The Regents of the University of California

COMMITTEE ON FINANCE
January 17, 2001

The Committee on Finance met on the above date at UCSF–Laurel Heights, San Francisco, California.

Members present: Regents Atkinson, Bagley, Connerly, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, and Preuss; Advisory member Morrison

In attendance: Regents O. Johnson, Khachigian, Kohn, Lansing, Leach, Marcus, and Montoya, Regents-designate T. Davis and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Interim Treasurer Bowman, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Drake and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 11:35 a.m. with Committee Chair Preuss presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETINGS**

Upon motion duly made and seconded, the minutes of the meetings of September 13 and November 15, 2000 were approved.

2. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN: ASSET/LIABILITY STUDY AND POTENTIAL FUTURE BENEFIT IMPROVEMENTS**

Associate Vice President Boyette recalled that the following summary of the current design of the University of California Retirement Plan (UCRP or Plan) and a historical summary of the funding of UCRP were provided as background for the discussion of the three stages for implementation of potential UCRP benefit improvements and a detailed cost analysis that includes the forecasting of the funded status of the Plan for the future.

UCRP: Current Design

UCRP, established and maintained under Internal Revenue Code (IRC) Section 401(a), is a defined benefit plan. The current design of UCRP primarily provides retirement income benefits to members retiring at or after age 50 with five or more years of service credit. Members terminating before age 50 with at least five years of service credit receive retirement income benefits at or after age 50. The retirement benefit is based on the years of service credit, the age factor based on the age when retiring, and the

Highest Average Plan Compensation (HAPC) based on 36 consecutive months. At age 50 or later, members may elect to receive a life annuity, a 50 percent to 100 percent continuance to a contingent annuitant, or a single lump sum payment.

Eligibility is for all University of California employees with at least a 50 percent appointment for a year or longer and, beginning on January 1, 2001, employees generally working at least 1,000 hours in a 12-month period. Currently, required member contributions are redirected to the Defined Contribution Plan.

For members who die after two years of service, survivor income benefits are paid to eligible survivors including the spouse, dependent children, and dependent parents. For members without eligible survivors, no survivor income benefits are available. A minimum death benefit of $7,500 is payable regardless of the existence of an eligible survivor. Members who become disabled after five years (or earlier for safety members disabled on duty) receive disability income based on their final salary and years of service credit. For safety members disabled on duty, disability income is based on HAPC and years of service credit. Disabled members continue to accrue service while disabled; benefits are recalculated at retirement age.

Annual automatic cost-of-living adjustments (COLAs) are provided to those in benefit pay status each July 1. The COLA is based on a formula tied to increases in the consumer price index.

The Plan is a valuable component of the total compensation and benefits package provided to UC faculty and staff. As of July 1, 2000, UCRP had 153,917 members, of whom 103,382, or 67 percent of the total, were active. Of the 103,382 active members, faculty represent 11,768 (11 percent of total active members), management and executive represent 14,226 (14 percent), staff and professional represent 69,990 (68 percent), non-faculty academic represent 7,005 (6.7 percent), and safety represent 393 (.3 percent). In addition to the active members, there are 17,306 inactive members (11 percent of total members) entitled to UCRP benefits upon reaching age 50, and 33,229 annuitants (22 percent) who represent retirees, survivors, and disabled members. In twenty years it is expected that the annuitants (retirees, survivors, and disabled members), who currently represent 22 percent of total members, will increase to 39 percent of the total.

Historical Background on the Funding of UCRP

1970s: *Adoption of Entry-Age Normal Actuarial Method* – The Entry-Age Normal actuarial method was adopted by The Regents in 1975 as a means to provide a consistent level of contributions and an accurate measure of Plan costs. Under the Entry Age Normal method, the cost or present value of future benefits for each member is spread over the member's career as a level percentage of pay from date of hire (or date of entry to the Plan) until the date of retirement.

University and Member Contributions – Before 1974, the cost of the Plan was shared almost equally between the University and the members of UCRP. When the Entry Age Normal method was adopted in 1975, member contributions were reduced, while University contributions increased immediately to over 10 percent of pay and continued to increase each year based on the results of the annual actuarial valuation.

In 1976, UC employees became eligible to enroll in Social Security. Social Security immediately covered all new employees after that date; existing members of UCRP had the option to elect Social Security coverage. Since Social Security coverage required significant contributions (4.95 percent of pay, initially) by both the University and employees, UCRP benefits and contribution rates were coordinated with Social Security, and benefits were reduced under UCRP to reflect the fact that the member will receive benefits from both UCRP and Social Security.

