RECOMMENDATIONS

The President of the University recommends that the Committee on Finance recommend to the Regents that:

I. Employees described in recommendation II.a. below, except for employees with a UCRP entry date prior to July 1, 1994, be given a choice between participation in:

   a. a new University of California Retirement Plan (UCRP) tier (i.e., the UCRP 2016 Tier) with a defined contribution plan supplemental benefit (i.e., DC Supplemental Benefit) for UCRP 2016 Tier members as described in III.A. below, or

   b. a new defined contribution plan benefit (i.e., DC Plan Benefit)

   The employee's choice of a. or b. above is subject to the following conditions:

   1) Employees who do not make a choice within 90 days of becoming eligible for choice will be defaulted to the UCRP 2016 Tier. A choice of, or default to, the UCRP 2016 Tier would be irrevocable.

   2) Employees who initially choose the DC Plan Benefit may be given a future opportunity to elect to participate in the UCRP 2016 Tier prospectively. The election opportunity could be offered only if it is approved by the Internal Revenue Service (IRS) in a private letter ruling issued to the University and implemented by the President.

II. The University of California Retirement Plan be amended effective July 1, 2016 to provide for the following:

   a. A new member tier (the 2016 Tier) for the following categories of employees:

   1) employees initially hired on or after July 1, 2016 (i) as UCRP-eligible employees or (ii) who later attain UCRP-eligible employee status;

   2) former employees who incur a tier break in service and are rehired on or after July 1, 2016 (i) as UCRP-eligible employees or (ii) who later attain UCRP-eligible employee status, including rehired retirees who have suspended UCRP retirement income;

   3) Safe Harbor (i.e., non-eligible) employees who attain UCRP-eligible status on or after July 1, 2016.

   b. A cap on covered compensation of the following subcategories of employees described in II.a. above that will be used to calculate 2016 Tier benefits (New Covered Compensation Limit or New CCL):

1) employees with an initial hire date as UCRP-eligible employees on or after July 1, 2016;

2) Safe Harbor employees with an initial hire date on or after July 1, 2016 who later attain UCRP-eligible employee status;

3) all other employees who first become eligible for UCRP on or after July 1, 2016, regardless of initial hire date.

The New CCL would not apply to employees with an initial hire date as UCRP-eligible employees on or after July 1, 2016 who are eligible for reciprocity with CalPERS if their CalPERS initial membership date is prior to January 1, 2013.

The New CCL will mirror the cap on covered compensation established by the Public Employees' Pension Reform Act of 2013 (PEPRA). The PEPRA cap for 2016 is $117,020 for applicable state employees with Social Security and $140,424 for applicable state employees without Social Security. This limit is indexed.

To comply with the terms of the budget agreement with the State, the New CCL will apply to all employees, subject to any applicable collective bargaining requirements for represented employees.

c. For employees who elect or are defaulted to UCRP, participation in UCRP (i.e., contributions and service credit accrual) commences prospectively following the employee's election date or default date, subject to payroll processing cycles. UCRP service credit cannot be established for time worked prior to the participation date through a service credit purchase.

d. Only UCRP service credit, plus any CalPERS service for members eligible for reciprocity, will be used to determine eligibility for UCRP benefits. However, subject to the favorable IRS ruling described in I.b above regarding a future choice opportunity, for an employee who initially chooses the DC Plan Benefit, but later elects to move to the UCRP 2016 Tier, an employee's service credit accrued under the DC Plan Benefit will be used to determine the vested status for the prospective UCRP 2016 Tier benefits to the same extent as service credit earned as a UCRP member. It will not be taken into account for benefit accruals.

All other provisions of the 2016 Tier will be the same as for the 2013 Tier, including the employer and employee contribution rates. A portion of the University contribution, including a portion of the contribution made of behalf of employees of Lawrence Berkeley National Laboratory (LBNL) which is reimbursed by the Department of Energy, will continue to be allocated to reduce the Unfunded Actuarial Accrued Liability (UAAL) in the appropriate segment of UCRP. These contribution rates, determined by the Regents, are as follows:

1) 14 percent employer contribution on UCRP covered compensation up to the New CCL for active UCRP members other than those employed at LBNL and an 11.8 percent contribution on UCRP covered compensation up to the New CCL for UCRP members employed at LBNL. (The rate is subject to change annually for the next five years, according to the UC-U.S. Department of Energy (DOE) contract modification authorized by the Regents in September 2015);

2) 7 percent pretax employee contribution rate on UCRP covered compensation up to the New CCL.

