UCRP Asset Transfer Financial Analysis

Regent's Recommendation Overview

- Transfer assets to UC's Retirement Plan (UCRP) in FY2010-11 and FY2011-12 totaling ~$2.1 billion over the approved contribution levels

- This amount would be equal to the unfunded portion of the University's Normal Cost for the pension system, as well as the interest on the unfunded liability in UCRP ("modified ARC")

- As presented, funding could be accomplished through a variety of financing options

STIP Note

External Borrowing

Debt Restructuring

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FY2010-11 Amount - $1.1 billion from STIP Note

STIP (Short-term Investment Pool) Transfer Structure

What?

Regents transfer funds to UCRP from STIP

Internal UC Note receivable is created

Interest Rate and a 30-year amortization schedule is set for the Note

Results

STIP participants receive interest and principal payments on the Note

Campus and Medical Center payroll funds are assessed a fee to pay the interest and principal on the Note

FY2011-12 Amount - $936 million from External Borrowing

External Borrowing: Variable Rate General Corporate Bond

What?	Results
University issues a variable taxable corporate bond in lieu of STIP transfer	UC benefits from the short-end of the yield curve for 1-5 years
Bond Proceeds are transferred to UCRP	Campus and Medical Center payroll funds are assessed a fee to pay the interest and principal on the debt
In the future, UC would either roll debt or take it out with a STIP transfer	STIP liquidity is preserved in the short-term

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External Borrowing Structure

- The external taxable financing will be diversified through three different structures/components

Floating Rate Notes ($600 million*)	Variable Rate Demand Bonds ($250 million*)	Put Bonds ($350 million*)
• Long-term nominal maturity • Priced at a fixed spread to LIBOR through mandatory tender date	• Long nominal maturity • Short, periodic rate resets • Needs liquidity facility	• Short-term 1-5 yr fixed rate bonds • One interest rate set for the term of the bond

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* Amounts include working capital borrowing