1980s: *Funded Status* – The funded ratio of UCRP dipped to as low as 80 percent in 1980, then increased to 89 percent by 1983. The University normal cost of benefits each year peaked at 13.65 percent of payroll in 1980, then dropped to 10.01 percent in 1983. This fluctuation in costs reflects changes in the member population and adjustments to valuation assumptions in 1982 and 1983.

1990s: *Adoption of Full Funding Policy* – The Regents adopted the full funding policy in November 1990. University contributions were suspended in November 1990 because the full funding limitation was met. In addition, member contributions were redirected to the Defined Contribution Plan.

2000: As of July 1, 2000 (the most recent actuarial valuation), the Plan continues to not require member or University contributions. This is almost entirely due to favorable asset returns since 1994. It is unreasonable to assume that investment gains will continue indefinitely; over time the liability will increase, and UCRP's surplus may grow at a slower rate than it has in the past or may decline.

2001: The UCRP Asset/Liability Study, which was undertaken to assess the impact of potential benefit improvements on the funded status of the Plan and on the probability of the need to resume contributions to the Plan, was completed.

UCRP Financial Analysis Process

The issues around managing and administering UCRP are complex. It is important that appropriate analyses are performed to review the financial status of the Plan's assets and liabilities and to assess the level of benefits paid to members. These analyses provide understanding and information, so that informed decisions can be made regarding the Plan.

The assessment of liabilities and the review of assets take place at various times and for different purposes:

- The annual actuarial valuation determines the assets and liabilities of the Plan as of a specific date and uses key economic assumptions for asset returns, cost-of-living adjustments, compensation increases, and demographic assumptions for mortality, termination of employment, and disability. This annual valuation provides a current status of the funded ratios of the Plan, a review of the past year's experience, and a brief history of past asset and liability performance.

- The experience study compares the actual experience of the Plan to the expected experience over a period of three to five years. This study provides the data that are necessary to assess the demographic assumptions for mortality, termination, disability, and the economic assumption for compensation increases to determine if any changes in these assumptions are needed.

While the two studies mentioned above provide valuable information about the Plan, a more comprehensive study is needed to assess the funded status and contribution requirements, if any, over a longer period of time. This data also can be used to review the effect of changes in future Plan provisions, membership growth, and the impact of changes in the financial markets. The study of UCRP assets and liabilities has been completed by UC HR/Benefits with the assistance of the Plan's consulting actuary, Towers Perrin, in concert with Wilshire Associates, UC faculty, and the Office of the Treasurer.

Typically, the purposes of an asset/liability study are to demonstrate fiduciary due diligence, assess the current funding policy and the likelihood of producing negative surprises, address the concerns over interest rates and the consumer price index, review the impact of future plan changes in benefits, demographics, and future cash flow, and determine the adequacies of the plan's current assets and how they relate to the plan's liabilities.

In an asset/liability study, the baseline is set to equal the present conditions, and then future liabilities and assets are forecasted over a 10-to-20-year period using stochastic (probability) modeling to create hundreds of discrete financial scenarios. The results of forecasting the liabilities and assets provide benchmark information to help assess the probability of achieving goals based on current policies, gauge the reasonableness of the assumptions, and determine the probability of adverse results.

The success of an asset/liability project requires that the assets and liabilities be linked, capturing the fundamental dynamics of both the plan and real-world economic factors. In this modeling, decisions are made about the appropriate liability characteristics and sensitivities, customized to incorporate the plan's provisions and membership, the pattern of joint asset/liability movements over time as the capital market conditions change, and the impact those changes have on the plan's funded ratios.

After the baseline results have been prepared, plan changes, asset portfolios, and economic scenarios are analyzed to determine the effect of these changes on the funded status of the plan and any contribution requirements.

UCRP: Potential Benefit Improvements

The University is facing the tightest labor market in 30 years. Today's workforce is highly mobile, and workers are cognizant of the components of their "total compensation" when evaluating employment opportunities. As a result, HR/Benefits is reevaluating the benefits that the University offers in order to recruit and retain qualified faculty and staff. This is critical in light of the expected 43 percent increase in student population over the next ten years and the corresponding need to recruit new faculty and staff to support the projected growth. Historically, the UCRP has been an effective tool in both recruiting and retaining individuals. HR/Benefits is evaluating whether there are changes that could be made to the Plan to compare better with those entities with which the University competes for the best talent.

