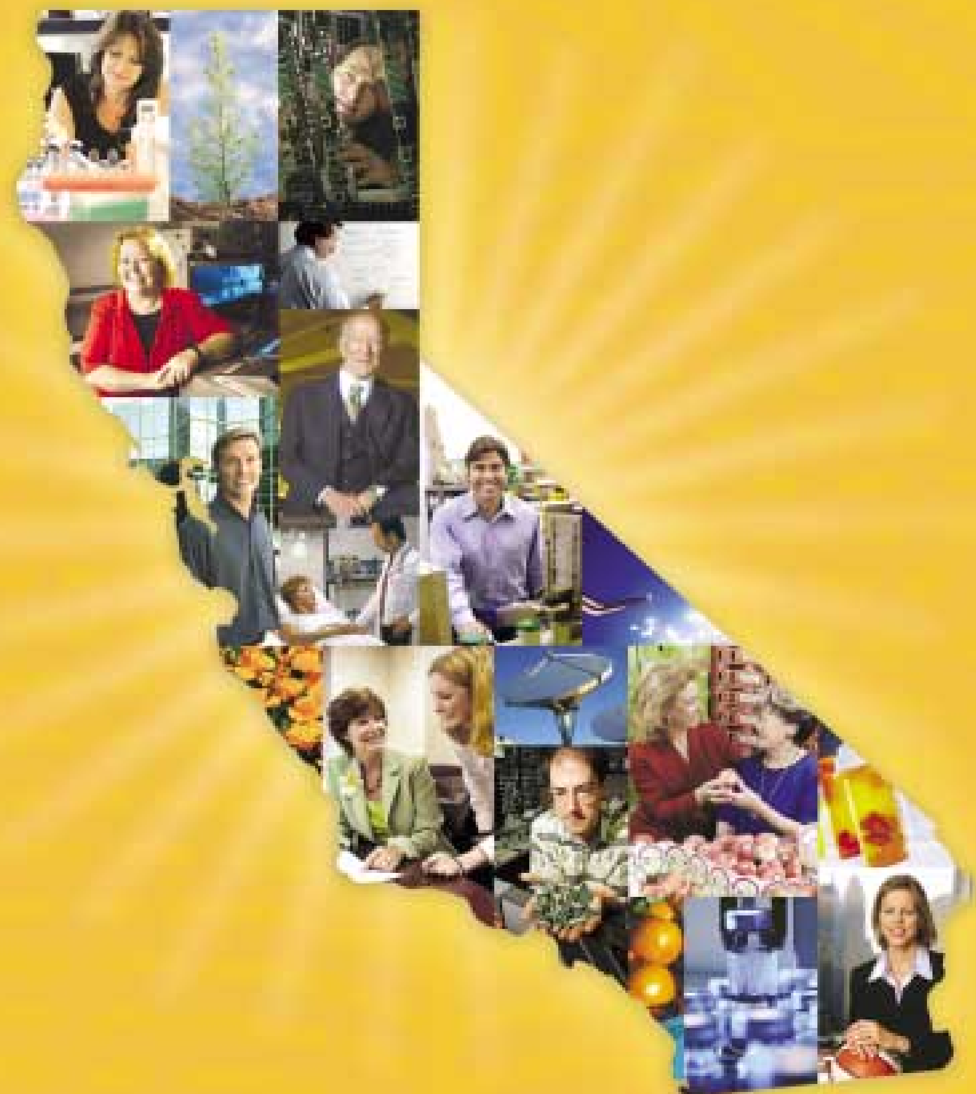


Keeping California Competitive

IT STARTS HERE

The University of California Retirement System
Retirement Plan
Year Ended June 30, 2004

The University of California Retirement System
Retirement Plan
Year Ended June 30, 2004

UCRS Plan Administration

This report contains information about the University of California Retirement Plan as of and for the fiscal year ended June 30, 2004, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2003–2004 fiscal year end are as follows:

Net assets	$39.2	billion
Net investment income	$5.0	billion
Benefit payments (excluding member withdrawals and lump sum cashouts)	$940.3	million
Plan administrative and other expenses	$24.1	million

Active Plan Membership

Senate Faculty and Non-Faculty Academics	23,085	members
Management/Senior Professional	25,973	members
Professional/Support Staff	74,659	members
Total	123,717	members
• Average annual salary –		
Senate Faculty	$108,409	
Non-Faculty Academics	$63,451	
Management/Senior Professional	$89,224	
Professional/Support Staff	$48,090	
• Average age –		
Senate Faculty	49	years
Non-Faculty Academics	41	years
Management/Senior Professional	45	years
Professional/Support Staff	41	years

Inactive Plan Membership/Other*

Inactive Plan Membership/Other*	39,874	members

Retiree Membership

Faculty	3,772	retirees
Management/Senior Professional	16,638	retirees
Professional/Support Staff	11,662	retirees
Total	32,072	retirees
• Average retirement age –		
Faculty	63	years
Management/Senior Professional	59	years
Professional/Support Staff	60	years
• Average service credit at retirement –		
Faculty	26	years
Management/Senior Professional	22	years
Professional/Support Staff	16	years
• Average annual UCRP income –		
Faculty	$56,652	
Management/Senior Professional	$28,968	
Professional/Support Staff	$14,283	
Survivor/Beneficiary	5,472	recipients
Disabled	2,194	recipients

* *Includes terminated nonvested employees eligible for a refund of Plan accumulations or Capital Accumulation Provision payment.*

Plan Overview and Administration

The University of California Retirement Plan (UCRP or the Plan) is a valuable component of the comprehensive benefits package offered to employees of the University of California (the University) and its affiliates, Hastings College of the Law and Associated Students of UCLA (ASUCLA). The Plan is a governmental defined benefit pension plan qualified under §401(a) of the Internal Revenue Code (IRC).

The University's pension program dates back to 1904, with a plan that provided for the purchase of commercial annuities for retiring professors at UC Berkeley and UC San Francisco. The current Plan was designed in 1961, before the University's participation in Social Security and before the introduction of employee life and disability insurance coverage. Over the years, the Plan has evolved to include provisions for:

- basic retirement income with four payment options;
- disability benefits;
- death benefits;
- preretirement survivor benefits; and
- annual, automatic adjustments for increases in the cost of living for retirees and inactive members.

Further, in lieu of lifetime retirement benefits, members may choose a refund of their accumulated Plan contributions and earnings or, if eligible to retire, they may elect a lump sum payment equal to the present value of their accrued retirement benefit.

At June 30, 2004, active UCRP members included 123,717 employees at the University's 10 campuses, five medical centers, three Department of Energy laboratories, Hastings College of the Law, and ASUCLA.

The President of the University of California is the Plan Administrator and delegates the responsibility for the day-to-day management and operation of the Plan to the Human Resources and Benefits department. This department conducts policy research, implements regulations to preserve the Plan's qualification with the Internal Revenue Service, and provides member recordkeeping, accounting and reporting, and receipt and disbursement of Plan assets to eligible members.

Plan Progression

1904	Commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	Pension and Retiring Annuities System (PRAS) pension plan introduced for faculty and high-ranking administrators.
1937	Pension plan coverage established for nonacademic employees through CalPERS.
1961	PRAS terminated due to insolvency and UCRP established to provide retirement, disability, and preretirement survivor benefits to all University career employees.
1971	Annual 2 percent (maximum) COLAs applied to retirement, survivor and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990-91	Employer/employee UCRP contributions suspended.
1991-94	Offered a total of three early retirement incentive programs to UCRP members and one to members of CalPERS.
1992-94	Made a total of five Capital Accumulation Provision (CAP) allocations in behalf of eligible members.
2001	Modified membership eligibility to include employees who work 1,000 hours in a 12-month period and increased UCRP age factors to enhance retirement benefits.
2002-03	Made two additional Capital Accumulation Provision (CAP II) allocations in behalf of eligible members.

Changes in the Plan

The following Plan changes occurred during fiscal year 2003–2004. These changes were mandated by legislation or recommended by the President of the University and approved by The Regents.

All currently effective Plan provisions are contained in the Plan document.

