SEGAL

Benefits, Compensation and HR Consulting

University of California Retirement Plan

Actuarial Valuation Report

as of July 1, 2006

SEGAL

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October 16, 2006

Ms. Judith W. Boyette
Associate Vice President, Human Resources and Benefits
University of California
1111 Franklin Street, 7th Floor
Oakland, California 94607-5200

Dear Associate Vice President Boyette:

We are pleased to submit this Actuarial Valuation Report as of July 1, 2006 for the University of California Retirement Plan ("UCRP" or "Plan"). It summarizes the actuarial data used in the valuation, recommends contribution rates for the 2006-2007 Plan Year and analyzes the preceding year's experience.

The census and financial information on which our calculations were based was provided by the UC HR/Benefits Staff. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion the assumptions as approved by the Regents are reasonably related to the experience of and future expectations for the Plan.

We look forward to reviewing this report at the November 2006 Regents meeting and to answering any questions.

Sincerely,

THE SEGAL COMPANY

By:

Paul Angelo, FSA, EA, MAAA
Senior Vice President and Actuary

John Monroe, ASA, EA, MAAA
Associate Actuary

JZM/gxk

SECTION 1

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SECTION 1: Executive Summary of the Valuation for the University of California Retirement Plan

Purpose

This report has been prepared by The Segal Company to present a valuation of the University of California Retirement Plan ("UCRP" or "Plan") as of July 1, 2006. The valuation was performed to determine if the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Plan,
- The characteristics of covered active members, terminated vested members, retired members, disabled members and beneficiaries as of July 1, 2006,
- The assets of the Plan as of June 30, 2006,
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding member terminations, retirement, death, etc.

Significant Issues in Valuation Year

LOS ALAMOS NATIONAL LABORATORY TRANSFER OF ASSETS AND LIABILITIES

- The University of California contract to manage the Los Alamos National Laboratory (LANL) expired on May 31, 2006. The Department of Energy (DOE) executed a new management and operations contract effective June 1, 2006 with Los Alamos National Security, LLC (LANS). Under the terms of the LANS contract, LANS will sponsor a defined benefit pension plan that is substantially equivalent to the provisions of the UCRP. Assets and liabilities will be transferred from UCRP to the LANS defined benefit plan for the LANL employees who elected to transfer to the new plan, provided the necessary and advisable rulings on the plans and proposed transactions are obtained from the appropriate regulatory agencies.
- There are 6,532 active members who elected to transfer to the LANS defined benefit plan. Their actuarial accrued liability as of July 1, 2006 is approximately $1.4 billion, excluding the liability for their CAP benefits that will be retained by UCRP. This liability is reflected in our valuation results and included with the UCRP active member liabilities. This liability is based on the current UCRP actuarial assumptions, methods and plan provisions. The liability for these members as determined for the LANS defined benefit plan will almost certainly be different, as it will be based on the LANS benefit provisions and the actuarial assumptions and methods used by the LANS actuary.

Significant Issues in Valuation Year (continued)

- The LANL transfer elections reflected in this valuation are based on the transfer election data provided by the University as of August 24, 2006. We anticipate minor changes to the election file information, but we do not believe these changes will have a material impact on the valuation results.
- The amount of assets to be retained in the UCRP for LANL members who have retired or are inactive, and the amount of the assets that may be transferred to the LANS defined benefit plan for the transitioning employees who elected to participate in the LANS defined benefit plan, are not currently known. These amounts will depend on the assumptions used, future discussions with the DOE and appropriate regulatory approvals. For that reason, while this valuation includes results reflecting the LANL transfer elections, it does not reflect the actual transfer of assets and liabilities to the LANS defined benefit plan. This means that the results of this valuation include liabilities even for members who have elected to transfer to the LANS defined benefit plan. As noted above, we have continued to value these members as active UCRP members and their UCRP liabilities are shown as active in the results. LANL employees **who elected not** to transfer to the LANS defined benefit plan are included in the valuation results either as terminated vested or nonvested members, or as retired members if they have retired by July 1, 2006.

ASSETS

- The UCRP investment portfolio consists of approximately 65% equities and 35% fixed income investments. During the 2005-2006 Plan Year, the rate of return on the market value of assets was 7.2%. Due to the recognition of prior investment losses, the rate of return on the actuarial value of assets was 5.9%, which is below the expected return of 7.5%.

FUNDED RATIO

- The Plan's funded ratio on an actuarial basis decreased from 110% as of July 1, 2005 to 104% as of July 1, 2006. This decrease in funded ratio is a result of the investment loss on the actuarial value of assets, an actuarial loss due to salary increases being greater than expected and the fact that no contributions are being made to offset the Plan's normal cost. The Plan is still in an overfunded position as the actuarial value of assets exceeds the actuarial accrued liability by $1.7 billion.
- The actual average increase in salary for UCRP members that were active in both this valuation and the previous valuation was 5.9%. When compared to the average assumed increase of approximately 3.4%, this produces an actuarial loss due to salary increases greater than expected. There is one year remaining of a temporary three-year reduction in the salary increase assumption that models the effect of budgetary constraints. This temporary reduction will be phased out by the July 1, 2007 valuation.