Various benefit improvement options are being evaluated based on their effect on the University's goals regarding the recruitment, retention, and renewal of qualified faculty and staff, cost, and other considerations. Aware that any changes will have an impact beyond the financial considerations of the Plan, UC administrators have initiated consultations and discussions with various levels of management, relevant Academic Council committees, the University of California Retirement System Advisory Board, advisory groups, the unions that represent many of UC's employees, and others to assess the related needs and goals of various segments of the UC community.

Several benefit improvements were then reviewed. Some of these benefit improvements could be implemented in the short term, others after design and implementation issues are resolved, and in one case after Internal Revenue Service approval has been obtained. Any such Plan improvements will need to take place in stages over time. Stage One has gone through the complete consultation process; Stage Two has had only preliminary study and consultation; Stage Three has had little study and consultation.

Stage One: Age Factor Improvements and 85 Percent Ad Hoc COLA

Age Factor Improvements – HR/Benefits has been evaluating benefit changes that may be necessary to recruit new faculty and staff and to retain the University's current workforce. For example, in late 1999, the Governor signed legislation that allowed the California Public Employees' Retirement System (CalPERS) to adopt a number of benefit enhancements for certain members. Prior to the effective date of the new CalPERS age factors, UCRP age factors were equal to or greater than the CalPERS state miscellaneous age factors at most ages.

In response to UC's need to remain market-competitive in total compensation and to enhance the University's ability to retain faculty and staff, HR/Benefits has studied the feasibility of improving UCRP age factors and has undertaken broad consultation with the UC community.

UCRP Ad Hoc Cost-of-Living Adjustment – Currently UCRP provides an annual cost-of-living adjustment to members based on a formula tied to increases in the consumer price index. The COLA for July 1, 2000 for all UCRP members who retired on or before July 1, 1999 was 2 percent. Once the annual COLA is determined, a measurement of annuitants' purchasing power is performed to determine whether annuitants' benefits have been significantly eroded by inflation. The analysis prepared by the Plan's consulting actuary indicates that as of July 1, 2000, purchasing power for members who retired on or before July 1, 1981 has fallen below the 75 percent level of the original purchasing power.

The Regents have chosen to make substantial ad hoc adjustments rather than guaranteeing a full automatic COLA, which would cost between $3.5 million and $4 billion or approximately a 20 percent increase in the Plan's liabilities. Ad hoc COLAs were given in January 1986 and July 1988 to restore annuitants' purchasing power to 75 percent, and in January 1991 an ad hoc COLA increased retirement benefits to a floor of 80 percent of purchasing power.

Stage Two: Proposals on the Relative Equity of Retirement Benefits

Currently, eligible survivors (spouses, dependent children, and dependent parents) of members are eligible for income continuation benefits if the member dies before retirement with at least two years of service credit or, under certain circumstances, if the member dies after retirement. Members without eligible survivors are not eligible for this benefit. To simplify the Plan and provide relatively equal value to all members whether married or single, HR/Benefits will explore proposals that provide for the relative equity of retirement benefits for both married and single members. The actuarial and legal implications of various proposals are continuing to be researched before a specific proposal is made.

Stage Three: Other Proposals

Alternative Long-Term Ad Hoc COLA Adjustments – The University Committee on Faculty Welfare proposes that each year HR/Benefits review the difference between the increase in the consumer price index and the annual automatic COLA granted under the UCRP formula. Each year, an annual COLA adjustment to make up a portion or the entire difference would need to be funded on an ad hoc basis and approved by The

Regents. Asset/liability studies would review the impact on the future funded status and the probability of required contributions given this feature.

Account Balance Feature – This proposal involves the addition of an account balance feature to UCRP for current and future active members. This feature would provide some of the advantages of a defined contribution plan and could make benefits more portable by offering a lump-sum payment at the time of termination prior to eligibility for retirement (age 50).

Shortened Vesting Period – Currently, a vested UCRP member is generally one who has earned five or more years of service credit. HR/Benefits is exploring reducing the vesting period in conjunction with the implementation of the account balance feature. This change in eligibility would be developed in an attempt to improve the recruitment of faculty and staff who would become eligible for UCRP benefits more quickly.

Minimum Benefit Provision – HR/Benefits is conducting research and analysis to help determine whether a minimum benefit provision is needed in UCRP. Typically, defined benefit plans that have a minimum benefit provision use a flat dollar amount per year of service. For example, by using a minimum benefit formula of $50 per month per year of service, an employee with ten years of service in a defined benefit plan would have a minimum benefit of $500 per month ($50 x 10 years) at retirement.

