UCRS Advisory Board

Meeting of February 25, 2011

AGENDA ITEM L

UC PERS Plus 5 Plan ─ Annual and Ad Hoc COLAs - Update

Background

Members of the University of California-Public Employees' Retirement System Voluntary Early Retirement Incentive Program ("UC-PERS Plus 5 Plan" or "Plan") were UC employees who were covered under the California Public Employees' Retirement System (PERS), now known as "CalPERS", and who elected concurrent retirement under PERS and the UC-PERS Plus 5 Plan effective October 1, 1991. The early retirement incentives were generally comparable to the UCRP Voluntary Early Retirement Incentive Program-I (VERIP-I) incentives offered at that time to eligible UCRP Members. UC-PERS Plus 5 Plan members now receive lifetime supplemental retirement income (and survivor benefits) from this plan as well as from CalPERS, which provides their primary retirement benefits.

Unlike UCRP, The Regents approved the provisions of the UC-PERS Plus 5 Plan to specifically exclude an annual cost-of-living adjustment (COLA) provision, although the UC-PERS Plus 5 Plan annuitants have received periodic COLAs on their primary retirement benefit from CalPERS. Due to the Plan's continuing surplus, resulting from several years of favorable investment experience in the 1990s, the UCRS Advisory Board has consistently advocated for an annual COLA for the UC-PERS Plus 5 Plan.

In May 2002, The Regents approved a proposal to provide UC-PERS Plus 5 Plan annuitants with a one-time (ad hoc) COLA of 25 percent, effective July 1, 2002. This adjustment effectively restored the retained purchasing power of a UC-PERS Plus 5 Plan annuitant's benefit to 96 percent, comparable to the retained purchasing power of benefits for UCRP annuitants who retired under the VERIP-I Program. The Regents also approved that, beginning July 1, 2003, the retained purchasing power of UC-PERS Plus 5 Plan benefits would be reviewed annually, and based upon such reviews, future ad hoc COLAs might be recommended by the President from time to time for The Regents' consideration, subject to the availability of funds in the Plan. There have been no subsequent ad hoc COLAs granted.

In November 2007, again at the suggestion of the UCRS Advisory Board, The Regents reviewed a proposal for an ad hoc COLA and a permanent COLA on the same basis as for UCRP for UC-PERS Plus 5 Plan annuitants. The Regents took no action on the item, requesting information regarding an option of purchasing annuities for the UC-PERS Plus 5 Plan participants, terminating the Plan, and returning any excess assets to the UC locations that originally provided

funding for the Plan. Extensive historical research and legal analysis was conducted, and the Chair of the Committee on Compensation was briefed on a variety of termination options and the potentially small remaining Plan balance that could be distributed to the UC locations after plan termination. In the following months, the funded status of the Plan declined significantly so further review was put on hold.

President's Task Force on Post-Employment Benefits (PEB) Recommendations

The PEB Task Force reviewed the UC-PERS Plus 5 Plan and their Final Report included a recommendation for an ad hoc COLA as well as a permanent annual COLA, contingent on available funding. Based on the PEB recommendation and prior reviews; and due to the loss in retained purchasing power experienced by UC-PERS Plus 5 Plan annuitants (79 percent retained purchasing power as of July 1, 2010); and in consideration of the funded status of the UC-PERS Plus 5 Plan; The Regents, in their meeting of December 13, 2010, approved the implementation of an ad hoc COLA for the UC-PERS Plus 5 Plan annuitants of 15.19 percent effective on April 1, 2011. This restores the purchasing power of UC-PERS Plus 5 Plan benefits to the same level as benefits for their UCRP counterparts (91 percent measured as of July 1, 2010). In addition, The Regents approved the implementation of an annual COLA provision, effective July 1, 2011, using the equivalent UCRP COLA formula. The UCRS Advisory Board will be informed annually on the amount of the annual UC-PERS Plus 5 Plan COLA at the same time as they are noticed on the annual UCRP COLA.

The COLA would be paid annually, as long as the market value of the UC-PERS Plus 5 Plan assets were equal to or greater than the Plan liabilities, measured as of the previous valuation date. This would maintain the purchasing power of UC-PERS Plus 5 Plan benefits going forward at the same level as benefits for their UCRP counterparts.

UC Communications will prepare a postcard to include with the mailing of each UC-PERS Plus Plan annuitant's April 2011 check. The postcard will describe the increase in benefit from the ad hoc COLA. For the annual COLA, annuitants will be noticed in a similar way as UCRP annuitants. Currently, this is done through an article in New Dimensions. The target is May 1 for this article.

As of July 1, 2010, the UC-PERS Plus 5 Plan had 695 annuitants with total annual benefits of $4.8 million. Below is a table showing the UC-PERS Plus 5 Plan assets, present value of future obligations, surplus assets, and funded percentage as of July 1, 2010.

UC-PERS Plus 5 Plan Assets and Liabilities as of July 1, 2010

Plan Provisions	Plan Assets	Present Value of Future Obligations	Surplus Assets	Funded Percentage
Current	**$59.4 million**	**$35.5 million**	**$23.9 million**	**167%**
With COLAs	**$59.4 million**	**$45.2 million**	**$14.2 million**	**131%**