The Regents of the University of California

COMMITTEE ON FINANCE
September 17, 2015

The Committee on Finance met on the above date at the Student Center, Irvine Campus.

Members present: Regents Davis, Gould, Island, Kieffer, Makarechian, Ortiz Oakley, Reiss, and Ruiz; Ex officio members Lozano, Napolitano, and Varner; Advisory members Hare and Ramirez; Staff Advisors Acker and Richmond

In attendance: Regents Atkins, Blum, De La Peña, Gorman, Oved, Pattiz, Pérez, Sherman, and Zettel, Regent-designate Schroeder, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice Presidents Henderson and Peacock, Vice Presidents Budil, Duckett, Humiston, and Sakaki, Chancellors Block, Blumenthal, Gillman, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 11:10 a.m. with Committee Chair Ruiz presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 22, 2015 were approved.

2. **PRELIMINARY DISCUSSION OF THE 2016-17 BUDGET**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President and Chief Financial Officer Brostrom began the discussion by referring to a September 16, 2015 *New York Times* article by David Leonhardt that focused on economic diversity and affordability of U.S. colleges and universities. The article included a ranking of schools based on these criteria. Six UC campuses were in the top ten, and UC Irvine was ranked number one. The Regents could take great pride in this.

The University was beginning the current budget process in a much stronger and more stable position than in years past. The 2016-17 UC budget would be built on the four-year funding framework agreed to with the Governor and supported by the Legislature in the 2015 State budget act. This provides a four percent base budget adjustment for the next four years, amounting to $119 million in the current year, and more than $500 million over four years. UC would also receive approximately $500 million in one-time funding from Proposition 2 to address the unfunded liability of the UC Retirement Plan (UCRP). UC would also receive one-time funds for deferred maintenance and energy projects.

There would be no increase in California resident student tuition for the next two years. Beginning in 2017-18, adjustments to tuition would be made based roughly on inflation. There would be annual increases in the Student Services Fee. Half of the increase would be used to enhance student mental health programs on campuses. There would also be moderate increases, yet to be determined, in nonresident tuition and Professional Degree Supplemental Tuition (PDST).

The University has made great efforts to streamline the transfer of community college students, to review curriculum requirements for undergraduate majors, to develop online courses, especially for high-enrollment courses in specific majors, and to use data analysis innovatively to support student learning and to assess the cost of instruction. These efforts are geared toward increasing graduation rates and reducing time to degree.

The University is examining new retirement options for future hires that would incorporate the California Public Employees' Pension Reform Act (PEPRA) salary cap.

The proposed budget, to be presented at the November meeting, would take into account mandatory cost increases, roughly $120 million to $140 million. These included costs for collective bargaining agreements with represented employees, academic merit increases for faculty, increases in employee and retirement health benefits, and UCRP contributions. Although the University intended to hold the UCRP contribution level flat, it anticipated a slight increase due to payroll growth. Inflationary cost increases were also anticipated for non-salary items.

The University would continue its efforts to draw on other revenue sources and reduce administrative costs in order to reduce UC's dependence on State funds and student tuition. UC has committed to keeping administrative staff numbers level. In the area of asset management, UC had moved another $1.2 billion from the Short Term Investment Pool (STIP) into the Total Return Investment Pool (TRIP). This would yield discretionary revenue for the campuses. Some campuses have moved funds from TRIP into the General Endowment Pool (GEP). UC lags behind other institutions in endowment revenue per student. Anything UC can do to grow its endowment would be beneficial.

Mr. Brostrom remarked that there were significant opportunities for self-insurance, which could reduce operating costs and expand coverage, through UC's new captive insurance company Fiat Lux. In late 2015, UC would launch its initial deployment of the UCPath payroll system. The efficiencies gained from this standardization might not be immediate, but yielded over time. UC has also expanded its procurement initiative and is optimistic about greater collaboration with the California State University (CSU) in this area. CSU is also interested in participating in Fiat Lux.

There were still open issues for the UC budget, such as how much UC can invest in student success. The University would examine its ability to hire more faculty and increase support for graduate students and undergraduate instruction. Capital renewal and deferred maintenance remained high priorities. UC received $25 million in one-time funds for this purpose. Mr. Brostrom recalled that UC issued $500 million in century bonds earlier in the year to be spent almost exclusively on capital renewal and deferred maintenance. The 2015 State budget act provides UC with $25 million if UC can demonstrate that it would enroll 5,000 more California resident undergraduates in the 2016-17 academic year. Provost Dorr had met a day or two earlier with the campus chief financial officers to discuss possibilities and needs in housing and other areas to accommodate growth. The next steps for budget development would be the consideration of a formalized enrollment plan, operating and capital budgets, and budget framework implementation.