Estimated Cost of UCRP Benefit Improvement Proposals

The cost of UCRP benefits is identified in two parts:

Actuarial Accrued Liability – UC's fiscal liability calculation on a present value basis for Plan benefits and expenses allocated to service completed prior to the valuation date.

Normal Cost – the portion of the actuarial present value of Plan benefits and expenses which is allocated to the current year by the actuarial cost method (the permanent increase in yearly cost to provide the benefit improvements under review, expressed as a percentage of total covered pay for all members).

HR/Benefits continually examines other changes to the retirement program which could have a small impact on liabilities, including the issue of covered compensation. For example, this issue is being considered in terms of health science faculty who have no retirement coverage on a significant portion of their compensation. Research is being completed on the impact of the Internal Revenue Code limits on possible options.

Results of UCRP Asset/Liability Study

To conclude the analysis, Ms. Cole discussed the effect of possible UCRP benefit improvements on the Plan's assets and liabilities. She noted that two of the study's key considerations were to demonstrate fiduciary due diligence as a Plan sponsor and to determine the adequacy of the assets in conjunction with the liabilities of the Plan. She reviewed the steps that had been undertaken in carrying out the study, including developing a baseline set of results in order to make comparisons possible to any changes that are contemplated. The model consists of four integrated components that make it possible to take the liability projections, the capital market modules, the asset portfolios, and the financial linkage and pull the information together to form a summary. She then discussed the baseline assumptions, described as the current practices under UCRP added to expected active membership growth in order to correlate to expected student growth. The expected return on the current asset portfolio over the next 15 years is assumed to average 9.3 percent. For the last 15 years the plan has achieved a 15 percent return. She concluded with a brief description of the report's analysis of each stage of the potential benefit changes.

Associate Vice President Boyette believed that the comprehensive asset/liability study had provided useful information about the probability of having to make future contributions to the Plan as well as developing a process for predicting the type of assets that may be needed to support any particular design or benefit program that may be devised. The study illustrated the effects that Plan changes might have in combination with changes in demographics while also considering how the markets may affect the assets. Given the impact that potential Plan changes can have on the funded status of the Plan and possibly the desired allocation of assets, it is necessary to be aware of potential changes in benefits. She restated the fact that the three stages of potential benefit changes include the following: (1) the age factor improvements and a one-time ad hoc cost-of-living adjustment for retirees; (2) proposals dealing with relative equity of benefits to all eligible members, and; (3) long-term improvements.

Regent Hopkinson believed that focusing on numbers rather than percentages in the analysis could provide a better perspective in some cases. She noted that small percentage changes could have significant monetary impacts.

Regent Lee wondered whether increases in longevity could have an adverse affect on retirement plan projections. Ms. Cole believed that longevity will not increase dramatically for the next forty years and that if it does, it will be accompanied by later retirements. The asset/liability study takes into account the fact that people will live slightly longer as time passes.

Regent Leach praised the asset/liability study, but he cautioned that it gives no guarantees. The Regents must balance the need to remain competitive with its retirement program with the need to preserve a pool of funds that could be valuable during economic downturns.

3. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN: PROPOSED BENEFIT CHANGES CONCERNING AGE FACTORS AND COLAS**

The President recommended that:

A. The University of California Retirement Plan (UCRP or Plan) be amended effective January 1, 2001 to revise the age factors for members with and without Social Security and tier two under Alternative 5 as follows:

> For members with and without Social Security, the Alternative 5 factors will start at 1.1 percent at age 50, increasing in linear increments of .14 per year to 2.5 percent at age 60 and remaining constant thereafter. UCRP tier two age factors will be one-half of these factors.

B. The University of California Retirement Plan be amended to provide a one-time ad hoc cost-of-living adjustment to restore purchasing power to the 85 percent level, effective January 1, 2001, for annuitants with retirement dates July 1, 1985 and earlier.

C. The University of California Retirement Plan be amended effective January 1, 2001 to allow active tier two members the option, on an ongoing basis, of returning to their original UCRP membership classification by making payment equal to the amount of UCRP member contributions they would have made under their original member classification, plus interest to the date of completion of payment, subject to Internal Revenue code limitations.

D. The University of California Retirement Plan be amended effective January 1, 2001 to allow members with a Plan 02 noncontributory balance to eliminate the balance by making a lump-sum payment on an after-tax basis, subject to Internal Revenue code limitations.

