Overview of UCRP
July 1, 2022 Valuation Report
Prepared by Segal

Presented by

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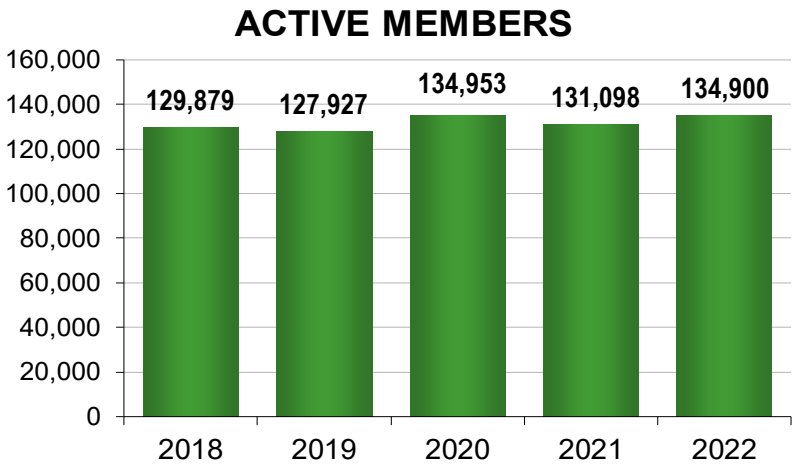
UCRS Advisory Board
December 9, 2022

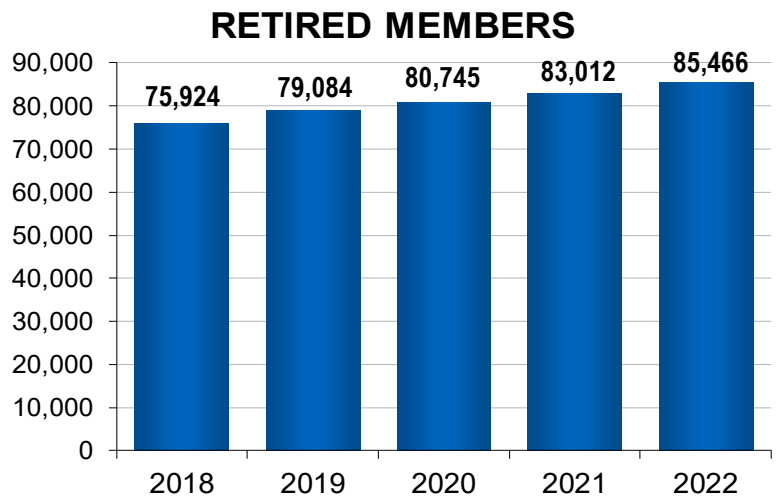
Highlights of 2022 Actuarial Valuation

- Approximately -10.6% market value return for 2021/22
  - Actuarial value return of 6.8% due to five-year smoothing of gains/losses
  - Market value of $81.4 billion is less than actuarial value by $4.4 billion
- Changes in key valuation results (on AVA basis):
  - Increase in funded ratio (83.1% to 83.5%)
  - Increase in UAAL ($16.4 to $17.0 billion)
  - Increase in total funding policy contribution rate (32.7% to 32.9% of pay)
- Increase in UAAL and total policy rate primarily due to:
  - Actuarial experience losses including high inflation resulting in actual 2022 COLA coming in higher than assumed
  - Actual contributions less than expected under the funding policy
- Ad Hoc COLA to restore purchasing power to a minimum 85% level is reflected
- $700 million STIP to UCRP transfer during 2021/22 is reflected in valuation results
  - STIP transfers up to $500 million each for 2022/23 and 2023/24 has been authorized
  - These transfers, along with employer and member contributions are projected to fall short of the total policy contribution by over $900 million in each of next two years
  - Shortfalls are projected to increase to nearly $2 billion in ten years

