

University of California Health & Welfare Program

(A program for University employees and retirees)

Financial Statements and Supplementary

Combining Information

June 30, 2011 and 2010

University of California Health & Welfare Program

Index

June 30, 2011 and 2010

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Report of Independent Auditors

To the Regents of
the University of California

In our opinion, the accompanying financial statements of the University of California Health and Welfare Department (the Department) and the Retiree Health Benefit Trust (UCRHBT), which collectively comprise the basic financial statements of the University of California Health & Welfare program (the Program) as listed in the table of contents, present fairly, in all material respects, the respective financial position of the business type and fiduciary activities of the Program at June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Program's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

As discussed in Note 1, the financial statements present only that portion of the business type and fiduciary activities that are attributable to the transactions of the Program governed by the University of California's Group Insurance Regulations. They do not purport to, and do not, present fairly the financial position of the University of California at June 30, 2011 and 2010, 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.

The Management's Discussion and Analysis on pages 3 through 10 and the Required Supplementary Information ("RSI") on pages 26 and 28 are not a required part of the Program's financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the RSI. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The accompanying combining information on pages 29 through 31 is presented for purpose of additional analysis and is not a required part of the basic financial statements. The accompanying combining information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

October 12, 2011
San Francisco, California

University of California Health & Welfare Program Management's Discussion and Analysis (unaudited) Years Ended June 30, 2011 and 2010

The objective of Management's Discussion and Analysis is to help readers of the financial statements better understand the financial position and operating activities of the University of California (the University) Health and Welfare program (the Program) for active employees and eligible retirees and their families and survivors (retirees) for the years ended June 30, 2011 and 2010. The administration of the Program is governed by the University's Group Insurance Regulations. The University of California Health and Welfare Department (the Department) has been designated by the Regents as the Program's fiduciary. The Department's activity includes benefits for active employees and retirees who formerly worked at Lawrence Berkeley National Laboratory (LBNL). Effective July 1, 2007, The Regents established the University of California Retiree Health Benefit Trust (UCRHBT). The UCRHBT is used to administer the health and welfare benefits for eligible retirees of the University and its affiliates, such as the Hastings College of the Law.

This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2009, 2010, 2011) in this discussion refer to the fiscal years ended June 30.

Financial Highlights for 2011

University of California Health and Welfare Department

- Unrestricted net assets increased by \$29.4 million in 2011.
- Total operating revenues were \$ 1.51 billion in 2011 from contributions including:
 - University contributions of \$1.25 billion;
 - Employee contributions of \$251.7 million; and,
 - Retiree contributions of \$ 2.4 million attributable to retirees who formerly worked at LBNL.
- Total operating expenses were \$1.46 billion in 2011 including:
 - Payments for insurance premiums and claims of \$1.46 billion; and,
 - Administrative expenses of \$1.9 million.
- The net operating income was \$42.6 million.
- Investment income reported as nonoperating revenue was \$3.7 million.
- Rebates provided to the University's campuses were \$16.9 million.

University of California Retiree Health Benefit Trust

- Net assets held in trust were \$71.3 million in 2011.
- Total additions were \$287.9 million in 2011 including:
 - University contributions of \$259.8 million from campuses and medical centers and affiliates attributable to retirees who formerly worked at campuses and medical centers and affiliates;
 - Retiree contributions of \$28.1 million attributable to retirees who formerly worked at campuses or medical centers or affiliates; and,
 - Investment income of \$84.0 thousand.

University of California Health & Welfare Program Management's Discussion and Analysis (unaudited) Years Ended June 30, 2011, 2010 and 2009

- Total deductions were \$286.0 million in 2011 including:
 - Insurance premiums and claims of \$263.0 million, net of insurance rebates of \$3.4 million, and including \$21.0 million in Medicare Part B reimbursements; and,
 - Administrative expenses of \$2.0 million.
- The increase in net assets held in trust was \$1.9 million.

Overview of the Financial Statements

The Program's financial statements communicate financial information through five primary statements and notes to the financial statements.

Three of the primary Statements, the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows present the financial position, changes in financial position and cash flows for the Department. The Balance Sheets provide information about assets and obligations at June 30, 2011 and 2010. The Statements of Revenues, Expenses and Changes in Net Assets provide information regarding operations during 2011 and 2010. The Statements of Cash Flows report cash sources and uses for operations, noncapital financing and investing activities for 2011 and 2010.

Two of the primary Statements, the Statements of Fiduciary Net Assets and Statements of Changes in Fiduciary Net Assets, present the financial position and operating activities of the UCRHBT.

In addition, required supplementary information (RSI) on the employer contributions and funding progress for the UCRHBT is presented following the notes to the financial statements. RSI is supporting information that the Governmental Accounting Standards Board (GASB) has concluded is essential for placing financial statements and notes to financial statements in an appropriate operational, economic, or historical context.

University of California Health & Welfare Program Management's Discussion and Analysis (unaudited) Years Ended June 30, 2011, 2010 and 2009

A financial summary and analysis of the *University of California Health and Welfare Department* follows:

Balance Sheet

(in thousands of dollars)

	2011	2010	2009
Assets			
Cash and cash equivalents	\$ 202,685	\$ 176,766	\$ 167,922
Receivables	17,478	9,054	19,339
Total assets	<u>220,163</u>	<u>185,820</u>	<u>187,261</u>
Liabilities			
Contributions to UCRHBT	22,913	18,655	15,936
Insurance premiums and claims	12,588	11,941	19,312
Other liabilities	-	-	873
Total liabilities	<u>35,501</u>	<u>30,596</u>	<u>36,121</u>
Unrestricted net assets	<u>\$ 184,662</u>	<u>\$ 155,224</u>	<u>\$ 151,140</u>

Cash and cash equivalents increased by \$25.9 million and by \$8.8 million in 2011 and 2010, respectively. For 2011, this increase is generally attributable to University, employee and retiree contributions exceeding payments of insurance premiums and claims by \$44.5 million, reduced by \$16.9 million in premium rebates to the University campuses. For 2010, this increase is generally attributable to operating and investment income and reductions in reserves held by insurance carriers, offset by the rebates that were paid to campuses.

Receivables include reserves held at insurance companies and contributions due from the University and affiliate. Receivables increased by \$8.4 million in 2011 generally due to a \$5.5 million increase in reserves held at carriers and decreased by \$10.3 million in 2010, primarily from a decrease in insurance reserves due to rebates received from the insurance carriers related to contracts for prior calendar years.

Contributions to UCRHBT represent cash collected from the University in June that is owed to the UCRHBT and remitted in July of each year.

In 2011, unrestricted net assets were \$184.7 million, an increase of \$29.4 million, or 19.0 percent, from \$155.2 million in 2010. As noted earlier, the increase was generally attributable to University and employee contributions exceeding insurance premiums and claims payments by \$44.5 million.