Date	Change
September 2003	Amended the Plan to provide "vesting" credits to UCSF Stanford Health Care (USHC) employees covered by the USHC Retirement Plan, with an option for them to exchange a portion of their USHC Retirement Plan contributions for UCRP service credit.
January 2004	Modified membership eligibility to include employees in a Non-Senate Instructional Unit title who work 750 hours during a consecutive 12-month period.
	Amended the Plan to allow non-vested UCRP members who are being laid off for budgetary reasons to buy back UCRP service credit needed to vest by making a lump-sum, after-tax payment.

Employees participate in the Plan in one of four membership classifications:

- Members with Social Security coverage
- Members without Social Security coverage
- Safety Members (police and firefighters)
- Tier Two

The following table reflects Plan membership by classification over the past 10 years.

Plan Membership

Year Ended June 30	Active Membership: With Social Security	Without Social Security	Safety Members	Tier Two Members	Total Active	Inactive Members/ Other*	Total**
2004	117,100	6,165	399	53	123,717	39,874	163,591
2003	113,913	6,982	400	56	121,351	31,262	152,613
2002	109,708	7,614	398	56	117,776	25,198	142,974
2001	101,261	8,127	396	64	109,848	23,278	133,126
2000	94,361	8,558	393	70	103,382	21,950	125,332
1999	88,723	8,923	395	82	98,123	22,109	120,232
1998	83,490	9,388	401	84	93,363	21,998	115,361
1997	83,100	9,820	395	89	93,404	28,778	122,182
1996	81,510	10,197	392	95	92,194	25,422	117,616
1995	80,246	10,584	390	98	91,318	21,913	113,231

** Includes terminated nonvested employees eligible for a refund of Plan accumulations or Capital Accumulation Provision payment.*

*** Excludes UCRP benefit recipients, as accounted for in the table on page 7.*

The Regents' funding policy has been to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method. In fiscal year 1990–91, The Regents adopted a full funding policy. Under that policy, The Regents suspend contributions to the Plan when the market value or the actuarial value of Plan assets (whichever is smaller) exceeds the lesser of the actuarial accrued liability plus normal cost or 150 percent of current liability plus normal cost.

UCRP Funding Status

(in millions)

Plan Year Beginning July 1	(a) Actuarial Value of Assets in Excess of Actuarial Accrued Liability	(b) Assets in Excess of Full Funding Liability	(c) Market Value of Assets in Excess of Actuarial Accrued Liability
2004	$ 6,258.9	$ 3,003.3	$ 4,181.9
2003	8,474.5	1,195.0	2,372.0
2002	11,549.2	3,247.3	4,342.2
2001	13,103.3	10,443.6	11,418.7
2000	12,959.0	12,110.3	18,003.7
1999	9,929.8	9,168.6	15,942.3
1998	6,515.7	5,816.8	14,105.3
1997	3,593.9	2,932.1	9,871.8
1996	1,810.6	1,186.8	5,816.9
1995	1,091.5	508.0	3,513.3

(a) The Actuarial Value of Assets (AVA) is determined using the Adjusted Market Value Method. The AVA is calculated using the Moving Average Market Value Method. The Actuarial Accrued Liability (AAL) is based on the funding method used to value the Plan. The AAL is equal to the present value of benefits to be paid less the present value of all future contributions required to finance the Plan.

(b) Assets: The lesser of the AVA or the Market Value of Assets. Full Funding Liability: IRC §412, the full funding limitation applied to the Plan, is the lesser of (a) the actuarial accrued liability plus normal cost, or (b) 150 percent of the current liability plus normal cost.

(c) Market Value of Assets is the June 30 net asset value.

The Plan paid approximately $940 million in retirement, disability, and preretirement survivor benefits to 39,738 members and their beneficiaries during fiscal year 2003–2004.

Retirement payments include cost-of-living adjustments, and payments to survivors include basic death payments. The table below reflects total benefits paid in each category over the past 10 years.

UCRP BENEFIT PAYMENTS

(in thousands)

Year Ended June 30	Retirement	Disability	Death & Survivor	Total*
2004	$877,696	$31,900	$30,731	$940,327
2003	794,861	29,311	28,534	852,706
2002	730,115	27,132	26,475	783,722
2001	657,105	25,414	24,600	707,119
2000	614,302	22,974	22,869	660,145
1999	583,133	20,047	21,141	624,321
1998	557,669	17,115	20,707	595,491
1997	538,125	14,882	19,495	572,502
1996	523,436	13,098	17,711	554,245
1995	529,839	11,789	16,821	558,449

** Does not include member withdrawals and lump sum cashouts.*

The number of UCRP benefit recipients in each category for the year ended June 30 for each of the past 10 years is shown below.

UCRP BENEFIT RECIPIENTS

Year Ended June 30	Retired Members	Disabled Members	Deceased Members	Survivors
2004	32,072	2,194	1,781	5,472
2003	30,655	2,129	1,603	5,083
2002	29,247	2,096	589	4,822
2001	27,991	2,032	753	4,661
2000	26,879	1,927	503	3,964
1999	25,639	1,713	648	3,890
1998	25,075	1,517	647	3,754
1997	24,780	1,338	643	3,541
1996	24,365	1,203	569	3,350
1995	24,230	1,081	573	3,130

INVESTMENT MANAGEMENT

In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay benefit obligations, with or without the necessary assets segregated in a trust fund. The employer bears the mortality and investment risk because members' benefits are not based on contributions or Plan assets.

As Plan Trustees, the Board of Regents is responsible for the investment of the Plan's assets, consistent with fiduciary laws of the State of California. The Treasurer of The Regents is the investment manager and custodian for the Plan's assets. The Treasurer's function is executed under the policies established by The Regents' Committee on Investments to protect the interests of all Plan members and their beneficiaries.

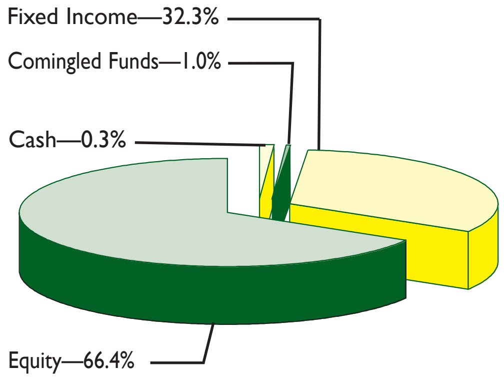
The assets of the Plan are held separately under a custodial agreement with State Street Bank & Trust Co. The bank carries insurance against loss of property caused by employee dishonesty, theft, misplacement, damage, distribution or mysterious disappearance.

ASSET ALLOCATION

Total Fund. UCRP is a balanced investment fund of $39.1 billion in assets, with $26.0 billion of the investment portfolio invested in domestic, foreign common stocks and private equity. The balance of $13.1 billion includes $12.6 billion in high-quality government, corporate, foreign, and mortgage-backed bonds, an allocation of $383.3 million commingled funds of emerging market stocks and venture capital and buyout funds, and $117.0 million in cash equivalents.

PROXY VOTING POLICY

The Treasurer's Office has instructed The Regents' custodian bank to vote all proxies on behalf of The Regents according to guidelines established by The Regents.



ANNUALIZED RATES OF RETURN AT JUNE 30, 2004

	1-Year	5-Year	10-Year
UCRP Total Fund	**14.3%**	**3.2%**	**11.9%**
Policy Benchmark[1]	14.1%	2.2%	11.4%
•Domestic Equity Portfolio	20.5%	-1.6%	11.1%
Policy Benchmark[2]	20.5%	-1.6%	12.2%
•Fixed Income Portfolio	-0.8%	7.8%	10.7%
Policy Benchmark[3]	-0.8%	7.6%	8.7%
•TIPS Portfolio	3.9%	n/a	n/a
Policy Benchmark[4]	3.9%	n/a	n/a
•Foreign Equity Portfolio	32.4%	-1.8%	1.1%
Policy Benchmark[5]	32.5%	-0.6%	-0.7%
•Private Equity Portfolio	18.4%	14.0%	26.1%
Policy Benchmark[6]	41.9%	1.3%	15.1%

Current Policy Benchmarks

1. The UCRP Total Fund Policy Benchmark consists of 58% (less the actual Private Equity weight from the prior month end) times the Russell 3000 Tobacco-Free Index, 7% Morgan Stanley Capital International All Country World Index (MSCI ACWI) ex U.S. Index, 5% Lehman Brothers Treasury Inflation Protected Securities (TIPS) Index, the actual Private Equity weight of the previous month end times the Russell 3000 TF Index +3% (lagged by 3 months) and 30% Citigroup Large Pension Fund Index, linked to 65% the S&P 500 Index and 35% the Lehman Brothers Long-Term Gov't/Corp Index.

