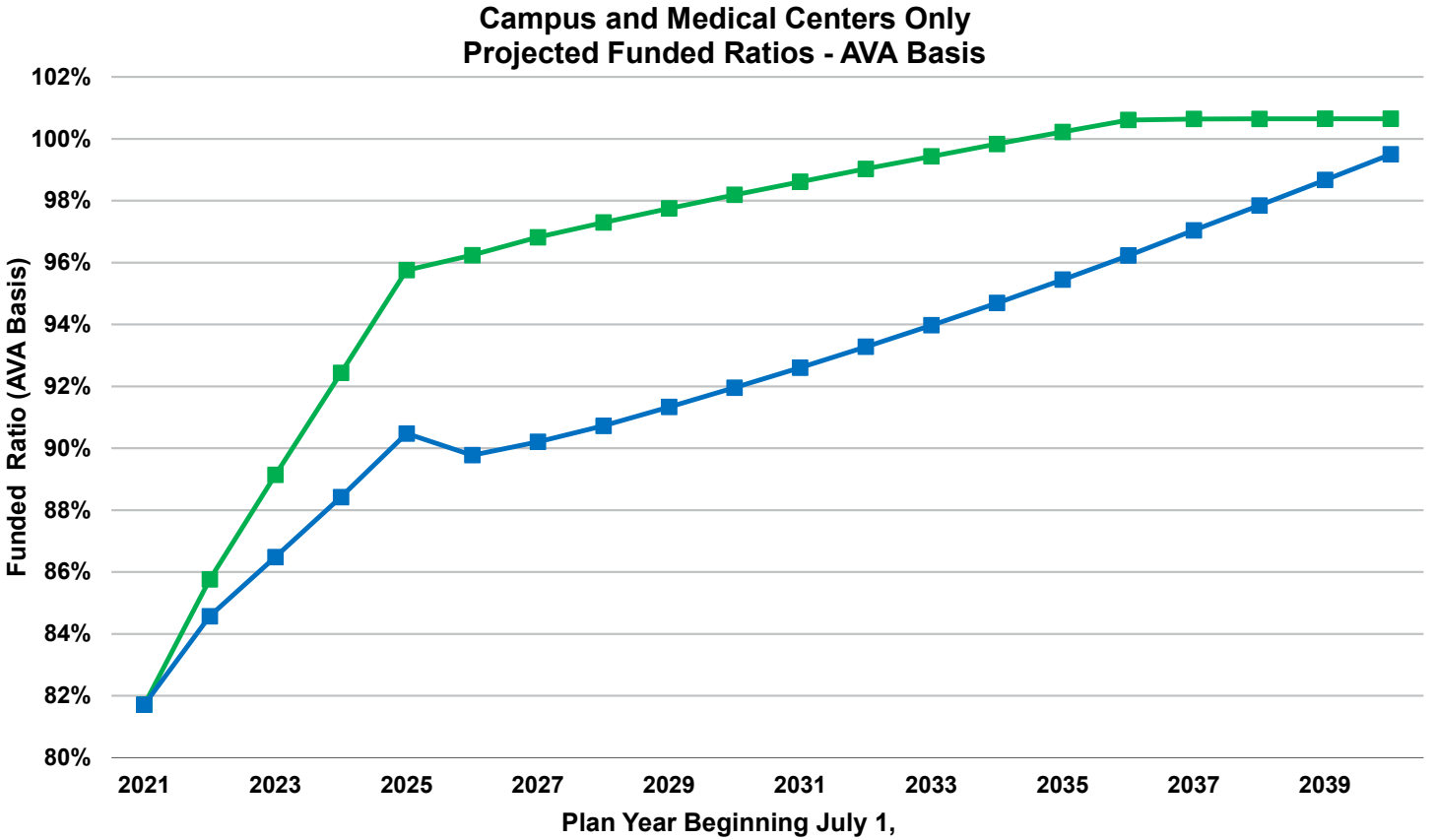
Projected Funded Ratios



Campus and Medical Centers Only
-Assumes active member population grows by 0.0% for two years, then 0.7% per year thereafter.
-Assumes a market value return as noted in the legend.
-Assumes approved contributions, as adopted in November 2021, are paid each year (up to the Total Funding Policy Contribution Rate).
-Includes STIP (or other sources) transfers through 2023/2024
-Includes 2016 Tier (35% "Savings Choice" Election).

Proposed Contributions - 6.75% Return Starting July 1, 2021

Proposed Contributions - 0% Return for 2021/2022, 6.75% Thereafter

Conclusion

- Favorable investment returns during 2020/21 of 30% allowed for revisiting the contribution rate increases adopted in 2019
- Action item for Regents approval in November requested approval to:
  - Decrease University contribution rate to UCRP
  - Make transfers from Short-Term Investment Pool to UCRP
- Regents adopted an amended version of the action item in November
  - Adopted rate schedule includes short-term reductions providing budgetary relief for UC campuses and medical centers
  - Schedule then reverts back and restores increases to ultimate rate of 17%
- Next actuarial experience study is in 2023
  - Investment return assumption will be reviewed again and could result in another decrease resulting in further increases in pension costs
  - Will monitor and revisit contributions to UCRP after that study is completed