Associate Vice President Boyette recalled, as outlined above, that the University of California Human Resources and Benefits is evaluating several possible Plan benefit improvements as part of an ongoing assessment of how UCRP serves the needs of both members and the University.

UCRP Benefit Improvements

Age Factor Improvements: It was recalled that in response to UC’s need to remain market-competitive in total compensation and to enhance the University’s ability to retain faculty and staff, HR/Benefits has been studying the feasibility of improving the UCRP age factors.

A UCRP age factor alternative (Alternative 5) was presented to the Regents for discussion at the September 2000 meeting. In response to questions raised at the Regents meeting, HR/Benefits developed an alternative age factor design (Alternative 9) with a slightly reduced relative cost that reduced the improvements at younger ages and weighted improvements in the factors at older ages. The following describes both alternative UCRP age factors for members with and without Social Security and tier two.

Alternative 5 - For members with and without Social Security, the Alternative 5 factors would start at 1.1 percent at age 50, increasing in linear increments of .14 per year to 2.5 percent at age 60 and remaining constant thereafter. UCRP tier two age factors would be one-half of these factors.

The estimated cost to UCRP to provide the Alternative 5 age factor benefit for members with and without Social Security and tier two who retire January 1, 2001 and later would be an increase in the Plan's actuarial accrued liability of approximately $756 million and an increase to normal cost as a percentage of total covered pay of .68 percent.

Alternative 9 - For members with and without Social Security, the Alternative 9 factors also start at 1.1 percent at age 50, but increase in smaller increments than Alternative 5 at each age from 50 to 56. After age 56, the factors increase in larger increments than ages 50 to 55 until they reach .0250 percent at age 60, and then to .0255 percent at age 63 and beyond. UCRP tier two age factors would be one-half of these factors.

The estimated cost to UCRP to provide the Alternative 9 age factor benefit for members with and without Social Security and tier two who retire January 1, 2001 and later would be an increase in the Plan's actuarial accrued liability of approximately $611 million and an increase to normal cost as a percentage of total covered pay of .46 percent.

Analysis and Recommendation: In response to the questions raised by Regents at the November 2000 meeting, the University administration initiated further extensive consultations on the two age factor alternatives with a broad range of the UC community. Groups consulted included Academic Advancement, the Plan's consulting actuary, Towers Perrin, the University Committee on Faculty Welfare, and the University of California Retirement System Advisory Board. These consultations did not result in support for the Alternative 9 age factor proposal; rather, these consultations reaffirmed Alternative 5 as the preferred proposal.

The administration supports the adoption of the Alternative 5 age factor proposal for retirements January 1, 2001 and later based on the fact that age factor improvements are not expected to create a significant increase in faculty, management, or staff retirements. Although historically there have been small increases in retirements shortly after making age factor improvements, these increases are generally attributable to members' delaying their retirement in anticipation of benefit improvements. In addition, Alternative 5 is designed in a way that continues to reward faculty and staff who retire at older ages by progressively increasing the age factors at older ages. Towers Perrin has determined that historically, even considering the number of retirements during the three voluntary early retirement incentive programs of the early 1990s, the average age for faculty retirements is currently 63.1 years, the average age for management retirements is 59.1 years, and the average age for technical/clerical retirements is 59.7 years (data as of July 1, 2000). Lastly, a recent study found that pension wealth has a very small effect on the probability of retirement for faculty. Faculty generally base their retirement decisions on more personal and professional considerations.

UCRP has a healthy funded status and can support the cost of age factor improvements for member retirements January 1, 2001 and later.

Although neither set of alternative factors approaches the level of the age factors adopted by CalPERS, Alternative 5 is a better improvement over UCRP's current factors than Alternative 9 would be. Further, the adoption of Alternative 5, with the highest age factor at age 60, would retain UC's competitive advantage with CalPERS. The CalPERS age factors maximize at age 63.

The slightly increased cost of Alternative 5 over Alternative 9 yields better age factor improvements and thus provides more value for the cost.

UCRP Ad Hoc Cost-of-Living Adjustment: UCRP provides an annual cost-of-living adjustment to members based on a formula tied to increases in the consumer price index. An analysis prepared by the Plan's consulting actuary indicates that, as of July1, 2000, purchasing power for members who retired on or before July 1, 1981 has fallen below the 75 percent level of the original purchasing power.

