Overview of UCRP July 1, 2023 Valuation Report Prepared by Segal

Presented by

John Monroe
Actuarial Services Group
Paul Angelo and Emily Klare
Segal

UCRS Advisory Board
December 1, 2023

Highlights of 2023 Actuarial Valuation

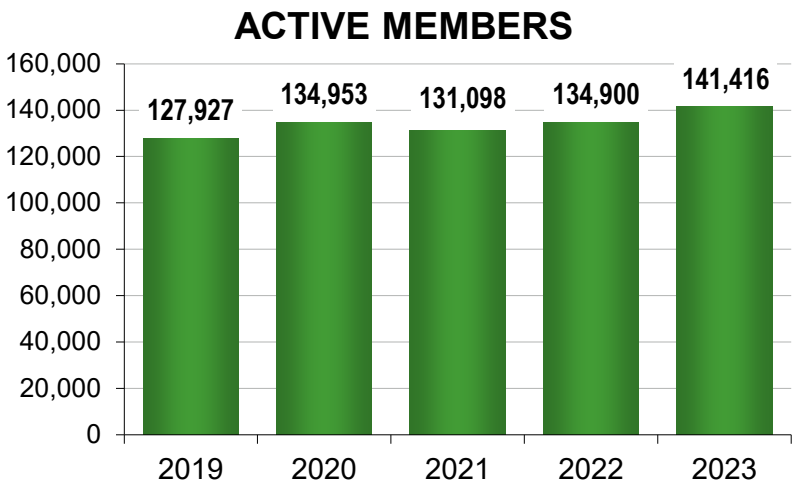
- Approximately 9.5% market value return for 2022/23
  - Actuarial value return of 6.1% due to five-year smoothing of gains/losses
  - Market value of $88.2 billion is less than actuarial value by $1.8 billion

- Changes in key valuation results (on AVA basis):
  - Decrease in funded ratio (83.5% to 81.8%)
  - Increase in UAAL ($17.0 to $20.0 billion)
  - Total funding policy contribution rate is essentially unchanged at 32.88% of pay

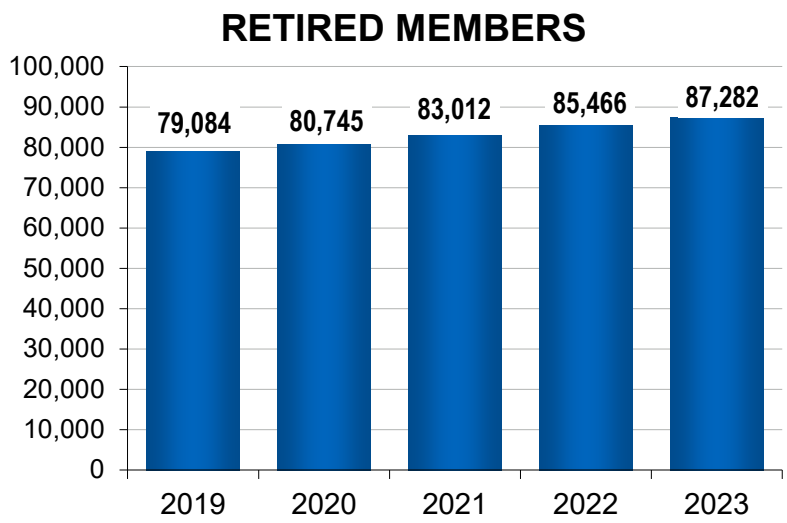
Highlights of 2023 Actuarial Valuation

- Increase in UAAL and decrease in funded ratio primarily due to:
  - Actuarial experience losses
    - Including actual salary increases and 2023 annuitant COLA greater than assumed plus investment loss after smoothing
  - Actual contributions less than expected under funding policy
  - Assumption changes adopted by Regents in July 2023
- $500 million STIP to UCRP transfer during 2022/23 is reflected in valuation results
  - $500 million STIP transfer for 2023/24 was made in July 2024
  - Total approved contributions are projected to fall short of the total funding policy contribution by about $1.1 billion in 2023/24
  - Annual shortfall projected to increase to nearly $1.8 billion in ten years
  - During the 10-year projection period, approved contributions <u>do not</u> meet the Normal Cost plus interest on UAAL