In 2010, unrestricted net assets were \$155.2 million, an increase of \$4.1 million, or 2.7 percent, from \$151.1 million in 2009. The increase was generally attributable to University and employee contributions exceeding insurance premiums and claims payments.

Included in unrestricted net assets are certain rebates from insurance companies that originated from the portion of insurance premiums paid by the employees. These rebates totaled \$13.3 million and \$15.5 million at June 30, 2011 and 2010, respectively. Any rebates associated with the employee portion of the Program's cost will be utilized in the future to reduce the employee portion of insurance premiums.

**University of California Health & Welfare Program
Management's Discussion and Analysis (unaudited)
Years Ended June 30, 2011, 2010 and 2009**

Also included in unrestricted net assets are funds held as insurance reserves by the carriers totaling \$11.4 million and \$5.9 million as of June 30, 2011 and 2010, respectively. The University-paid amounts were as follows:

<i>(in thousands of dollars)</i>	2011	2010	2009
University paid	\$ 11,444	\$ 5,922	\$ 16,368
	<u>\$ 11,444</u>	<u>\$ 5,922</u>	<u>\$ 16,368</u>

Revenues, Expenses and Changes in Unrestricted Net Assets

<i>(in thousands of dollars)</i>	2011	2010	2009
Operating revenues			
University contributions	\$ 1,253,545	\$ 1,161,759	\$ 1,070,152
Employee contributions	251,674	208,787	203,894
Retiree contributions*	2,391	1,951	1,758
Total operating revenues	<u>1,507,610</u>	<u>1,372,497</u>	<u>1,275,804</u>
Operating expenses			
Insurance premiums and payments, net	1,463,118	1,354,217	1,284,906
Administrative expenses	1,908	537	3,384
Total operating expenses	<u>1,465,026</u>	<u>1,354,754</u>	<u>1,288,290</u>
Operating income (loss)	42,584	17,743	(12,486)
Nonoperating revenues (expenses)			
Investment income	3,719	3,669	4,929
Rebates provided to the University's campuses	(16,865)	(17,328)	-
Increase (decrease) in unrestricted net assets	<u>\$ 29,438</u>	<u>\$ 4,084</u>	<u>\$ (7,557)</u>

*Includes LBNL retiree contributions in 2011 and 2010.

Operating Revenues

Operating revenues include University, active employee and retiree (LBNL) contributions toward both purchased and self-insurance premiums. For 2011 and 2010, total contributions amounted to \$1.51 billion and \$1.37 billion, respectively, as follows:

<i>(in thousands of dollars)</i>	2011	2010	2009
University and affiliate	\$ 1,253,545	\$ 1,161,759	\$ 1,070,152
Active employees	251,674	208,787	203,894
Retirees*	2,391	1,951	1,758
	<u>\$ 1,507,610</u>	<u>\$ 1,372,497</u>	<u>\$ 1,275,804</u>

*Includes LBNL retiree contributions in 2011 and 2010.

**University of California Health & Welfare Program
Management's Discussion and Analysis (unaudited)
Years Ended June 30, 2011, 2010 and 2009**

Operating Expenses

Operating expenses include payments for purchased insurance premiums and self-insurance claims for active employees and LBNL retirees in addition to administrative expenses. Total expenses amounted to \$1.46 billion in 2011, compared to \$1.35 billion in 2010 and \$1.29 billion in 2009, respectively. The increase in operating expenses is primarily due to an increase in the cost of premiums and unfavorable self-insurance claims experience. In 2011 and 2010, premium cost increases averaged 7 percent and 12 percent, respectively.

Nonoperating Revenues (Expenses)

Nonoperating revenues include investment income totaling \$3.7 million in 2011 compared to \$3.7 million in 2010. Available cash is invested in the short-term investment pool (STIP) with the University. STIP investment returns were 2.5 percent in 2011 and 2.7 percent in 2010.

In 2011 nonoperating expenses included rebates of \$16.9 million to the campuses compared to \$17.3 million in 2010 and none in 2009. Rebates to campuses are paid based upon favorable claims experience in prior years or to supplement funding to campuses when premiums are increased.

Cash Flows

(in thousands of dollars)

	2011	2010	2009
Net cash provided by (used by) operating activities	\$ 39,065	\$ 22,503	\$ (437)
Net cash used by noncapital financing activities			
Collections and transfers related to the campus and medical center retiree health benefits, net	644	75	782
Collections and payments related to the administration of UCRHBT, net	(644)	(75)	(782)
Payments for rebates to University campuses	(16,865)	(17,328)	-
Net cash used by noncapital financing activities	(16,865)	(17,328)	-
Net cash provided by investing activities	3,719	3,669	4,929
Net increase in cash and cash equivalents	25,919	8,844	4,492
Cash and cash equivalents			
Beginning of year	176,766	167,922	163,430
End of year	\$ 202,685	\$ 176,766	\$ 167,922

Cash and cash equivalents increased by \$25.9 million in 2011 compared to \$8.8 million in 2010.

Cash flows from operations consist primarily of contributions from the University, active employees, retirees, and LBNL retirees, net of payments for insurance premiums and claims payments and administrative expenses. During 2011, contributions of \$1.51 billion provided operating cash to support \$1.46 billion in insurance premiums and claims payments and \$1.9 million for administrative expenses. During 2010, contributions of \$1.36 billion provided operating cash to support \$1.35 billion in insurance premiums and claims payments and \$647 thousand for administrative expenses.

The Department performs certain collection and payment activities on behalf of the UCRHBT. Since the Department is acting in an agency capacity for the UCRHBT, these transactions are not included in the Department's statement of changes in revenues, expenses and changes in net assets, although they are reported as noncapital financing activities in the statement of cash flows. Timing differences result when the cash flows do not occur in the same year.

**University of California Health & Welfare Program
Management's Discussion and Analysis (unaudited)
Years Ended June 30, 2011, 2010 and 2009**

The Department collects the University's contribution toward retiree health benefits for retirees who formerly worked at a campus or medical center, along with the retiree's contribution, and transfers the funds to the UCRHBT. During 2011, the Department collected \$267.2 million from the University and from retirees and transferred \$266.5 million to the UCRHBT. During 2010, the Department collected \$235.8 million from the University and from retirees and transferred \$235.8 million to the UCRHBT.

The Department also acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers for certain retirees. During 2011, the Department paid \$289.6 million to health care insurers for this retiree population and received reimbursements of \$288.9 million from the UCRHBT. The difference represents the timing of reimbursements to be received by the Department in July 2011.

In 2010, the Department paid \$260.5 million to health care insurers for this retiree population and received reimbursements of \$260.4 million from the UCRHBT. The difference represents the timing of reimbursements to be received by the Department in July 2010.

In 2011, other noncapital financing payments included \$16.9 million in rebates to the University's campuses. In 2010, other noncapital financing payments included \$17.3 million in rebates to the University's campuses. As noted above, rebates to campuses are paid based upon favorable claims experience or to supplement funding to campuses when premiums are increased.