Regent Reiss recalled that the University's agreement with the Governor allowed for PDST increases. She expressed opposition to increases in PDST. She requested that the UC budget presentation include the dollar amount of revenue from PDST, to enable a thoughtful discussion about whether there is another way to fund that amount. She cautioned that UC might be reaching a tipping point in increasing PDST where the best students might no longer apply to UC. Increasing PDST also discourages students from considering public service careers.

Regent Atkins expressed concern about possible increases to student tuition, tied to inflation, beginning in 2017-18. These potential increases were not mentioned or endorsed in the 2015 State budget act. While they may have been part of discussions between the University and the Governor, the Legislature did not endorse this part of UC's plan. The Legislature only voted to endorse the UC tuition freeze for 2015-16 and 2016-17. She also expressed concern about what she described as UC's default assumption that it would raise tuition in two years. While inflation must be taken into account, it appeared that UC was counting on the four percent increase in State funding, which would likely outpace inflation. In this case a tuition increase would not be required, unless other UC revenue sources were not keeping pace with inflation or UC planned to increase spending in certain areas. Regent Atkins stated that if either of these latter possibilities were the case, she would like to be informed of it. She asked if increased investment in other areas was more important than keeping UC affordable for students and their families. This would be a subject of discussion for the Legislature's budget subcommittees, especially if there continue to be General Fund increases for the University. Regent Atkins drew attention to the fact that tuition increases impose a cost to the State in the form of Cal Grants, also a General Fund cost. By the State's estimate, if inflation increased by two percent in 2017-18, and UC increased tuition accordingly, it would cost the State $17 million to $18 million more to cover this increase for low-income students. These costs to the State would be compounded by any tuition increases in the following years.

Priorities for the Legislature are the expansion of California undergraduate enrollment and a significant effort by UC to meet the target of enrolling an additional

5,000 California undergraduates before the end of the next year. Regent Atkins requested information on how UC's enrollment planning with the campuses was proceeding, the status of the work, and what work remained to be done. She acknowledged UC's move to cap pensionable salaries to align with PEPRA. This was an important step in addressing concerns about executive compensation. She commented that it is helpful for the Regents, the Legislature, and the public to have information on anticipated cost increases for mandatory costs and other priority categories before the November meeting when the UC budget is voted on.

Regent Zettel expressed concern regarding PDST increases. She cited the state's workforce needs for medical professionals.

Regent Gould noted that the *New York Times* article cited earlier was a demonstration of UC's success in providing access and opportunity, especially for low-income students. He reflected on UC enrollment in the future. He expressed serious concern about the growing number of out-of-state and international students. As the UC budget is prepared, he requested that the administration and the Regents carefully examine out-of-state enrollment campus by campus.

Regent Oved echoed the sentiments expressed by Regents Reiss and Zettel regarding PDST increases. He stressed that graduate and professional students do not have the same sources of financial support as do undergraduates, and that professional students across UC are not organized as a body in the same way, making it more difficult to have a comprehensive discussion.

Committee Chair Ruiz remarked that the dollar amount of State support being discussed in relation to increased student enrollment was not proportionate to amounts discussed the previous day in relation to planned enrollment growth at UC Merced.

3. **AMENDMENT OF REGENTS POLICY 5601: POLICY ON UNIVERSITY OF CALIFORNIA RETIREMENT PLAN FUNDING**

The President of the University recommended that Regents Policy 5601: Policy on University of California Retirement Plan Funding be amended as shown in Attachment 1.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Duckett explained that the changes being proposed for the Policy on UC Retirement Plan (UCRP) Funding were intended to align with model practice standards developed by the California Actuarial Advisory Panel and the Conference of Consulting Actuaries' Public Plans Community. Many other pension systems were reviewing their policies based on guidance from these agencies. The University regularly monitors the UCRP funding policy, which was last amended in 2010. The Regents' consulting actuary for the UCRP, Segal Consulting, was now recommending changes to certain amortization periods. Currently, changes in liability due to actuarial gains and losses are amortized over 30 years, while those arising from changes in actuarial assumptions are amortized over 15 years. Under the proposal, both these types of changes would be amortized over 20 years. The amortization period for changes in liability resulting from UCRP amendments reflecting only non-active members would decrease from 15 years to ten years. The recommended amortization periods would only apply to future changes in unfunded liability and would have no immediate impact on the unfunded liability. Based on modeling performed by Segal, UC anticipates a minimal cost impact over the next 30 years. Results would depend on actual changes in unfunded liability. The UCRP funding policy includes a provision allowing the Regents to set contribution levels independently. This action would not affect contribution rates.