Historically, the Regents have striven to protect annuitants' benefits from being significantly eroded by inflation, even though this is not a guaranteed contractual benefit. Former Presidents Gardner and Peltason and President Atkinson have endorsed a resolution to recommend, from time to time and subject to the availability of funds, adjustments to approximate a 75 percent level of purchasing power. The advantage to UCRP of a periodic ad hoc COLA over a guaranteed COLA that protects purchasing power is that the funding requirements of the Plan are lower. A guaranteed COLA, expressed in terms of inflation, produces significant costs and requires the creation of additional financial resources within the Plan which may or may not be needed depending on actual inflation. Alternatively, a periodic ad hoc COLA requires no advance funding and does not increase actuarial liability until the COLA is granted.

It is recommended that UCRP provide a one-time ad hoc COLA to restore purchasing power to the 85 percent level, effective January 1, 2001, for annuitants with retirement dates July 1, 1985 and earlier. The 85 percent level is recommended so that it will not be necessary to provide additional ad hoc COLAs as frequently to bring annuitants to the 75 percent purchasing power level. The estimated cost to UCRP to restore purchasing power to the 85 percent level is an increase in the Plan's actuarial accrued liability of approximately $54.5 million; there would be no increase to normal cost. The estimated cost to UCRP to restore purchasing power to the 75 percent level is an increase in the Plan's actuarial accrued liability of approximately $2.7 million and an increase in the Plan's actuarial accrued liability of approximately $21.4 million to restore purchasing power to the 80 percent level.

Tier Two Open Window Buyback: Effective July 1, 1987, UCRP members with and without Social Security were offered the option of tier two membership instead of regular UCRP membership. Tier two was designed as a noncontributory retirement tier with reduced benefits for members as an alternative to the contributory tier that would better meet the needs of members who did not expect to continue their UC employment long enough to be eligible for retirement benefits. An irrevocable decision to elect tier two participation could be made at any time following six months of Plan membership. Once a tier two election was made, the member could choose to receive a refund of all member contributions previously made.

Tier two was closed to new enrollment effective July 1, 1990 to maintain UCRP compliance with governing federal statutes. During the first six months of 1991, all active tier two members were required to make an irrevocable election to remain in tier two or to make payment to return to their original membership classification either with or without Social Security. This Plan amendment would provide active tier two members with the option, on an ongoing basis, of returning to their original UCRP membership classification by making payment equal to the amount of UCRP member contributions they would have made under their original member classification, plus interest to the date of completion of payment, subject to Internal Revenue code limitations. Interest will be computed at the rate of the assumed earnings of the Plan in effect on the date of the member's election to return to his or her original member classification. Currently, there are 70 active members remaining in tier two. There would be no cost to UCRP, as the cost would be borne by the member.

Allowing an After-tax Buyback to Eliminate the Plan 02 Noncontributory Balance: During the period from July 1, 1966 through June 30, 1971, member contributions to UCRP were not required for those members under age 30 or those who had less than one year of service, even though they earned service credit during this period at the same rate as contributing members. A record was set up to keep track of contributions that such noncontributing members would have made. The unpaid contribution for this noncontributory service is coded "02" in the UCRS system and is referred to as the Plan 02 balance. When a member with a Plan 02 balance retires, two retirement benefit calculations are computed: (1) a calculation which includes service credit for the Plan 02 period and a corresponding offset based on the member's Plan 02 balance (actuarially adjusted to a monthly offset for a member electing monthly retirement income); and (2) a calculation excluding both Plan 02 service credit and offset. The calculation resulting in the higher benefit is always applied. Since 1981, members have been offered various opportunities to buy back the balance of this account, thus eliminating the retirement income offset.

For elections to eliminate the Plan 02 balance received by the Plan administrator on or before June 30, 1997, payments were made on an after-tax basis. As of July 1, 1997, members who elect to eliminate their Plan 02 balance can do so only on a pretax basis in accordance with Internal Revenue codes. This Plan amendment would allow members to eliminate the offset by making a lump-sum payment on an after-tax basis, subject to Internal Revenue code limitations. There are approximately 3,100 active members and approximately 670 inactive members with outstanding Plan 02 balances. There would be no cost to UCRP as the cost would be borne by the member.

Associate Vice President Boyette emphasized that Alternative 5 is preferable because age factor improvements alone are not expected to create a significant increase in retirements. Significant increases in retirements have been seen when both age and service factors are changed, as in the VERIP programs. Alternative 5 is designed to continue to reward people who retire late, and it will be more acceptable to many University employees, particularly those in unions, who are concerned about how the University's retirement system compares to its competitors. She noted that the Plan is well funded and can support the improvements that will result from adopting the changes.

