Meeting of February 24, 2017

AGENDA ITEM B

UCRP – Review of Investment Earnings (Return) Assumptions

The Board will be presented with a summary of alternatives, which are being considered for a future Regents meeting, to review UCRP's investment earning assumption.

The investment earnings assumption for UCRP is the estimated average future net rate of investment return on the Plan's assets over the projected lifetime of the Plan as of the valuation date, net of investment expenses. This rate is also used to discount Plan liabilities in the actuarial valuation, as the discount rate in the Plan's defined Actuarial Equivalence basis and, among other things, as a set earnings rate for certain Capital Accumulation Payment (CAP) accounts. The investment earnings assumption was changed, as approved by the Regents, to its current 7.25% per annum, effective July 1, 2015.

A component of the investment earnings assumption is the rate of future assumed increases in the Consumer Price Index (CPI). This rate is more commonly referred to as the "inflation" rate assumption. The assumed inflation rate was also changed, effective July 1, 2015, as part of the change in the investment earnings rate assumption, to its current 3% per year.

It should be noted that CalPERS recently approved lowering its investment earnings assumption (a.k.a. "discount rate") from its current rate of 7.5% to 7% in stages over the next three years. Similarly, CalSTRS recently approved new economic assumptions, including lowering its inflation rate from 3% to 2.75% and lowering its discount rate from 7.5% to 7% by 2018.

Attachment