Regent Makarechian stressed that the University's goal was to achieve 100 percent funding over the long term. The University was anticipating lower investment returns. He asked about the rationale for the proposed action when the UCRP was not 100 percent funded. Segal representative Paul Angelo responded that all the funding policies Segal recommends to the Regents aim at 100 percent funding. This proposed action concerned the actuarially determined contribution, not the current funding level.

Regent Makarechian cautioned that the decrease in the investment return assumption, from 7.5 percent to 7.25 percent, would have a significant effect. Mr. Angelo acknowledged that it is not possible to quantify any results in advance, but emphasized that it is possible to quantify directional impact.

Committee Chair Ruiz recalled that the UCRP funding level was below 80 percent some years earlier and expressed concern about the proposed actions. Executive Vice President and Chief Financial Officer Brostrom responded that for the most recent valuation, on a market value of assets basis, funding was at 87 percent, but on an actuarial basis, significant because it determines asset smoothing, UCRP was 79 percent funded. UCRP still has a significant unfunded liability.

Executive Director Gary Schlimgen emphasized that the funding policy reflects the total funding policy amount that should be contributed. But the amount UC contributes, absent borrowing, is set differently and separately by the Regents at 14 percent for the employer and eight percent for most employees. The proposed action would not affect the amount of contributions to the UCRP, unless UC were to borrow up to the full Annual Required Contribution (ARC), the full funding policy level.

In response to a question by Staff Advisor Acker, Mr. Schlimgen confirmed that the proposed action had been discussed by the UC Retirement System (UCRS) Advisory Board. The UCRS Advisory Board members did not have concerns about the proposed changes and about aligning with industry practice.

Regent Gould expressed support for the proposed action, which would be adhering to best practices. The Regents would be endorsing a standard practice in industry. It would be an honest reflection of the UCRP funding status and a movement toward meeting best practice standards.

Regent Makarechian expressed agreement with Regent Gould, but emphasized that these best practices might not apply for all institutions. Institutions whose employer contribution is funded by the government are in a different situation than UC. It might not be appropriate to apply certain standards to the University. He requested confirmation that by making these changes, over the long term, the funded level of the UCRP would increase toward 100 percent. Mr. Schlimgen responded that if UC borrowed to meet the full ARC level, this would occur. The proposed action included recognition of UC's unique status as an institution, such as the level dollar amortization recommendation. The funding policy reflects the University's environment and its many different funding sources.

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

4. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – EXPERIENCE STUDY: PROPOSAL TO ADOPT CHANGES IN ACTUARIAL ASSUMPTIONS**

The President of the University recommended that:

A. The Regents' Consulting Actuary's recommendations regarding economic actuarial assumptions for the UC Retirement Plan (UCRP) summarized in Attachment 2 be adopted.

B. The Consulting Actuary's recommendations regarding non-economic actuarial assumptions for the UCRP summarized in Attachment 2 be adopted.

C. New annuity option factors and lump sum factors for the UCRP, based on the recommended changes in the mortality and investment return assumptions summarized in Attachment 2, be effective for retirements on July 1, 2016 and later.

D. With respect to the UC-PERS Plus 5 Plan and the UC Retiree Health Benefit Program, the actuarial assumptions summarized in Attachment 3 be adopted.