UCRP Demographics



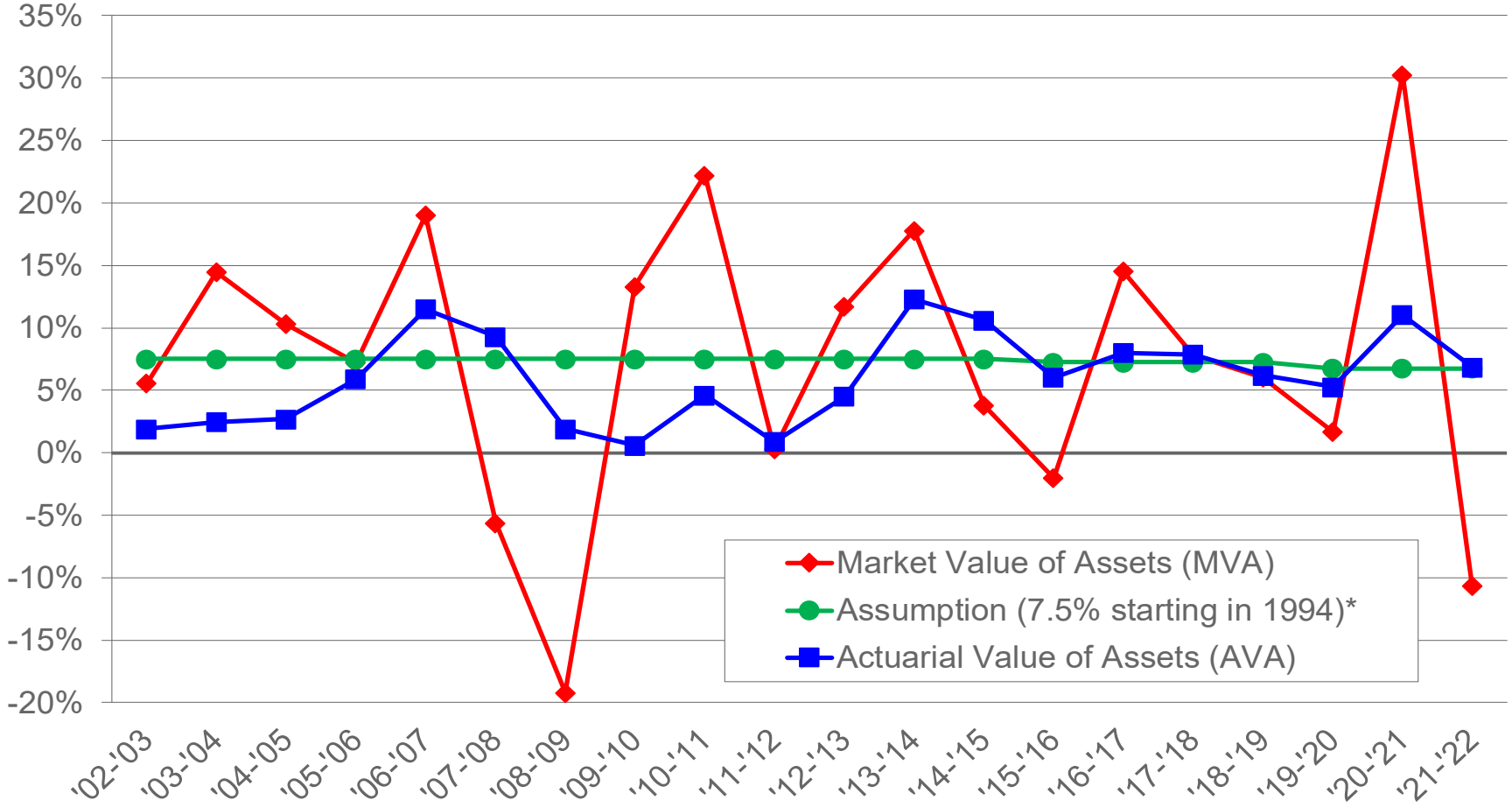
	2022	2021
Active Members	**134,900**	**131,098**
• Average Age	44.9	45.0
• Average Service	9.5	9.6
• Average Compensation	$112,521	$109,434



	2022	2021
Retired Members (in Pay Status)	**85,466**	**83,012**
• Average Age	72.8	72.5
• Average Annual Benefit	$49,140	$46,836

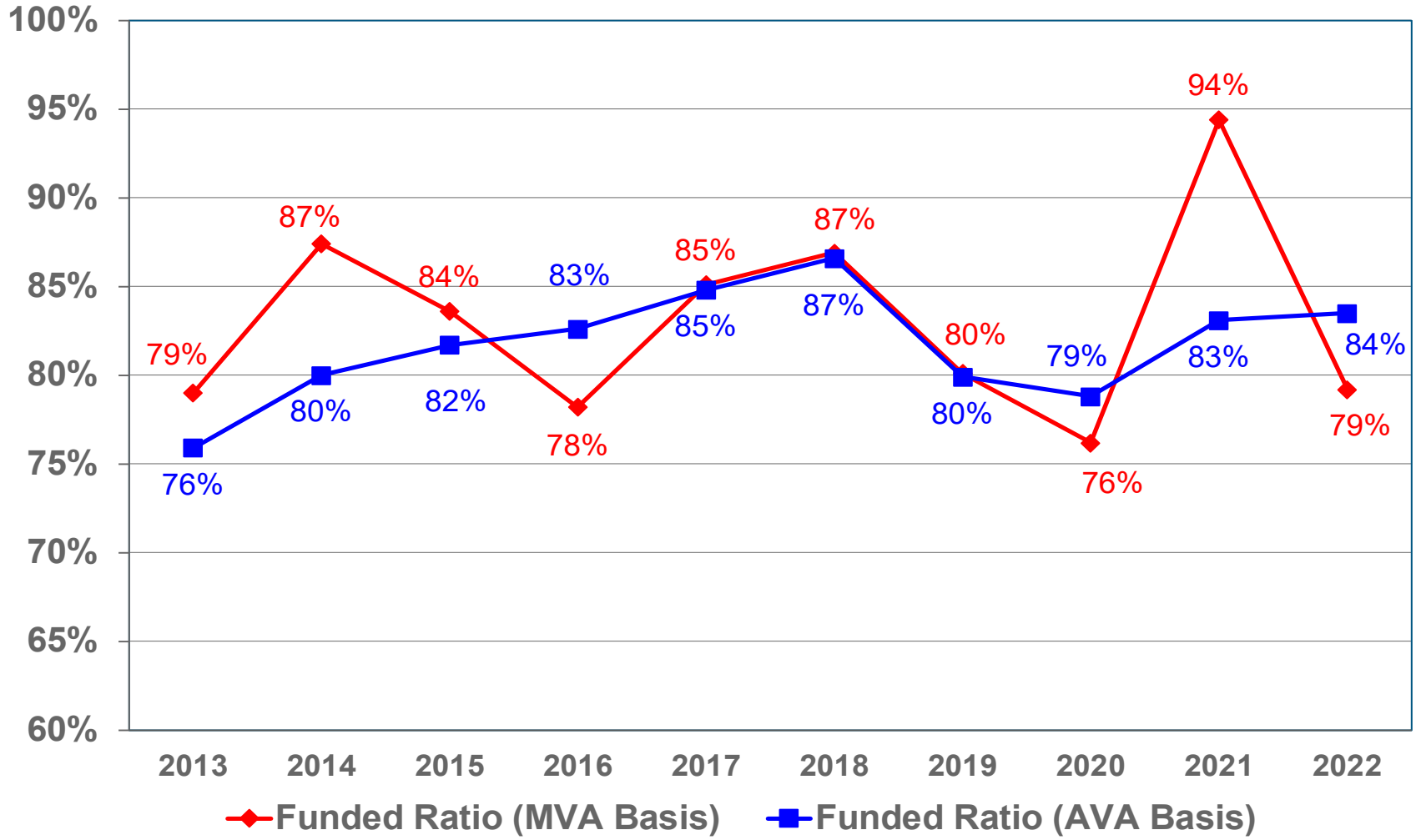
	2022	2021
Terminated Vested Members	**38,119**	**36,949**

