The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
July 19, 2023

The Finance and Capital Strategies Committee met on the above date at the UCSF-Mission Bay Conference Center, San Francisco campus; 106 E Babcock Street, Bozeman, Montana; and Pitiousa Square, Palio Limani, Spetses, Greece 18050.

Members present: Regents Cohen, Elliott, Kounalakis, Makarechian, Matosantos, Pérez, Raznick, Reilly, Robinson, Sherman, and Sures; Ex officio members Drake and Leib; Advisory members Cochran and Emiru; Chancellors Gillman, Hawgood, Khosla, Larive, and May

In attendance: Regent-designate Beharry, Staff Advisor Mackness, Secretary and Chief of Staff Lyall, Deputy General Counsel Drumm, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Interim Senior Vice President Reese, Vice Presidents Leasure and Lloyd, Chancellor Muñoz, and Recording Secretary Johns

The meeting convened at 10:15 a.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes the meeting of May 17, 2023 were approved, Regents Cohen, Kounalakis, Leib, Makarechian, Matosantos, Pérez, Reilly, Robinson, Sherman and Sures voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Fiscal Year 2023–24 General Revenue Bond Issuance***

The President of the University recommended that the Regents authorize the President to:

(1) Issue an aggregate principal amount not to exceed $2.5 billion plus financing costs under the University's General Revenue Bond Indenture in Fiscal Year 2023–24. As long as the bonds are outstanding, the following requirements shall be satisfied:

a. The campuses receiving such proceeds shall maintain revenues in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

1 Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

b. The general credit of the Regents shall not be pledged.

(2) Take all appropriate actions related to the action outlined above, including, but not limited to approval, execution, and delivery of all necessary or appropriate financing documents.

B. ***Preliminary Plans Funding and External Financing, UC Merced/Merced Community College District "Promise" Intersegmental Student Affordable Housing Building, Merced Campus***

The President of the University recommended that:

(1) The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Merced: <u>UC Merced/Merced Community College District "Promise" Intersegmental Student Affordable Housing Building</u> – preliminary plans – $10.05 million to be funded from external financing supported by State General Fund appropriations ($9.68 million) and 2022–23 General Fund for the Higher Education Student Housing Grant Program appropriated to "Merced College for an intersegmental project with the University of California, Merced" ($370,000).

(2) The President be authorized to obtain external financing for the UC Merced/Merced Community College District "Promise" Intersegmental Student Affordable Housing Building project of $9.68 million plus related interest expense and additional related financing costs. The President shall require that:

a. The primary source of repayment shall be from State General Fund appropriations, pursuant to the Education Code Section 92493 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.

b. The general credit of the Regents shall not be pledged.

[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 Cohen briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendations and voted to present them to the Board, Regents Cohen, Kounalakis, Leib, Makarechian, Matosantos, Pérez, Reilly, Robinson, Sherman, and Sures voting "aye."

Chancellor Muñoz expressed his appreciation for the Committee's support for the UC Merced/Merced Community College District "Promise" Intersegmental Student Affordable Housing project. This would be one of only two such intersegmental projects in the UC system. The project would provide 488 student beds with rent at 15 percent below market rates and initiate a new relationship with the community college sector, not only with Merced College, which was close to UC Merced, but with community colleges across the region.

3. **PRELIMINARY PLANS FUNDING AND EXTERNAL FINANCING, CLEAN ENERGY CAMPUS — ELECTRIFIED HEATING AND COOLING PLANT, DISTRIBUTION, AND DISTRIBUTED ENERGY RESOURCES, BERKELEY CAMPUS**

The President of the University recommended that:

A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Berkeley: <u>Clean Energy Campus – Electrified Heating and Cooling Plant, Distribution, and Distributed Energy Resources</u> – preliminary plans – $40 million to be funded with external financing supported by State General Fund appropriations.

B. External financing be approved in an amount not to exceed $40 million plus related interest expense and additional related financing costs to finance Clean Energy Campus – Electrified Heating and Cooling Plant, Distribution, and Distributed Energy Resources. The following requirements shall be satisfied:

(1) The primary source of repayment shall be from State General Fund appropriations, pursuant to the Education Code Section 92493 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.

(2) The general credit of the Regents shall not be pledged.

[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.]

Chancellor Christ introduced the item. The Clean Energy Campus initiative was a set of projects that would transform the Berkeley campus into an electrified and renewable energy microgrid, largely eliminating fossil fuel combustion and related on-campus carbon emissions. It would serve as a model for the state, demonstrating the transition to a clean energy system on the scale of a medium-sized city. The initiative would create a reliable and resilient utility system with sufficient electrical and thermal capacity to support future campus operations, enrollment, and new development consistent with the campus' Long

Range Development Plan. The Clean Energy Campus project supported the State of California's and the University's priority to address the climate crisis and reflected the responsibility of public institutions to lead in greatly reducing fossil fuel use and carbon emissions.

Chancellor Christ believed that this project would be a valuable resource for others seeking to rapidly decarbonize and a living laboratory for testing and implementing future green technologies developed in California and throughout the world. Construction would generate hundreds of regional construction jobs at the prevailing wage, stimulate tens of millions of dollars into the California economy, and activate vital job training programs and apprenticeships in the energy field. The project would also create a repository of clean energy knowledge and best practices and demonstrate that large-scale and positive changes were possible in the limited amount of time remaining to address the exponential impacts of climate change.

As part of the 2022 and 2023 State budget acts, the State had generously allocated $249 million to support the Berkeley campus' initiative. This item sought approval for $40 million in preliminary plans funding and the associated external financing supported by the State General Fund appropriations. During the preliminary plans phase, the campus intended to confirm the project scope and budget and begin the design work on three of the most significant components of the project: a new electrical heating and cooling plant that would replace the campus' aging cogeneration plant; a hot and chilled water distribution system that will connect nearly 75 percent of the campus' thermal energy load to the new plant; and a set of distributed energy resources such as fuel cell, solar, and battery backup that would provide critically needed resilience and backup during unexpected events.

At this time, UC Berkeley's aging cogeneration and steam system required significant and routine maintenance to keep the infrastructure operational. The new infrastructure, planned and constructed as part of the Clean Energy Campus initiative, would provide over $300 million in avoided restoration and renewal costs and a reduction of over $110 million in operational costs through improved reliability and based on the cost of carbon.

The Clean Energy Campus initiative was a strategic energy plan that supported the Berkeley campus' resilience and future growth. When it was fully built, the system would provide an 85 percent reduction in building-related carbon emissions and move the campus below the regulated thresholds of California's cap and trade program. The Berkeley campus would continue to refine the project schedule and budget during the preliminary plans phase and hoped to return to the Regents in 2024 for approvals required for the construction of the first set of projects including the new plant and initial distribution network.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Kounalakis, Leib, Makarechian, Matosantos, Pérez, Raznick, Reilly, Robinson, Sherman, and Sures voting "aye."

