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University of California Retirement Plan

Update Regarding Proposal to Authorize Changes to University Contribution Rates and Make Transfers from STIP

UCRS Advisory Board
December 1, 2023

Background on Regents' Request

Regents raised two key concerns at July meeting:

- Sufficiency of contributions to UCRP
  - Requested modeling of various scenarios to illustrate the impact of increased contributions
- Pension contribution equity
  - Members should pay 50% of normal cost
  - 1976 Tier members should pay more due to 20-year contribution "holiday"

As requested by Regents, additional scenarios were modeled that add increases in member rates with one that also accelerates the increase in employer rate

President's Recommendation on UCRP Contributions

The President's Recommendation is as follows:

- Increase UCRP employer contribution rate from 14% to 18% by 0.5% per year over 8 years
- Approve 5 years of transfers from Short Term Investment Pool (STIP)

Projected to achieve 100% funding of UCRP within 25 years

Does not require increases in member contributions

Sufficiency of Contributions to UCRP

Current schedule of contribution rates and STIP:

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
UCRP Employer Contribution Rate	14%	15%	15.5%	16%	16.5%	17%	17%
Savings Choice UAAL Surcharge Rate*	6%	7%	7.5%	8%	8.5%	9%	9%
STIP Transfer	$500 million						

*UAAL Surcharge is an employer contribution to UCRP

- Made on payroll for members in Savings Choice
- Helps pay down UCRP's Unfunded Actuarial Accrued Liability (UAAL)

Short Term Investment Pool

Cash investment pool available to Campuses

- Maximize returns on their short-term cash balances by investing in larger pool
- Balance as of June 30, 2023 is ~$4.1 billion

Transfers from STIP to UCRP

- Cumulative transfers of ~$7 billion have increased funded ratio by ~12% and reduced UAAL by ~$12 billion
- Immediate impact on improving UAAL and funded status
- Repaid via campus assessments as % of payroll
- Transfers earn potentially higher returns in UCRP compared to lower interest rate on STIP repayment

Pension Contribution Equity

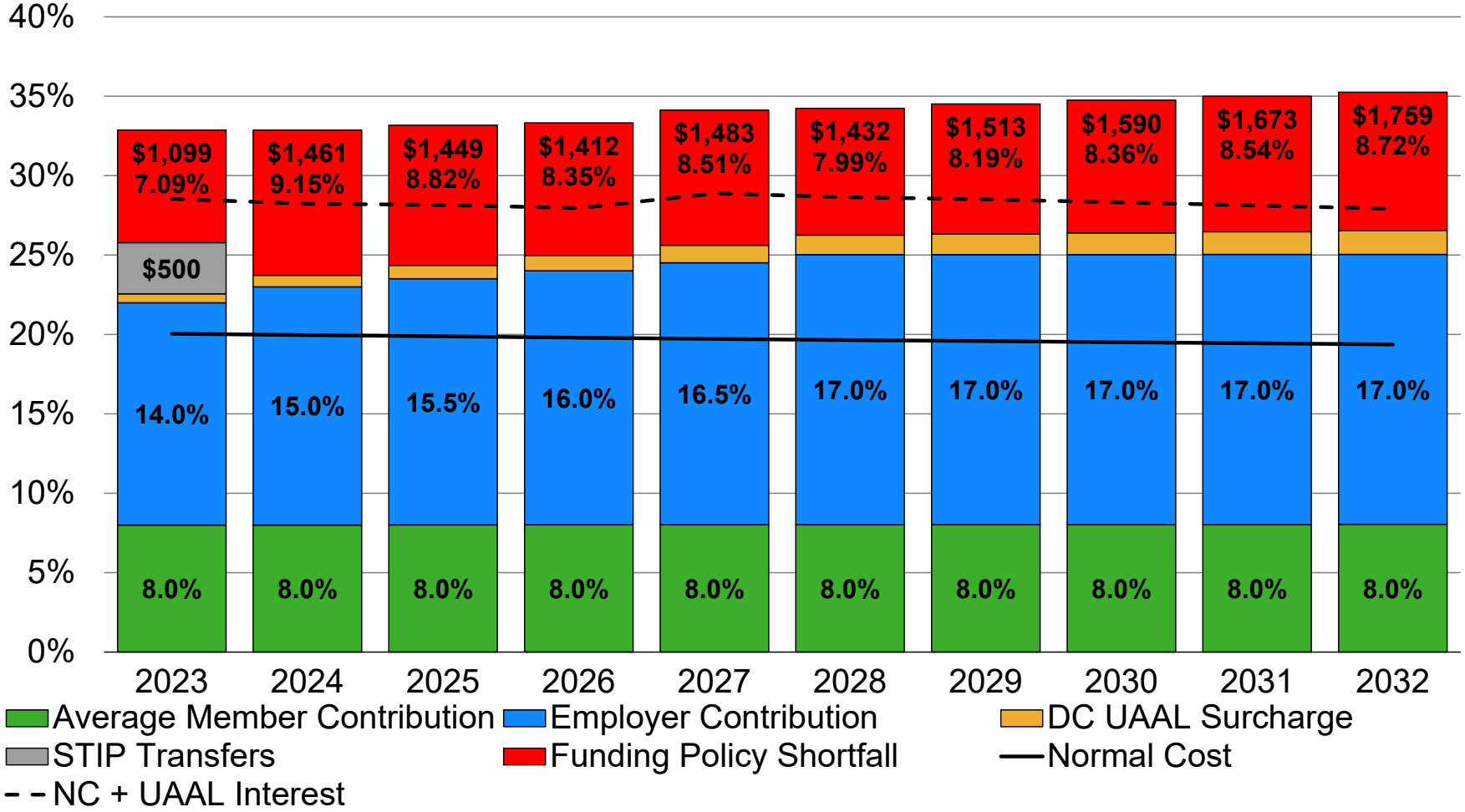
Current member contribution rates shown by tier