Cash flows from investing activities totaling \$3.7 million in 2011 compared to \$3.7 million in 2010 and \$4.9 million 2009, results from investment income earned on cash balances.

A financial summary and analysis of the **University of California Retiree Health Benefit Trust** follows:

Statements of Fiduciary Net Assets

<i>(in thousands of dollars)</i>	2011	2010	2009
Assets			
Investments at fair value	\$ 27,795	\$ 32,509	\$ 38,384
Receivables	24,205	19,268	20,626
Prepaid insurance premiums and other	21,919	19,763	17,421
Total assets	<u>73,919</u>	<u>71,540</u>	<u>76,431</u>
Total liabilities	<u>2,646</u>	<u>2,186</u>	<u>2,061</u>
Net assets held in trust	<u>\$ 71,273</u>	<u>\$ 69,354</u>	<u>\$ 74,370</u>

Investments consist of UCRHBT's cash which is invested in a money market fund. Investments decreased by \$4.7 million in 2011 due to payments for insurance premiums and claims payments exceeding contributions. Investments decreased by \$5.9 million in 2010 due to payments for insurance premiums and claims payments exceeding contributions.

In 2011, receivables include contributions due from the Department of \$20.8 million and insurance rebates from carriers of \$3.4 million. In 2010, receivables include contributions due from the Department of \$18.2 million and insurance rebates from carriers of \$1.1 million.

Prepaid insurance premiums each year result from the timing associated with July coverage paid at the end of June.

**University of California Health & Welfare Program
Management's Discussion and Analysis (unaudited)
Years Ended June 30, 2011, 2010 and 2009**

In 2011, net assets were \$71.3 million, an increase of \$1.9 million, or 2.8 percent, from \$69.4 million in 2010. The increase is attributable to premiums exceeding insurance premiums and claims payments. In 2010, net assets were \$69.4 million, a decrease of \$5.0 million, or (6.7) percent, from \$74.4 million in 2009. The decrease was generally attributable to insurance premium payments and self-insurance claims exceeding University and retiree contributions.

Statements of Changes in Fiduciary Net Assets

(in thousands of dollars)

	2011	2010	2009
Additions			
Contributions	\$ 287,842	\$ 254,037	\$ 251,010
Investment income	84	97	528
Total additions	<u>287,926</u>	<u>254,134</u>	<u>251,538</u>
Deductions			
Insurance premiums and payments, net	284,010	257,605	225,967
Administrative expenses	1,997	1,545	2,005
Total deductions	<u>286,007</u>	<u>259,150</u>	<u>227,972</u>
Increase (decrease) in net assets held in trust	<u>\$ 1,919</u>	<u>\$ (5,016)</u>	<u>\$ 23,566</u>

Additions

Contributions include University (including affiliate contributions from the Hastings College of the Law of \$763 thousand in 2011, \$701 thousand in 2010, and \$687 thousand in 2009) and retiree contributions toward both purchased and self-insurance premiums. For 2011, total contributions amounted to \$287.8 million compared to \$254.0 million in 2010 and \$251.0 million in 2009. Contributions increased each year to offset rising health care costs.

(in thousands of dollars)

	2011	2010	2009
University and affiliate	\$ 259,757	\$ 234,692	\$ 235,115
Retirees (Campuses and Medical Centers)	28,085	19,345	15,895
	<u>\$ 287,842</u>	<u>\$ 254,037</u>	<u>\$ 251,010</u>

Deductions

Expenses include payments for purchased insurance premiums and self-insurance claims and administrative expenses. Rising health care costs across the industry in general resulted in insurance premiums and claims costs of \$284.0 million in 2011 compared to \$257.6 million in 2010 and \$226.0 million in 2009. Administrative expenses for administrative activities provided by the University were \$2.0 million in 2011 compared to \$1.5 million in 2010 and \$2.0 million in 2009.

University of California Health & Welfare Program Management's Discussion and Analysis (unaudited) Years Ended June 30, 2011, 2010 and 2009

Required Supplementary Information

The actuarial accrued liability for retiree health benefits as of July 1, 2010, the date of the latest actuarial valuation and July 1, 2009, is \$16.0 billion and \$15.1 billion, respectively. Included in this actuarial accrued liability are \$554.9 million and \$520.2 million related to LBNL as of the same dates, respectively. The Department of Energy (DOE) is financially responsible for LBNL's actuarial accrued liability.

The Regents in December 2010 adopted changes to the University's retiree health benefits as one of several measures to sustain its retirement benefits program into the future while also ensuring attractive postemployment benefits. Those changes include:

- New eligibility rules for employees hired on or after July 1, 2013 and nongrandfathered employees;
- A 'grandfathering' provision that excludes those nearing retirement as of July 1, 2013 from the new eligibility rules; and,
- Over time, increased cost sharing between retirees and the University for retiree health insurance.

The changes in retiree health benefits stem from the University's need to balance competitive retirement benefits with addressing the increasing cost of health care over the long run.

Requests for Information

This financial report is designed to provide a general overview of the University's Health and Welfare Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to University of California, CFO Division-Financial Accounting, Attention: Director of Benefit Plan Accounting, P.O. Box 24570, Oakland, CA 94623-1570.

University of California Health & Welfare Department
Balance Sheets
June 30, 2011 and 2010

(in thousands of dollars)

	2011	2010
Assets		
Cash and cash equivalents	\$ 202,685	\$ 176,766
Receivables	-	-
Contributions from University of California and affiliate	6,034	3,132
Insurance reserves held by insurance carriers	11,444	5,922
Total assets	<u>\$ 220,163</u>	<u>\$ 185,820</u>
Liabilities and Unrestricted Net Assets		
Accounts payable	\$ 2,225	\$ 2,133
Contributions to UCRHBT	22,913	18,655
Insurance premiums	4,803	2,624
Estimated self-insurance claims	5,560	7,184
Total liabilities	<u>35,501</u>	<u>30,596</u>
Unrestricted net assets	<u>184,662</u>	<u>155,224</u>
Total liabilities and unrestricted net assets	<u>\$ 220,163</u>	<u>\$ 185,820</u>

The accompanying notes are an integral part of these financial statements.

University of California Health & Welfare Benefits Department
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

<i>(in thousands of dollars)</i>	2011	2010
Operating revenues		
University of California contributions	\$ 1,253,545	\$ 1,161,759
Employee contributions	251,674	208,787
Retiree contributions	<u>2,391</u>	<u>1,951</u>
Total operating revenues	1,507,610	1,372,497
Operating expenses		
Insurance premiums and payments, net	1,463,118	1,354,217
Administrative expenses	<u>1,908</u>	<u>537</u>
Total operating expenses	<u>1,465,026</u>	<u>1,354,754</u>
Operating income	<u>42,584</u>	<u>17,743</u>
Nonoperating revenues (expenses)		
Investment income	3,719	3,669
Rebates provided to the University's campuses	<u>(16,865)</u>	<u>(17,328)</u>
Increase in unrestricted net assets	<u>29,438</u>	<u>4,084</u>
Unrestricted net assets		
Beginning of year		
Held by University of California	149,302	134,772
Held by insurance carriers (University of California funds)	<u>5,922</u>	<u>16,368</u>
Unrestricted net assets, beginning of year	155,224	151,140
End of year		
Held by University of California	173,218	149,302
Held by insurance carriers (University of California funds)	<u>11,444</u>	<u>5,922</u>
Unrestricted net assets, end of year	<u>\$ 184,662</u>	<u>\$ 155,224</u>

The accompanying notes are an integral part of these financial statements.