E. The Plan Administrator be authorized to implement the actuarial assumption changes summarized in Attachments 2 and 3.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Duckett recalled that an experience study of the UC Retirement Plan (UCRP) is conducted every three to five years. This is an industry best practice, and ensures that the UCRP liabilities and costs are evaluated appropriately. The consulting actuary compares expected experience with actual experience and analyzes the economic assumptions for the long term, given market conditions and future economic outlook. The proposed action was recommended by the Regents' consulting actuary, Segal Consulting, for changes to UCRP actuarial assumptions resulting from an experience study covering the four-year period ending on June 30, 2014. The most significant changes being proposed were a reduction in the investment return assumption from 7.5 percent to 7.25 percent and a change in the mortality assumption, which reflected the longer life expectancy of UCRP members. Segal modeled the recommended assumptions on the July 1, 2014 valuation, resulting in a 3.5 percent increase in unfunded accrued actuarial liability, or about $2 billion, which translates to about a three percent lower funded ratio. The updated assumptions would be reflected in the July 1, 2015 actuarial evaluation of UCRP.

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

5. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – PROPOSAL TO MODIFY THE EMPLOYER CONTRIBUTION RATE FOR THE LAWRENCE BERKELEY NATIONAL LABORATORY SEGMENT**

The President of the University recommended that:

A. During a five-year transition period beginning October 1, 2015, the employer contribution rate to the University of California Retirement Plan for the Lawrence Berkeley National Laboratory (LBNL) Segment be set at a rate proportionate to the funded ratios of the LBNL Segment and the Campus and Medical Centers (C/MC) Segment, determined on an actuarial value of assets basis as of the previous valuation date (July 1, 2014 for the proposed October 1, 2015 rate) as shown in the table below.

B. The proposed employer LBNL contribution rate be made effective as of October 1, 2015, subject to mutually agreed-upon appropriate modification of the Management and Operating Contract to implement the new rate that will be negotiated under existing authority of the UC Office of the National Laboratories.

LBNL Funded Ratio > C/MC Funded Ratio	**LBNL Funded Ratio ≤ C/MC Funded Ratio**
LBNL Indexed Rate = $C/MC\ Rate * \frac{C/MC\ Funded\ Ratio}{LBNL\ Funded\ Ratio}$	C/MC Rate
Under current conditions, LBNL rate would equal 11.5%	*Current C/MC rate = 14%*

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President and Chief Financial Officer Brostrom explained that the Lawrence Berkeley National Laboratory (LBNL) has a separate segment in the UC Retirement Plan (UCRP). The University is not allowed to blend these LBNL assets and liabilities with other UCRP assets and liabilities. The LBNL segment was now overfunded on a market value of assets basis, and on an actuarial basis, it was 96 percent funded. LBNL proposed to reduce its employer contribution according to a formula in which the percentage of UC's unfunded liability would be the numerator, and the LBNL unfunded liability would be the denominator. This would reduce LBNL's employer contribution from 14 percent to 11.5 percent. LBNL was still near a 100 percent funded ratio, and the University found that this was a prudent action.

In response to a question by Regent Makarechian, Mr. Brostrom responded that this action would apply only to about three percent of the UCRP, and would not apply to federal contracts and grants.

Regent Makarechian asked if this reduction would help the actuarial funded level to move from 96 percent toward 100 percent. Mr. Brostrom responded in the affirmative. The normal cost for the LBNL segment was still about eight percent, and the contribution would be 11.5 percent.

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

6. **AUTHORITY TO INDEMNIFY THE STATE OF CALIFORNIA, DEPARTMENT OF TRANSPORTATION FOR ENCROACHMENT PERMIT RELATED TO RESEARCH CONDUCTED NEAR THE CALDECOTT TUNNEL, DAVIS CAMPUS**

The President of the University recommended that she be authorized to approve and execute the Standard Encroachment Permit with the State of California, Department of Transportation for UC Davis research conducted near the Caldecott Tunnel. The Permit contains an indemnification provision by which the University would assume third-party liability.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Ruiz briefly introduced the item.

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

The meeting adjourned at 11:50 a.m.

Attest:

Secretary and Chief of Staff

Additions shown by underscoring; deletions shown by strikethrough

Regents Policy 5601: Policy on University of California Retirement Plan Funding

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Approved September 18, 2008
Amended September 16, 2010

1. The funding policy is effective with the July 1, 2008 actuarial valuation and determines total funding policy contributions starting with the Plan Year beginning July 1, 2009.

2. Each year the funding policy contributions will be calculated for the Plan Year starting one year after the date of the actuarial valuation.

3. Each year the Regents will determine both the actual total contributions and the split between Member Contributions and University Contributions based on the total funding policy contributions and various other factors, including the availability of funds, the impact of employee contributions on the competitiveness of UC's total remuneration package, and collective bargaining. In no event shall the University Contributions be lower than the Member Contributions.