Significant Issues in Valuation Year (continued)

FUTURE EXPECTATIONS

- No contributions are recommended for the 2006-2007 Plan Year. This is due to the application of the full funding policy that The Regents adopted in 1990. See Section 2D of this report for a description of that policy. Member contributions are all currently being redirected to the UC Defined Contribution Plan. It is expected that the Plan's surplus will run out in the next few years and may run out as early as July 1, 2008.
- As indicated on page 4 of this valuation report, the total unrecognized investment gain as of July 1, 2006 is about $1.4 billion. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will serve to offset any investment losses that may occur after July 1, 2006. This implies that if the Plan earns the assumed rate of investment return of 7.50% per year (net of investment expenses) on a **market value** basis, that will result in investment gains on the actuarial value of assets in the next few years.
- The normal cost rate calculated in this valuation includes the second of three expected gradual increases. This is due to phasing out the temporary three-year reduction in the salary increase assumption that models the effect of current budgetary constraints. We expect that there will be another modest increase in the normal cost rate in the next valuation as the period of temporary reduction in the salary increase assumptions is completely phased out.

DEMOGRAPHIC EXPERIENCE

- The number of active members decreased by 1.9% from 124,642 as of July 1, 2005 to 122,317 as of July 1, 2006. Total covered payroll increased by 1.3%, to a level of $8.26 billion. The Plan has 45,442 members currently receiving benefits, an increase of 9.6% from 2005. Total annual benefits in pay status increased by 18.4%, to a level of $1.3 billion. There are also 52,548 terminated members in the Plan who are entitled to future benefits. Within this group of terminated members there are 25,570 terminated vested members who are entitled to a deferred or immediate vested monthly benefit and 26,978 terminated nonvested members who are entitled to a refund of member contributions or payment of their Capital Accumulation Provision (CAP) balance.

Summary of Key Valuation Results

	2006 ($ in 000s)	2005 ($ in 000s)
Contributions for plan year beginning July 1:		
Recommended	$ 0	$ 0
Percentage of payroll	0.00%	0.00%
Funding elements for plan year beginning July 1:		
Normal cost (beginning of year)	$ 1,305,390	$ 1,250,061
Percentage of payroll (beginning of year)	15.81%	15.34%
Percentage of payroll (middle of year)	16.39%	15.90%
Market value of assets	$43,362,224	$41,857,500
Actuarial value of assets (AVA)	41,972,476	41,084,862
Actuarial accrued liability (AAL)	40,301,708	37,252,384
Unfunded/(Overfunded) actuarial accrued liability	(1,670,768)	(3,832,478)
Current liability	33,267,573	30,329,325
GAS* 25/27 for plan year beginning July 1:		
Annual required contributions	$ 0	$ 0
Actual contributions	0	0
Percentage contributed	100.00%	100.00%
Funded ratio (AVA / AAL)	104.1%	110.3%
Covered payroll	$8,258,985	$8,149,640
Demographic data for plan year beginning July 1:		
Number of retired members and beneficiaries	45,442	41,477
Number of vested terminated members**	52,548	47,123
Number of active members	122,317	124,642
Average covered payroll (actual dollars)	$67,521	$65,384

** Governmental Accounting Standards which requires certain reporting information for public sector plans.*
*** Includes terminated nonvested members due a refund of member contributions or CAP balance payment.*

FIVE-YEAR HISTORY OF RECOMMENDED CONTRIBUTIONS AND FUNDED STATUS

Beginning with the 1990 plan year, the Regents adopted a full funding policy. Under that policy, the University will suspend contributions when the smaller of the market value or the actuarial value of Plan assets exceeds the lesser of:

- The actuarial accrued liability (including normal cost), or
- 150% of the estimated current liability (including normal cost).

Normal cost as a percentage of pay has remained relatively stable over the past 5 years ranging from a low of 15.04% for 2004-2005 to a high of 15.81% for 2006-2007. The Plan remains fully funded for 2006-2007 under the UCRP funding policy shown above as once again the assets exceed the actuarial accrued liability.

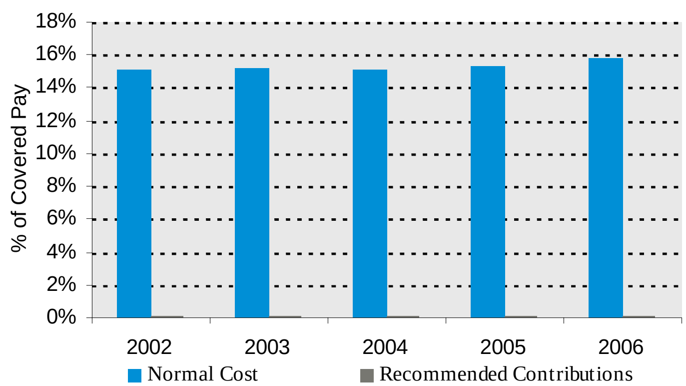
The Plan's funded percentage (actuarial value of assets divided by actuarial accrued liability) has steadily declined over the past five years as shown below:

Plan Year Beg. 7/1	AAL $ in Billions	AVA $ in Billions	Funded Percentage
2002	30.1	41.6	138
2003	33.0	41.4	126
2004	35.0	41.3	118
2005	37.3	41.1	110
2006	40.3	42.0	104

The actuarial accrued liability has shown a steady increase while the actuarial value of assets has remained relatively level as prior investment losses are being recognized over a five-year period and no contributions are being made.

The first graph shows a five-year history of the normal cost as a percent of pay along side the recommended contributions. The second graph shows the five-year history of the funded status – actuarial accrued liability versus the actuarial value of assets.

Five-Year History of Normal Cost and Recommended University Contributions for Plan Years Beginning July 1



Five-Year History of Actuarial Accrued Liability and Actuarial Value of Assets for Plan Years Beginning July 1