Faculty Representative Cowan reported that the Committee on Faculty Welfare had scrutinized the proposal and brought its recommendations to the Academic Council. The faculty realized that Alternative 9 would benefit the faculty because it yields a higher factor at a time when faculty would be retiring, but the faculty felt that in looking at the interests of the University as a whole, Alternative 5 was more reasonable.

Regent Preuss asked what the politically viable options would be in five years if it were necessary to readjust the program to be more conservative. Ms. Boyette responded that it would be possible to introduce an option such as an account balance plan that would be available to new employees only.

Regent Lee was against contemplating the establishment of a different plan for new employees if five years in the future the State's economic condition worsened. Regent Preuss agreed, but he pointed out that in the past, extreme circumstances had required extreme actions. He noted that there was no indication that such circumstances were likely to reoccur.

Regent Hopkinson commented that the change being recommended dealt with one set of issues. The issue relating to the increased demand that the University will have for numbers of employees and the fact they will need to be retained longer is not aided by the set of recommendations. The development of provisions that will retain employees longer will need to be considered at some point.

Ms. Boyette commented that an ad hoc COLA protects purchasing power without affecting funding requirements. The retired members who would benefit from the adjustment have been retired for at least 15 years and paid into the Plan throughout their employment.

Regent Hopkinson believed that it was advisable to take advantage of the University's current economic position by approving a one-time increase to the COLA.

Regent Leach noted that, with adjustments, retirement costs will be about 15 percent of payroll. He asked how that compares with other retirement plans. Ms. Cole responded that it is slightly above average.

Secretary Trivette reported that communications received concerning this item were distributed to all Regents.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

4. **PROPOSED AUTHORITY FOR THE UCLA SCHOOL OF THEATER, FILM AND TELEVISION TO ENTER INTO AN AFFILIATION AGREEMENT WITH THE AUSTRALIAN FILM, TELEVISION AND RADIO SCHOOL AND THE NATIONAL FILM AND TELEVISION SCHOOL OF GREAT BRITAIN TO FORM THE GLOBAL FILM SCHOOL, INC., LOS ANGELES CAMPUS**

The President recommended that:

A. He be authorized to approve, following resolution of terms satisfactory to the President of all remaining business issues, and to execute an affiliation agreement among The Regents, on behalf of the UCLA School of Theater, Film and Television; the Australian Film, Television and Radio School; and the National Film and Television School of Great Britain, specifying the conditions for an inter-school Consortium that will create the Global Film School, Inc., a multi-faceted, for-profit, distance-learning program in film, television, and new media.

B. He be authorized to approve and execute other agreements and such amendments to the affiliation agreement and those agreements as may be necessary to carry the provisions of the affiliation agreement into effect.

C. He be authorized to determine whether to proceed with either one or both of the two schools or other schools of comparable quality.

D. The affiliation agreement shall contain the following provisions:

(1) The three film schools authorize the formation of the Global Film School, Inc. (GFS) as a separate legal entity, in which each of the schools shall be an equal owner;

(2) Potential conflicts of interest and commitment for School of Theater, Film and Television personnel and University personnel with line or advisory roles pertaining to the GFS will be precluded and/or managed in an appropriate manner;

(3) Under a separate fee agreement, the three film schools engage counsel acceptable to the General Counsel and agreed to by GFS and the schools as counsel to GFS;

(4) GFS will initially be capitalized by third-party financial and strategic investors, to be unanimously agreed upon by the three film schools. Equity granted to these investors will dilute the initial equity acquired by the three film schools;

(5) The three film schools will license their names, trademarks, service marks, and logos to GFS in partial consideration of GFS's agreement that oversight and final approval over the curriculum, courses, faculty, and educational content of GFS will be retained by the three film schools;

(6) All courses, educational materials, and content made available by GFS will be commissioned and owned or licensed by GFS. If GFS wishes to acquire content, materials, faculty, staff, or other resources from any of the three film schools, GFS and the relevant school will enter into separate negotiations and agreements for the same;

(7) During the term (initially five years), all distance-learning initiatives of the three film schools in the content area via the Internet will be exclusively offered through GFS except their regular curriculum to their regularly-enrolled students. Faculty or staff of each film school are not confined to rendering their services via the Internet through GFS;