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 Ratio at July 1



UCRP Valuation Results ($ in billions)

	07/01/2022	07/01/2021
Market Value of Assets (MVA)	$81.4	$91.7
Actuarial Value of Assets (AVA)	$85.7	$80.8
Actuarial Accrued Liability (AAL)	$102.7	$97.2
Unfunded AAL – AVA Basis (AAL less AVA)	$17.0	$16.4
Unfunded AAL – MVA Basis (AAL less MVA)	$21.4	$5.5
Funded Percentage (AVA Basis)	83.5%	83.1%
Funded Percentage (MVA Basis)	79.2%	94.4%
Normal Cost (beginning of year)	$2.8	$2.6
Normal Cost (% of pay, middle of year)	20.69%	20.54%
Funding Policy Contributions (% of pay)*	32.87%	32.68%

* Campus and Medical Centers Segment only

Future Expectations

- Current schedule of approved contribution rates:

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
UCRP Employer Contribution Rate	14.0%	14.0%	15.0%	15.5%	16.0%	16.5%	17.0%
Savings Choice UAAL Surcharge Rate	6.0%	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%

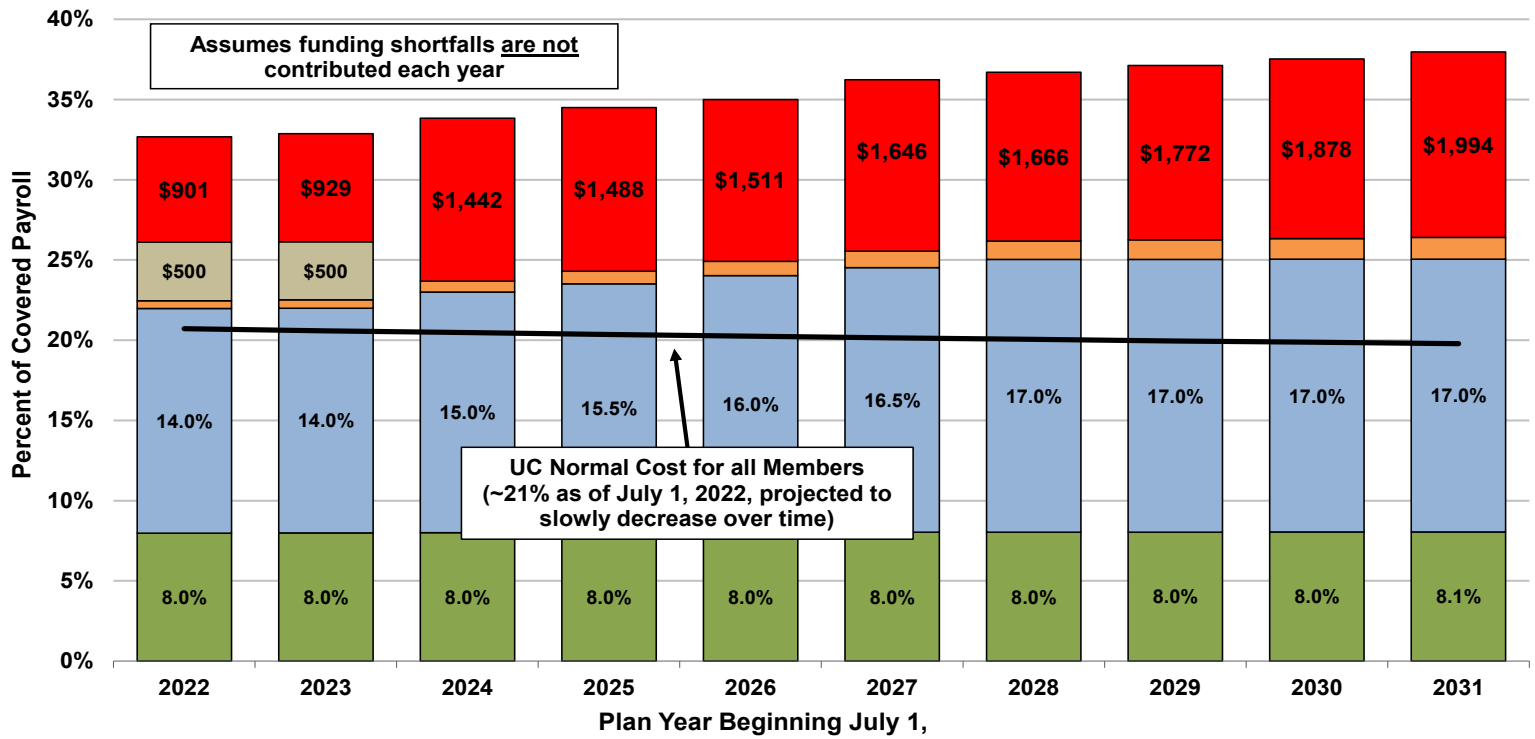
- Various projections prepared by Segal are included in Appendix A of the valuation report
  - Compares Approved and Total Funding Policy Contributions
- Projected funded status
  - Assets, liabilities, funded ratio
  - Assuming only Approved Contributions are made
  - Assuming full Total Funding Policy 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, 2022
  - 35% Savings Choice election rate
- Scenario #2
  - Illustrates what would happen if market returns are unfavorable for one year
  - 0% market value return during 2022/2023
  - 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, 2022
  - 45% Savings Choice election rate