UCRP Demographics



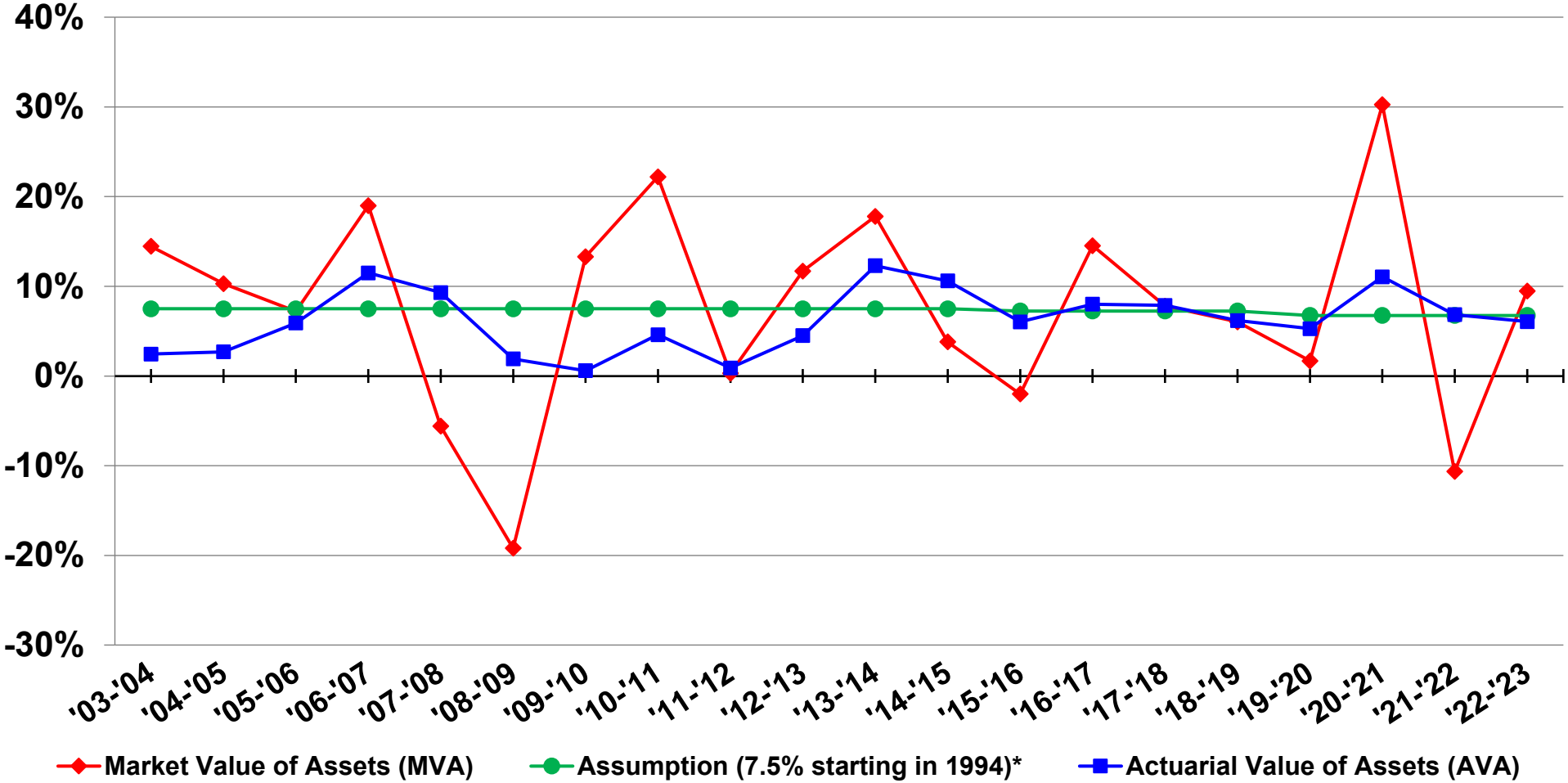
	2023	2022
Active Members	**141,416**	**134,900**
• Average Age	44.8	44.9
• Average Service	9.3	9.5
• Average Compensation	$118,052	$112,521