(8) GFS will be structured as follows:

a. Each of the film schools shall be entitled to appoint one member of the GFS Board of Directors;

b. The three film schools shall retain complete control over academic content and curriculum through the creation of a separate, autonomous Curriculum Review Board (CRB). Every course or program offered by GFS shall be approved by the CRB, whether produced by the three film schools or others. Each of the film schools shall have two representatives on the CRB, one of whom shall be a regular faculty member;

c. The three film schools shall recommend unanimously to the GFS Board of Directors the appointment of the initially-engaged GFS Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Chief Technical Officer, all of whom will be appointed and paid by GFS;

d. Producers will be entities that deliver courses to GFS in a form suitable for Internet distance education. Authors are those individuals who supply the content of those courses. GFS may contract with either producers or authors under terms and conditions (including issues of intellectual property) to be a matter of separate negotiation and contract between producers and authors on the one hand and GFS on the other;

e. The three film schools shall enter into one or more agreements with GFS in which each of the following criteria shall be satisfied and assured:

i. their financial liability shall be strictly limited, and they shall be fully indemnified;

ii. they shall retain control over the use of their names and marks except in a factual description of GFS and its programs;

iii. they shall approve strategic partners of GFS and any future investors or equity holders of GFS prior to the closing of the second stage financing;

iv. the CRB shall have a veto over advertising and sponsorship of GFS; and

v. all approvals by the three film schools shall be unanimous.

(9) The three film schools will also enter into stockholder agreements among the GFS stockholders and a representation agreement with counsel acceptable to the General Counsel and agreed to by GFS and the Schools;

(10) GFS may be financed in two stages. The first stage is the raising of Series A "soft seed money," anticipated to be in the approximate amount of $1 million. The second stage is the pursuit of Series B financing from international sources, anticipated to be in the approximate amount of $20 million to $25 million.

It was recalled that at the September 2000 Regents meeting, the Committee had received an outline of the planning for the affiliation agreement described above. Since that time, the various committees of the Academic Council have reviewed the proposal and made their recommendations to the Academic Council. The Council voted to support the proposal as an experiment in the establishment of business and educational relationships between the University and the private sector contingent upon the provisos that this approval set no precedent with respect to similar future proposals and that the UCLA administration and Academic Senate Division jointly establish an oversight panel to be composed of individuals not affiliated with the UCLA School of Theater, Film and Television.

Each of the partners in the proposed affiliation agreement is an internationally renowned professional training institution for film and television, and thus, the new proposed entity will provide instruction at the highest level of excellence in all aspects of moving-image media for constituencies ranging from K-12 to media professionals.

GFS will provide opportunities for ongoing and original research in areas that include the study of pedagogical strategies specific to interactive on-line learning and the maximum use of rapidly evolving technologies. The partnership will present opportunities for cultural and creative diversity by disseminating instruction from many sites, educational innovation through collaborative offerings, and an enhanced ability to garner resources. None of the partners alone has sufficient resources to provide the $30 million estimated to be required to establish this program.

All expenses associated with GFS will be covered by resources raised from outside constituencies. No University funds of any type will be used for the project. All net benefits accruing to the School of Theater, Film and Television will be applied directly toward supporting its teaching, research, and public service objectives. The Los Angeles campus may also license or sell to GFS specific units of intellectual property owned by The Regents, and could benefit, on a longer-term basis, through appreciation in and realization of The Regents' equity interest in GFS.

In order to avoid even the appearance of interfering with the intellectual property rights of its own Senate faculty, the UCLA School of Theater, Film and Television will not play the intermediary role of Producer for courses taught by ladder faculty. Rather, faculty authors will contract on an individual basis directly with GFS. All UC faculty participation in GFS activities will comply with UC guidelines for employment outside regular classroom assignments.

The GFS initiative is consistent with the mandate in recent years for academic units to seek public-private partnerships for entrepreneurial initiatives to enhance funding for support of academic programs.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

5. **REPORT ON NEW LITIGATION**

General Counsel Holst presented his **Report on New Litigation**. By this reference the report is made a part of the official record of the meeting.

6. **AUTHORIZATION FOR GENERAL COUNSEL TO RETAIN OUTSIDE COUNSEL**

The General Counsel recommended that he be authorized to retain outside counsel, subject to the availability of appropriate and authorized funding sources, for all University purposes requiring the services of counsel outside the Office of the General Counsel.

It was recalled that outside counsel is used in a number of areas of University activity such as patent prosecution and certain litigation matters, including defense of claims under the University's self-insurance programs. In addition, outside counsel is retained when the requirements of a particular matter exceed the capacity of the Office of the General Counsel or involve specialized services not available in that office.

Upon motion duly made and seconded, the Committee approved the General Counsel's recommendation and voted to present it to the Board.

The meeting adjourned at 12:45 p.m.

Attest:

Secretary