4. **AUTHORIZATION OF TERMS FOR URBAN SERVICES AGREEMENT AND POTENTIAL ANNEXATION, MERCED CAMPUS**

The President of the University recommended that the Regents:

A. Authorize the President, on behalf of the Merced campus, to approve and execute, after consultation with the General Counsel, an agreement with the City of Merced memorializing the terms pursuant to which the University will support the City's application to annex the entire acreage of the Merced campus (1,026 acres) as follows:

(1) Permit the Merced campus to support annexation of the entire acreage of the Merced campus into the City for the purpose of providing City services, provided that any conditions proposed by the Merced Local Agency Formation Commission (Merced LAFCO) in its draft resolution are not inconsistent with the following provisions:

a. The entirety of the UC Merced campus as identified in the 2020 Long Range Development Plan (LRDP), a total area of 1,026 acres, will be annexed into the City of Merced.

b. The City will provide water and sewer services to the entire 1,026-acre campus. The City's service obligation will be tied to the campus population and development as described in the UC Merced LRDP, as amended or updated by the Regents over time (i.e., upon annexation, the City's service obligation shall increase to 15,000 students, the enrollment projection in the 2020 LRDP, and shall further increase if and when this enrollment projection is updated).

c. There shall be no cap or limitation on campus enrollment, or the amount and type of campus development and uses (i.e., total building space, student housing, parking, retail/restaurant space, and incubator space).

d. The University retains its full powers of organization and government set forth in Article IX, Section 9, of the California Constitution.

(2) Monthly water and sewer service use charges shall accurately reflect the City's cost to provide service to the UC Merced campus, through rates based on the applicable user category as defined in the City of Merced Municipal Code (MMC), consistent with rates paid by other users of the same category.

(3) The new agreement will maintain the current "per student" charge structure for water and sewer facilities charges set forth in the Services Agreement,

both up to and beyond enrollment of 10,000 students. Any future capacity/connection charges for additional campus development will be negotiated by the parties, subject to the limitations on charges for capital improvements set forth in Government Code Section 54999.3.

(4) The City will extend by ten years, through 2043, the reimbursement period for campus-provided water and sewer infrastructure (from developers who connect to the campus-funded water and sewer lines in the future) in the 2003 Permanent Financing Capital Facilities Fee Agreement.

(5) The City will modify the 2016 Transportation Agreement to clarify that the campus shall only contribute its proportionate share of the cost to widen Bellevue Road.

B. Authorize the President, after consultation with the General Counsel, to approve and execute any additional documents necessary to implement the terms of the new agreement.

[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.]

Chancellor Muñoz introduced the item by recalling that in 2002, the Regents authorized the President to execute an agreement with the City of Merced consenting to a future annexation in the first phase to the UC Merced campus, which was 102 acres, in exchange for City water and sewer services. This was subsequently expanded to include a total of 219 acres of the available 1,026-acre campus in 2020. Importantly, the current service agreement only provided for City water and sewer services for an enrollment of up to 10,000 students, which UC Merced would exceed; now was the right time for this decision and action. In addition, Assembly Bill (AB) 3312, authored by former Assembly member Adam Gray, provided the ability for the entire campus to be annexed, subsequently allowing for properties at the campus boundaries to become part of the City. The campus hoped that this in turn would spur private development of housing, dining, and retail options.

Merced City Manager Stephanie Dietz stated that the City valued its partnership with UC Merced and the opportunities that the campus had brought to the community, for students living on and off campus and for the community at large. AB 3312 was a unique opportunity for the City to annex the campus, allowing subsequent annexation, and as a result of its adoption and approval by the State Legislature, there were five proposed projects surrounding the campus that would add retail, commercial, housing, and research and development space; these were opportunities to support UC Merced. The growth and success of the campus have directly supported the viability of the City of Merced, as evidenced by how projects like the Downtown Campus Center and the 2020 Project had spurred additional private development, including commercial and retail investments in Merced's downtown of over $100 million and several multifamily housing complexes in production throughout the entire city. The City Council and the community supported the proposed annexation terms and were committed to the future success of UC Merced.

Regent Ellis highlighted the positive working relationship of UC Merced with the City and County, and with legislators.

Regent Makarechian asked about the fees that the City would charge the campus, which would be charged per student rather than per residence units. Chancellor Muñoz responded that the calculation of the connection fee varied, based on user and consumer type. The campus was aware of the rates it was currently paying and how the increase would be calculated; the increase would not be exorbitant or disproportionate compared to what other City of Merced users would pay by law. Ms. Dietz explained that the City's connection fee was based on the user type. The fees were different for single-family residential, multifamily, industrial, commercial, and retail users. The per-student fee was established in 2010 and was locked in. The rate would be increased only by the Consumer Price Index (CPI). Every five years, the City of Merced had exercised its right under Proposition 218 to increase rates for private development, subject to the actual cost required for the City to perform this service. The UC Merced rates had been locked in at the 2010 cost of doing business and would experience only the CPI increase, while rates for private developers would continue to increase with market costs. Ms. Dietz could provide the fee figures later. She emphasized that the UC Merced rates had remained level, with only CPI increases, while the private cost of doing business with the City continued to increase. This was the best deal that the City could offer UC Merced.

Regent Makarechian observed that in general, there were fewer bathrooms per bedroom in student housing than in single-family residences, and students made far less use of kitchen facilities. He wished to make sure that the fees charged to UC Merced would be comparable to or less than what developers paid per unit and requested these numbers.

Regent Makarechian referred to information in the background material indicating that UC Merced would cover 83 percent of the cost of the Bellevue Road improvement project. He noted that the property in question belonged to developers other than the University. This acreage would become much more valuable following annexation unless the City condemned the acreage or came to an agreement with the property owners to appraise the land before annexation. The value of unannexed land was currently approximately $1,000 per acre, but once the land was annexed, the value would increase many times over. He asked that the City develop an agreement with the developers so that the University would be charged at pre-annexation rather than post-annexation rates. This would save the University money. Chancellor Muñoz responded that 85 percent of the required land was currently owned by developers who stood to benefit substantially from the widening of the road as well as from the availability of services. The City would require them to surrender their portions of the property at no cost. The remaining 15 percent was owned by private property owners, and the cost of this land, which would have to be made available for the widening of Bellevue Road, would be incorporated into the overall cost. Currently, under the 2016 Transportation Agreement, UC Merced had 83 percent of responsibility for this cost. With the annexation agreement, the cost of the road widening would be shared among

UC Merced and the developers; this would substantially lower UC Merced's individual cost. Ms. Dietz explained that, as a condition of approval of annexation and entitlement, the City requires developers to dedicate the right of way in lieu of fees; the City would not be burdening the campus with the cost of the right of way. With respect to the individual property owners, the City would negotiate the acquisition of the right of way on behalf of the campus in order to complete that project.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Kounalakis, Leib, Makarechian, Matosantos, Pérez, Raznick, Reilly, Robinson, Sherman, and Sures voting "aye."

5. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – PROPOSAL TO ADOPT CHANGES IN ACTUARIAL ASSUMPTIONS**

The President of the University recommended that:

A. The Regents' consulting pension actuary's recommendations regarding economic and non-economic actuarial valuation assumptions for the UC Retirement Plan (UCRP) summarized in Attachment 1 be adopted. As applicable, these actuarial assumptions will also be used for the actuarial valuations of the University of California-Public Employees' Voluntary Early Retirement Incentive Program (UC-VERIP) and the UC Retiree Health Benefit Program.