	2023	2022
Retired Members (in Pay Status)	**87,282**	**85,466**
• Average Age	73.2	72.8
• Average Annual Benefit	$51,120	$49,140

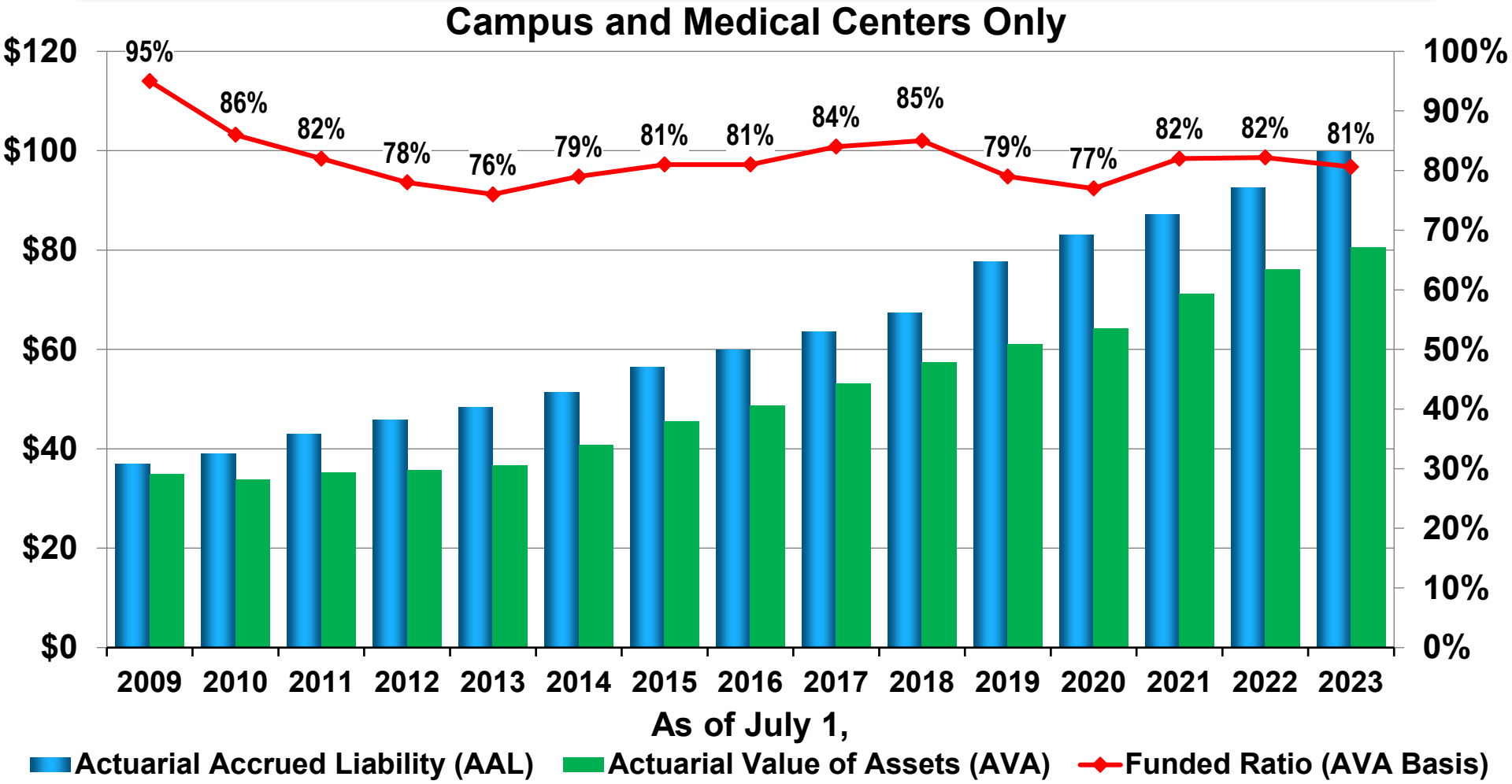
	2023	2022
Terminated Vested Members	**39,149**	**38,119**