- Shows normal cost and portion paid by members

Tier	Member Contribution Rate (% of Payroll)	Total Normal Cost (% of Payroll)	% of Normal Cost Contributed by Members
1976 Tier	8%	21.1%	38%
2013 Tier	7%	18.6%	38%
Modified 2013 Tier	9%	20.3%	44%
2016 Tier	7%	17.9%	39%
Safety	9%	29.1%	31%

- Normal cost: long-term annual ongoing cost allocated over career of member to fund their UCRP benefits
- Both UC and members contribute towards normal cost

Projected UCRP Contribution Amounts: **Baseline**
Based on July 1, 2023 Actuarial Valuation
6.75% Market Return Per Year Beginning July 1, 2023



Dollars shown in millions

Scenarios Modeled

All scenarios based on July 1, 2023 valuation

- Assumes 6.75% market return per year
- Employer rate increases effective July 1, 2024
- Member rate increases effective July 1, 2025

Scenario	
President's Recommendation	Employer Contribution Rate to 18% over 8 Years & 5 Years of STIP
Requested Scenario #1	Employer Contribution Rate to 18% over 8 Years & 5 Years of STIP plus Member 1% Increase
Requested Scenario #2	Employer Contribution Rate to 18% over 4 Years & 5 Years of STIP plus Member 50% of NC

Scenarios Modeled: Recommendation

Increase employer contribution rate from 14% to 18% by 0.5% per year over 8 years:

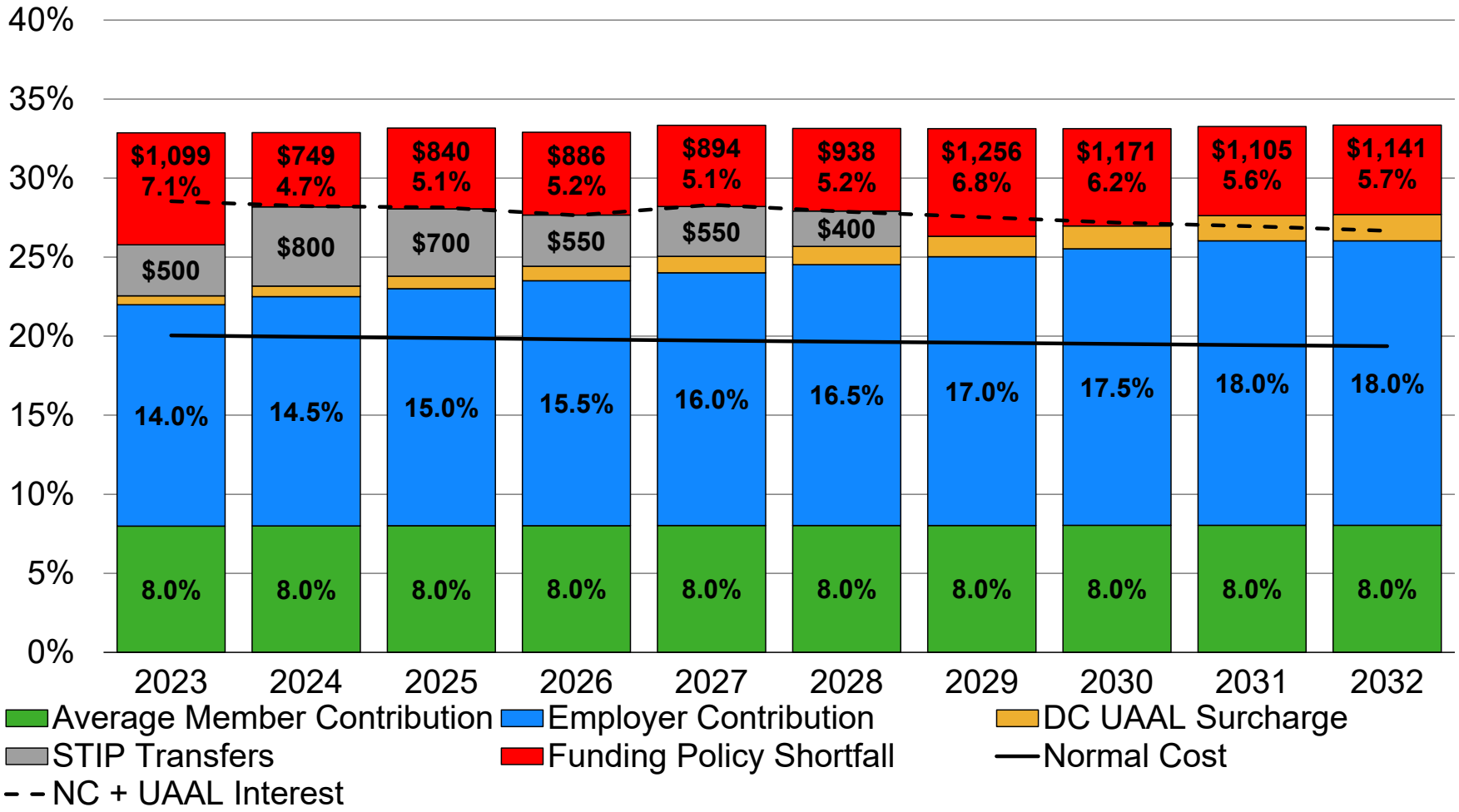
2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
14%	14.5%	15%	15.5%	16%	16.5%	17%	17.5%	18%

Five years of STIP transfers ($ in millions):