Projected UCRP Contribution Amounts
Campus and Medical Center Segment Only ($ in millions)

Scenario #1: 6.75% Market Return Per Year Beginning July 1, 2022 and 35% Savings Choice Election

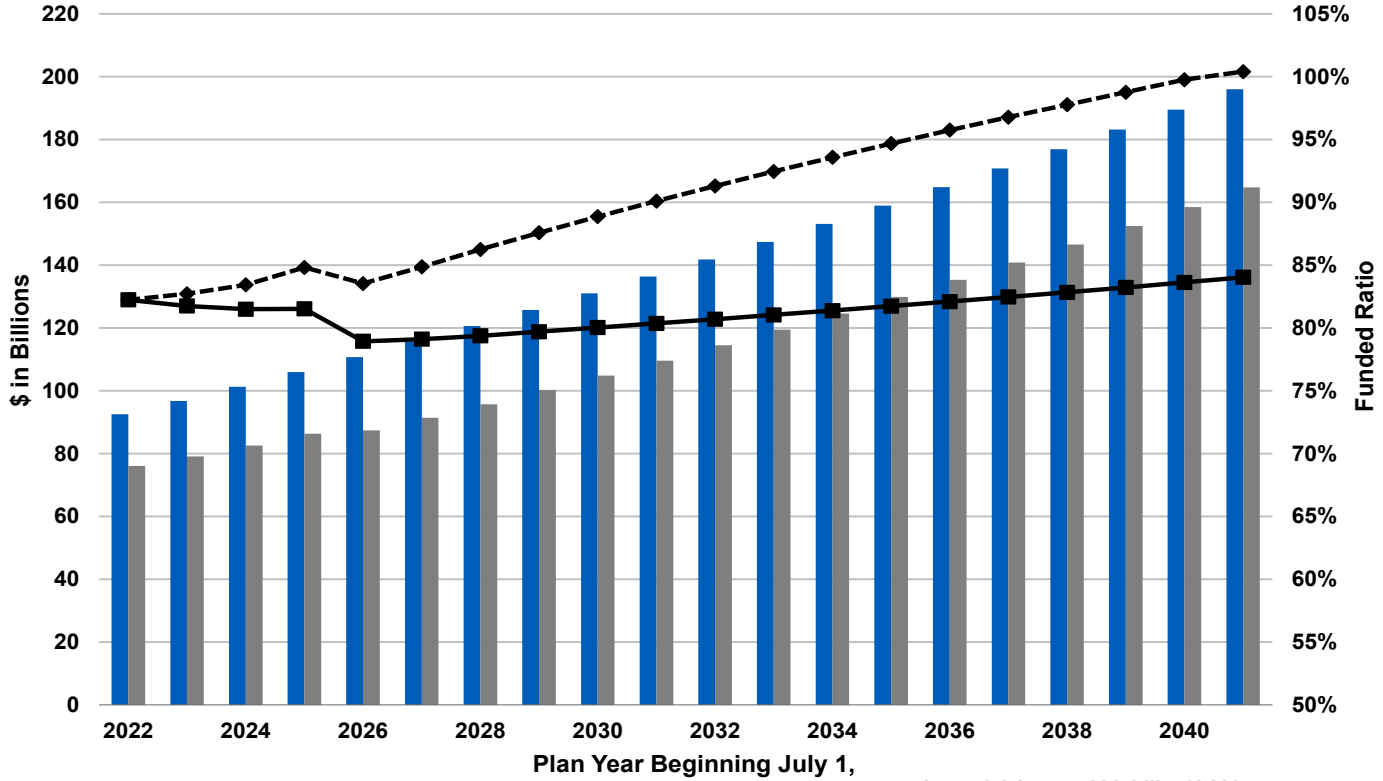


- Assumes total UCRP and Savings Choice active member population remains level for one year, then grows by 0.7% per year thereafter.
- Assumes market value return of 6.75% per year starting July 1, 2022.
- Assumes all actuarial assumptions in the July 1, 2022 valuation are met.
- Includes approved STIP (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 UCRP Funded Status
Campus and Medical Center Segment Only