III. The DC Plan be amended effective July 1, 2016 to provide for the following benefits:

a. A new DC Supplemental Benefit for UCRP 2016 Tier members to whom the New CCL is applicable, with the following provisions:

1) Employer contributions -

i. for Academic Appointees as listed in Attachment II, 5 percent of UCRP covered compensation to the IRC limit;
ii. for UCRP 2016 Tier members who are not Academic Appointees as listed in Attachment II, 3% of UCRP covered compensation that is in excess of the New CCL up to the IRC limit.

2) Employee contributions - mandatory pretax contributions of 7 percent of UCRP covered compensation that is in excess of the New CCL up to the IRC limit.

3) Employer contributions and related earnings will fully vest when the employee completes five years of UCRP service credit or, if earlier, on the date the employee dies, provided the employee is actively employed on that date. Employee contributions and related earnings are always fully vested.

4) If an employee terminates UC employment before vesting, the non-vested employer portion of the employee’s DC Supplemental Benefit account will be forfeited consistent with the terms of the DC Supplemental Plan Benefit, and used to reduce future employer contributions, restore previously forfeited amounts if required, and/or to pay reasonable plan administrative costs.

b. A new DC Plan Benefit for employees, as described in II.a. above, who affirmatively elect this option. The DC Plan Benefit will include the following provisions:

1) Covered compensation for purposes of this benefit will be the same as covered compensation under UCRP up to the IRC limit (the New CCL will not apply).

2) Employer contributions - 14 percent of covered compensation

i. 8 percent to participant accounts

    ii. 6 percent to reduce the Campus and Medical Centers Segment of UCRP UAAL. (The amount to reduce the LBNL Segment of UCRP's UAAL, if any, will be determined in accordance with the UC/DOE contract)

3) Employee contributions - mandatory pretax employee contributions of 7 percent of covered compensation

4) Employer contributions to a participant account and related earnings will fully vest after one year. University service completed prior to the applicable vesting measurement period will not be recognized for vesting purposes for the DC Plan Benefit. An employee will automatically vest in the employee's employer contributions account if the employee dies prior to completing the one year requirement, but while actively employed. Employee contributions and related earnings are always fully vested.

5) If an employee terminates UC employment before vesting, the non-vested employer portion of the employee's DC Plan Benefit account will be forfeited, as provided in the DC Plan Benefit terms, and such forfeiture amounts may be used to reduce future employer contributions, restore previously forfeited amounts, if required, and/or to pay reasonable plan administrative costs.

6) If an employee who elects the DC Plan Benefit separates from service and is later rehired into an eligible position, the employee will automatically be reenrolled in the DC Plan Benefit option pending the outcome of the IRS private letter ruling referenced in item I.

IV. The President of the University be delegated broad authority to determine and take all action incident to implementing the changes to UCRP and the DC Plan, including resolving eligibility questions. This delegation is necessary considering the complex technical and operational issues to be addressed to meet the July 1, 2016 effective date.

UNIVERSITY COSTS AND SAVINGS

University Costs and Savings

There are two types of separate and distinct "savings" due to the proposed retirement options as outlined in this item:

- Cash flow Savings – These are direct cash flow savings that result from a reduction in University contributions to either UCRP or the DC plans.
- Normal Cost Savings – These are savings that result from a reduction in the University's long-term pension cost structure by reducing UCRP's Normal Cost over time. While these are not cash flow savings, they allow more of the University's contributions to UCRP to go towards funding UCRP's UAAL over time.

Cash flow savings are discussed first below followed by discussion of the Normal Cost savings.

The 15-year average annual University cash outlay for future new hires on or after July 1, 2016 was projected to have been $655 million if the UCRP 2013 Tier benefit structure had continued, but it is now projected to drop to $646 million under the new structure. The cumulative non-discounted cash flow savings are about $136 million. The savings will be back-loaded, with most of it coming in the later years of the 15-year projection period as a greater percentage of the total population is affected by the benefit changes.