B. The Plan Administrator be authorized to implement the changes summarized in Attachment 1 and in the actuarial experience study for the UCRP for the period July 1, 2018 to June 30, 2022.

[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 Operating Officer Nava introduced the item, a proposal to adopt changes in the actuarial assumptions for the UC Retirement Plan (UCRP). Actuarial Services Manager John Monroe explained that an actuarial experience study is performed every three to five years based on the terms of the UCRP. The last study had been performed in 2019. In the study, all actuarial assumptions that contribute to the UCRP valuation are reviewed, including economic assumptions such as inflation, investor returns, and salary increases and essential demographic assumptions like rates of mortality, retirement, termination, and disability. The proposed assumptions, if adopted, would be effective with the July 1, 2023 UCRP valuation.

Segal representative Paul Angelo presented highlights of the recommended assumption changes based on the actuarial experience study for the period from July 2018 through June 2022. He observed that the changes in assumptions were not significant. Regarding demographic assumptions, there were decreases in both mortality rates and assumed rates of future mortality improvement, and these two offset each other. There were changes based on experience with retirement and termination rates and some other, minor assumptions. With respect to economic assumptions, Segal was recommending maintaining the inflation assumption at 2.5 percent, maintaining the investment return assumption at 6.75 percent, and maintaining the salary increase assumption. There were slight increases in the merit and promotional rates, reflecting individuals advancing above the averages, based on experience. Regarding mortality, Mr. Angelo commented that some demographic assumptions were affected by the COVID-19 pandemic. Segal normally reviews 12 years of data—the last three experience studies, each covering four years. In this case Segal reviewed each year for the last four years and noticed an actual increase in mortality rates in 2020–21. Segal did not have data indicating which deaths were due to COVID-19 but believed that it was reasonable to conclude that this increase was linked to the pandemic. Because the long-term impact of COVID-19 on mortality was still unknown in actuarial practice, Segal deleted the 2020–21 year from this assumption and used 11 years of data to adjust the mortality assumption. Similar patterns were noticed in some other demographic assumptions like retirement information.

Mr. Angelo presented a chart comparing the two main economic assumptions—investment return and salary increases—as adopted in 2019 and those proposed for 2023, including the components of price inflation, real wages, and net real return. He drew attention to the fact that the numbers had not changed from 2019 to 2023; there were no changes in the proposed assumptions. One was now in an environment of increasing inflation. There was an increase beginning in the second quarter of 2021 and continuing through 2022. Since then the rate of inflation had decreased and the Federal Reserve had been increasing interest rates. Segal was recommending maintaining the current inflation assumption of 2.5 percent per year and this was based on a variety of factors, including review of long-term forecasts. One such forecast is an annual review carried out by the Social Security Administration, a 75-year forecast. For the last four years, this 75-year forecast had remained stable at 2.4 percent. Segal also reviews the "break-even rate," which compares the yield from 30-year U.S. Treasury bonds to that from inflation-indexed U.S. Treasury bonds. This was a market forecast of inflation. Last year, when actual inflation increased to nine percent, this implied forecast briefly rose to 2.53 percent and then quickly returned to 2.25 percent, the current rate. Mr. Angelo described the 2.5 percent inflation assumption as a sort of base inflation of two percent, with an extra 50 basis points to anticipate occasional periods of high inflation including the current period. While it might seem counterintuitive to leave the 2.5 percent inflation assumption as it was, Segal believed that the current high inflation was accounted for in its long-term assumption.

Mr. Angelo presented another chart listing the components of the expected UCRP investment return for 2019 and the recommended assumptions for 2023. The rate of assumed inflation would remain the same at 2.5 percent. Based on a survey of capital market assumptions, the portfolio real rate of return had increased by 19 points from 5.4 percent to 5.59 percent for 2023. The assumed investment expenses remained the same at 0.8 percent. The risk adjustment and confidence level percentages had increased.

The following chart illustrated anticipated impacts of the proposed changes. The normal cost, the annual long-term cost assigned to each year of active employment, would decrease from 20.7 to 20.1 percent. Mr. Angelo noted that this projection was based on the 2022 valuation, using the new assumptions. The actual effect would not be known until the 2023 valuation. Segal anticipated an increase in the actuarial accrued liability from $102.7 billion to $103.2 billion and a decrease in the funded ratio from 83.5 percent to 83.1 percent. The total funding policy contribution would decrease from 32.9 percent to 32.2 percent.

Mr. Monroe then discussed a chart showing the approved contributions and the total funding policy contributions broken down into various components over a ten-year period, from 2022 to 2031. This chart had been presented at the November 2022 meeting, was based on the current actuarial assumptions, and did not reflect the proposed assumptions Mr. Angelo had described. The total funding policy contribution consisted of the normal cost plus an amount to amortize the unfunded actuarial accrued liability. The normal cost would slowly decrease over time as employees retired from the 1976 pension tier and were replaced by new hires in tiers with a lower normal cost such as the 2016 tier. The average member contribution rates were about eight percent. The employer contribution rate was currently 14 percent, would increase to 15 percent in a year, and subsequently increase by a half a percent annually to reach an ultimate employer contribution rate of 17 percent. There were also employer contributions toward the unfunded liability made on behalf of payroll for employees who have elected the Savings Choice Plan. Two transfers of $500 million each had been approved from the Short Term Investment Pool (STIP) for 2022 and 2023. No additional transfers from STIP were assumed in this projection. The funding policy shortfall was about $900 million in 2022 and 2023 and would increase to nearly $2 billion by the end of the ten-year projection.

Mr. Monroe then presented a chart with the same information regarding projected UCRP contribution amounts, but with the proposed assumption changes. There would be a slight decrease in the funding policy shortfall, but the changes were small overall, and the proposed assumptions would not have a significant impact on the projected total funding policy contribution. The following chart illustrated the projected UCRP funded ratio, or the ratio of assets to liabilities, over a 20-year period. There would be a slight improvement in the projected funded ratio under the recommended assumptions: the ratio would move from about 82 percent to about 86 percent by the end of the projection. Mr. Monroe explained that a slight decrease in 2025 was due to an actuarial asset smoothing methodology and recognition of the final year of the 2022 investment loss. He concluded that, overall, the proposed assumption changes would not have a significant impact on the UCRP funded ratio or the projected total funding policy contributions.

Executive Vice President and Chief Financial Officer Brostrom noted that the UCRP valuation for 2023 would be performed using these assumptions if they were approved by the Regents and based on investment returns of the 2022–23 year. The valuation results would be presented in November, with discussion of the contribution policy and potential additional transfers from STIP to the UCRP.

Regent Leib asked how past projections by Segal had compared to results. Mr. Angelo responded that this was precisely what the current process accomplished. For example, Segal examines turnover rates, comparing actual experience over the last four years to past assumptions, and bases the new assumptions on a weighting of those two. In each valuation, Segal examines the total gain or loss for liabilities and investments, monitoring the experience in the aggregate and comparing assumptions to experience. In this study, Segal compared each assumption to experience in the last four to 12 years, depending on the assumption, and then developed new assumptions based on a balance of those two.