Scenario #1: 6.75% Market Return Per Year Beginning July 1, 2022 and 35% Savings Choice Election



- Assumes total UCRP and Savings Choice active member population remains level for one year, then grows by 0.7% per year thereafter.
- Assumes market value return of 6.75% per year starting July 1, 2022.
- Assumes all actuarial assumptions in the July 1, 2022 valuation are met.
- Assumes approved contributions are made each year, unless otherwise noted.
- Includes approved STIP (or other sources) transfers through 2023/2024.
- Includes 2016 Tier and a 35% "Savings Choice" election rate.

Actuarial Accrued Liability (AAL)

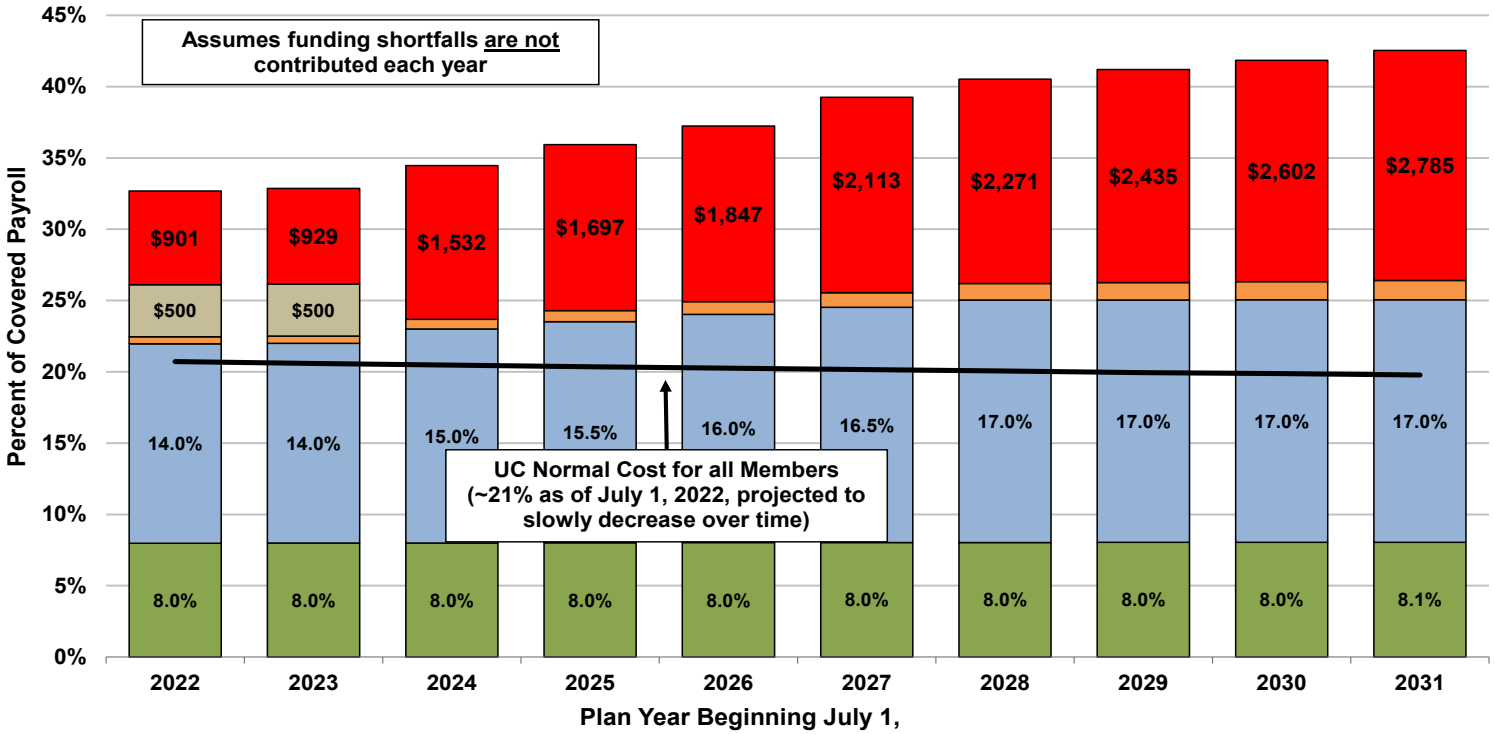
Actuarial Value of Assets (AVA)