University of California Health & Welfare Benefits Department
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

<i>(in thousands of dollars)</i>	2011	2010
Cash flows from operating activities		
University, employee and retiree contributions	\$ 1,507,610	\$ 1,359,547
Insurance premiums and payments	(1,463,396)	(1,348,307)
Administrative expenses paid	(1,908)	(647)
Other receipts (payments)	(3,241)	11,910
Net cash from operating activities	<u>39,065</u>	<u>22,503</u>
Cash flows from noncapital financing activities		
Collections and transfers related to campus and medical center retiree health benefits		
Receipt of contributions from the University	240,908	217,701
Receipt of contributions from UCRP beneficiaries	26,254	18,129
Transfer of contributions to UCRHBT	(266,518)	(235,755)
Collection and payments related to administration of UCRHBT		
Receipts from UCRHBT	288,929	260,398
Payment of retiree health benefit payments on behalf of UCRHBT	(289,573)	(260,473)
Payments for rebates provided to University campuses	(16,865)	(17,328)
Net cash from noncapital financing activities	<u>(16,865)</u>	<u>(17,328)</u>
Cash flows from investing activities		
Investment income	3,719	3,669
Net increase in cash and cash equivalents	<u>25,919</u>	<u>8,844</u>
Cash and cash equivalents		
Beginning of year	176,766	167,922
End of year	<u>\$ 202,685</u>	<u>\$ 176,766</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 42,584	\$ 17,743
Effects of changes in assets and liabilities		
Insurance reserves held by insurance carriers	(5,522)	10,446
Due from other plans	(2,902)	(161)
Accounts payable	-	(110)
Insurance premiums	2,179	(6,898)
Estimated self-insurance claims and claims payable	(1,532)	(473)
Due to UCRHBT	4,258	1,956
Net cash from operating activities	<u>\$ 39,065</u>	<u>\$ 22,503</u>

The accompanying notes are an integral part of these financial statements.

University of California Retiree Health Benefit Trust
Statements of Fiduciary Net Assets
June 30, 2011 and 2010

<i>(in thousands of dollars)</i>	2011	2010
Assets		
Investments at fair value		
Money market fund	\$ 27,795	\$ 32,509
Receivables		
Contributions from University of California and affiliate	20,782	18,183
Insurance reserves held by insurance carriers	3,418	1,078
Investment income	5	7
Total receivables	<u>24,205</u>	<u>19,268</u>
Prepaid insurance premiums and other	<u>21,919</u>	<u>19,763</u>
Total assets	<u>73,919</u>	<u>71,540</u>
Liabilities		
Payable to University of California	<u>2,646</u>	<u>2,186</u>
Total liabilities	<u>2,646</u>	<u>2,186</u>
Net assets held in trust	<u>\$ 71,273</u>	<u>\$ 69,354</u>

The accompanying notes are an integral part of these financial statements.

University of California Retiree Health Benefit Trust
Statements of Changes in Fiduciary Net Assets
Years Ended June 30, 2011 and 2010

(in thousands of dollars)

	2011	2010
Additions		
Contributions	\$ 287,842	\$ 254,037
Investment income	84	97
Total additions	<u>287,926</u>	<u>254,134</u>
Deductions		
Insurance premiums and payments, net	284,010	257,605
Administrative expenses	1,997	1,545
Total deductions	<u>286,007</u>	<u>259,150</u>
Net increase (decrease) in net assets held in trust	1,919	(5,016)
Net assets held in trust		
Beginning of year	<u>69,354</u>	<u>74,370</u>
End of year	<u>\$ 71,273</u>	<u>\$ 69,354</u>

The accompanying notes are an integral part of these financial statements.

University of California Health & Welfare Benefits Program

Notes to Financial Statements

June 30, 2011 and 2010

1. Description of Program

General

These financial statements report the financial position and operating activities of the University of California (the University) Health and Welfare program (the Program) for active employees and eligible retirees and their eligible family members (retirees) of the University of California and its affiliated entity, The Hastings College of the Law (Hastings). The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The administration of the Program is governed by the University's Group Insurance Regulations. The University of California Health and Welfare Department (the Department) is the Program's administrator and the UCRHBT's fiduciary. The Department's activity includes benefits for active employees, retirees who formerly worked at Lawrence Berkeley National Laboratory (LBNL), and through September 30, 2007, retirees who formerly worked at Lawrence Livermore National Laboratory (LLNL). Effective July 1, 2007, The Board of Regents of the University of California (the Regents) established the University of California Retiree Health Benefit Trust (UCRHBT or Trust). The UCRHBT is used to administer the health and welfare benefits for eligible retirees of the University of California and Hastings. The Regents has the authority to establish and amend the Program.

The Program's financial statements represent only the activities of the Department and the UCRHBT that are governed by the University's Group Insurance Regulations. While the Department has other responsibilities, those activities are not governed by the University's Group Insurance Regulations and are not included in this report. The accounts of the Department are included in the University's basic financial statements. The UCRHBT is reported separately in the University's financial statements as a fiduciary fund. The University represents the primary entity and has ultimate oversight responsibility for both the Department and the UCRHBT. The retiree benefits provided by the Program and any liabilities related to the future funding requirements for the retiree benefits are reported by the University.

The accounts of the Department include the activities associated with active employees at campuses, medical centers and Hastings. In addition, since the University operates and manages LBNL under a contract directly with the United States Department of Energy (DOE), employees and retirees associated with this location also participate in the Program. Accordingly, the Department's activity also includes active employees and retirees who formerly worked at LBNL. The DOE is financially responsible for substantially all of the current and future costs incurred at LBNL, including active and retiree health benefit costs.

UCRHBT allows certain University locations and affiliates—primarily campuses and medical centers—that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of UCRHBT and has the authority to amend or terminate the Trust. LBNL does not participate in the UCRHBT, therefore the DOE has no interest in the Trust's assets.

University of California Health & Welfare Benefits Program
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Employee and retiree participation in the Program consisted of the following at July 1, 2010, the date of the latest actuarial valuation:

	Campuses And Medical Centers	LBNL	Hastings	Total Health And Welfare Program
Active employees	112,748	3,086	246	116,080
Retirees currently receiving benefits	33,438	1,664	92	35,194
Total participants	146,186	4,750	338	151,274

The following description of the Program provides only general information. Participants should refer to the Summary Plan Descriptions or the plan agreements for complete descriptions of applicable health and welfare benefit plan provisions.