2. The Domestic Equity Portfolio Policy Benchmark consists of the Russell 3000 TF Index linked to the S&P 500 Index.

3. The Fixed Income Portfolio Policy Benchmark consists of the Citigroup Large Pension Fund Index linked to the Lehman Brothers Long-Term Gov't/Corp Index.

4. The TIPS Portfolio Policy Benchmark consists of the Lehman Brothers TIPS Index.

5. The Foreign Equity Policy Benchmark consists of the MSCI ACWI ex-U.S. Index effective 7/2000. Benchmark used for prior periods i.e., for 5 and 10 year results is MSCI EMF Index.

6. The Private Equity Policy Benchmark consists of the Russell 3000 TF Index + 3% (lagged by three months) effective 7/2000. Benchmark used for prior periods i.e., for 5 and 10 years is S&P 500 Index + 5%.

QUALITY AND DIVERSIFICATION

The equity portfolio is diversified among multiple strategic economic sectors as illustrated at right.

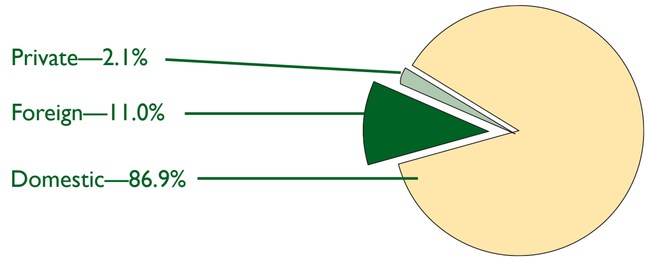
The Equity Portfolio represents 66.4 percent (or $26.0 billion) of the total Fund and is diversified among domestic, foreign and private equity securities. The asset mix within the equity portfolio as of June 30, 2004 is 86.9 percent domestic equity, 11.0 percent foreign equity, and 2.1 percent private equity.

The domestic equity sector ($22.6 billion) is invested primarily in two index fund portfolios ($21.7 billion). These two portfolios consist of a core index portfolio ($5.0 billion) and a transitional index portfolio ($16.7 billion). The transitional index portfolio was formerly the actively managed sector of the equity portfolio. The core and transitional index portfolios, which comprise the domestic equity sector, are diversified according to the following economic sectors. The remainder of the sector ($0.9 billion) is diversified into actively managed small capitalization stocks.

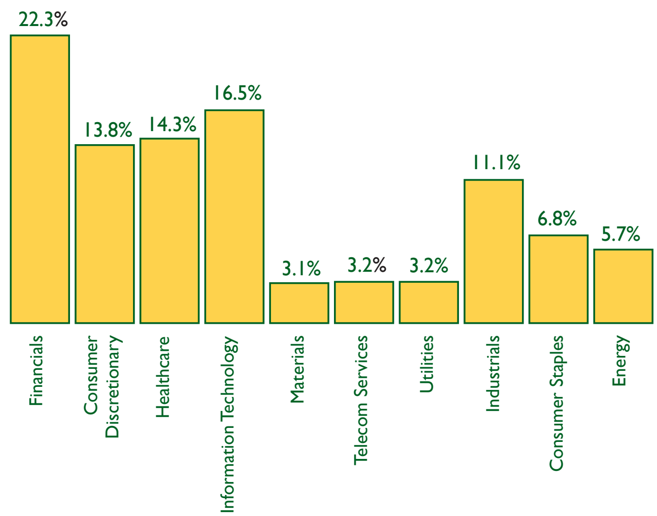
The foreign equity sector ($2.9 billion) is invested in an EAFE-based index fund portfolio. Other foreign equities are held in commingled funds ($383.3 million) shown separately in the Statement of Fiduciary Net Assets. Investments in these funds are diversified between the CGI Emerging Markets ($152.8 million), Genesis Emerging Markets ($123.7 million), GMO Emerging Markets ($51.2 million) and Templeton Emerging Markets ($55.6 million).

The private equity sector ($542.2 million) is invested in venture capital partnerships ($247.6 million), buyout funds ($201.0 million) and international private equity ($93.6 million).

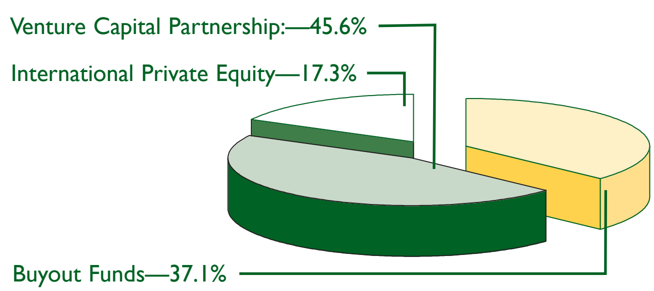
EQUITY PORTFOLIO ASSET ALLOCATION



DOMESTIC PORTFOLIO DIVERSIFICATION BY ECONOMIC SECTOR

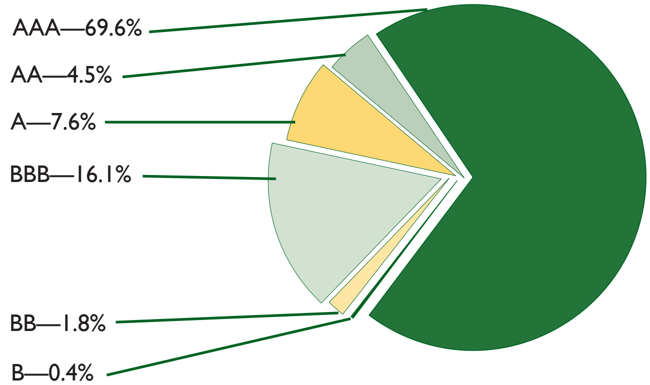


PRIVATE EQUITY SECTOR



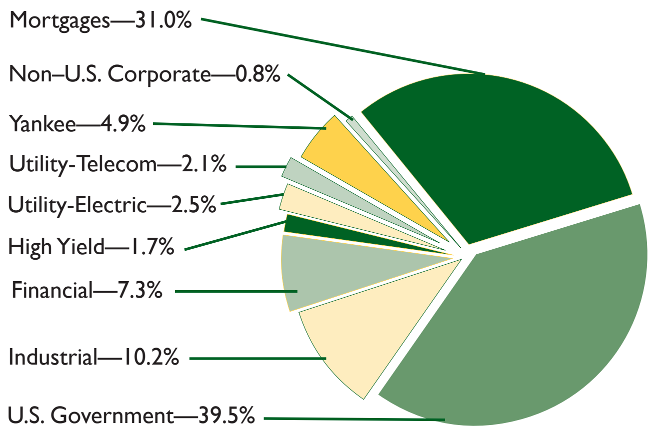
Fixed Income Portfolio

The fixed income portfolio accounts for 32.3 percent of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. The current yield of the fixed income portfolio as of June 30, 2004, was 4.6 percent, and the average quality rating was AA.



Quality

Approximately 70.7 percent of the fixed income portfolio consists of U.S. government-guaranteed securities, and 74.1 percent of the portfolio is rated AAA or AA, the two highest rankings assigned by Standard and Poor's.

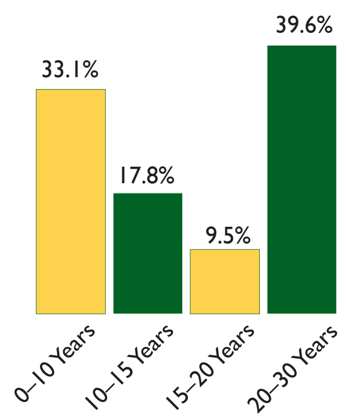


Diversification

Fixed income investments are well diversified among the sectors illustrated at right.

Maturity Structure

The weighted duration of the fixed income portfolio is approximately 7 years and the weighted average maturity is approximately 12 years.