Funded Ratio - Assumes Approved Contributions Made

Funded Ratio - Assumes Funding Policy Contributions Made

Projected Contribution Amounts
Campus and Medical Center Segment Only ($ in millions)

Scenario #2: 0% Actual Market Return for 2022/2023 and 35% Savings Choice Election

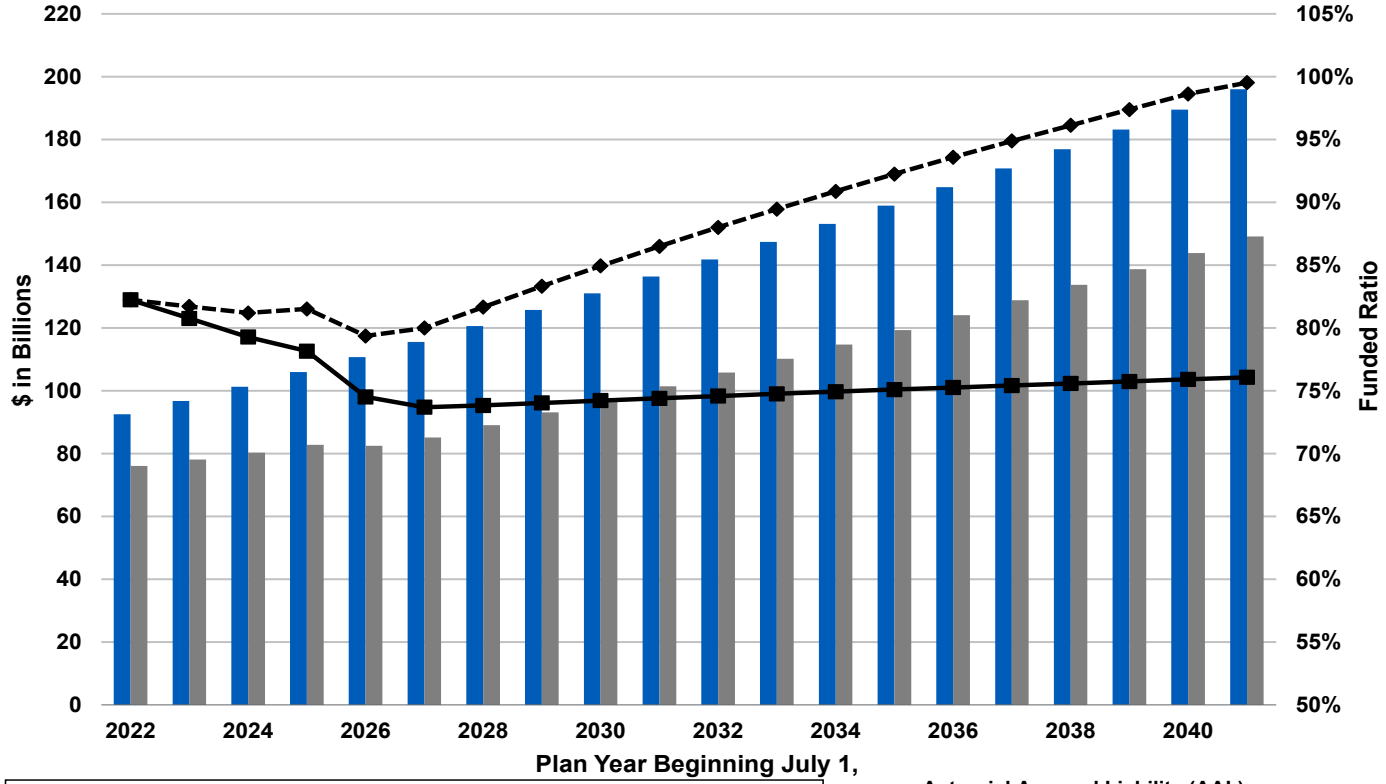


- Assumes total UCRP and Savings Choice active member population remains level for one year, then grows by 0.7% per year thereafter.
- Assumes market value return of 0% for 2022/2023 and 6.75% per year starting July 1, 2023.
- Assumes all actuarial assumptions in the July 1, 2022 valuation are met.
- 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 UCRP Funded Status
Campus and Medical Center Segment Only

Scenario #2: 0% Actual Market Return for 2022/2023 and 35% Savings Choice Election



- Assumes total UCRP and Savings Choice active member population remains level for one year, then grows by 0.7% per year thereafter.
- Assumes market value return of 0% for 2022/2023 and 6.75% per year starting July 1, 2023.
- Assumes all actuarial assumptions in the July 1, 2022 valuation are met.
- Assumes approved contributions are made each year, unless otherwise noted.
- Includes approved STIP (or other sources) transfers through 2023/2024.
- Includes 2016 Tier and a 35% "Savings Choice" election rate.