Regent Leib recalled that the inflation rate was nine percent in the last year. He asked what the Segal projection was during this period. Mr. Angelo responded that this was a long-term assumption; it was 2.5 percent and had been so since the last study in 2019. Unlike much economic forecasting, carried out over the short term, this was a long-term assumption and therefore tended to be stable. In the 2010s, when inflation was lower, around two percent, the assumption was in the range of 2.75 to three percent. Segal was asked why it did not move the assumption down to two percent, and the explanation was that a long-term assumption remains in place through periods of lower and higher inflation. Segal did not try to predict inflation on a year-by-year basis. Mr. Brostrom added that the investment return assumption during this study was 6.75 percent. In one year during this period, UC experienced a nearly 30 percent return, while investments were down almost 20 percent in another year. Nevertheless, the 20- and 30-year average returns were seven to eight percent.

Regent Makarechian referred to the borrowing from STIP of $500 million and the funding policy shortfall of $900 million. He expressed concern that STIP borrowing was not a solution to addressing the shortfall over the long term and urged the Regents and the University to find a collective solution.

Regent Pérez echoed these concerns. The University had taken a pension holiday for too long, and this put UC employees who entered the system later at a disadvantage. Employees with the benefit of 20 years of a pension holiday received a higher pension rate and contributed less, while current employees were accruing pension benefits at a lower rate and paying more. This was not a sustainable or equitable solution. Regent Pérez recalled that the Office of the President’s response to these concerns at past meetings had been that the University could not make changes to the employee contributions due to collective bargaining agreements and did not wish to have a disproportionate impact on non-represented employees. Regent Pérez stressed the need to avoid a lopsided funding structure for the UCRP that is not sustainable in the long term and not equitable. Mr. Brostrom responded, first addressing the STIP borrowing, which he described as an unprecedented success. Since 2011, UC had borrowed about $6 billion from STIP and the effect had been to increase the UCRP funded ratio by 12 percent and to reduce the unfunded liability by $11 billion. The chart had shown the $500 million transfers from STIP but did not show an additional increase from the arbitrage, where five percent on $6 billion would result in a $300 million gain. Mr. Brostrom wholeheartedly recommended that UC continue with STIP borrowings. Even at a lower percentage gain, this would move the UCRP closer to 100 percent funding over ten years. The employee contribution was about 40 percent of the normal cost. The unfunded liability should not be the responsibility of employees. He acknowledged that the University made a mistake in taking a holiday from pension contributions. Contribution levels should be equitable to address the normal cost.

Regent Pérez observed that a previous Board of Regents had decided on a pension holiday for both the employer and the employee. For this reason, he questioned why it would be unfair for both sides to address the unfunded liability. Mr. Brostrom responded that he believed that employees should be responsible for an equitable portion of the normal cost, but not for the unfunded liability, which was caused by a past action of the Regents.

Regent Pérez stated his view that it would be unfair for current employees to pay for the unfunded liability from the holiday, from which they do not benefit. Mr. Brostrom concurred and noted that this was the reason for basing the employer contribution on the normal cost. At the Merced campus, all employees were relatively new, without retired beneficiaries. Campuses like UCSF and UC Berkeley had a much higher proportion of retirees. Ms. Nava briefly discussed the varying contribution percentages for employees compared to the normal cost. In the 1976 pension tier, the member contribution rate was eight percent, while in the most recent tier, the 2016 tier, the contribution rate was seven percent. The normal cost for the 2016 tier was 17 percent of covered payroll, while the normal cost for the 1976 tier was 21 percent. There was some modulation in the employee contributions to these plans. She recalled that some of UC's unions had a modified 2013 tier which permitted different retirement terms; the employee contribution in this tier was nine percent. She acknowledged that the Regents might wish to explore further modulation.

Regent Pérez asked Ms. Nava if she believed that these modulations were equitable. Ms. Nava deferred to Mr. Angelo on the question of possible inequities in the employee contribution compared to the normal cost. Mr. Angelo responded that, from the actuary's standpoint, contributions were contributions. This question was generally a matter of compensation management and collective bargaining.

Regent Pérez stressed that he was concerned about the impact on covered individuals. While he understood Segal's reasons for not including 2020–21 mortality data in its assumption, one would have to return and analyze these data. He expected that the difference in the mortality experience in 2020–21 would be stratified based on job classification. Data on excess mortality in general, for working age populations, during the first year of the COVID-19 pandemic, was stratified significantly based on job classification and race. The excess mortality rate for the Latino population was six times higher than for whites in California during the first year of the pandemic. This was a question of whether the University was making correct adjustments for the different UCRP participants and beneficiaries, and in his view, previous Boards had shirked this responsibility in extending the pension holiday for too long. Mr. Brostrom expressed his opinion that the percentage of the normal cost was in fact a good criterion. The normal cost reflected the overall value of the pension. Employee contributions in the 1976, 2013, and 2016 tiers all equated to about 39 percent of the normal cost. The only employee group with a significantly lower contribution was that of Safety members, who paid about 31 percent of the normal cost. This reflected competition with municipalities and other Safety employers. The contribution for the modified 2013 tier was slightly higher than

45 percent. The University negotiated this with some of its unions after adopting the 2013 tier. Mr. Brostrom reiterated his view that this served as a reasonable proxy for the equity of a contribution policy, and these numbers were close together.

Regent Matosantos emphasized the need to address the unfunded liability. UC had made a decision that employees in the 1976 tier would not bear a part of this liability, and a greater proportion of these employees were beneficiaries of the pension holiday. The treatment of employees in the different tiers had a bearing on how one dealt with the unfunded liability. She suggested that one should consider a differential rate of the normal cost or some other measure for the 1976 tier and requested more discussion of this matter. The longer UC went without a plan to address the unfunded liability, the greater the impact on current employees. With respect to Safety employees, one could compare this category with State Safety employees. UC should consider coming closer to a 50/50 sharing of the normal cost with these employees. Regent Matosantos expressed unease about the inflation assumption. If this assumption was incorrect, it would create greater unfunded liability in the future. She suggested that this number might need to be adjusted and requested more information on the assumptions regarding longevity, mortality, and disability, on the background to these numbers. She asked how a different sharing of the normal cost with Safety members would change the status of the UCRP. These topics should be covered in the next discussion of how UC would address the UCRP unfunded liability. Mr. Brostrom acknowledged that many members of the 1976 tier went through 20 years without paying into the UCRP so there might be some obligation for the unfunded liability in that group. He noted that, while the lower contribution by Safety members stood out, this represented only a small part of plan members, only about 400 people. Mr. Angelo commented on addressing the unfunded liability. While it was true that some 1976 tier members had benefited from the pension holiday, most of them had retired. The most common practice in the U.S. is to share only the normal cost with plan members. In this case, much of the liability would be associated with retired members and this would result in a smaller and smaller group of active members of the 1976 tier who would be burdened with the liability.

Regent Matosantos commented that this was precisely the reason why many retirement systems use a blended normal cost to address these types of differences. She reiterated her request that UC consider adjusting the normal cost sharing for 1976 tier members to address the unfunded liability and asked about the change in the disability assumption. Mr. Monroe responded that the disability assumption rates were lowered. UC was finding lower disability incidence rates over time. This assumption would not have a material effect on the valuation. The assumptions regarding mortality and retirement rates were more significant.