U.S. Treasury Obligations:

Guaranteed by the full faith and credit of the United States and rated AAA by Standard & Poor's.

Standard & Poor's Bond Ratings

AAA: Prime, maximum safety. Extremely strong capacity to pay principal and interest.
AA: High grade, high quality. Very strong capacity to pay principal and interest.
A: Upper medium investment grade. Strong capacity to pay principal and interest.
BBB: Medium investment grade. Adequate capacity to pay principal and interest.
BB: Speculative characteristics. Exposure to adverse conditions could impair current ability to pay principal and interest.
B: Low grade, speculative. Exposure to adverse conditions likely to impair current ability to pay principal and interest.

The objective of Management's Discussion and Analysis is to help readers of the Plan financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2004, with selected comparative information for the year ended June 30, 2003, and June 30, 2002. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets held in trust for pension benefits at June 30, 2004, are $39.2 billion compared to $35.3 billion at June 30, 2003, and $34.4 billion at June 30, 2002. The net assets are available to meet the Plan's ongoing obligations to Plan members, retirees and their beneficiaries.
- The net assets of the Plan increased by $3.9 billion or 11.0 percent in 2004 compared to an increase of $885 million or 2.6 percent in 2003 and a decrease of $4.4 billion, or 11.4 percent in 2002.
- The Plan's total investment rate of return was 14.3 percent in 2004 compared to 5.6 percent in 2003 and (9.2) percent in 2002.
- As of June 30, 2004, the date of the most recent actuarial valuation, the Plan's funded ratio was 117.9 percent, compared to 125.7 percent at June 30, 2003, and 138.4 percent at June 30, 2002. For June 30, 2004, this indicates that for every dollar of benefits due to the Plan's members, assets of $1.18 are available to cover benefit obligations as compared to $1.26 at June 30, 2003, and $1.38 at June 30, 2002.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements
- Required Supplementary Information and Note to Required Supplementary Information
- Other Supplementary Information

The Statements of Fiduciary Net Assets presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The Statements of Changes in Fiduciary Net Assets presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2004, and 2003. It reflects contributions along with investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits, withdrawals, cost-of-living adjustments, lump sum cashouts, survivor, disability, death benefits and administrative expenses are also presented.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the financial statements.

The Required Supplementary Information consists of two schedules and a related note concerning the funded status of the Plan. The Note to Required Supplementary Information provides additional trend information as of the valuation date. This information includes actuarial cost method, amortization method, remaining amortization period, asset valuation period and actuarial assumptions.

The Other Supplementary Information consists of two schedules concerning the actuarial accrued liability of the Plan and the revenues by source and expenses by type for the past 10 years of the Plan.

Financial Analysis

The Plan provides retirement benefits to University of California employees. Plan benefits are funded by member and employer contributions and by investment income. The Plan's net assets held in trust for benefits as of June 30, 2004, amounted to $39.2 billion, an increase of $3.9 billion or 11.0 percent compared to $35.3 billion at June 30, 2003, and an increase of $885 million or 2.6 percent from $34.4 billion at June 30, 2002.

Additions (or reductions) to the Plan's net assets held in trust for benefits include contributions and investment income or loss. In 2004, total additions were $5.0 billion compared to $1.9 billion in 2003 and total reductions of $3.5 billion in 2002. Member and employer contributions during 2004 amounted to $7.6 million compared to $7.9

million in 2003 and $3.1 million in 2002, for service credit buybacks and other transfers.

The Plan recognized net investment income of $4,991.5 million during 2004, compared to net investment income of $1,884.9 million in 2003 and a net investment loss of $3,468.5 million in 2002. The investment gains in 2004 and 2003 were due primarily to a recovery in the domestic and foreign equity markets and decline in interest rates. The investment loss in 2002 was due primarily to the continued downturn in the domestic and foreign equity markets during that year.

Fiduciary Net Assets

(in thousands)

June 30	2004	2003	2002
Assets			
Short-Term Investment Pool and receivables	$ 516,450	$ 324,398	$ 1,034,385
Investments	38,946,338	35,144,388	34,055,519
Investment of securities lending collateral	6,237,691	5,413,706	5,468,665
Total Assets	**45,700,479**	**40,882,492**	**40,558,569**
Liabilities			
Payable for securities purchased, member withdrawals, refunds and other payables	274,330	142,079	650,629
Collateral held for securities lending	6,238,489	5,413,601	5,466,135
Total Liabilities	**6,512,819**	**5,555,680**	**6,116,764**
Net Assets Held in Trust for Pension Benefits	**$39,187,660**	**$ 35,326,812**	**$34,441,805**

Changes in Fiduciary Net Assets

(in thousands)

Year Ended June 30	2004	2003	2002
Additions (Reductions)			
Employer contributions	$ 5,150	$ 811	$ 118
Member contributions	2,503	7,060	2,954
Investment Income (Loss)	4,991,468	1,884,882	(3,468,499)
Other	7,196	7,502	7,785
Total Additions (Reductions)	**5,006,317**	**1,900,255**	**(3,457,642)**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	1,064,180	954,887	917,747
Member withdrawals	57,236	32,665	26,460
Administrative and other expenses	24,053	27,696	26,246
Total Deductions	**1,145,469**	**1,015,248**	**970,453**
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 3,860,848**	**$ 885,007**	**$(4,428,095)**

Investments

At June 30, 2004, the Plan held $26.0 billion in domestic equity, non-U.S. and private equity securities, compared to $23.6 billion at June 30, 2003, and $21.5 billion at June 30, 2002.

The domestic equity portfolio return was 20.5 percent in 2004, 0.3 percent in 2003 and (21.4) percent in 2002, compared to the Plan's domestic equity policy benchmark returns of 20.5 percent, 0.7 percent, and (17.4) percent, respectively.

The non-U.S. equity portfolio return was 32.4 percent in 2004, (4.0) percent in 2003, and (7.4) percent in 2002, compared to the Plan's non-U.S. equity policy benchmark returns of 32.5 percent, (4.2) percent, and (8.2) percent, respectively.

The private equity portfolio return was 18.4 percent in 2004, (21.5) percent in 2003, and (14.9) percent in 2002, compared to the Plan's private equity policy benchmark returns of 18.4 percent, (22.3) percent, and (14.8) percent, respectively.

At June 30, 2004, the Plan held $12.6 billion in U.S. government, other U.S. dollar-denominated and non-U.S. fixed income securities, compared to $11.5 billion at June 30, 2003 and $12.6 billion at June 30, 2002.

The fixed income portfolio earned a total return of (0.8) percent in 2004 and 16.0 percent in 2003 and 9.5 percent in 2002, compared to the Plan's fixed income policy benchmark returns of (0.8) percent, 15.1 percent, and 8.8 percent, respectively.

The Plan's total fund investment rate of return was 14.3 percent in 2004, 5.6 percent in 2003 and (9.2) percent in 2002, compared to the Plan's total fund policy benchmark returns of 14.1 percent, 5.4 percent, and (7.7) percent, respectively.

Funded Status

The Plan's actuarial value of assets available for benefits was $41.3 billion at June 30, 2004, compared to $41.4 billion at June 30, 2003, and $41.6 billion at June 30, 2002. The actuarial accrued liability was $35.0 billion compared to $32.9 billion at June 30, 2003, and $30.1 billion at June 30, 2002. The Plan's actuarial surplus was $6.3 billion compared to $8.5 billion during 2003 and $11.5 billion during 2002. The funded percentage at June 30, 2004, was 117.9 percent compared to 125.7 percent at June 30, 2003, and 138.4 percent at June 30, 2002.

An analysis of the funding progress and employer contributions, and a discussion of actuarial assumptions and methods are set forth in the required supplementary information section of the financial statements.

Fiduciary Responsibilities

The Board of Regents of the University of California is fiduciary of the Plan. Under law, the assets can only be used for the exclusive benefit of Plan members, retirees, beneficiaries and administrative expenses.