Benefits and Eligibility

For active employees, eligibility for the University's health and welfare benefits is based on the appointment level of the employee. For retirees, eligibility for retiree health benefits, primarily medical and dental coverage, requires membership in the UCRP. As a result, the Program does not have inactive vested participants.

Active employees eligible for benefits are covered by one of three benefits packages known as Full, Mid-level, and Core, as follows:

- Eligibility for Full benefits extends to an employee who is a member of the UCRP and the California Public Employees' Retirement System (CalPERS) and appointed to work at least 50 percent time for a year or more or who worked 1,000 hours in a continuous 12-month period (or 750 hours for nonsenate Instructional Unit);
- Eligibility for Mid-level benefits extends to an employee who is appointed to work 100 percent time for at least three months or, the appointment is at least 50 percent time for a year but the employee is not a member of a UC-sponsored retirement plan; or,
- Eligibility for Core benefits is extended to an employee who is appointed to work at least 43.75 percent time. The employee must maintain an average paid time of at least 17 ½ hours per week in order to remain eligible for benefits.

All eligible employees may enroll eligible family members in certain University-sponsored plans. The employee may only enroll one eligible adult family member: a legal spouse, an adult dependent relative or a same-sex domestic partner. Other eligible family members may include a natural or adopted child; a stepchild or grandchild; a same-sex domestic partner's child or grandchild; or a legal ward.

The Program includes self-insured and purchased fully-insured plans for health insurance (medical, dental, and vision), disability and life insurance, supplemental disability, supplemental life insurance, and other insurance as follows:

University of California Health & Welfare Benefits Program

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Medical Plans

California-based employees are generally eligible to participate in a point-of-service plan (POS), a preferred provider organization (PPO) plan, in one of several health maintenance organizations (HMOs), or a fee-for-service plan. Nevada-based employees are generally eligible to participate in an Exclusive Provider Option (EPO) or HMO plan. All of these plans provide a variety of different levels or tiers of health care coverage and medical services. Certain California locations are also eligible to participate in a consumer model plan.

Dental Plans

For dental care, eligible California employees can choose from one of two plans which provide preventive, basic, prosthetic, and orthodontic dental benefits. Employees outside of California receive coverage under one national plan.

Vision Plan

The University offers the Vision Services Plan, a PPO organization, which covers a variety of vision care services including eye exams, corrective lenses, and frames, and contact lenses.

Disability Plans

The Short-Term Disability plan paid for by the University provides basic short-term benefits for nonwork related disabilities. The plan pays 55 percent of eligible earnings for up to six months (\$800 monthly maximum), after a waiting period.

The Supplemental Disability Plan provides extended coverage for work and nonwork-related disabilities. The plan supplements Short-Term Disability and combined with all other sources of disability or retirement income, pays up to 70 percent of eligible earnings, up to \$10,000 a month. There is a choice of waiting periods.

Life Insurance Plans

The University provides group term life insurance coverage. The Basic Life Insurance Plan provides employees eligible for full benefits with life insurance equal to annual base salary, up to a maximum of \$50,000. Coverage is adjusted if appointment is less than 100 percent time.

The Business Travel Accident Plan provides up to \$100,000 of coverage when an employee travels on official University business.

Life Insurance, and Other Insurance Plans

Employees may also purchase additional disability, employee and dependent life insurance coverage, and they have the option to enroll in a legal expense insurance plan and an accidental death and dismemberment plan at their own expense.

The Basic Life Plan provides \$50,000 of University paid life insurance equal to an employee's annual salary up to \$50,000. Benefits are paid to the beneficiaries of employee if employee dies while employed or on approved leave without pay or temporary layoff.

A Core Life Plan provides \$5,000 of University paid life insurance. Benefits are paid to the beneficiaries of employee if employee dies while employed or on approved leave without pay or temporary layoff.

Supplemental Term Life Insurance may be purchased at group rates. Coverage is up to four times annual salary (subject to certain maximums) up to an absolute maximum of \$1,000,000. Benefits are paid to the beneficiaries of employee if employee dies while enrolled.

University of California Health & Welfare Benefits Program

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The University offers two dependent life insurance plans to employees who are eligible for full and mid-level benefits. The Basic Dependent Life plan covers spouse or domestic partner and/or eligible children for \$5,000 each. The Expanded Dependent Life Plan provides coverage for eligible dependents. The amount available for legal spouses and domestic partners is up to 50 percent of the amount of the employee's Supplemental Life amount, up to a maximum of \$200,000. An amount of \$10,000 is available for each eligible child.

The Accidental Death & Dismemberment Plan offers three levels of coverage: (1) self-only, (2) family plan, and (3) modified family plan providing from \$10,000 up to \$500,000 of coverage for employees and/or eligible family members.

The employee-paid Legal Plan provides members with access to preventive, domestic, consumer, and defensive legal services.

Termination

Although the University has not expressed any intent to do so, the benefits of all employees, retirees, and UCRHBT beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums and University contributions at any time. Health and welfare benefits are subject to legislative appropriation and are not accrued or vested benefit entitlements. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provides for continued coverage for a certain period of time at applicable monthly COBRA rates if an employee or the employee's eligible family member loses eligibility for University-sponsored medical, dental, or vision coverage because of termination of employment, death, divorce, legal separation, annulment, termination of a same-sex domestic partnership, or if a the family member ceases to be an eligible dependent.

2. Significant Accounting Policies

Basis of Accounting

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

Cash and Cash Equivalents and Investments

All University operating entities invest surplus cash balances in a short-term investment pool (STIP) managed by the Treasurer of The Regents. The Regents are responsible for managing the University's investments and establishing investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of the Department's cash is deposited into the STIP. All Department deposits into STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominantly held to maturity) are not recorded by each operating entity but are absorbed by the University, as the manager of the pool.

Cash and cash equivalents authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 and the average maturity is 29 and 55 days at June 30, 2011 and 2010, respectively.

Additional information on cash and investments can be obtained from the 2010-2011 annual report of the University.

University of California Health & Welfare Benefits Program

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Self-Insurance Claim Liabilities

Self-insurance claims include both reported claims and current estimates of the ultimate costs of future claims (including future claims adjustment expenses) that have been incurred but have not yet been reported (IBNR) as of June 30. IBNR claims estimates are based on many variables including individual cases for reported losses, estimates of unreported losses using historical and statistical information and other factors. The IBNR claims liability is calculated by an independent health and welfare plan actuary, using a variety of actuarial and statistical techniques, adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

The University's self-insured plans are subject to various claims and aggregate coverage limits. The University does not purchase excess liability coverage from an independent insurer. IBNR claims liabilities are recorded in the Department's financial statements when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Net Assets

The Department's unrestricted net assets held at the University are included in the University's net assets and are maintained for the exclusive benefit of the participants in the Program. Included in the Department's net assets are rebates received from the portion of insurance premiums paid by the employee. These rebates associated with the employee portion of the Program's cost totaling \$13.3 million and \$15.5 million at June 30, 2011 and 2010, respectively, will be utilized in the future to reduce the employees' portion of insurance premiums.