Regent Matosantos asked about the aggregate of the assumption changes. Mr. Monroe responded that the normal cost had decreased by about 0.6 percent of payroll. This was due to the decrease in mortality and termination rates and the increase in retirement rates. The percentage change was due to these three factors combined. The 0.6 percent impact was relatively small. Mr. Angelo added that Segal had conducted studies for six retirement plans this year for which the inflation assumption was lowered from about 2.75 percent to 2.5 percent. Segal felt confident about this recommendation. He presented a chart with historical inflation forecasts from 2010 to 2023. In 2010, the UCRP assumed inflation was at 3.5 percent. The Social Security Administration 75-year forecast had been gradually decreasing in stepwise fashion during this period from 2.8 percent to 2.6 percent to 2.4 percent. The chart also showed the break-even rate, the comparison of the yield from 30-year U.S. Treasury bonds to that from inflation-indexed U.S. Treasury bonds. While the break-even rate jumped around, it could be viewed as a long-term market forecast and indicator. In the period from 2014 to 2019, when both actual inflation and the market forecast of inflation was around two percent, actuaries were still assuming rates of 2.5 percent to 2.75 percent. At that time, actuaries advised their clients that they believed an increase in inflation would occur. One was now experiencing that predicted increase. Segal believed that the 2.5 percent assumption was a reasonable long-term stable basis, even though it was lower than inflation seen in the last 12 months.

Committee Chair Cohen referred to a chart in the Segal report showing the cost impact of the recommended assumptions. The chart indicated a decrease due to changes in demographic assumptions of 0.74 percent. He observed that a change of 0.74 percent might be significant over many decades. Mr. Angelo responded that this was a matter of scale and perspective. The funding policy contribution rate was about 32 percent, and 0.74 percent was a very small part of that. In the overall scale of the UCRP, this was a relatively small adjustment.

Committee Chair Cohen noted that, during the pension holiday, individual employees were receiving both the pension benefit and the defined contribution benefit, a dollar amount in addition to the pension plan. He wished to make sure that any analysis by Segal reflect the cash value for these employees during the pension holiday. Employees could do with this money what they wish, but it was an important piece of the fiscal analysis. Committee Chair Cohen stressed that the Committee was uncomfortable with a situation of multi-billion-dollar shortfalls every year. While the STIP borrowing had been tremendously effective on a short-term basis, this could not be the long-term plan. The Regents wished to have a financially stable pension plan for the long term and to be able to assure UC employees that the University would fulfill its promises to them. He estimated that UC was about ten percent short on these promises. Mr. Brostrom emphasized his view of the STIP borrowing as a sound financial action rather than a temporary stopgap measure. UC was taking advantage of excess liquidity and arbitrage possibilities.

Committee Chair Cohen objected that this approach relied on perpetual liquidity and a perpetual cash surplus that were not possible. UC would not have a guaranteed cash balance for the next decade. He stressed that UC must develop a long-term plan that would not rely only on short-term borrowing.

Regent Ellis observed that if UC increased the employee contribution, the University would likely also give employees a raise to cover this. He concurred with other Committee members that STIP borrowing would not be the solution to address the UCRP unfunded liability.

Regent Sherman asked about salary increases over the last four years on a nominal and actual basis. Mr. Monroe responded that the actual average increase per year for active employees for the last four years had been about 3.16 percent. He noted that these data only covered the period through June 30, 2022; they did not include any increases on July 1, 2022 or later.

Regent Sherman asked if the longer-term historical trend had been close to 75 basis points. Mr. Monroe responded that it had been averaging around that amount. Mr. Angelo added that the Bureau of Labor Statistics studies found that real, across-the-board pay increases averaged between 50 and 80 basis points over the last ten to 20 years.

Regent Sherman asked about the real effect of the increase in inflation, and if UCRP would be even more underfunded due to greater nominal wage increases. Mr. Angelo responded that increases in mortality or wages in the short term appear in the annual valuation, where the unexpected liability is identified and included as part of the total funding policy contribution. The judgment call for the actuary is how much of this liability to include in the forward projection. Losses in a given year are calculated in the unfunded liability but do not necessarily change the long-term view.

Regent Sherman asked if Mr. Angelo meant that years of high inflation would be offset by years of lower inflation, and that lower inflation would mean inflation below 2.5 percent. Mr. Angelo responded that the years of lower inflation would not cancel out years of higher inflation. Instead, in trying to make a long-term projection, Segal began with a two percent baseline and added 50 basis points for unspecified, unknown future periods of high inflation.

Regent Sherman asked about the calculation of merit and promotion salary increases. Mr. Angelo responded that Segal takes the increase in average salaries and subtracts from this the average increase in salaries. From this, the actuary determines how much individual salaries grew faster than the average. Mr. Monroe added that merit and promotional increases varied by years of service but were on average about one percent. The total salary increase assumption included 2.5 percent inflation, 0.75 percent real, across-the-board increases, and the merit and promotion increase of about one percent, totaling over four percent.

Regent Sherman asked if the assumptions presented in this discussion were used in the calculation of retiree health benefit costs. Mr. Brostrom recalled that the valuation of the UC Retiree Health Benefit Program was carried out by a different actuary, Deloitte Consulting. Mr. Monroe responded that the retiree health valuation used the same assumptions but had additional assumptions as well, related to healthcare and insurance costs. Mr. Brostrom commented that the largest factor in the magnitude of the retiree health benefit cost was the discount rate, the risk-free cost of capital, based on the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, which had been low. The pay-as-you-go costs for the program were at least $340 million, and the liability was about $22 billion.

Regent Makarechian asked if the Regents were being asked to approve contributions that would create future unfunded liability. Ms. Nava responded that the Regents had already approved the contribution strategies being discussed; the item proposed changes to demographic and economic assumptions. The University wished to incorporate the assumptions from this experience study into the valuation that would be presented at the November meeting. Mr. Angelo added that the new assumptions would help provide a baseline for discussion about the adequacy of the UCRP contributions.

Regent Makarechian emphasized that the Regents were not approving a long-term shortfall.

Regent Matosantos asked that the Segal projection to be presented in November include an assumption of three percent inflation or 2.75 percent inflation; Segal could present the long-term assumption with this rate of inflation, or an assumption of higher inflation for a shorter period, with a return to a 2.5 percent assumption for the long term. She voiced her concern about an assumption below UC's experience. Mr. Angelo responded that this was a complicated request. Segal would produce the usual valuation based on assumptions adopted by the Regents. Segal could carry out sensitivity analyses of scenarios with a higher or lower inflation assumption. He noted that changing to a three percent price inflation assumption would raise other questions: Should one increase the salary assumption by 50 basis points? Should one increase the expected return by 50 basis points? Should one increase the assumed inflation component but lower the portfolio real rate of return assumption? Increasing the inflation assumption, while keeping all other assumptions as they would otherwise be, might result in an unreasonable long-term investment return assumption. All these variables were interrelated.