2024-25	2025-26	2026-27	2027-28	2028-29
$800	$700	$550	$550	$400

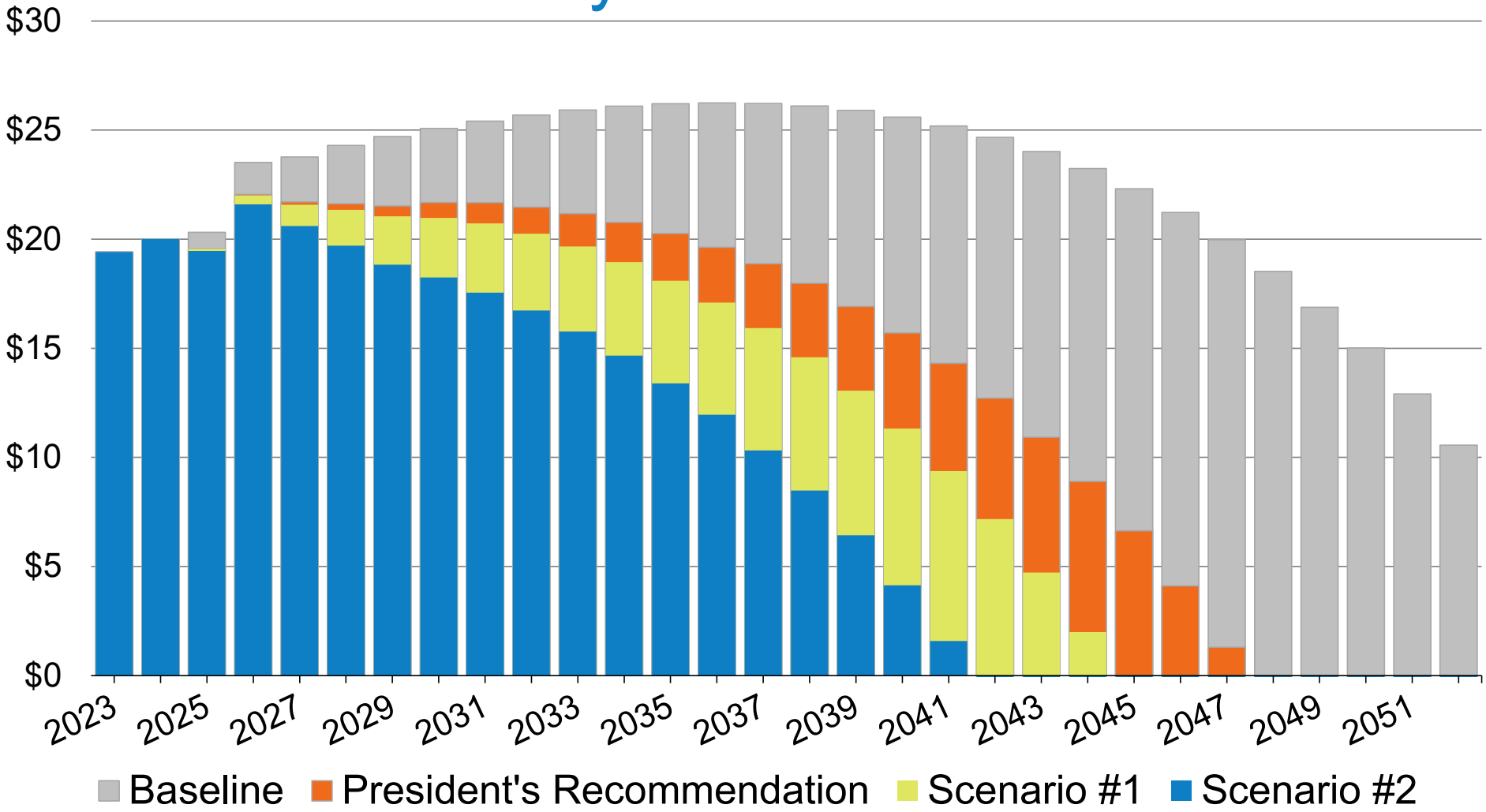
No changes to member contribution rate

Projected UCRP Contribution Amounts: **President's Recommendation**
Employer Rate of 18% with Eight Year Phase-in & Five Years of STIP