The UCRHBT's assets are legally segregated from the University and are for the exclusive purpose of providing post-employment benefits to participants and beneficiaries, primarily campuses and medical centers, pursuant to the University's Program, and defraying the reasonable expenses associated with providing such benefits.

Revenues and Expenses

The Department's operating revenues consist of contributions from the University, employees and retirees, specifically:

Active employees

- Active employees working at campuses and medical centers;
- Active employees working at LBNL;

Retirees who formerly worked at certain DOE laboratories

- Retirees who formerly worked at LBNL.

The University's contributions attributable to LBNL are reimbursed by the DOE, although the DOE's reimbursement is not included in the Department's activities.

Operating expenses include purchased insurance premiums and self-insurance claims for the employee and retiree group, and administrative expenses.

Nonoperating revenue and expense includes investment income, net unrealized appreciation or depreciation in the fair value of investments and rebates from unrestricted net assets provided to the University's campuses.

University of California Health & Welfare Benefits Program

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In addition, the Department:

- Collects contributions from the University for campus and medical center retirees;
- Collects contributions from campus and medical center retirees; and,
- Transfers these amounts to the UCRHBT.

The Department performs these transactions in an agency capacity and reports the activity as noncapital financing activities in its statement of cash flows.

The Department also acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers and administrators' amounts currently for retirees who previously worked at a campus, medical center, or University affiliate. These transactions are also reported as noncapital financing activities in the Department's statement of cash flows.

The UCRHBT reports funds from the Department as contributions, in addition to contributions received from the University's affiliate. The UCRHBT reports its obligations under the Program as insurance premiums and payments, or administrative expenses.

Insurance Rebates

The University may receive rebates from insurance companies under the terms of the contracts with the providers. Rebates are allocated to the Department and the UCRHBT and are recognized and recorded as a reduction to insurance premiums and payments when the University determines the amount is realizable. Insurance rebates for the year ended June 30, 2011 were \$11.4 million and \$3.4 million for the Department and the UCRHBT, respectively. Insurance rebates for the year ended June 30, 2010 were \$5.9 million and \$1.1 million for the Department and the UCRHBT, respectively.

Administrative Expenses

Administrative costs include direct costs of the Program and other administrative expenses incurred by the University to administer the Program.

Tax Exemption

The UCRHBT sponsored by the University of California is qualified under various Internal Revenue Code (IRC) sections and state statutes, which set forth coverage, definitions, and funding rules. Accordingly, net investment income on such UCRHBT assets is exempt from income taxes.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations, claims incurred but not reported, eligibility credits, claims payable, and amounts included in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

3. Contribution Policy

The contribution requirements of the University are established and may be amended by the University. Generally, employees and retirees contribute the difference between the insurance carriers' total premium rate and the University's employer contribution. Employees do not make any explicit contributions toward retiree health benefits.

University of California Health & Welfare Benefits Program

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University, employee and retiree contributions of premiums made under purchased plan arrangements are determined by applying the provider contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics, and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability.

Contribution requirements for employees are based on a four salary band structure as follows: \$40,000 or less; \$40,001–\$80,000; \$80,001–\$120,000; \$120,001 or higher. For the other health and welfare plans, the University and employee contributions vary depending on the contribution requirements of the plans.

In 2011, the University's allocation of approximately \$8,620 per employee covered the full cost for approximately 15 percent of the covered population. The remaining 85 percent of the covered population have coverage under a medical plan that requires cost-sharing.

In 2010, the University's allocation of approximately \$8,000 per employee covered the full cost for approximately 17 percent of the covered population. The remaining 83 percent of the covered population have coverage under a medical plan that requires cost-sharing.

Contribution requirements for retirees are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees formerly employed by the University prior to 1990 are eligible for the University's maximum contribution. Retirees formerly employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service. In addition to the explicit benefits provided to retirees, there is an "implicit subsidy." The gross premiums for retirees that are not currently eligible for Medicare benefits (including both retirees under age 65 and those who are ineligible for Medicare) are the same for employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with University retiree health costs for the years ended June 30, 2011 and 2010 for retirees who formerly worked at the campuses and medical centers was \$54.9 million and \$49.7 million, respectively, although this cost is not included in the UCRHBT's activities. The implicit subsidy associated with retiree health costs for the years ended June 30, 2011 and 2010 for the retirees who formerly worked at the DOE laboratories was \$2.6 million and \$2.5 million, respectively, and this cost is included in the Department's activities.

There are no long-term contracts for contributions to the Program at this time.

University of California Health & Welfare Benefits Program
Notes to Financial Statements
June 30, 2011 and 2010

4. Self-Insurance Claim Liabilities

Changes in self-insurance claim liabilities for the years ended June 30, 2011 and 2010 are as follows:

<i>(in thousands of dollars)</i>	2011	2010
Liabilities at beginning of year	\$ 7,184	\$ 9,790
Claims incurred and changes in estimates	39,642	39,717
Claim payments	<u>(41,266)</u>	<u>(42,323)</u>
Liabilities at end of year	<u>\$ 5,560</u>	<u>\$ 7,184</u>

Campus and medical center retirees may participate in self-insurance plans offered under the Program, although the UCRHBT is responsible for the costs. The Department retains the self-insurance liability for all plans in the Program. As a result, the UCRHBT does not have any self-insurance claim liabilities on its statement of fiduciary net assets.

5. Insurance Reserves Held By Carriers

Under the terms of the contracts with certain insurance carriers, some plans in the Program may be required to deposit cash with the carriers for the payment of claims. In addition, certain rebates from insurance companies may not have been received by the University. Included in net assets are funds held by insurance carriers totaling \$14.9 million and \$7.0 million as of June 30, 2011 and 2010, respectively.

These funds represent both University and employee-paid amounts as follows:

<i>(in thousands of dollars)</i>	2011		2010	
	Department	UCRHBT	Department	UCRHBT
Blue Cross of California	\$ 11,444	\$ 3,418	\$ 3,822	\$ 1,078
Other carriers	-	-	2,100	-
	<u>\$ 11,444</u>	<u>\$ 3,418</u>	<u>\$ 5,922</u>	<u>\$ 1,078</u>

The reserve balance changes each year as a result of premiums paid, claims incurred, fees, investment results and rebate activity.