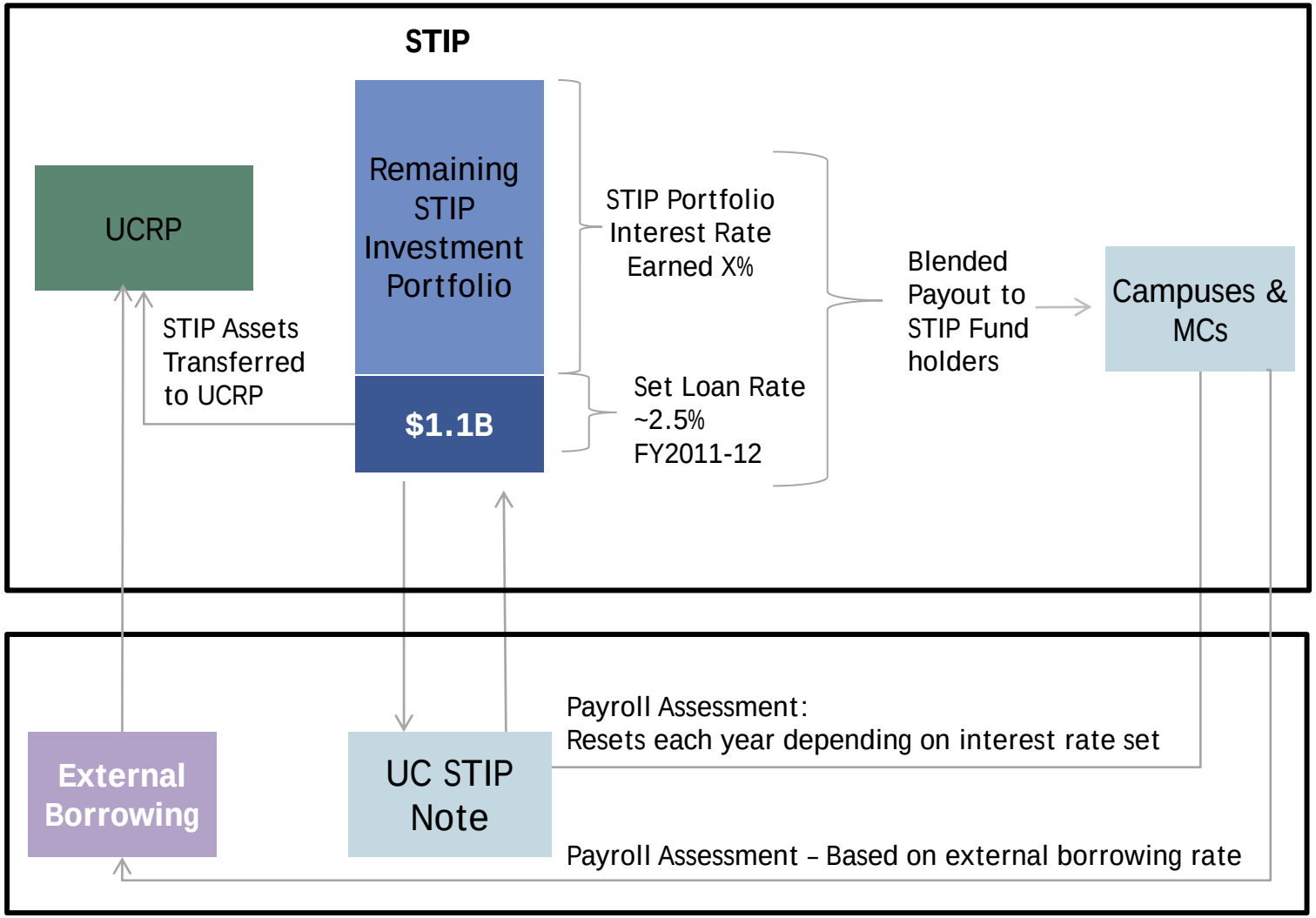
Flow of Funds Structure

Step 1:
- Money moves to UCRP

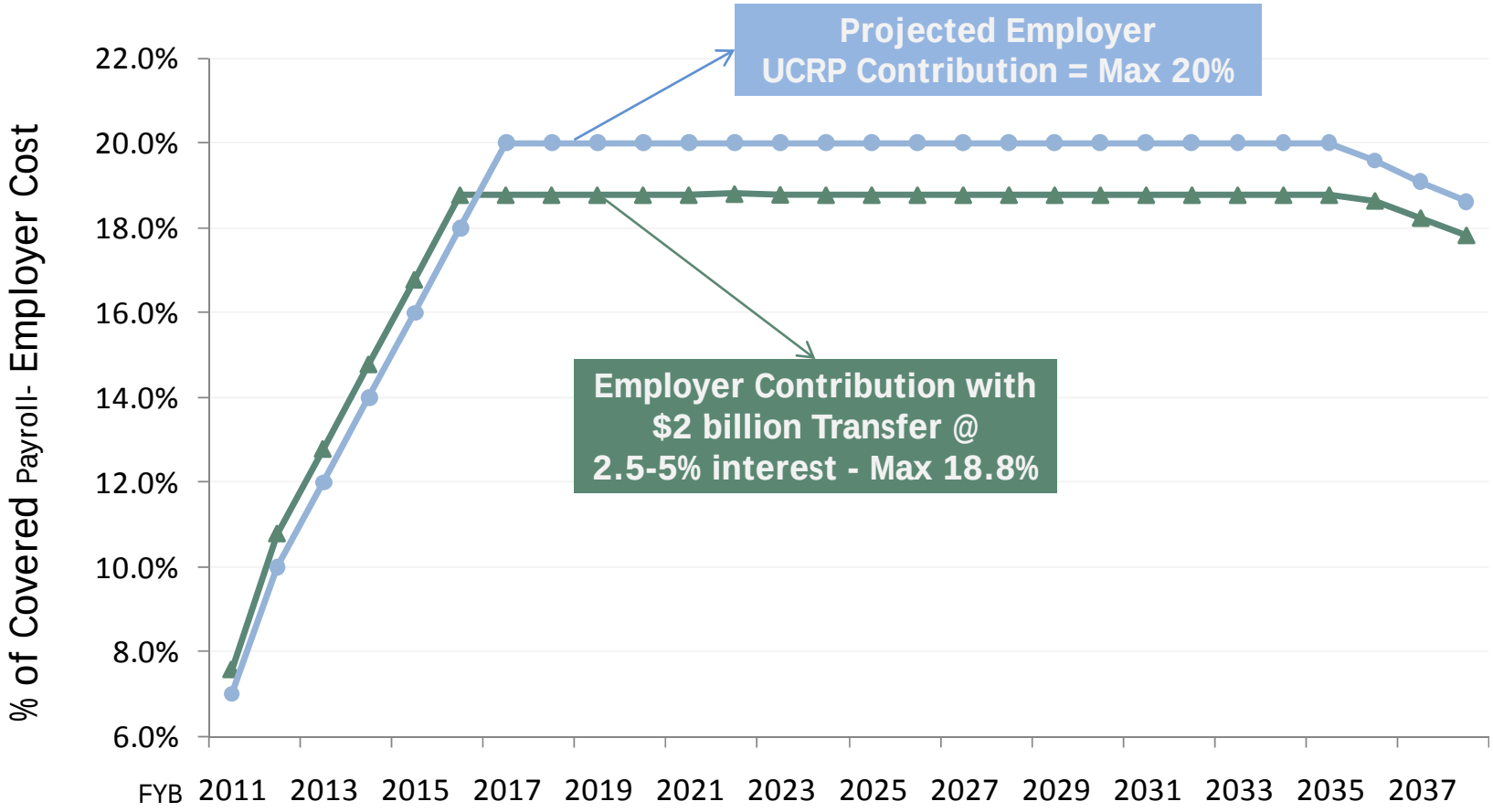
- Campuses receive blended STIP Income on total STIP portfolio

-No income flows to STIP from UCRP

Step 2:
- Payroll assessment charged to campus based on amount needed to pay interest on STIP Note & external note
~ 0.7% of payroll for FY2011-12



UCRP Employer Contribution Comparison



- Assumes new tier with 15.1% total long-term normal cost in place by FYB2013
- Assumes a total of $2.1 billion dollars in transfers, with debt service at 2.5-5% incorporated into the total annual cost.
- Based on July 1, 2010 Actuarial Valuation and assumes 7.5% MV Return Starting July 1, 2010

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