

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of November 19, 2025

ANNUAL ACTUARIAL VALUATIONS FOR THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND ITS SEGMENTS AND FOR THE 1991 UNIVERSITY OF CALIFORNIA – PUBLIC EMPLOYEES’ RETIREMENT SYSTEM VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM

EXECUTIVE SUMMARY

Each year, the Regents’ consulting pension actuary performs an actuarial valuation of the University of California Retirement Plan (“UCRP” or “Plan”), consistent with the funding policy approved by the Regents for the non-Laboratory segment of UCRP, and separate agreements with the Department of Energy (DOE) for the funding of each Laboratory segment of UCRP. The highlights of the annual valuation results at July 1, 2025 are provided below. All UCRP assets are maintained in one trust and are available to pay benefits of all members, regardless of the segment to which they are allocated. Highlights of the separate annual valuation of the 1991 University of California-Public Employees’ Retirement System Voluntary Early Retirement Incentive Program (“UC-VERIP”) at July 1, 2025 are also provided below in this item.

Overall UCRP Valuation Results (all segments and tiers combined)

- The overall market value of the Plan’s assets at June 30, 2025 was \$110.7 billion, up from \$98.7 billion at June 30, 2024. The market value of assets reflects a net investment return of approximately 12.7 percent, which was higher than the investment return assumption of 6.75 percent. The June 30, 2025 actuarial value of assets, which incorporates a “smoothing” of market value investment gains and losses over the last five years, was \$105.1 billion and reflects a net return of approximately 9.9 percent, higher than the investment return assumption.
- The Plan’s actuarial accrued liability (AAL) at July 1, 2025 grew to \$123 billion from \$116.5 billion at July 1, 2024. The increase in the AAL was primarily due to the expected growth in the AAL as the Plan matures. In addition, there was an increase in the AAL of about \$0.7 billion due to active member salary increases greater than assumed.
- As a result of the above, the Plan’s unfunded actuarial accrued liability at July 1, 2025 (UAAL) on an actuarial value of assets basis decreased to \$17.9 billion from \$20.4 billion

at July 1, 2024. The Plan's funded ratio on an actuarial value of assets basis increased to 85.4 percent at July 1, 2025 from 82.5 percent at July 1, 2024. On a market value of assets basis, the funded ratio increased to 90 percent from 84.7 percent. The decrease in UAAL on an actuarial value of assets basis was primarily due to the higher than assumed investment return on the actuarial value of assets (-\$3 billion), offset to some extent by the salary loss mentioned above for the increase in the AAL (+\$0.7 billion) and actual contributions less than expected under the funding policy (+\$0.5 billion). On a market value of assets basis, the increase in funded ratio was mainly due to the full recognition of the investment gain during 2024-25.

- The Plan's normal cost calculated at July 1, 2025 is \$3.7 billion. The normal cost rate is 19.96 percent of the \$19.2 billion covered payroll, after a mid-year adjustment to reflect a uniform accrual of costs throughout the year.
- Based on the Regents' funding policy for UCRP, the total funding policy contribution rate consists of the annual normal cost plus an amount to amortize the UAAL. For 2026-27, the total funding policy contribution rate for the non-Laboratory segment is 30.44 percent of projected covered payroll, which results in an annual dollar amount of \$5.9 billion.

BACKGROUND

Each year, the Regents' consulting pension actuary, Segal, performs actuarial valuations of the UCRP and the 1991 University of California-Public Employees' Retirement System Voluntary Early Retirement Incentive Program ("UC-VERIP").

The purpose of the annual actuarial valuation for UCRP is to disclose the Plan's funded position as of the beginning of the current Plan Year, analyze the preceding years' experience, and determine total funding policy contribution rates for the coming Plan Year. The purpose of the annual actuarial valuation for the UC-VERIP is to review the funded position of its trust account to assure that the UC-VERIP remains adequately funded.

UCRP and Retirement Choice Program Demographics

There were 378,231 members included in the July 1, 2025 valuation: 91,424 retired members and beneficiaries, 38,944 inactive vested members, 91,150 inactive non-vested members and 156,713 active members. This compares to a total of 365,844 members included in the July 1, 2024 valuation. The number of UCRP active members increased about three percent from the prior year.

The Retirement Choice Program ("Program"), effective July 1, 2016, offers eligible employees a choice between Pension Choice (UCRP) and Savings Choice (defined contribution plan).