6. Funded Status and Funding Progress—Retiree Health Benefits

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and healthcare cost trends. The projection of benefits does not explicitly incorporate the potential effects on the contribution rate of the results of collective bargaining discussions. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

University of California Health & Welfare Benefits Program
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June 30, 2011 and 2010

The funded status of the UCRHBT as of July 1, 2010, the date of the latest actuarial valuation, was as follows:

<i>(in thousands of dollars)</i>	Campuses And Medical Centers	LBNL	Hastings	Total
Actuarial accrued liability	\$ (15,457,366)	\$ (554,954)	\$ (36,376)	\$ (16,048,696)
Actuarial value of assets	<u>74,250</u>	<u>-</u>	<u>200</u>	<u>74,450</u>
Unfunded actuarial accrued liability	<u>\$ (15,383,116)</u>	<u>\$ (554,954)</u>	<u>\$ (36,176)</u>	<u>\$ (15,974,246)</u>
Value of the implicit subsidy included in the actuarial accrued liability	\$ 2,303,726	\$ 85,287	\$ 5,463	\$ 2,394,476
Funded ratio	0.5 %	0.0 %	0.5 %	0.5 %
Covered payroll	\$ 7,722,332	\$ 251,741	\$ 21,348	\$ 7,995,421
Unfunded actuarial accrued liability as a percentage of covered payroll	(199.2)%	(220.4)%	(169.5)%	(199.8)%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

7. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the Trust as understood by the University and its members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and the retirees to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Actuarial Cost Method used to determine the Actuarial Accrued Liability and the Annual Required Contribution is the Entry Age Normal (EAN) method. This method is in the family of future benefit cost methods, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.

The actuarial valuation method to determine the actuarial value of assets phases in investment gains and losses over five (5) years.

Additional significant actuarial assumptions used in the valuation were:

- Assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits;
- Health care cost trend rate ranging from 10 to 12 percent initially, depending on the type of plan, reduced by increments to an ultimate rate of 5 percent over nine years;
- Projected inflation at 3.0 percent;
- Amortization of the initial unfunded actuarial accrued liability over 30 years as a flat dollar amount on a closed basis;
- Amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;

University of California Health & Welfare Benefits Program

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- Amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- Future life expectancy based upon recent group mortality experience; and
- Assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

8. Contingencies

From time to time the University is involved in litigation that may affect the Program. Management does not believe the outcome of such litigation will have a material effect on the Program's financial position, change in net assets or cash flows.

9. Related Party Transactions

Certain administrative functions are performed by employees of the University. No such employee receives compensation from the UCRHBT. In 2011 and 2010, the Department reimbursed the University \$2.0 million and \$1.5 million, respectively, for certain administrative functions.

Supplementary Information

University of California Health & Welfare Benefits Program
Required Supplementary Information
June 30, 2011 and 2010

The schedules of employer contributions for the retiree health portion of the Program for the years ended June 30, 2011 and 2010 are presented below.

<i>(in thousands of dollars)</i>	2011			
	Campuses And Medical Centers	LBNL	Hastings	Total
Annual required contribution	\$ 1,922,743	\$ 63,394	\$ 4,416	\$ 1,990,553
Annual contributions				
University contributions to UCRHBT	(258,994)	-	-	(258,994)
LBNL contributions to Department	-	(12,804)	-	(12,804)
Hastings contributions to UCRHBT	-	-	(763)	(763)
Implicit subsidy	(54,784)	(2,562)	(142)	(57,488)
Total contributions	<u>\$ (313,778)</u>	<u>\$ (15,366)</u>	<u>\$ (905)</u>	<u>\$ (330,049)</u>
Percentage contributed	16.3 %	24.2 %	21.0 %	16.6 %

<i>(in thousands of dollars)</i>	2010			
	Campuses And Medical Centers	LBNL	Hastings	Total
Annual required contribution	\$ 1,750,666	\$ 55,750	\$ 3,961	\$ 1,810,377
Annual contributions				
University contributions to UCRHBT	(233,991)	-	-	(233,991)
LBNL contributions to Department	-	(12,162)	-	(12,162)
Hastings contributions to UCRHBT	-	-	(701)	(701)
Implicit subsidy	(49,526)	(2,492)	(130)	(52,148)
Total contributions	<u>\$ (283,517)</u>	<u>\$ (14,654)</u>	<u>\$ (831)</u>	<u>\$ (299,002)</u>
Percentage contributed	16.2 %	26.3 %	21.0 %	16.5 %

University of California Health & Welfare Benefits Program

Required Supplementary Information

June 30, 2011 and 2010

The schedule of funding progress for the retiree health portion of the Program is presented below.

(in thousands of dollars)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(Deficit)	Funded Ratio	Annual Covered Payroll	(Deficit) Covered Payroll	Implicit Subsidy Included in Actuarial Accrued Liability
University of California Health and Welfare Program							
July 1, 2010	\$ 74,450	\$ 16,048,696	\$ (15,974,246)	0.5 %	\$ 7,995,421	(199.8)%	\$ 2,394,476
July 1, 2009	77,101	15,096,929	(15,019,828)	0.5 %	7,873,644	(190.8)%	2,214,792
July 1, 2008	51,355	13,832,615	(13,781,260)	0.4 %	7,468,809	(184.5)%	2,021,340
Campuses and Medical Centers							
July 1, 2010	74,250	15,457,366	(15,383,116)	0.5 %	7,722,332	(199.2)%	2,303,726
July 1, 2009	76,893	14,541,529	(14,464,636)	0.5 %	7,637,064	(189.4)%	2,129,031
July 1, 2008	51,221	13,302,506	(13,251,285)	0.4 %	7,245,447	(182.9)%	1,940,306
LBNL							
July 1, 2010	None	554,954	(554,954)	0.0 %	251,741	(220.4)%	85,287
July 1, 2009	None	520,255	(520,255)	0.0 %	216,355	(240.5)%	80,247
July 1, 2008	None	497,743	(497,743)	0.0 %	204,349	(243.6)%	76,095
Hastings							
July 1, 2010	200	36,376	(36,176)	0.5 %	21,348	(169.5)%	5,463
July 1, 2009	208	35,145	(34,937)	0.6 %	20,225	(172.7)%	5,514
July 1, 2008	134	32,366	(32,232)	0.4 %	19,013	(169.5)%	4,939

The University's annual required contribution and actuarial accrued liability for campus and medical center retiree health benefits expense is actuarially determined. Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to the UCRHBT and reduce the unfunded actuarial accrued liability.

The annual required contribution and actuarial accrued liability for LBNL is actuarially determined independently from the University's campuses and medical centers. The Department directly pays health care insurers and administrator's amounts currently due under the Program for retirees who previously worked at LBNL, and is reimbursed by the DOE. These contributions, in the form of direct payments, also reduce the unfunded actuarial accrued liability.

