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Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of July 17, 2024

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – AMENDMENT TO PROVIDE VESTING CREDIT FOR ELIGIBLE EMPLOYEES TRANSFERRING FROM DIGNITY HEALTH FACILITIES TO UCSF

EXECUTIVE SUMMARY

The President recommends that the University of California Retirement Plan ("UCRP") be amended to grant an eligible employee transitioning employment from Dignity Health facilities to the University of California, San Francisco ("UCSF") service credit under UCRP, solely for vesting purposes (and not for purposes of benefit accrual), that is equivalent to the employee's vesting service under the pension plans currently administered by Dignity Health and its affiliates (the "Dignity Plans"), taking into account the Dignity Plans' different service crediting methods and plan years. Recognizing transitioning employees' Dignity service for vesting purposes will support the acquisition by UCSF of the Dignity facilities consistent with the Affiliation Agreement entered into by the Regents of the University of California (on behalf of UCSF) and Dignity. A former Dignity employee's Dignity Plan service for vesting purposes will be recognized under UCRP only if the employee transitions employment on or after the closing date of the Affiliation Agreement and as a result of the affiliation.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that:

A. The University of California Retirement Plan ("UCRP") be amended to grant an eligible Dignity Health employee who transitions employment directly from Dignity to the University of California, San Francisco ("UCSF") on or after the closing date of the Affiliation Agreement between UCSF and Dignity Health, and as a direct result of the affiliation, and who otherwise is eligible to begin accruing service credit in UCRP as a UCSF employee, service credit under UCRP solely for vesting purposes (and not for purposes of benefit accrual) that is equivalent to the vesting service accrued by the employee under plans administered by Dignity Health and its affiliates (the "Dignity Plans") as of the employee's transition date, taking into account the different methods of crediting vesting service under the UCRP and the Dignity Plans.

B. The cost of providing the vesting credit under UCRP be funded by the acquired hospitals through UCSF via a supplemental contribution to UCRP during calendar year 2024.

C. Authority be delegated to the Plan Administrator to amend the UCRP as necessary to implement the change.

BACKGROUND

In July 2023, the Regents approved the University's acquisition of the San Francisco clinical assets of Dignity Health, Dignity Community Care, and Dignity Health Medical Foundation, and affiliates (collectively "Dignity") subject to certain terms and conditions. As of January 31, 2024, the Regents, on behalf of UCSF, entered into an Affiliation Agreement with Dignity that is scheduled to close August 1, 2024 (Closing Date) subject to Dignity's satisfaction of all conditions and receipt of required regulatory approvals.

The Affiliation Agreement reflects a member substitution arrangement, meaning that there is no termination and new hire of former Dignity employees. They are transitioned, or transferred, to University employment immediately on the close of the transaction.

As a result of the extensive due diligence process on the proposed affiliation, consistent with the Affiliation Agreement, and following a California Public Employment Relations Board (PERB)-mediated settlement among the University, its unions, and unions representing Dignity employees and employees of sellers of other hospitals to other UC campuses, it was determined that the affiliation of the two entities requires the University to grant a Dignity employee who is transferred to UCSF in connection with the transaction credit *solely for vesting purposes* (and not for benefit accrual purposes) under UCRP for the employee's service under the Dignity Plans. Thus, if a Dignity employee had completed three years of vesting service at Dignity at the time the employee transitioned employment to UCSF to support the affiliation, the employee's UCRP benefits would be fully vested (i.e., nonforfeitable) after the employee accrued two additional years of service credit at the University in order to satisfy UCRP's five-year vesting requirement.

Recognizing Dignity service solely for UCRP vesting purposes would not affect an employee's benefit accruals under UCRP, which would be based only on actual service accrued as an active UCRP member, nor would it affect the member tier in which an employee would be eligible to participate. Eligible Dignity employees who transition employment to the University will accrue UCRP benefits according to policy (for policy-covered staff) or their respective collective bargaining agreements and UCRP provisions. Generally, this means that most employees will accrue benefits under the modified 2013 tier as most employees are part of the bargaining units that participate in that tier. The remaining employees will be eligible for the 2016 tier as part of the Retirement Choice Program, which first became available on July 1, 2016 for individuals hired as University employees on and after that date.