Requests for Information

This financial report is designed to provide The Regents, the UCRS Advisory Board, members, retirees and others with a general overview of the Plan's financial posture and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

University of California
Office of the President–HR/Benefits Dept.
Financial Services and Plan Disbursements
300 Lakeside Drive, Suite 400
Oakland, CA 94612
website address: http://atyourservice.ucop.edu

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Report of Independent Auditors

To The Regents of the University of California:

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 16 through 25) present fairly, in all material respects, the financial position of the University of California Retirement Plan (the Plan) at June 30, 2004 and 2003, and the changes in fiduciary net assets for the years ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 17, 2004

Statements of Fiduciary Net Assets

(in thousands)

June 30	2004	2003
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$22,551,860	$20,470,909
Foreign	2,867,859	2,250,591
Private	542,158	531,347
Fixed income securities:		
U.S. government	5,414,665	5,720,076
Other U.S. dollar denominated	7,109,160	5,727,276
Foreign	77,294	94,267
Short-Term Investment Pool	117,041	66,939
Commingled funds	383,342	349,922
Total Investments	39,063,379	35,211,327
Investment of cash collateral	6,237,691	5,413,706
Receivables:		
Contributions	84,709	89,014
Interest and dividends	146,570	139,662
Securities sales and other	168,130	28,783
Total Receivables	399,409	257,459
Total Assets	**45,700,479**	**40,882,492**
Liabilities		
Payable for securities purchased	170,459	107,005
Member withdrawals, refunds and other payables	103,871	35,074
Collateral held for securities lending	6,238,489	5,413,601
Total Liabilities	**6,512,819**	**5,555,680**
Net Assets Held in Trust for Pension Benefits*	**$39,187,660**	**$35,326,812**

**See Required Supplementary Schedule of Funding Progress.*
See accompanying Notes to Financial Statements.

Statements of Changes in Fiduciary Net Assets

(in thousands)

Years Ended June 30	2004	2003
Additions (Reductions)		
Contributions:		
Employer	$ 5,150	$ 811
Members	2,503	7,060
Total Contributions	7,653	7,871
Investment Income:		
Net appreciation in fair value of investments	3,957,949	938,116
Interest, dividends, and other investment income	1,021,039	933,041
Securities lending income	70,877	98,589
Less investment expenses	(58,397)	(84,864)
Total Investment Income	4,991,468	1,884,882
Interest Income from Contributions Receivable	7,196	7,502
Total Additions	**5,006,317**	**1,900,255**
Deductions		
Benefit Payments:		
Retirement payments	729,138	658,133
Member withdrawals	57,236	32,665
Cost-of-living adjustments	148,558	136,728
Lump sum cashouts	123,853	102,181
Preretirement survivor payments	24,237	21,696
Disability payments	31,900	29,311
Death payments	6,494	6,838
Total Benefit Payments	1,121,416	987,552
Expenses:		
Plan administration	22,987	25,613
Other	1,066	2,083
Total Expenses	24,053	27,696
Total Deductions	**1,145,469**	**1,015,248**
Increase in Net Assets Held in Trust for Pension Benefits	**3,860,848**	**885,007**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	35,326,812	34,441,805
End of Year	$39,187,660	$35,326,812

See accompanying Notes to Financial Statements.

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NOTE 1—DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES

GENERAL INTRODUCTION—

The Plan is a defined benefit plan providing lifetime retirement income, disability protection, death benefits, and preretirement survivor benefits to eligible employees of the University of California (the University) and its affiliates. Established in 1961, membership in the Plan is required for all employees appointed to work at least 50 percent time for a year or more.

Generally, employees with limited appointments, employees in contract positions, employees in "non-career" positions at the Department of Energy laboratories, and certain academic employees may become eligible for UCRP membership after working 1,000 hours in a rolling, continuous 12-month period. Generally, five years of service are required for entitlement to Plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit. An offset formula is used for Social Security members. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a 36-month period, adjusted for annual Internal Revenue Code (IRC) §401(a)(17) and §415 limitations. Cost-of-living adjustments (COLAs) are tied to the Consumer Price Index (CPI), according to and limited by a specified formula. Ad hoc COLAs are subject to funding availability.

The Plan also offered three Voluntary Early Retirement Incentive Programs (VERIPs) adopted by The Regents, which granted enhanced benefits to certain eligible members upon electing early retirement. The VERIPs are known as Plus 5 (fiscal year 1991-1992), Take 5 (fiscal year 1992-1993) and VERIP III (fiscal year 1993-1994).

The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members. At June 30, 2004, there were 117,100 active members with Social Security, 6,165 active members without Social Security, 399 active Safety members and 53 active Tier Two members.

Members' contributions are recorded separately and accrue interest at an annual compounded rate of 6 percent, credited monthly. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect a lump sum payment equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

From July 1, 1966, to June 30, 1971, the Plan maintained a noncontributory period for most members; contributions were required only from members who had reached age 30 and had at least one year of service. Plan 02 accounts were established to keep track of contributions that would have been deducted had a member been contributing during this period. Future retirement benefits for members with Plan 02 accounts are reduced to account for the contributions that were not made, unless the member repays the Plan 02 balance.

For the period from July 1, 1987, to July 1, 1990, qualifying Plan members could elect to participate in noncontributory Plan membership known as Tier Two. Tier Two provides a lower level of retirement income, disability protection and survivor benefits, calculated using specific Tier Two formulas based on the member's salary rate, age and years of service credit.

Plan members may also have a balance in the Plan consisting of Capital Accumulation Provision (CAP) allocations, which were credited in behalf of eligible members on various dates in 1992, 1993, 1994, 2002 and 2003. Provided to supplement basic Plan benefits, the allocations were equal to a percentage of the eligible member's covered compensation paid during the specified period. The CAP balance is generally payable in a lump sum at retirement or separation from service and includes interest credited monthly equal to an annual percentage yield (APY) of 8.5 percent for allocations made in 1992, 1993, and 1994. For allocations made in 2002 and 2003, the interest credited monthly is equal to the actuarial investment rate of return assumption of the Plan, which currently equates to an APY of 7.5 percent. The APY applied to the 2002 and 2003 allocation will vary according to changes in the investment rate of return assumption.

At June 30, 2004, Plan membership consisted of 39,738 retirees and beneficiaries currently receiving benefits, 21,328 terminated vested employees entitled to benefits but not yet receiving them and 18,546 terminated non-vested employees entitled to a refund of their Plan accumulations or Capital Accumulation Provision payment. Of current employees, 70,480 are fully vested and 53,237 are nonvested active employees covered by the Plan.

Employer contributions are made to the Plan in behalf of all members. The rate of employer contributions is established annually pursuant to The Regents' funding policy (see Note 4) as a percentage of covered wages, recommended and certified by an enrolled, independent actuary, and approved by The Regents, the Plan's Trustees.

Basis of Accounting—

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and the accrual basis of accounting.

Valuation of Investments—

Investments are primarily stated at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the bid market price of a dealer who regularly trades in the security being valued. The fair value of interests in venture capital partnerships is estimated based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts and cash and securities disbursements through June 30. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

Accounting for Investments—

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plan's Statement of Changes in Fiduciary Net Assets.

Administrative Expenses—

Administrative expenses are incurred in connection with the operation of the Plan for items such as staff salaries and benefits, investment management, information systems, supplies and equipment, and professional services rendered by the Plan actuary, legal counsel, and independent auditor. Total Plan administrative expenses, which are paid from Plan assets, represent approximately $23.0 million or 0.06 percent and $25.6 million or 0.07 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2004 and 2003.

Income Tax Status—

The Internal Revenue Service has determined and informed the University by letter dated January 9, 1997, that the Plan and related trust are designed and operated in accordance with applicable sections of the IRC of 1986, as amended, applicable to governmental defined benefit pension plans. The Plan has been amended since receiving the determination letter. The University has requested a determination from the IRS that the Plan, as amended, is qualified as to form. The Plan's tax counsel believes that the form of the Plan as currently designed is in material compliance with the applicable requirements of IRC §401(a) and the related trust tax exemption under IRC §501(a).

Use of Estimates in the Preparation of Financial Statements—

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension benefits during the reporting period. These significant estimates include the actuarial value of assets available for benefits at the date of the financial statements. Actual results could differ from those estimates.

Comparative Information—

Certain reclassifications have been made to the 2003 information in order to conform to the 2004 presentation.