Regent Matosantos stressed her view that the inflation assumption, when considered together with other factors such as the five percent base budget increases from the State under the Compact and the total salary increase assumption of about 4.1 percent, was too low and would lead to greater unfunded liability in the future. Segal should use an assumption of three percent inflation but should not assume that investment returns would move accordingly.

Committee Chair Cohen concluded that the Committee would approve the recommended assumptions with the expectation that Segal and the Office of the President would return at the November meeting with a scenario assuming three percent inflation but leaving the investment performance assumption at 6.75 percent, and with a plan for long-term full funding of the UCRP.

Regent Pérez asked that the November presentation include a better discussion of underlying questions of equity among the different pension tiers.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Elliott, Leib, Makarechian, Matosantos, Pérez, Raznick, Reilly, Robinson, Sherman, and Sures voting "aye."

6. **UPDATE ON THE FINAL 2023–24 STATE 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 noting the size of the 2023–24 State budget, about $311 billion, of which $225 billion was in the State General Fund. Overall State reserves were about $38 billion. The “rainy day” fund was at its constitutional maximum at ten percent of the State budget, or about $22.5 billion. There was new revenue this year from the Managed Care Organization (MCO) tax. These monies would address an overall budget problem of $32 billion.

The State budget did not draw on the rainy day fund or other reserves. Tax revenues would not be known fully until October due to action by the federal government, so there was still significant uncertainty about overall revenues not only for the 2023–24 year but also for 2024–25.

Mr. Brostrom expressed gratitude to Governor Newsom and the Legislature for their commitment to the University. In spite of a difficult budget climate, the Governor introduced numbers consistent with the Compact such as a five percent base budget increase. The overall increase to UC’s permanent budget was 7.5 percent. The State had taken one-time monies to support the Clean Energy Campus discussed earlier and some housing projects and converted them to debt service that UC would be able to leverage to keep these projects moving forward. There was additional one-time funding for many different projects, and new permanent funding of $1.5 million for services for students with disabilities.

Interim Associate Vice President Cain Diaz related that $329.2 million in support was included as an investment in elements of the Regents’ budget plan; this represented about three-quarters of the total increase in ongoing funds. This included $216 million to support core operations, equivalent to a five percent base budget adjustment. Per the Compact agreement, a portion of this funding would be used to support enrollment growth next year. The budget provided $83.9 million for programs in addition to the Regents’ funding request, including shifts from one-time support to ongoing funding to cover debt service for various projects and ongoing support for the UC Riverside School of Medicine, and it augmented existing budgets for several student-focused programs directly aligned with the goal of enhancing student access and success. The budget also provided $1.5 million in new support for students with disabilities. Some elements of the Regents’ budget request were not fully funded, including funding for the DDS-ASPIRE (a Program in Medical Education for dentistry), and a slight discrepancy in funding provided for core operations and the buyout of non-resident student enrollment. Nevertheless, this was a highly successful outcome for the University, particularly in an uncertain economic environment and it demonstrated an exceptional level of alignment between the Regents’ initial request and the subsequent approval by both the Governor’s administration and the Legislature.

The University received $142.5 million one-time funds to support a variety of programs. The budget funded 16 programs and projects in addition to those requested by the Regents. The single largest commitment was $100 million for a new Institute for Immunology and Immunotherapy at UCLA. As appreciative as the University was for these investments, State support fell short on the remaining $1.2 billion request for capital projects which would address replacement of failing building systems, improving energy efficiency, seismic safety, and expanding capacity. The University would need to find other ways to address these needs over time.

Enrollment growth continued to be a shared priority for the State and for the University. In line with the Compact, a portion of the five percent base budget adjustment provided to UC would support enrollment growth of one percent, or about 2,000 resident students. The budget also included funding to grow resident undergraduate enrollment by an additional 900 students as part of an exchange of non-resident for resident students. This was the second year of a multi-year plan to reduce non-resident enrollment to 18 percent of total undergraduate enrollment at the Berkeley, UCLA, and San Diego campuses. The enrollment plan in the State budget was in alignment with the targets that campuses were currently working to achieve with an expected growth of 7,800 full-time equivalent students over 2021–22 levels.

Mr. Brostrom then discussed considerations for 2024–25. He anticipated continued progress on the goals of the Compact. The University shared many aspirations with the Governor and the Legislature concerning enrollment, student success, closing achievement gaps, debt-free education, intersegmental collaboration with both the California State University and the California Community Colleges, online education, and meeting workforce needs in the state. UC had received $75 million for graduate medical education from the new MCO tax. A significant focus for UC would be capital funding to meet needs for new buildings as well as for deferred maintenance and seismic upgrades. UC was considering strategies for lease revenue bonds. There had been encouraging conversations on federal infrastructure funding. The Inflation Reduction Act had strong provisions for capital funding for energy services projects.

Committee Chair Cohen referred to the $1.5 million in new support for students with disabilities. He congratulated students, who had been leaders in securing this funding in the budget and who had highlighted this emerging issue in public comment. He asked about the Office of the President's (UCOP) plan to build upon this $1.5 million. Mr. Brostrom responded that the University had carried out an inventory of the resources on the campuses. In this budget year, UC planned to provide $8 million in a set-aside for campuses, along with the $1.5 million, which the campuses could match to raise this amount to the $19 million in the overall student request. Later this year UC would have a better sense of overall needs and would determine whether to develop a budget request to the State or a permanent set-aside for the campuses.

Committee Chair Cohen stated his understanding that the University had $19 million in funding for disability services in the current year. The Regents would discuss this matter, and the ongoing plan for these services, again in November. In the meantime, working groups would develop data that the Regents need to make wise decisions about amounts and types of funding. Mr. Brostrom confirmed that this was correct. This funding would augment other funding on the campuses; there was a significant overlap between disability services and student mental health services.

Committee Chair Cohen recalled that the working group had been formed about a year prior, but the Regents did not have a good inventory of what would be included in base spending. He looked forward to receiving this information.

Regent Ellis stressed his wish that students understand that the Regents were taking this matter very seriously and were committed to supporting students with disabilities.

Regent Raznick asked if UC would consider a ratio of new capital projects on one hand and deferred maintenance needs on the other in the 2024–25 budget. Mr. Brostrom responded that UCOP planned to present the Capital Financial Plan in November. The Plan would outline both new needs as well as deferred maintenance and ongoing needs. Many campuses were considering rationalizing space use, especially following the COVID-19 pandemic, with the possibility of converting some administrative space to academic uses. UC Berkeley would carry this out with University Hall, one of its largest administrative buildings. These activities would affect the Capital Financial Plan.

Regent Raznick underscored his interest in deferred maintenance and seismic safety projects. He asked if the UCOP request would be supported by an actual plan of how UC would implement funding. Mr. Brostrom responded in the affirmative.

7. **UCPATH UPDATE**

[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 Director Calvin Turner recalled that UCPath had begun with an ambitious concept to consolidate all of UC's payroll and Human Resources systems. UCPath was exceptional in scope and magnitude, and other organizations were looking at UCPath as a kind of roadmap for similar efforts of their own. The concept had been launched in 2012, and the last UCPath deployment occurred in 2020. Mr. Turner emphasized the complexity of launching a new system and building a new organization for UCPath at the same time. Currently, UCPath was in the process of stabilizing normal business operations to achieve service targets and predictable outcomes.