UCRP Investment Rates of Return



**Investment rate of return assumption changed to 7.25% per year on July 1, 2015 and 6.75% per year on July 1, 2019.*

UCRP Historical Funded Status



Dollars shown in billions

UCRP Valuation Results

	07/01/2023	07/01/2022
Market Value of Assets (MVA)	$88.2	$81.4
Actuarial Value of Assets (AVA)	$90.0	$85.7
Actuarial Accrued Liability (AAL)	$110.1	$102.7
Unfunded AAL – AVA Basis (AAL less AVA)	$20.0	$17.0
Unfunded AAL – MVA Basis (AAL less MVA)	$21.9	$21.4
Funded Percentage (AVA Basis)	81.8%	83.5%
Funded Percentage (MVA Basis)	80.1%	79.2%
Normal Cost (beginning of year)	$3.1	$2.8
Normal Cost (% of pay, middle of year)	20.04%	20.69%
Funding Policy Contributions (% of pay)*	32.88%	32.87%

* Campus and Medical Centers Segment only

Dollars shown in billions

Future Expectations

- Current schedule of approved contribution rates:

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
UCRP Employer Contribution Rate	14.0%	15.0%	15.5%	16.0%	16.5%	17.0%	17.0%
Savings Choice UAAL Surcharge Rate	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%	9.0%

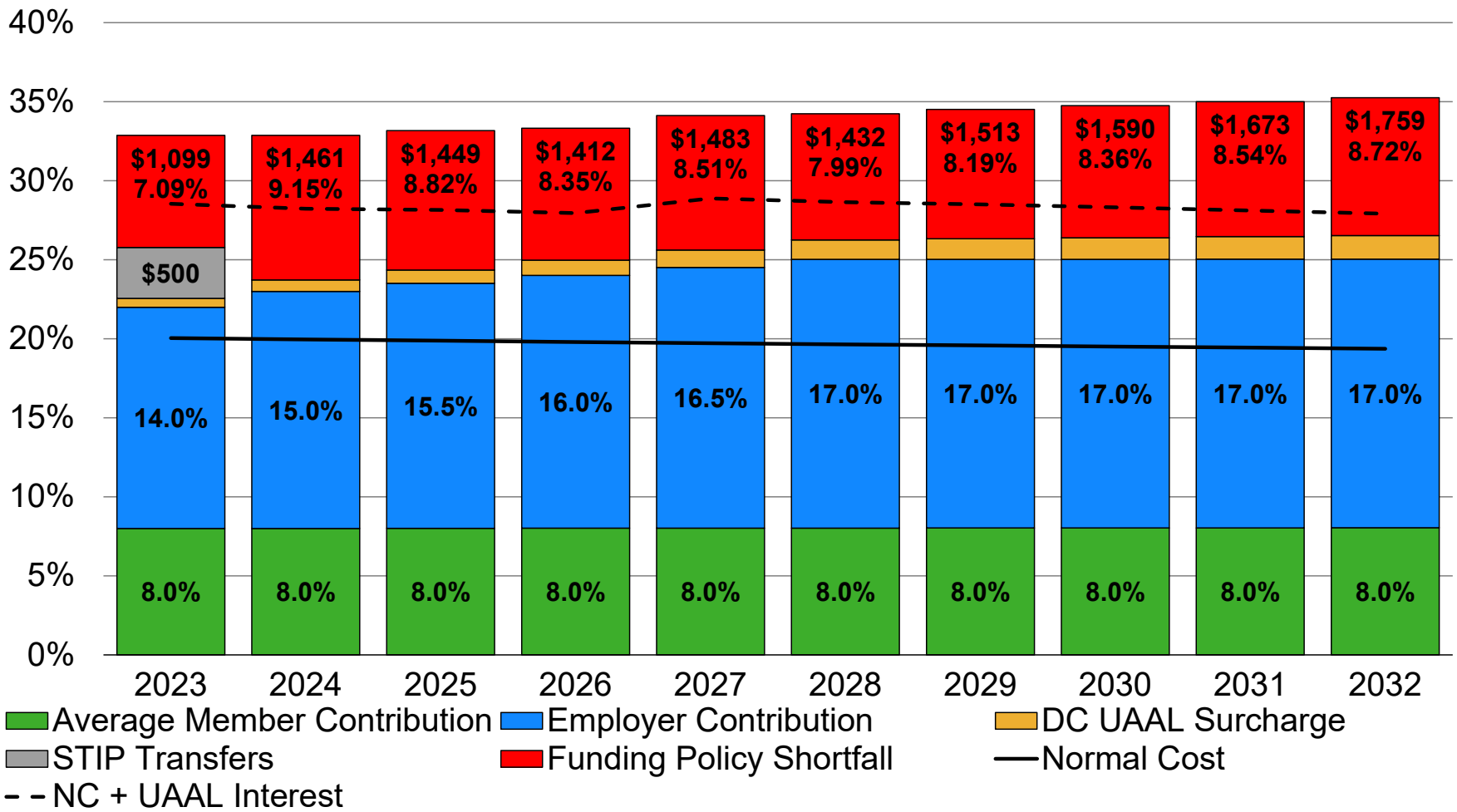
- Various projections prepared by Segal are included in Appendix A of the valuation report
  - Compares Approved and Total Funding Policy Contributions
  - Shows how current shortfall increases future Funding Policy Contributions
- Projected funded status
  - Funded ratio and UAAL
  - Assumes only Approved Contributions are made