The methodology for recognizing Dignity Plan vesting service under UCRP would account for any differences in methods of crediting service for vesting purposes under the two plans and any differences in definitions of "plan year" that serve as measuring periods. The recognition of such credit would apply only to an employee who transitions to UCSF employment on or after the closing date of the Affiliation Agreement and as a direct result of the affiliation. Thus, for example, an individual who worked for ten years at and then separated from Dignity prior to the closing of the transaction would not receive any vesting credit under UCRP. Those Dignity employees who transition to UCSF in a position that is not UCRP-eligible will not receive UCRP vesting credit under the proposed amendment.

The proposed UCRP amendment would be similar to the approach approved by the Regents in November 1989, which recognized Mount Zion Hospital and Medical Center service for UCRP vesting credit for those employees who accepted UC employment offers under the joint venture. It would also be similar to the approach approved by the Regents in September 2013, which recognized Children's Hospital and Research Center at Oakland (CHRCO or CHO) service for UCRP vesting credit for those CHO employees who accepted UC employment offers in furtherance of that affiliation.

The Dignity Plans will continue as tax-qualified private employer plans. Any benefits previously accrued under the Dignity Plans by an employee who is transferred to UCSF as a result of the transaction will be: (1) preserved consistent with the applicable Dignity Plan terms and applicable law, (2) payable by, and under the terms of, the applicable Dignity Plan.

As of December 31, 2023, the Dignity Plans covered approximately 1,850 active participants at the facilities to be acquired through the transaction (about 80 percent of whom are represented at Dignity, but 90 percent of whom will be represented at UCSF).

As of the Closing Date, the intent is for virtually all then-current Dignity employees to be transferred to UCSF.

COST IMPACT TO UCRP

The Regents' consulting pension actuary, Segal, has estimated that providing vesting service credit to transitioning Dignity employees would result in an increase in UCRP's present value of benefits (PVB) of approximately $30 million as of July 1, 2024.

The $30 million increase in the PVB represents the expected cost for allowing retirement benefits to be paid from UCRP for any transitioning employees who leave employment during their first five years of being employed at UC. Under the recommended action, this retirement benefit would be paid instead of the refund of member contributions that would normally be paid to an employee before being vested in UCRP.

The estimated increase in the PVB is based on the actuarial assumptions used in the July 1, 2023 UCRP actuarial valuation and preliminary data provided for the 1,850 Dignity employees assumed to transition. This estimate is highly dependent on the demographics of the actual members who are expected to transfer at closing, including their age, prior vesting service,[1] and covered compensation at the time of transfer. In addition, it was assumed that allowing prior service credit for vesting would not result in any changes to the behavior of the Dignity employees with regard to when they would end their employment at UC. In other words, the behavior of Dignity employees with regard to their employment at UC would be the same regardless of whether or not the prior service would count as vesting credit in UCRP.

If this amendment is approved, then the estimated cost (i.e., the increase in the PVB) for providing the vesting credit under UCRP will be funded by the acquired hospitals through UCSF via a supplemental contribution to UCRP payable during calendar year 2024. The exact amount of the supplemental contribution, preliminarily estimated at $30 million, will be recalculated based on the actuarial assumptions used in the July 1, 2024 UCRP actuarial valuation and an updated demographic census file reflecting actual eligible Dignity employees who transition to UCSF upon closing and their actual vesting service at the time of the transition.

COLLECTIVE BARGAINING

The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act (HEERA), if any such action is required.

[1] Since actual service under the Dignity Plans was not provided in the preliminary census data received, the service to be counted towards UCRP vesting service was estimated assuming continuous employment from the member's start date provided on the data file.