Note 2—Investments

The Regents, as the governing Board, is responsible for the management of the Plan's investments and establishes investment policy, which is carried out by the Treasurer. Investments authorized by The Regents for the Plan include equity securities, fixed-income securities, domestic and foreign index funds and real estate. The equity portion of the investment portfolio may include both domestic and foreign common stocks and preferred stocks, actively managed and passive (index) strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-out and international funds.

The fixed income portion of the investment portfolio may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. The Plan's investment portfolio also includes certain foreign denominated securities. To reduce the exposure to foreign currency currency fluctuations inherent in such investments, the Treasurer may enter into foreign currency forward contracts and options. Under the investment policies, such instruments are not permitted for speculative use or to create leverage. The Plan participates in the University's Short-Term Investment Pool (STIP). Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five years. Current funds for benefits and administrative expenses are invested in the STIP until expended. The Plan's securities are registered in the Plan's name by the custodial bank as an agent for the Plan. Investments that are not categorized include venture capital/private equity funds, mortgage loans, commingled funds and other investments.

The total investment return, representing income plus net appreciation (depreciation) on investments, was 14.3 percent and 5.6 percent, respectively, for the years ended June 30, 2004, and 2003. Net appreciation in the fair value of investments during the year ended June 30, 2004, was $3,957.9 million. This amount includes all changes in fair value, including both realized and unrealized gains and losses that occurred during the year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year end. During the year ended June 30, 2004, the Plan realized a net gain of $4,309.3 (on an average cost basis) from the sale of investments. The unrealized depreciation during the year on investments held at year end by the Plan was $351.4 million.

The components of the net depreciation of investments are as follows:

Net Appreciation (Depreciation) in Fair Value of Investments *(in thousands)*

	2004	2003
Unrealized Appreciation (Depreciation)		
Equity and private equity securities*	$ 488,902	$(1,537,507)
Fixed income securities	(918,917)	451,190
Commingled funds	79,562	
Investment of cash collateral	(902)	(2,427)
Net Unrealized Depreciation	(351,355)	(1,088,744)
Realized Gains		
Sales of securities	4,309,304	2,026,860
Net Appreciation	$3,957,949	$ 938,116

**Includes $1.8 million and $25.7 million of net depreciation in estimated fair value of investments related to private equity securities for the years ended June 30, 2004, and 2003, respectively.*

Note 3—Securities Lending

The Plan participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the Plan or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Any collateral securities cannot be pledged or sold by the Plan unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower, shown as "Collateral held for securities lending" in the financial statements, is invested by the lending agent, as an agent for the Plan, in a short-term investment fund in the name of the Plan, with guidelines approved by the University. These short-term investments are shown as "Investment of cash collateral," in the Statement of Fiduciary Net Assets and are not considered to be categorized.

Securitites collateral received from the borrower is held in an investment pool by the Plan's custodian bank.

At June 30, 2004, and 2003, the securities in this pool had weighted average expected maturity of 149 and 248 days, respectively. The Plan records a liability for the return of the cash collateral shown as "Collateral held for securities lending," in the Statement of Fiduciary Net Assets.

Securities lending transactions at June 30, 2004, and 2003 are as follows:

	(in thousands)	
Securities Lent	**2004**	**2003**
For cash collateral:		
Equity securities:		
Domestic	$ 332,460	$ 509,339
International	622,799	431,650
Fixed income securities:		
U.S. government	5,001,440	4,170,014
Other U.S. dollar denominated	182,414	56,332
Lent for Cash Collateral	**6,139,113**	**5,167,335**
For securities collateral:		
Equity securities:		
Domestic	6,040	5,051
International	7,885	
Fixed income securities:		
U.S. government	336,719	713,228
Lent for Securities Collateral	350,644	718,279
Total Securities Lent	**$6,489,757**	**$5,885,614**
Collateral Received		
Total collateral received	$6,238,489	$6,167,341
Investment of Cash Collateral		
Total investment of cash collateral	$6,237,691	$5,413,706

Securities on loan for cash collateral are not required to be categorized. At June 30, 2004, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The Plan is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

The Plan receives interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to provide a fee and rebate to the borrower.

Note 4—Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions Made—

The Regents' funding policy provides for actuarially determined periodic contributions at rates that provide for sufficient assets to be available when benefits are due, measured in line with the minimum contribution requirements set forth in IRC §412. The contribution rate is determined using the entry age normal actuarial funding method. The entry age normal funding method has been utilized since 1975 as the fundamental basis for the valuation of retirement benefits. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the unfunded actuarial accrued liability. Under the current funding policy, the Plan is fully funded at June 30, 2004, and 2003.

As of June 30, 2004, and 2003, the difference between the net assets held in trust for pension benefits presented in the Statements of Fiduciary Net Assets and the net assets allocated to fund the actuarial accrued liability (shown on page 28) was as follows:

	(in millions)	
	2004	**2003**
Net Assets Held in Trust for Pension Benefits	$39,187.7	$35,326.8
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	2,105.4	6,102.5
Net assets allocated to fund the actuarial accrued liability	$41,293.1	$41,429.3

The difference between smoothed market value and fair value is not considered available by Plan management for purposes of calculating the net assets allocated to fund the actuarially determined accrued liability.

Mandatory employee contributions, made as a condition of employment, are based upon covered University wages less a specified monthly reduction, determined periodically by The Regents, as shown below:

Member Assessment*

	Members Without Social Security	Members With Social Security		Safety Members	
Effective:		**Below Wage Base**	**Above Wage Base**		**Monthly Reduction**
07/01/93	3.0%	2.0%	4.0%	3.0%	$19
11/01/90	4.5%	2.0%	4.0%	8.0%	$19
06/30/90	6.0%	2.0%	4.0%	8.0%	$19

**The entire member assessment was directed to the Defined Contribution Plan during Fiscal Year 2003-2004.*

At June 30, 2004, and 2003, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately $667.1 million and $707.3 million, respectively. The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and in conformance with the full funding definitions set forth in IRC §412. Employer contributions, if any, are credited as a percentage of covered University pay. The recommended employer contributions when combined with member contributions are intended to accumulate sufficient assets to fund the actuarial accrued liability under the entry age normal cost method in order to pay accumulated the Plan benefits to vested members.

Employee Assessment

Effective:	Members With Social Security, Members Without Social Security and Tier Two Members	Safety Members
11/01/90	0.00%	0.00%
01/01/90	4.03	3.77

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries, (b) beneficiaries of deceased members and (c) present members or their beneficiaries.

Accumulated Plan benefits are based on members' compensation histories and years of service rendered as of the valuation date of June 30, 2004, and 2003.

Note 5—Contributions Receivable

Contributions receivable includes $83.2 million and $87.2 million at June 30, 2004, and 2003, respectively, related to agreements with the State of California (the State) and the University in behalf of the Plan. In 1984, the State agreed to pay the University for contributions due to the Plan of $66.5 million in 30 annual installments of approximately $5.9 million, including interest at 8 percent, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay the University for contributions due to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

Note 6—Plan Termination

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend or discontinue the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, its assets shall be applied solely for the benefit of retired, vested or active participants and beneficiaries, until all liabilities of the Plan have been satisfied.

Once all liabilities have been satisfied, any excess assets shall revert to The Regents as the Plan's Trustees. Neither The Regents as Trustees nor the University carry termination insurance for the Plan, as the Plan is not subject to ERISA Title IV provisions, nor is it overseen by the Pension Benefit Guaranty Corporation.

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets available for benefits, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability or assets in excess of the actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability or surplus as a percentage of annual covered payroll generally adjusts for the effects of inflation and aids in the analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Years Ended June 30

($ in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets Available for Benefits	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)	(5) Annual Covered Payroll	(6) Actuarial Surplus as a Percentage of Annual Covered Payroll (3)÷(5)
2004	$41,293.1	$35,034.2	$6,258.9	117.9%	$7,835.2	79.9%
2003	41,429.3	32,954.8	8,474.5	125.7	7,733.8	109.6
2002	41,648.8	30,099.6	11,549.2	138.4	7,226.5	159.8
2001	40,554.5	27,451.2	13,103.3	147.7	6,539.2	200.4
2000	37,026.2	24,067.2	12,959.0	153.8	5,903.2	219.5
1999	32,086.8	22,157.0	9,929.8	144.8	5,346.9	185.7

Required Schedule of Employer Contributions

Since 1990-1991, the University has not been required to make employer contributions to the Plan due to the fully funded status of the Plan.