Actuarial Accrued Liability (AAL)

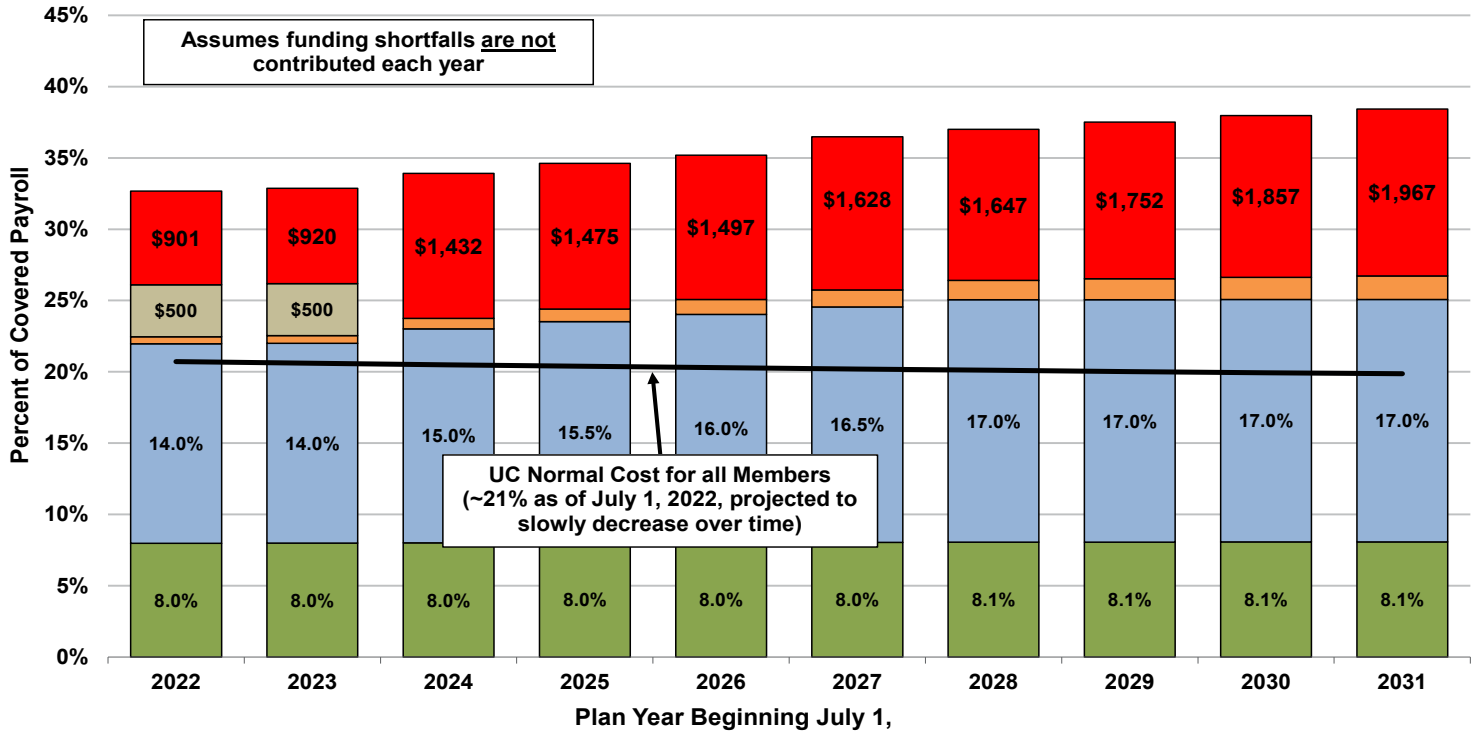
Actuarial Value of Assets (AVA)

Funded Ratio - Assumes Approved Contributions Made

Funded Ratio - Assumes Funding Policy Contributions Made

Projected Contribution Amounts
Campus and Medical Center Segment Only ($ in millions)

Scenario #3: 6.75% Market Return Per Year Beginning July 1, 2022 and 45% Savings Choice Election