4. The funding policy will determine total funding policy contribution rates based on an actuarial valuation of the non-laboratory segment of the University of California Retirement Plan (UCRP) (e.g., campuses, medical centers and Hastings College of the Law). The Lawrence Berkeley National Laboratory will contribute according to the funding policy outlined in ~~on the same basis as determined for the non-laboratory segment of UCRP, subject to~~ the terms of the University's contract with the Department of Energy. The Lawrence Livermore National Laboratory and Los Alamos National Laboratory Retained Segments in UCRP will be subject to the funding policies outlined in the University's contracts with the Department of Energy. Throughout this policy the term “UCRP” shall refer to the non-laboratory segment of UCRP.

5. The total funding policy contributions to UCRP will consist of the Normal Cost plus an amortization charge for any Unfunded Actuarial Accrued Liability (UAAL) or minus an amortization credit for any surplus.

6. The Regents' Consulting Actuary will conduct an annual actuarial valuation of UCRP. The Normal Cost and the Actuarial Accrued Liability (AAL) in each actuarial valuation will be determined under the Entry Age ~~Normal~~ Actuarial Cost Method, using actuarial assumptions adopted by the Regents.

7. The asset smoothing method used to determine the Actuarial Value of Assets will be based on the Market Value of Assets adjusted for “unrecognized returns” in each of the then last five years. Unrecognized return is the difference between actual and expected returns on a market value basis and is recognized over a five-year period.

8. As of the effective date of this policy, any initial surplus as of that date will be amortized as a level dollar amount over a period of three years, as was specified by the Regents in the adoption of this policy.

   a. Any changes in surplus after the effective date due to actuarial gains and losses (including contribution gains and losses) will be amortized as a level dollar amount over 15 years.

   b. Any change in surplus due to a change in actuarial assumptions, cost method or asset smoothing method will be amortized as a level dollar amount over 15 years.

   c. Any change in surplus due to a Plan amendment will be amortized as a level dollar amount over 15 years.

   d. In the first year after the effective date when UCRP has a UAAL, ~~(as opposed to a continuation of the current surplus condition)~~ all amortization bases will be considered fully amortized and contributions will be determined under the remaining provisions of this policy.

9. For any future year when UCRP has a UAAL ~~(as opposed to a continuation of the current surplus condition)~~, the calculation of the UAAL will be maintained by source (as listed below) and each new portion of or change in UAAL will be amortized as a level dollar amount over a fixed amortization period. For any UAAL identified prior to the July 1, 2015 actuarial valuation, the following applies:

   a. Any initial UAAL (after a period of surplus) or change in UAAL due to actuarial gains and losses (including contribution gains and losses) will be amortized over 30 years.

   b. Any change in UAAL due to a change in actuarial assumptions, cost method or asset smoothing method will be amortized over 15 years.

   c. Any change in UAAL due to a Plan amendment will be amortized over 15 years, unless the nature of the Plan amendment suggests a shorter period.

10. For any UAAL identified beginning with the July 1, 2015 actuarial valuation (including the 2014-15 actuarial gain or loss), the following applies:

   a. Any initial UAAL (after a period of surplus) or change in UAAL due to actuarial gains and losses (including contribution gains and losses) will be amortized over 20 years.

   b. Any change in UAAL due to a change in actuarial assumptions, cost method or asset smoothing method will be amortized over 20 years.

c. Any change in UAAL due to a Plan amendment affecting non-active members will be amortized over 10 years.

11. For any future year in which UCRP has a surplus ~~(other than a continuation of the current surplus condition)~~, such surplus will be amortized as a level dollar amount over 30 years, and all prior UAAL amortization bases will be considered fully amortized.

1~~1~~2. Effective July 1, 2010, all UAAL amortization bases as of July 1, 2010 will be combined and the combined base will be amortized as a level dollar amount over 30 years.

1~~2~~3. This funding policy supersedes any previous funding policies.

JULY 1, 2010 – JUNE 30, 2014 UCRP ACTUARIAL EXPERIENCE STUDY SUMMARY OF CONSULTING ACTUARY'S RECOMMENDATIONS REGARDING ACTUARIAL ASSUMPTIONS FOR UCRP

Economic Assumptions

Inflation—Affects projections of investment returns, active member salary increases, cost-of-living adjustments for retirees.
Recommendation: Decrease rate from 3.50 percent per annum to 3.0 percent per annum.