UCPath was currently processing $22.4 billion in payroll. Mr. Turner enunciated his vision of making UCPath the premier Human Resources systems, payroll, and shared service provider in U.S. higher education, and he believed that there was a pathway to achieve this. There were three goals in this quest: to stabilize UCPath operations, to create value for UCPath stakeholders and locations, and to be an employer of choice.

There were a number of post-implementation priorities in 2020–21. UCPath had been understaffed. With rapid implementations, the system had been 20 software releases behind PeopleSoft. There were needs for stabilization, staffing, and education and training. Mr. Turner stressed that UCPath existed to serve the UC population as effectively as possible. He described the efforts to increase staffing, including contract staff, to more effectively handle the most recent open enrollment period, and his efforts to improve communications with UC locations. He recalled that, when he first went on a tour of all the locations to meet with leadership, UCPath was not highly regarded. He had stressed to his staff the need to listen to the locations, to try to implement the recommendations from locations, and to work in a collaborative manner. As one example, in the past, it had taken UC locations five to seven days to submit information for a new hire; this could now be done in five minutes. UCPath had implemented a case management pilot program with locations, allowing locations access to systems in order to resolve cases more quickly.

In the past, there had been unfavorable reports of UCPath customers waiting for hours on the telephone. The average time to answer calls had been 22 minutes in 2021, decreased to 18 minutes in 2022, and now in 2023 was about four minutes. Employee case volume had also decreased. Mr. Turner recalled that when he began as Executive Director, there had been a backlog of 10,000 cases; that backlog had now decreased to 2,200. Average transaction days had decreased from 3.1 in 2021 down to about 2.2 currently. During the prior open enrollment period, with contract staff, UCPath was averaging one day for transactions.

Looking toward the future, UCPath would seek to automate its manual processes with technologies such as conversational artificial intelligence, robotics process automation, and machine learning. These efforts were already under way, and conversational artificial intelligence was now resolving about 14 percent of UCPath calls without human intervention, which allowed UCPath to answer calls more quickly and more effectively. UCPath was streamlining case management and expanding use of technologies.

Regent Pérez requested actionable data on UCPath, particularly about progress made in addressing problems, and whether campuses were experiencing savings due to UCPath. He asked that he receive more information about the ongoing problems with UCPath between now and the next meeting. Mr. Turner responded that this could be provided. There were more data showing measurable, year-over-year improvements.

Regent Pérez asked how many instances of problematic paychecks were occurring monthly. Mr. Turner responded that the current payroll accuracy rate was over 99 percent.

Regent Pérez asked how quickly the system was making corrections in cases of payroll mistakes. Mr. Turner responded that, in many cases, corrections were being accomplished in two days.

Regent Pérez asked if the University was voluntarily paying waiting time penalties for instances when employees have been insufficiently paid, as is required for other employers in the State of California. Executive Vice President and Chief Operating Officer Nava responded that she would seek this information. Executive Vice President and Chief Financial Officer Brostrom recalled that the rate inaccuracies and required corrections was a factor motivating the initiation of the UCPath project. The rate had been over 20 percent during every pay period. The current high rate of accuracy not only reduced the amount of correction and rework needed, but also brought UC into closer alignment with State guidelines on many issues.

Regent Makarechian hoped that, in a future presentation, one could show both the costs of UCPath and the savings gained by the system. He asked if the University had an idea of these numbers, and wondered if, when the Regents initially voted to approve the UCPath project, they had acted correctly or if it had been a mistake. Mr. Brostrom responded that UC had accurate numbers on the cost of UCPath, but calculating the savings was difficult; this was a difficult number to disaggregate. He acknowledged that it was a mistake to think of UCPath as primarily a cost-saving initiative. UCPath had brought about greater accuracy and consolidation, but the University had not greatly reduced administrative staff due to the system.

Regent Makarechian asked what services UCPath was currently providing, other than issuing checks. Mr. Turner responded that UCPath provided a number of Human Resources services that were previously handled at campuses and locations, such as processing personnel transactions and handling overpayments. Having all personnel data in a single repository ensured consistency of data for information requests, reporting, or risk management. The data were now managed in a consistent manner.

Regent Makarechian asked if UCPath was providing the kind of statistical information that had been expected. Mr. Brostrom responded in the affirmative. There was better reporting, and it was accomplished much more quickly. In the past, information on compensation had to be compiled campus by campus and often took weeks to deliver. This could now be obtained through UCPath.

Regent Makarechian asked how this was beneficial. Mr. Brostrom responded that information on composite benefit rates was critical in negotiations on indirect cost recovery for other cost recovery methods. The University had much better data now to work on questions concerning the UC Retirement Plan.

Regent Makarechian asked about the annual UCPath budget to issue 4.8 million paychecks. Mr. Turner responded that the operating budget for fiscal year 2023–24 was $133 million.

Regent Makarechian asked about the cost per paycheck. Mr. Turner responded that this cost was $407 per W-2 form.

Regent Makarechian asked how the cost of UCPath compared to the cost of third-party providers who perform these services for large corporations. Mr. Turner responded that an appropriate comparison would be payroll providers for the public sector rather than the private sector. He recalled his past work at the National Finance Center, with an operation three times the size of UCPath, a mature system with 650,000 employees that processed

700,000 W-2s. The average charge per W-2 was $250 to $275. He stressed that this lower cost was due to the fact that this was a mature system with economies of scale and three times the number of W-2s; the National Finance Center could absorb and pass these costs down to the agencies it serviced. Ms. Nava added that the current operating budget included debt service to pay off the project cost; it would take some time to pay off this cost. Mr. Turner added that this was an amount of $17 million.

Regent Makarechian remarked that it was useful to be informed of these statistics and asked that they be included in future presentations. He referred to the 180,000 calls that UCPath had answered in 2022 and asked what types of complaints and issues were reported. Mr. Turner responded that he could provide this information. Most calls were simple requests, such as requests for W-2 forms or for assistance with logging in to an account.

In response to another question by Regent Makarechian, Ms. Nava explained that the vendor Sagitec Solutions supported the Retirement Administration Service Center (RASC). UCPath was for employees only. Pension administration was a separate entity.

Regent Makarechian asked about deductions from pay. Ms. Nava explained that UCPath deducted employee contributions, but the management of the retirement system was located in a different unit.

Regent Pérez suggested that the Office of the President (UCOP) review the questions that were raised in this discussion and in the past several discussions of UCPath and provide more actionable data that would allow for a more constructive conversation.

Staff Advisor Mackness commended UCPath on hiring from within UC. She commented on the importance of supporting mid-level employees, who were struggling with the implementation of UCPath on the campuses. If UCOP presented a dashboard at the next presentation, it would be useful to show progress on certain workforce administration transactions that were now causing friction. She referred to pilot projects at UC Berkeley and other campuses on hiring and leveraging on-campus expertise in lieu of processing at the UCPath Center. She asked for further information on the progress of these pilot projects, what effect they were having on transaction time, and how UCPath was helping campuses to become more efficient in their transactions.