University of California Health & Welfare Benefits Program
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

	Health Welfare Department						UCRHBT					Health Welfare Program
	Active Employees			LBNL Retirees			Retirees Campuses & Medical Centers			Total Retirees		
	Excluding Implicit Subsidy	Implicit Subsidy	Total Active Employees	Excluding Implicit Subsidy	Implicit Subsidy	Sub- Total	Excluding Implicit Subsidy	Implicit Subsidy	Sub- Total			
<i>(in thousands of dollars)</i>												
Operating revenues												
University of California contributions	\$ 1,238,016	\$ -	\$ 1,238,016	\$ 12,804	\$ -	\$ 12,804	\$ 258,994	\$ -	\$ 258,994	\$ 271,798	\$ 1,509,814	
Hastings contributions	2,715	-	2,715	-	-	-	763	-	763	763	3,477	
Employee contributions	251,674	-	251,674	-	-	-	-	-	-	-	251,674	
Retiree contributions	1,290	-	1,290	1,111	-	1,111	28,085	-	28,085	29,196	30,486	
Total operating revenues	1,493,695	-	1,493,695	13,915	-	13,915	287,842	-	287,842	301,757	1,795,451	
Operating expenses												
Insurance premiums and payments, net	1,449,203	-	1,449,203	13,915	-	13,915	284,010	-	284,010	297,925	1,747,128	
Implicit subsidy	-	(57,488)	(57,488)	-	2,562	2,562	-	54,926	54,926	57,488	-	
Administrative expenses	1,883	-	1,883	25	-	25	1,997	-	1,997	2,022	3,905	
Total operating expenses	1,451,086	(57,488)	1,393,598	13,940	2,562	16,502	286,007	54,926	340,933	357,435	1,751,033	
Operating gain (loss)	42,609	57,488	100,097	(25)	(2,562)	(2,587)	1,835	(54,926)	(53,091)	(55,678)	44,418	
Nonoperating revenues												
Investment income	3,719	-	3,719	-	-	-	84	-	84	84	3,803	
Other changes in net assets												
Transfer of unrestricted net assets for retiree expenses	(25)	-	(25)	25	-	25	-	-	-	25	-	
Rebates provided to the University's campuses	(16,865)	-	(16,865)	-	-	-	-	-	-	-	(16,865)	
Transfer of unrestricted net assets to the UCRHBT	-	-	-	-	-	-	-	-	-	-	-	
Implicit subsidy	-	(57,488)	(57,488)	-	2,562	2,562	-	54,926	54,926	57,488	-	
Increase (decrease) in net assets	\$ 29,438	\$ -	\$ 29,438	\$ -	\$ -	\$ -	\$ 1,919	\$ -	\$ 1,919	\$ 1,919	\$ 31,356	

University of California Health & Welfare Benefits Program
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

	Health Welfare Department						UCRHBT					Health Welfare Program
	Active Employees			LBNL Retirees			Retirees Campuses and Medical Centers			Total Retirees		
	Excluding Implicit Subsidy	Implicit Subsidy	Total Active Employees	Excluding Implicit Subsidy	Implicit Subsidy	Sub- Total	Excluding Implicit Subsidy	Implicit Subsidy	Sub- Total			
<i>(in thousands of dollars)</i>												
Operating revenues												
University of California contributions	\$ 1,147,158	\$ -	\$ 1,147,158	\$ 12,162	\$ -	\$ 12,162	\$ 233,991	\$ -	\$ 233,991	\$ 246,153	\$ 1,393,311	
Hastings contributions	2,439	-	2,439	-	-	-	701	-	701	701	3,140	
Employee contributions	208,787	-	208,787	-	-	-	-	-	-	-	208,787	
Retiree contributions	1,167	-	1,167	784	-	784	19,345	-	19,345	20,129	21,296	
Total operating revenues	1,359,551	-	1,359,551	12,946	-	12,946	254,037	-	254,037	266,983	1,626,534	
Operating expenses												
Insurance premiums and payments, net	1,341,271		1,341,271	12,946		12,946	257,605		257,605	270,551	1,611,822	
Implicit subsidy		(52,148)	(52,148)		2,492	2,492		49,656	49,656	52,148		
Administrative expenses	511		511	26		26	1,545		1,545	1,571	2,082	
Total operating expenses	1,341,782	(52,148)	1,289,634	12,972	2,492	15,464	259,150	49,656	308,806	324,270	1,613,904	
Operating gain (loss)	17,769	52,148	69,917	(26)	(2,492)	(2,518)	(5,113)	(49,656)	(54,769)	(57,287)	12,630	
Nonoperating revenues												
Investment income	3,669	-	3,669	-	-	-	97	-	97	97	3,766	
Other changes in net assets												
Transfer of unrestricted net assets for retiree expenses	(26)	-	(26)	26	-	26	-	-	-	26	-	
Rebates provided to the University's campuses	(17,328)	-	(17,328)	-	-	-	-	-	-	-	(17,328)	
Transfer of unrestricted net assets to the UCRHBT	-	-	-	-	-	-	-	-	-	-	-	
Implicit subsidy	-	(52,148)	(52,148)	-	2,492	2,492	-	49,656	49,656	52,148	-	
Increase (decrease) in net assets	\$ 4,084	\$ -	\$ 4,084	\$ -	\$ -	\$ -	\$ (5,016)	\$ -	\$ (5,016)	\$ (5,016)	\$ (932)	

University of California Health & Welfare Benefits Program

Notes to Supplemental Combining Information

June 30, 2011 and 2010

Retiree Health Contributions

Retiree health benefit assessment rates are currently developed based upon estimates designed to provide sufficient contributions such that retiree health benefit costs are funded on a pay-as-you-go basis. Retiree health benefit assessments are charged to all University campuses and affiliates to provide for the University's contribution toward retiree health benefits costs.

The assessment per \$100 of covered payroll was \$3.31 for the period July 1, 2010 to June 30, 2011. The assessments generated University contributions toward medical and dental benefits for retirees, their families, and survivors of \$259.7 million for the year ended June 30, 2011.

The assessment per \$100 of covered payroll was \$3.12 for the period July 1, 2009 to June 30, 2010. The assessments generated University contributions toward medical and dental benefits for retirees, their families, and survivors of \$234.7 million for the year ended June 30, 2010.

To the extent the assessments that generate employer contributions toward retiree health benefits are less than the retiree health benefit costs and an allocation of administrative expenses, unrestricted net assets are used to supplement employer contributions.

The implicit subsidy associated with retiree health costs for the years ended June 30, 2011 and 2010 totaled \$57.5 million and \$52.1 million, respectively. These implicit subsidies are shown as a reduction of employee health benefit costs and an increase in retiree health benefit costs. The corresponding offset is shown as a transfer in other changes in net assets.

The implicit subsidy for the retirees who formerly worked at the DOE laboratories that are included in the Department's activities was \$2.6 million and \$2.5 million for the years ended June 30, 2011 and 2010, respectively. For the year ended June 30, 2011, the implicit subsidy for retirees who formerly worked at a campus or medical center or Hastings was \$54.8 million and \$142 thousand, respectively, and is included in the UCRHBT's activities. For the year ended June 30, 2010, the implicit subsidy for retirees who formerly worked at a campus or medical center or Hastings was \$49.5 million and \$130 thousand, respectively, and is included in the UCRHBT's activities.