Baseline Scenario

- The following slide shows baseline projection from the July 1, 2023 Valuation
  - Reflects demographic and economic experience through July 1, 2023
    - Including market value return during 2022/23 of about +9.5%
  - Includes new assumptions adopted at July 2023 Regents
  - Reflects current schedule of approved contributions
- The red bars represent the shortfall between approved contributions and the Total Funding Policy Contribution
- The dotted line shows the Modified ADC (Normal Cost plus interest on UAAL)
  - If actual contributions are less than the Modified ADC, the UAAL will continue to increase
  - During the 10-year projection period, approved contributions do not meet the Modified ADC

Projected UCRP Contribution Amounts: Baseline

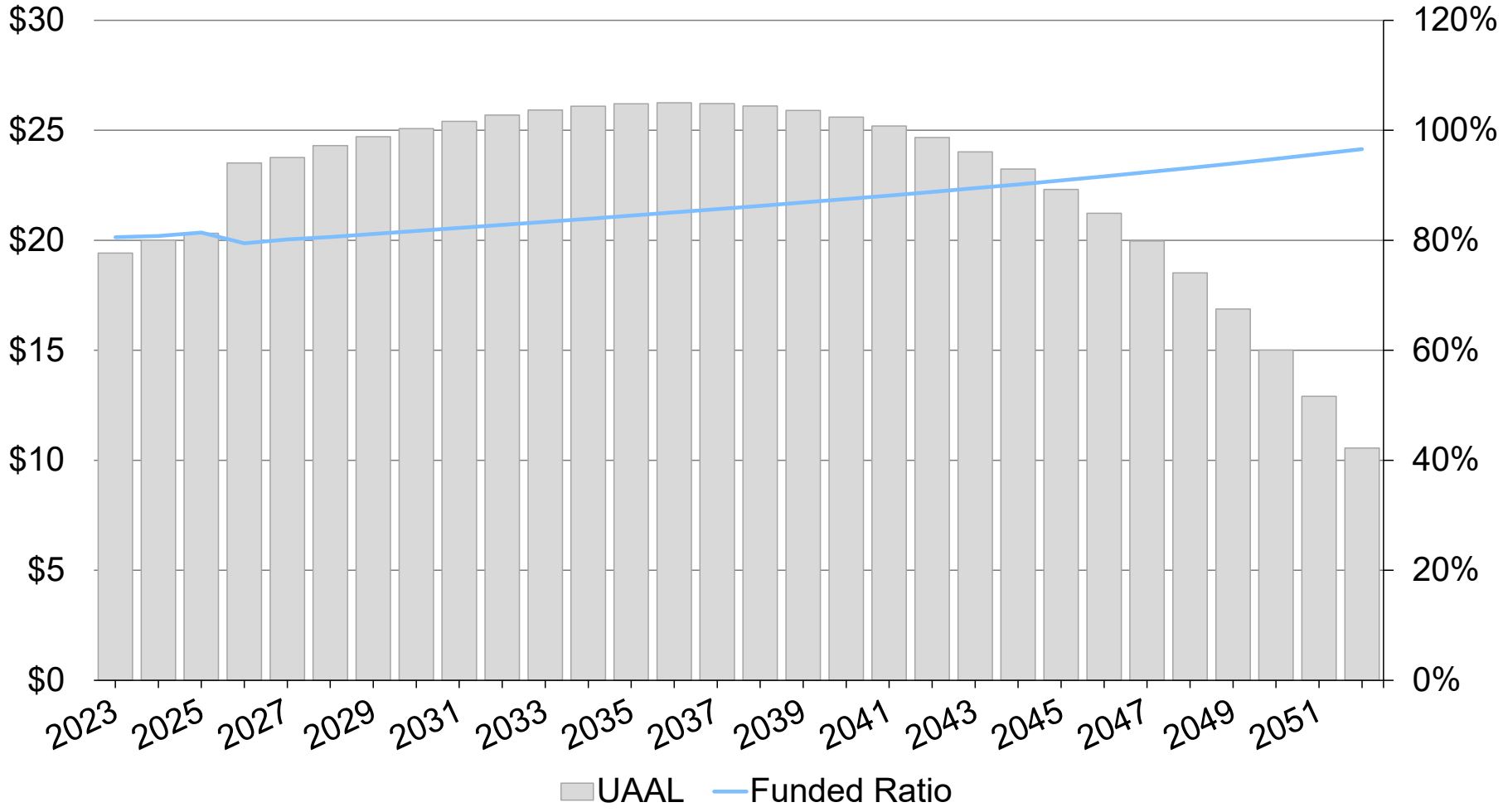
6.75% Market Return Per Year Beginning July 1, 2023



Dollars shown in millions; Shortfalls are shown in future dollars

Projected UCRP Funded Status: Baseline

6.75% Market Return Per Year Beginning July 1, 2023



Dollars shown in billions

Assumptions / Methods Used in Projections

- Unless otherwise noted, projections are based on July 1, 2023 actuarial valuation results.
  - Includes participant data, actuarial assumptions, methods and models on which that valuation was based.
- The actuarial assumptions adopted at the July 2023 Regents meeting have been reflected effective July 1, 2023
- Some of the important assumptions used in the projections:
  - Includes campus and medical center segment only
  - Assumes a market value return of 6.75% per year beginning July 1, 2023
  - Reflects transfers from STIP of $500 million for 2023/24
  - Current contribution rates are shown below:

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
UCRP Employer Contribution Rate	14.0%	15.0%	15.5%	16.0%	16.5%	17.0%	17.0%
Savings Choice UAAL Surcharge Rate	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%	9.0%

Assumptions / Methods Used in Projections

- Total employer and member contribution rates may exceed the Total Funding Policy Contribution rate for any year that the funded ratio is less than 100%
- 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, 2023
- Reflects choice of UCRP 2016 Tier or Savings Choice for new hires after July 1, 2023, except for new hires under CNA, AFSCME and UPTE who enter the Modified 2013 Tier.
  - Assumes election rate of 35% Savings Choice (65% UCRP 2016 Tier)
  - Cost of choice of 0.6% of payroll for all new hires added to normal cost
- Assumes total (UCRP and Savings Choice) active member population growth of 0.7% per year

Other Information

- The projections included herein were made using generally accepted actuarial practices
- 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.