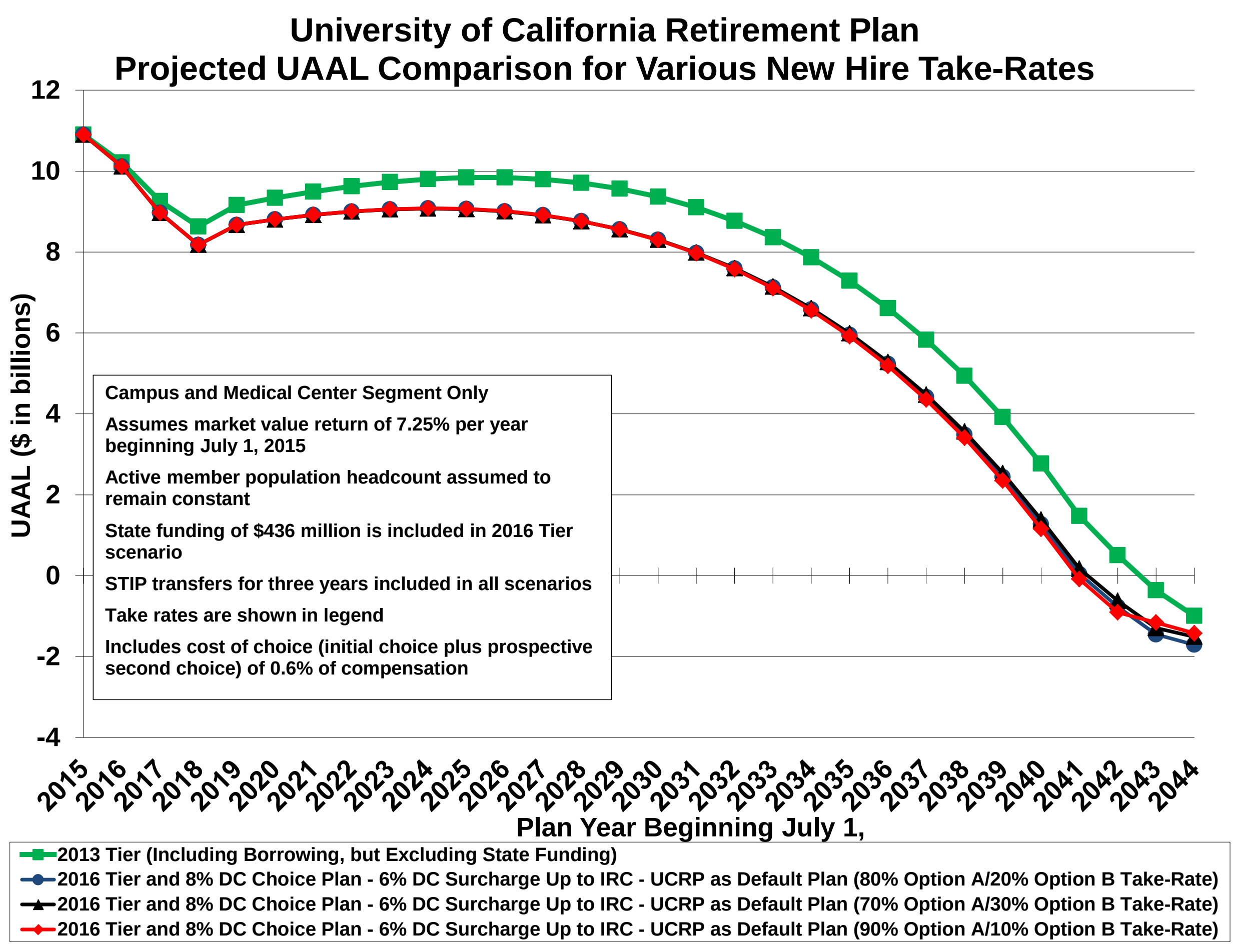
The table below shows a reconciliation of the University's costs and savings under the recommendations for UCRP and the new DC plan benefits both on a 15-year average cost basis and total cumulative cost over the 15 years. These results are for future new hires on or after July 1, 2016 and have not been discounted for interest. Positive numbers shown are costs while negative numbers represent cash flow savings. They are based on a new hire take rate (election) assumption of 80% for Option A (UCRP 2016 Tier paired with Supplemental DC Benefit) and 20% for Option B (DC Plan Benefit).