Investment Return—Estimates average future net rate of return on assets over projected lifetime of the Plan as of the valuation date.
Recommendation: Decrease rate from 7.50 percent per annum to 7.25 percent per annum.

Individual Salary Increases—Includes salary increases due to inflation, real "across the board" salary increases and promotional and merit increases in salary.
Recommendation: Decrease the current inflationary salary increase assumption from 3.50 percent to 3.00 percent; maintain the "across the board" salary increase assumption at 0.50 percent; adjust the promotional and merit increase assumptions consistent with the tables established for staff and faculty in the Report.

Non-Economic Assumptions

Retirement Rates—Predicts the probability of retirement at each age at which members are eligible to retire.
Recommendation: Maintain retirement rates structure as a function of both age and years of service for staff members; for faculty and safety members, continue to structure retirement rates as a function of age only; maintain the current retirement rates for 1976 Tier Faculty and all 2013 Tier and Modified 2013 Tier members; a decrease to the retirement rates for 1976 Tier Staff; an increase to the retirement rates for members with Safety benefits; and for deferred vested members, increase the assumed retirement age from 59 to 60.

Mortality Rates—Estimates the probability of dying at each age.
Recommendation: For non-disabled members, decrease the mortality rates consistent with the RP-2014 White Collar Mortality Table (separate tables for males and females) projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year (no set forward for pre-retirement mortality); for disabled members, decrease the mortality rates consistent with the RP-2014 Disabled Retiree Mortality Table projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. It is also recommended that the mortality rates for disabled members only apply while the member is receiving UCRP Disability Income, after which time they will be treated as non-disabled members. The assumed age when disabled members "cross-over" to retirement is recommended to be maintained at age 65.

Termination Rates—Estimates the probability of leaving active UCRP membership at each age and receiving either a refund of member contributions or a deferred vested retirement benefit.
Recommendation: Maintain service-based termination rates and the assumption that a member

will choose between a refund of contributions and a deferred vested benefit based on which option has the greater present value at termination and increase to the current termination rates for Faculty overall and decreases to the current termination rates for Staff/Safety overall.

Disability Incidence Rates—Estimates the probability of becoming disabled at each age.
Recommendation: Decreases to the current disability rates overall as described in the Report.

Eligible Survivor Assumptions—Projects the probability of having a survivor at death.
Recommendation: Decrease the current percentages of members who will have an eligible survivor at time of death as follows: 85 percent to 80 percent of male members and 65 percent to 60 percent of female members. In addition, maintain the current age difference/gender for Eligible Survivors and the number of Eligible Survivors for Safety Members and other members whose benefits are not coordinated with Social Security.

Conversion of Unused Sick Leave—Projects amount by which UCRP service credit may be increased due to conversion of unused sick leave.
Recommendation: Slightly increase the current assumption for faculty and staff members retiring from active membership and slightly decrease the current assumption for safety members retiring from active membership.

Lump Sum Cashout Take-Rate—Estimates the probability of electing the Lump Sum Cashout in lieu of retirement income.
Recommendation: Maintain the current assumption structure for employees terminating while active members as a function of years of service; for all others, modify the current flat percentage regardless of years of service to also base this assumption on years of service. In addition, recommend adjustments to the rates for all members.

Future Benefit Accruals—Projects amount of service credit to be earned by active members in years after valuation date.
Recommendation: No change to current assumption that all active members earn one year of service credit each year in the future.

UCRP Administrative Expenses—Projects fees for administrative, legal, accounting, and actuarial services carried out by the Plan.
Recommendation: No change to the percentage loading to the normal cost at 0.50 percent of payroll.

JULY 1, 2010 – JUNE 30, 2014 UCRP ACTUARIAL EXPERIENCE STUDY SUMMARY OF CONSULTING ACTUARY'S RECOMMENDATIONS THAT ALSO APPLY TO OTHER UC BENEFIT PLANS

Recommended actuarial assumption changes to also be applied to the actuarial valuations of other UC benefit plans—

UC-PERS Plus 5 Plan:

- Investment Return;
- Inflation; and
- Mortality Rates.

Retiree Health Benefit Program:

- Retirement Rates;
- Mortality Rates;
- Termination Rates;
- Disability Incidence Rates;
- Conversion of Unused Sick Leave; and
- Lump Sum Cashout Take-Rate.