Actuarial Information

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuations is as follows:

Additional Trend Information

Valuation Date **As of June 30**	**2004**	**2003**
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent open	Level percent open
Remaining amortization period	5.92 Years	8.38 Years
Asset valuation method	5-Year smoothed market	5-Year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases*	4.5-6.5%	4.5-6.5%
Cost-of-living adjustments	2.00%	2.00%

**Includes inflation assumption at 4% for fiscal year 2003-2004.*

Note: The projected salary increases will be 2.0% lower for the period July 1, 2004, through June 30, 2007.

The actuarial assumptions are based on the presumption that the Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $35.0 billion and $33.0 billion at June 30, 2004, and 2003, respectively. This liability is then compared against the actuarial value of Plan assets to determine the annual required contribution to fund the Plan.

Actuarial Accrued Liability

(in millions)

	2004	2003
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$13,810.1	$12,278.0
Current employees:		
Accumulated employee contributions, including allocated investment earnings	667.1	707.3
Employer-financed vested	19,195.7	18,581.6
Employer-financed nonvested	1,361.3	1,387.9
Total actuarial accrued liability – entry age normal cost basis	35,034.2	32,954.8
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	41,293.1	41,429.3
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	$ 6,258.9	$8,474.5

REVENUES BY SOURCE AND EXPENSES BY TYPE FOR THE PAST TEN YEARS

REVENUES BY SOURCE

(in thousands)

Year Ended June 30	Member Contributions	Employer Contributions	Investment & Other Income*	Total
2004	$2,503	$5,150	$4,998,664	$5,006,317
2003	7,060	811	2,981,128	2,988,999
2002	2,954	118	2,294,398	2,297,470
2001	4,405	517	8,181,322	8,186,244
2000	3,248	438	5,199,594	5,203,280
1999	2,755	472	4,489,379	4,492,606
1998	3,162	328	3,830,508	3,833,998
1997	2,491	358	2,902,893	2,905,742
1996	2,081	331	1,242,516	1,244,928
1995	2,436	407	999,291	1,002,134

EXPENSES BY TYPE

(in thousands)

Year Ended June 30	Benefits**	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2004	$1,064,180	$24,053	$57,236	$1,145,469
2003	954,887	27,696	32,665	1,015,248
2002	917,747	26,246	26,460	970,453
2001	856,876	23,224	23,881	903,981
2000	793,927	16,520	20,016	830,463
1999	725,543	20,110	17,453	763,106
1998	667,108	13,956	15,319	696,383
1997	622,744	12,517	15,259	650,520
1996	584,367	13,829	14,981	613,177
1995	587,552	17,492	22,979	628,023

** This includes investment income, net realized gains or losses on the sales of investments, and miscellaneous income net of investment expenses. It does not include unrealized gains or losses in the value of assets.*

***Does not include member withdrawals.*

The objective of Management's Discussion and Analysis is to help readers of the University of California PERS Voluntary Early Retirement Incentive Program (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2004, with selected comparative information for the year ended June 30, 2003. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets of the Plan at June 30, 2004, are $75.7 million compared to $71.5 million at June 30, 2003, and $72.8 million at June 30, 2002. The net assets are available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries.
- The net assets of the Plan increased by $4.3 million, or 6.0 percent, compared to a decrease of $1.3 million in 2003, or (1.8) percent, and a decrease of $11.9 million in 2002, or (14.0) percent.
- The Plan's total investment rate of return was 14.3 percent in 2004 compared to 5.6 percent in 2003 and (9.2) percent in 2002.
- As of June 30, 2004, the date of the most recent actuarial valuation, the Plan's funded ratio was 159.5 percent compared to 144.9 percent at June 30, 2003, and 142.6 percent at June 30, 2002. For June 30, 2004, this indicates that for every dollar of benefits due to the Plan's members, assets of $1.60 are available to cover benefit obligations compared to $1.45 at June 30, 2003 and $1.43 at June 30, 2002.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements
- Required Supplementary Information and Note to Required Supplementary Information
- Other Supplementary Information

The Statements of Fiduciary Net Assets presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables, and other assets and liabilities.

The Statements of Changes in Fiduciary Net A*ssets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2004, and 2003. It reflects investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits are also presented.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the financial statements.

The Required Supplementary Information consists of two schedules and a related note concerning the funded status of the Plan.

The Note to Required Supplementary Information provides additional trend information as of the valuation date. This information includes actuarial cost method, amortization method, remaining amortization period, asset valuation period, and actuarial assumptions.

The Other Supplementary Information consists of a schedule concerning the actuarial accrued liability of the Plan.

Financial Analysis

The Plan provides retirement benefits to UC-PERS members who elected early retirement under the provisions of the Plan. Plan benefits are funded by employer contributions and by investment income. The Plan's net assets held in trust for benefits at June 30, 2004, amounted to $75.7 million compared to $71.5 million at June 30, 2003, and $72.8 million at June 30, 2002.

Additions to the Plan's net assets held in trust for benefits include investment income or loss. There were no employer contributions during the 2003-2004 fiscal years. The Plan recognized a net investment income of $9.9 million compared to $4.3 million in 2003 and a net investment loss of $7.3 million in 2002. The investment gains in 2004 and 2003 were due primarily to a recovery in the domestic and foreign equity markets and decline in interest rates. The

Fiduciary Net Assets

(in thousands)

June 30	2004	2003	2002
Assets At Fair Value	$76,201	$71,511	$72,759
Liabilities	462	60	3
Net Assets Held in Trust for Pension Benefits	**$75,739**	**$71,451**	**$72,756**

Changes in Fiduciary Net Assets

(in thousands)

Years Ended June 30	2004	2003	2002
Additions (Reductions)			
Investment income (loss)	$ 9,861	$4,314	$ (7,324)
Total Reductions	**9,861**	**4,314**	**(7,324)**
Deductions			
Retirement payments and other expenses	5,573	5,619	4,550
Total Deductions	**5,573**	**5,619**	**4,550**
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 4,288**	**$(1,305)**	**$(11,874)**

investment loss in 2002 was due primarily to the continued downturn in the domestic and foreign equity markets during that year.

Retirement benefit payments and other expenses were the only deductions from the Plan's net assets held in trust for benefits. For 2004 and 2003, deductions amounted to $5.6 million, compared to $4.6 million in fiscal 2002. The increase in 2003 compared to 2002 was due to a one–time cost–of–living increase of 25 percent on retirement income benefit payments effective July 1, 2002.

Investments

The assets of the Plan are combined for investment purposes with the assets of the University of California Retirement Plan (UCRP).

Funded Status

The Plan's actuarial value of assets available for benefits was $75.7 million, compared to $71.5 million at June 30, 2003 and $72.8 million at June 30, 2002. The actuarial accrued liability was $47.5 million compared to $49.3 million at June 30, 2003 and $51.0 million at June 30, 2002. The Plan's total surplus was $28.2 million, compared to $22.1 million at June 30, 2003 and $21.7 million at June 30, 2002.

Fiduciary Responsibilities

The Board of Regents of the University of California (The Regents) is fiduciary of the Plan. Under law, the assets can only be used for the exclusive benefit of Plan retirees and beneficiaries.

Requests for Information

This financial report is designed to provide The Regents, the UCRS Advisory Board, retirees and others with a general overview of the Plan's financial posture. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

University of California
Office of the President-HR/Benefits Department
Financial Services and Plan Disbursements
300 Lakeside Drive, Suite 400
Oakland, CA 94612
website address: http://atyourservice.ucop.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Suite 600
400 Capitol Mall
Sacramento CA 95814-4602
Telephone (916) 930 8100
Facsimile (916) 930 8450

Report of Independent Auditors

To The Regents of the University of California:

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 33 through 35) present fairly, in all material respects, the financial position of the University of California PERS Voluntary Early Retirement Incentive Program Plan (the Plan) at June 30, 2004 and 2003, and the changes in fiduciary net assets for the years ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 17, 2004

Statements of Fiduciary Net Assets

(in thousands)

June 30	2004	2003
Assets at Fair Value	$76,201	$71,511
Liabilities	462	60
Net Assets Held in Trust for Pension Benefits	**$75,739**	**$71,451**

Statements of Changes in Fiduciary Net Assets

(in thousands)

Years Ended June 30	2004	2003
Additions		
Investment Income	$ 9,861	$ 4,314
Deductions		
Retirement Payments	5,561	5,608
Administrative Expenses	12	11
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	4,288	(1,305)
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	71,451	72,756
End of Year	**$75,739**	**$71,451**

See accompanying Notes to Financial Statements.