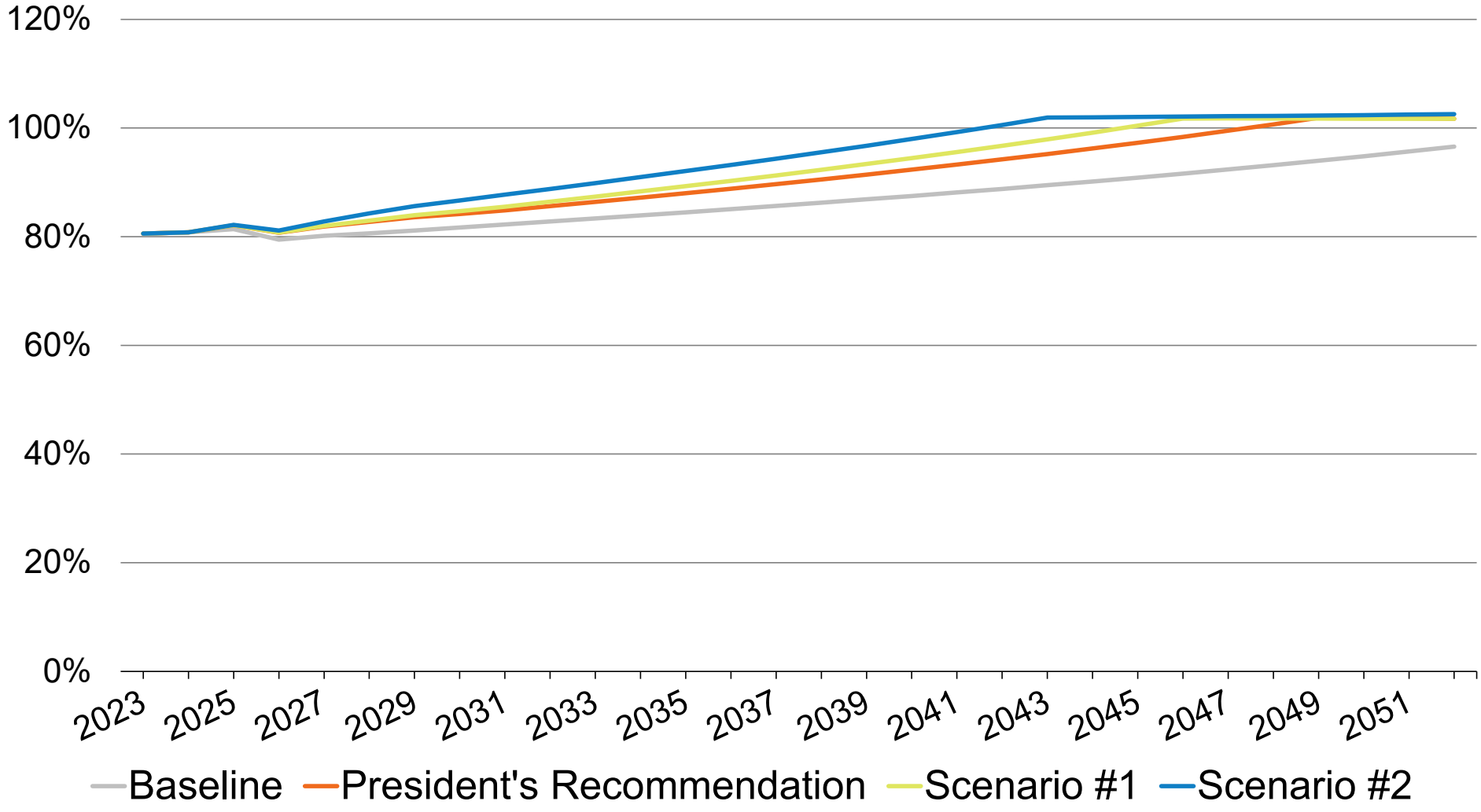
Dollars shown in millions

Projected UCRP Unfunded Actuarial Accrued Liability



Dollars shown in billions

Projected UCRP Funded Ratio



Attainment of Key Funding Metrics

Scenario		Year to Reach Funded Ratio		Reduction in Years to 100%
		95%	100%	
Baseline	Employer Contribution Rate to 17% over 5 Years (Baseline)	2051	2056	N/A
President's Recommendation	Employer Contribution Rate to 18% over 8 Years & 5 Years of STIP	2043	2048	8
Requested Scenario #1	Employer Contribution Rate to 18% over 8 Years & 5 Years of STIP plus Member 1% Increase	2041	2045	11
Requested Scenario #2	Employer Contribution Rate to 18% over 4 Years & 5 Years of STIP plus Member 50% of NC	2038	2042	14

Scenario		Year Contributions Reach		Reduction in Years to TFPC
		Modified ADC	TFPC	
Baseline	Employer Contribution Rate to 17% over 5 Years (Baseline)	2037	2050	N/A
President's Recommendation	Employer Contribution Rate to 18% over 8 Years & 5 Years of STIP	2031	2043	7
Requested Scenario #1	Employer Contribution Rate to 18% over 8 Years & 5 Years of STIP plus Member 1% Increase	2030	2041	9
Requested Scenario #2	Employer Contribution Rate to 18% over 4 Years & 5 Years of STIP plus Member 50% of NC	2024	2038	12

Assumptions / Methods Used in Projections

Unless otherwise noted, the projections were made using generally accepted actuarial practices and are based on July 1, 2023 actuarial valuation results. This includes the 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:

- Projections include the campus and medical center segment only.
- Assumes market return of 6.75% per year beginning July 1, 2023.
- Transfer from STIP of $500 million for 2023/24 is reflected.
- Current schedule of UCRP employer and Savings Choice UAAL Surcharge rates as shown herein.

Assumptions / Methods Used in Projections

- President's Recommendation and Requested Scenarios #1 and #2 reflect the contribution rate schedules described herein.
  - Employer contribution rate changes modeled effective July 1, 2024
  - Employee contribution rate changes modeled effective July 1, 2025
  - Under Requested Scenario #2, the 50% of NC includes administrative expense component of the NC and employee rate is assumed to change each year with the change in NC
  - Savings Choice UAAL surcharge rate modeled as employer contribution rate less 8%
- Total of UCRP employer and member contribution rates could be greater than the projected Total Funding Policy Contribution rate for any year that the funded ratio is less than 100%.
- UCRP employer contribution rate can be no less than the member contribution rate.

Assumptions / Methods Used in Projections

- 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 all new hires on or after July 1, 2023, with the exception of new hires under CNA, AFSCME and UPTE who enter the Modified 2013 Tier.
  - All scenarios assume an election rate of 35% Savings Choice and 65% Pension Choice for new hires on or after July 1, 2023.
  - Cost of choice of 0.6% of payroll added to UCRP's Normal Cost for new hires in all Scenarios.
- Assumes total (UCRP and Savings Choice) active member population growth of 0.7% per year.

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.