Ms. Mackness asked if there were opportunities to share best practices between UCPath and RASC. Ms. Nava responded that representatives of these units were meeting regularly and sharing best practices. Mr. Turner added that internal promotion and hiring accounted for 45 percent of UCPath staff.

Regent Reilly referred to the backlog of 2,200 cases, a reduction from the prior number, and asked when there might be zero backlog. Mr. Turner responded that one UCPath goal this year was to reduce the number of these cases to 1,500. The backlog was a trailing indicator of problems with the case management process, which needed to be reimagined and fixed. He did not believe that it was realistically possible to achieve a zero case backlog, but that successful action would keep this number consistently below 1,000. It would also be desirable to determine not only the number of backlog cases, but how long it took to resolve them.

Regent Reilly asked if there were common issues in these cases. Mr. Turner responded that these were more complex issues, such as benefits paid that were not correct or that benefits were not paid to a designated beneficiary.

President Drake stated that the reduction in customer call wait times represented progress in the right direction. There had been progress in many areas. He encouraged UCPath to continue to work on eliminating gaps and looked forward to more progress in the future.

The meeting adjourned at 12:35 p.m.

Attest:

Secretary and Chief of Staff

SUMMARY OF CONSULTING PENSION ACTUARY'S RECOMMENDATIONS REGARDING ACTUARIAL VALUATION ASSUMPTIONS FOR UCRP

Economic Assumptions

Assumption	Description	Recommendation
Inflation	Future increases in the Consumer Price Index (CPI), which drives investment returns and active member salary increases as well as cost-of-living adjustments (COLA).	Maintain rate at 2.50 percent per annum
Investment Return	Estimated average future net rate of return on current and future assets of UCRP as of the valuation date. This rate is used to discount liabilities.	Maintain rate at 6.75 percent per annum
Administrative Expenses	Fees for administrative, legal, accounting and actuarial services, as well as routine costs for printing, mailings, computer-related activities and other functions carried out for Plan operation are paid from Plan assets.	Increase from 0.40 percent of covered payroll to 0.45 percent of covered payroll
Salary Increases	Increases in the salary of a member between the date of the valuation to the date of separation from active service. It includes components of inflation, real "across the board" (real ATB) salary increases and merit and promotion (M-P) increases in salary.	• Inflation: see above • Real ATB: Maintain at 0.75 percent • M-P: Increases for both Faculty and Staff/Safety members

Attachment 1

SUMMARY OF CONSULTING PENSION ACTUARY'S RECOMMENDATIONS REGARDING ACTUARIAL VALUATION ASSUMPTIONS FOR UCRP

Non-Economic Assumptions

Assumption	Description	Recommendation
Mortality Rates	Estimates the probability of dying at each age. Mortality rates are used to project life expectancies.	Pre-Retirement – Pub-2010 Teacher Employee Amount-Weighted Above-Median Mortality Table, table rates decreased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021 Healthy Retirees – Pub-2010 Teacher Healthy Retiree Amount-Weighted Above-Median Mortality Table, projected generationally with the two-dimensional mortality improvement scale MP-2021. For Faculty, table rates are decreased by 15% for males and decreased by 5% for females. For Staff & Safety, table rates are not adjusted for males and increased by 5% for females. Beneficiaries in Pay Status as of Valuation – Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table, table rates are not adjusted for males and decreased by 10% for females, projected generationally with two-dimensional mortality improvement scale MP-2021. Beneficiaries not in Pay Status as of Valuation – When calculating the liability for the continuance to a beneficiary of a surviving member, the Staff & Safety Healthy Retiree mortality tables will be used for beneficiary mortality both before and after the expected death of the Faculty, Staff, or Safety member. Upon the actual death of the member (i.e. for all beneficiaries in pay status as of the valuation date), the

SUMMARY OF CONSULTING PENSION ACTUARY'S RECOMMENDATIONS REGARDING ACTUARIAL VALUATION ASSUMPTIONS FOR UCRP

		Contingent Survivor mortality tables as stated above will be used. Disabled Retirees – Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table, table rates are not adjusted for males and decreased by 5% for females, projected generationally with two-dimensional mortality improvement scale MP-2021 Members who have "crossed over" will continue to be valued using disabled mortality tables Separate tables for males and females
Mortality for Actuarial Equivalence Basis	Mortality table used for converting Plan benefits under one form of payment to an actuarially-equivalent amount under a different form of payment.	Use "static" version of mortality table that approximates the generational mortality table recommended for healthy retirees and beneficiaries shown above
Disability Incidence Rates	Estimates the probability of becoming disabled at each age.	Overall decreases in the rates and change to unisex based disability rates
Termination Rates	Estimates the probability of leaving active UCRP membership after attaining each level of service credit.	Overall decreases in the rates
Retirement Rates for Members Retiring from Active Membership	Estimates the probability of retirement at each age at which members are eligible to retire, given attainment of that age.	1976 Tier Faculty: • < 20 years of service: Increases • 20+ years of service: Increases 1976 Tier Staff: • < 20 years of service: Decreases • 20+ years of service: Increases • Extend the retirement rates from age 75 to age 80 Safety Members – Decreases and extend the retirement rates from age 65 to 67.

		2013 & 2016 Tier Faculty: Increases 2013 & 2016 Tier Staff: Increases and extend the retirement rates from age 75 to 80. Modified 2013 Tier Staff: • < 20 years of service: Increases • 20+ years of service: Decreases • Extend the retirement rates from age 75 to age 80 Adjust retirement timing to assume members will retire at the middle of the year on average. Reduce the assumed Inactive COLA applied to new retirements from active status from 2 percent to 1 percent to reflect the assumption above regarding retirement timing.
Retirements for Members Retiring from Inactive Membership	Inactive vested members assumed to retire at a fixed age.	2013 & 2016 Tier Members – Maintain at age 63 Maintain at age 60 for all other inactive vested members

SUMMARY OF CONSULTING PENSION ACTUARY'S RECOMMENDATIONS REGARDING ACTUARIAL VALUATION ASSUMPTIONS FOR UCRP

Assumption	**Description**	**Recommendation**
Eligible Survivor Assumptions	Assumptions regarding how many non-retired members will have eligible survivors at retirement, the age and gender of the eligible survivor(s) and the number of eligible survivors.	For actives and deferred vested members, maintain the percent married at retirement assumption at 80 percent for males and 60 for females. Maintain the spouse age difference and gender assumption as follows: • Male Members – Three years older than their female spouses • Female Members – Two years younger than their male spouses
Assumption for Unused Sick Leave Converted to Service Credit	Estimated proportion of unused sick leave at separation converted to service credit.	Maintain the current sick leave conversion rates
Lump Sum Cashout (LSC) Take-Rate	Rate at which retirement-eligible members opt to receive a LSC in lieu of monthly retirement income.	Overall decreases in the rates
Unknown Data for Members	Assumed demographic data for members with unknown information.	For unknown gender assume all members with unknown gender at the Lawrence Berkeley National Laboratory are male, and all others are female
Future Benefit Accruals	Amount of Service Credit projected to be earned by active members in years after the valuation date.	Maintain the current assumption that all active members earn one year of Service Credit each year in the future

The recommendation for any current assumption not listed here is to maintain the current assumption for the July 1, 2023 valuation.