Reconciliation of Estimated University Cash flow Costs and Savings for UCRP and DC Plan Benefits (New Hires On or After July 1, 2016)		
Results Not Discounted For Interest	15-Year Average Employer Cash flow Costs/Savings	15-Year Total Employer Costs/Savings
University Cash flow Costs for 2013 Tier	$655 million	$9.8 billion
Cash flow Savings from Implementing 2016 Tier (Not making employer contributions above CCL)	-$51 million	-$767 million
Cash flow Savings from Implementing Option B with no UAAL Contribution	-$48 million	-$716 million
Costs for Implementing DC Supplemental Benefits in Option A	+$34 million	+$510 million
Costs for Implementing 6% UCRP UAAL Contribution in Option B	+$56 million	+$837 million
Total Changes in Cash flow Costs	-$9 million	-$136 million
University Cash flow Costs for Option A & B	$646 million	$9.7 billion

Ensuring UCRP's Financial Sustainability / Impact on UCRP's Long Term Funded Status

The Normal Cost for the UCRP 2016 Tier is lower than the 2013 Tier by over 1% of covered compensation. Provided the 14 percent University contribution to UCRP is held constant, any contribution amount not required to fund the Normal Cost would serve to fund the UAAL. As more new hires in the UCRP 2016 Tier replace those in the UCRP 1976 and 2013 Tiers, the total Normal Cost declines and the UAAL contribution increases, accelerating the pay down of that liability. One important result is that even without UAAL contributions on compensation above the new CCL for those in the UCRP 2016 Tier, the reduction in Normal Cost and the accelerated funding of the UAAL will continue, with little effect on the date UCRP reaches full funding.

A key priority for UC in designing a new set of retirement benefits was maintaining the financial stability of UCRP. Thus, the University's employer contribution under either option will continue to include a component to pay down the unfunded UCRP liability. The Option B design includes a percent of compensation UAAL contribution that maintains the same level of UAAL funding as under the UCRP 2016 Tier (approximately 6 percent of covered compensation).
The impact of the recommendations on UCRP's projected UAAL was modeled by the Regents' consulting actuary (Segal Consulting). The projections include three years of borrowing from the Short Term Investment Pool (STIP) fund that was previously approved in November. The recommendations also include three years of State funding. The following chart compares the projected UAAL based on the recommended designs to the projected UAAL based on assuming that the UCRP 2013 Tier would continue.



As noted in the graph, these projections assume a market value return of 7.25% per year.
Note that all cost and UAAL impact calculations depend on "take rate" assumptions as to what proportion of new members participate in each plan.

The take rate (election) assumptions were derived by considering two main factors:

- What is the default plan (Option A)?

- What is the underlying relative value of Option B to Option A?

For purposes of sensitivity analysis, three sets of take rates are modeled. The baseline take rates are 80% Option A and 20% Option B. The other two scenarios for sensitivity analysis adjust the take rates by plus or minus 10%.

There is a potential for significant variability in the actual take rates as compared to those assumed since no plan-specific take rate experience is currently available. To the extent that the actual take rates are different, it will impact the combined cost of the two programs. However, since the same UAAL contribution rate applies regardless of whether the members elects Option A or Option B the take rate really has no material impact on UCRP's long-term projected UAAL.

The results of the projection are also summarized in the following table.

Scenario	Take-Rate Assumed	Projected UAAL in 2044	Projected Funded Ratio in 2044
2013 Tier	N/A	-$1.0 billion	101%
Option A and B	80% Option A/20% Option B	-$1.7 billion	101%
Option A and B	70% Option A/30% Option B	-$1.5 billion	101%
Option A and B	90% Option A/10% Option B	-$1.4 billion	101%

As previously noted, Segal Consulting stated that, as long as the University continues to make contributions to pay down UCRP's unfunded liability for those employees who choose the DC Plan Benefit option, allowing future employees to elect this option in lieu of UCRP would not jeopardize UCRP's ability to pay pension benefits.

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, if any such action is required.