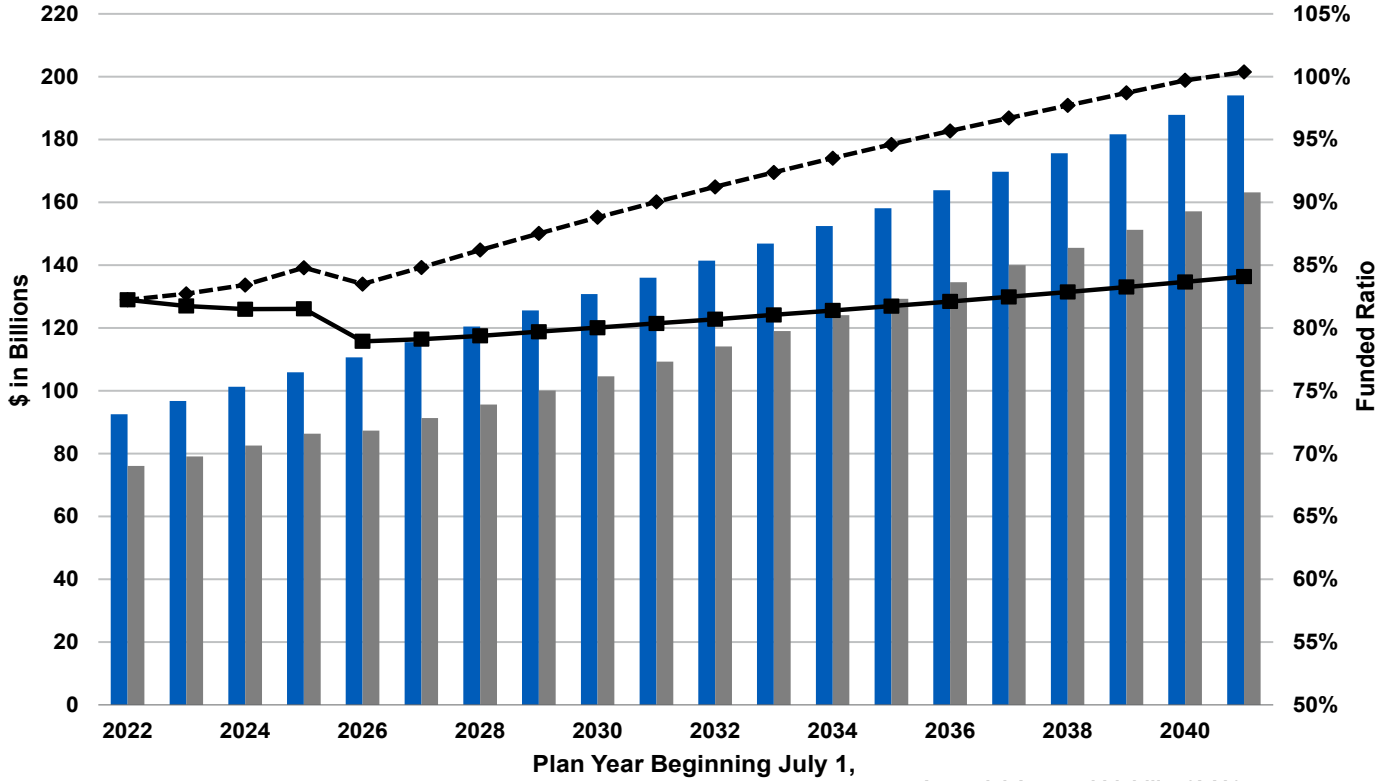


- Assumes total UCRP and Savings Choice active member population remains level for one year, then grows by 0.7% per year thereafter.
- Assumes market value return of 6.75% per year starting July 1, 2022.
- Assumes all actuarial assumptions in the July 1, 2022 valuation are met.
- Includes approved STIP (or other sources) transfers through 2023/2024 and assumes only approved contributions, as adopted in November 2021, are made.
- Includes 2016 Tier and a 45% Savings Choice election rate.

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

Projected UCRP Funded Status
Campus and Medical Center Segment Only

Scenario #3: 6.75% Market Return Per Year Beginning July 1, 2022 and 45% Savings Choice Election



- Assumes total UCRP and Savings Choice active member population remains level for one year, then grows by 0.7% per year thereafter.
- Assumes market value return of 6.75% per year starting July 1, 2022.
- Assumes all actuarial assumptions in the July 1, 2022 valuation are met.
- Assumes approved contributions are made each year, unless otherwise noted.
- Includes approved STIP (or other sources) transfers through 2023/2024.
- Includes 2016 Tier and a 45% "Savings Choice" election rate.

Actuarial Accrued Liability (AAL)

Actuarial Value of Assets (AVA)

Funded Ratio - Assumes Approved Contributions Made

Funded Ratio - Assumes Funding Policy Contributions Made

Upcoming Actuarial Experience Study

- Review of all economic and demographic assumptions based on multiple years of experience and future expectations
  - Required under actuarial best practices and Plan terms
  - Performed every 3 to 5 years with last study in 2019
- Recommends economic and demographic assumptions for
  - UCRP valuation with many assumptions also used for Retiree Health
- Categories of assumptions:
  - Demographic
    - Major assumptions: mortality, retirement, termination, disability
  - Economic
    - Inflation, investment rate of return, salary increases
- Next study is scheduled for 2023
- Will monitor and revisit contributions to UCRP after this study

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, 2022 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, 2022. Scenario #2 assumes a 0% market value return during 2022/23 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, 2022, 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 6.0% 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, 2022. Scenario #3 assumes an election rate of 45% Savings Choice and 55% Pension Choice for new hires on or after July 1, 2022. 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 one year and 0.7% per year growth thereafter.
- Transfers from STIP of $500 million each for 2022/23 and 2023/24 are reflected.
- UCRP employer and Savings Choice UAAL Surcharge rates are shown below:

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
UCRP Employer Contribution Rate	**14.0%**	**14.0%**	**15.0%**	**15.5%**	**16.0%**	**16.5%**	**17.0%**
Savings Choice UAAL Surcharge Rate	**6.0%**	**6.0%**	**7.0%**	**7.5%**	**8.0%**	**8.5%**	**9.0%**

- 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, 2022.

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.