Note I—Description of the Plan and Significant Accounting Policies

General Introduction–

The University of California PERS Voluntary Early Retirement Incentive Program (the Plan) is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC-PERS members who elected early retirement under the provisions of the Plan. The University of California contributed to the California Public Employees' Retirement System (PERS) in behalf of these UC-PERS members.

Generally, to participate in the Plan, an eligible employee was required to elect concurrent retirement under PERS and the Plan effective October 1, 1991; must have had Plan Age plus Plan Service Credit equal to 80 years as of September 30, 1991, if classified as a Qualified Academic Senate Faculty Member, or equal to 75 years if not classified as a Qualified Academic Senate Faculty Member. Of 1,579 eligible employees, 879 elected to retire under this voluntary early retirement incentive program.

The cost of contributions made to the Plan is borne entirely by the employer. Over the five-year period ended June 30, 1996, employer contributions were required to be made to the Plan as determined by the Plan actuary sufficient to maintain the promised benefits and the quali-fied status of the Plan under the regulations of the Internal Revenue Code of 1986 (IRC). No additional contributions are required as long as the Plan remains fully funded under the actuarial basis used by the Plan.

Basis of Accounting–

The financial statements have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and on the accrual basis of accounting.

Valuation of Investments–

The assets of the Plan are combined for investment purposes with the assets of the University of California Retirement Plan (UCRP) with separate accounting for each Plan. Accordingly, the assets of the Plan are valued based on a pooled interest of the combined investments. The two Plans are separate trusts, and each Plan is accounted for on a separate basis.

Investments are primarily stated at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the bid market price of a dealer who regularly trades in the security being valued. The fair value of interests in venture capital partnerships is estimated based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts and cash and securities disbursements through June 30. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

Accounting for Investments–

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plan's Statement of Changes in Net Assets.

Administrative Expenses–
Administrative expenses of the Plan are paid by an annual account servicing charge of $10 per participant.

Income Tax Status–
The Plan is intended to qualify under the statutory requirements of the Internal Revenue Code of 1986, as amended, applicable to governmental defined benefit pension plans. The Plan's tax counsel believes that the form of the Plan as currently designed is in material compliance with the applicable requirements of IRC §401(a) and the related trust tax exemption under IRC §501(a).

Use of Estimates in the Preparation of Financial Statements–
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension benefits during the reporting period. These significant estimates include the actuarial value of assets available for benefits at the date of the financial statements. Actual results could differ from those estimates.

Note 2–Investments
The Plan's investments of $76.2 million are combined for investment purposes with the assets of UCRP with separate accounting for each Plan.

The total investment return, representing income plus net appreciation on investments, was 14.3 percent and 5.6 percent, respectively, for the years ended June 30, 2004, and 2003.

Note 3–Contributions and Reserves
Actuarially Determined Contribution Requirements and Contributions–
The Regents' funding policy provides for actuarially determined lump sum or periodic contributions to be made by the University in behalf of Plan members at rates that provide for sufficient assets to be available when benefits are due. As of June 30, 2003, and 2002, the Plan was fully funded and no annual contributions were required.

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired members or their beneficiaries and (b) beneficiaries of deceased members.

Note 4–Plan Termination
The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, Plan assets shall be applied solely for the benefit of retired members and their beneficiaries until all liabilities of the Plan have been satisfied.

In the event Plan assets available for benefits are insufficient to meet its obligations, The Regents' funding policy provides for additional contributions to be made in behalf of Plan members by the University.

Once all liabilities have been satisfied, any excess assets shall revert to the Plan Administrator for discharge of operational expenses. Neither The Regents as Trustees nor the University carry termination insurance for the Plan, as the Plan is not subject to ERISA Title IV provisions, nor is it overseen by the Pension Benefit Guaranty Corporation.

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets available for benefits, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Years Ended June 30 *($ in thousands)*

Actuarial Valuation Date	(1) Actuarial Value of Assets Available for Benefits*	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)
6/30/04	$75,738	$47,482**	$28,256	159.5%
6/30/03	71,451	49,319**	22,132	144.9
6/30/02	72,756	51,021**	21,735	142.6
6/30/01	84,630	41,032**	43,598	206.3
6/30/00	94,682	41,871	52,811	226.1
6/30/99	82,786	43,311	39,475	191.1

** Reported at fair value.*
*** Includes present value of administrative expenses equal to 1 percent of actuarial accrued liability.*

Because 100 percent of the members in the Plan are retired, there is no annual covered payroll.

Required Schedule of Employer Contributions

Since 1998, the University has not been required to make employer contributions to the Plan due to the fully funded status of the Plan.

Actuarial Information

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuation is as follows:

Additional Trend Information

Valuation Date **As of June 30**	**2004**	**2003**
Actuarial cost method	Unit Credit	Unit Credit
Amortization method	N/A	N/A
Remaining amortization period	N/A	N/A
Asset valuation method	Fair Value	Fair Value
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases	N/A	N/A
Cost-of-living adjustments	None	None

** Includes inflation assumption at 4% for fiscal year 2003-2004.*

The actuarial assumptions are based on the presumption that the Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

The total net assets available in excess of the total actuarial accrued liability (AAL) of the Plan based on the measure of the AAL, which uses the unit credit basis, as appears in the actuarial valuation, was approximately $28.2 million at June 30, 2004, and $22.1 million at June 30, 2003, as follows:

Actuarial Accrued Liability

	(in millions) 2004	2003
Retirees and beneficiaries currently receiving benefits*	$47.5	$49.3
Total actuarial accrued liability - unit credit basis	47.5	49.3
Net assets allocated to fund the actuarial accrued liability, at fair value	75.7	71.4
Actuarial value of assets in excess of the actuarial accrued liability - unit credit basis	$28.2	$22.1

** Includes present value of administrative expenses equal to 1 percent of actuarial accrued liability.*

UCRS Advisory Board

Member	Location	Term
Robert M. Anderson	UC Berkeley	July 2002 – June 2006
Stephen Barclay	UC San Francisco	July 2000 – June 2004
Patrick G. Clelland (Chair)	Lawrence Livermore National Lab	October 2001 – June 2005
Jacqueline Edwards	UC San Diego	June 2002 – June 2006
Anne C. Paden	UC Irvine	April 2001 – June 2004
Daniel J.B. Mitchell	UC Los Angeles	July 2000 – June 2004
Joseph P. Mullinix	Office of the President	Permanent
David H. Russ	Office of the Treasurer	Permanent
Lori C. Stein	UC Los Angeles	July 1999 – June 2004

None of the UCRS Board members received any compensation from the Plan for services rendered during fiscal year 2003–2004.

UCRS Investment Management

Treasurer	David H. Russ

Plan Administration

Plan Administrator—University President	Robert C. Dynes
Senior Vice President	Joseph P. Mullinix
UCRS Internal Counsel	Barbara A. Clark
Plan Policy and Administrative Operations	Human Resources and Benefits Department
Associate Vice President	Judith W. Boyette
Deputy and Executive Director	Judy F. Ackerhalt
Executive Director—Policy and Program Design	Michele E. French
Executive Director—Client Relations	Kay Miller
Director—Financial Services and Plan Disbursements	David L. Olson
Director—Information Systems Support	Michael C. Baptista
Associate Director—Communications	Carl S. Klompus
Plan Actuary	
June 30, 2004 Valuation	The Segal Company
June 30, 2003 Valuation	Towers Perrin
Independent Plan Auditor	PricewaterhouseCoopers LLP

ADDITIONAL COPIES OF THIS REPORT ARE AVAILABLE

University of California
Human Resources and Benefits
300 Lakeside Drive, 5th Floor
Oakland, CA 94612-3557

http://atyourservice.ucop.edu

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