Election activity for all eligible employees hired since inception and from July 1, 2024 to June 30, 2025 is:

Program Election Type	Election Rates Since July 1, 2016	Election Rates During 2024- 2025 Year
Pension Choice (active election)	35%	31%
Pension Choice (default)	27%	27%
Savings Choice (active election)	38%	42%

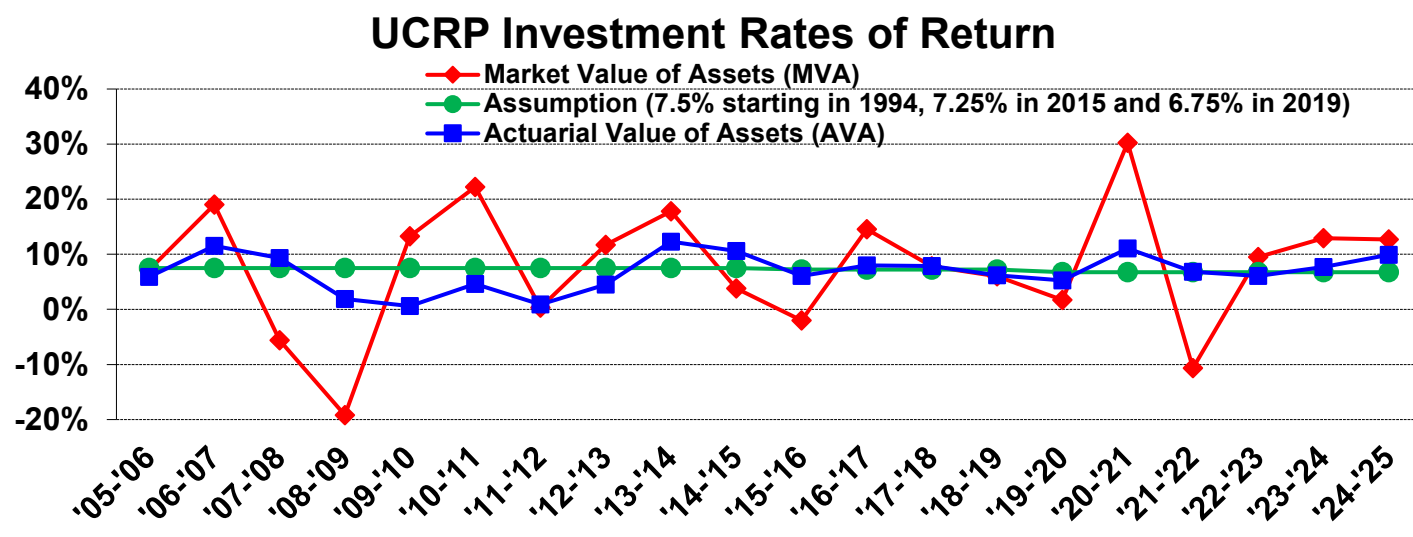
58 percent of eligible employees elected or defaulted into Pension Choice during 2024-25. The Savings Choice election rate is known as the “take rate” for the Program. The 42 percent take rate during 2024-25 reflects an increase from the average take rate of 38 percent since Program inception. As of July 1, 2025, there were 19,547 active members who elected Savings Choice, as reported by Fidelity.

The “second choice” window was implemented during 2021. Second choice allows members who have reached their fifth anniversary after electing Savings Choice to switch to UCRP and accrue benefits on a prospective basis. Approximately eight percent of those eligible have elected second choice during the three annual election opportunities since implementation.

UCRP Valuation Results

The UCRP market value of assets (MVA) at June 30, 2025 was \$110.7 billion as compared to \$98.7 billion at June 30, 2024. During 2024-25, the Plan experienced an investment return on its MVA of approximately 12.7 percent. When determining the Plan’s funded ratio, the Plan’s actuarial accrued liability (AAL) is compared to the actuarial (smoothed) value of assets (AVA). The “smoothing” method reduces the impact of short-term market volatility by recognizing in each year 20 percent of the actuarial investment gains and losses in each of the preceding five years. The net result is a return of approximately 9.9 percent for 2024-25 on the AVA.

The chart below shows the investment rates of return on the MVA (red line) and on the AVA (blue line) as compared to the Plan’s assumed earnings rate (green line) for the most recent 20-year period. The assumed earnings rate was 7.25 percent for Plan Years from July 1, 2015 to 2018 and was changed to 6.75 percent effective for the Plan Year beginning on July 1, 2019.



Comparing the MVA of \$110.7 billion to the AVA of \$105.1 billion shows that the total unrecognized investment gain is \$5.6 billion as of July 1, 2025. This investment gain will be recognized in the determination of the AVA for valuation purposes over the next few years, even if the Plan earns the assumed rate of investment return of 6.75 percent per year on a MVA basis.

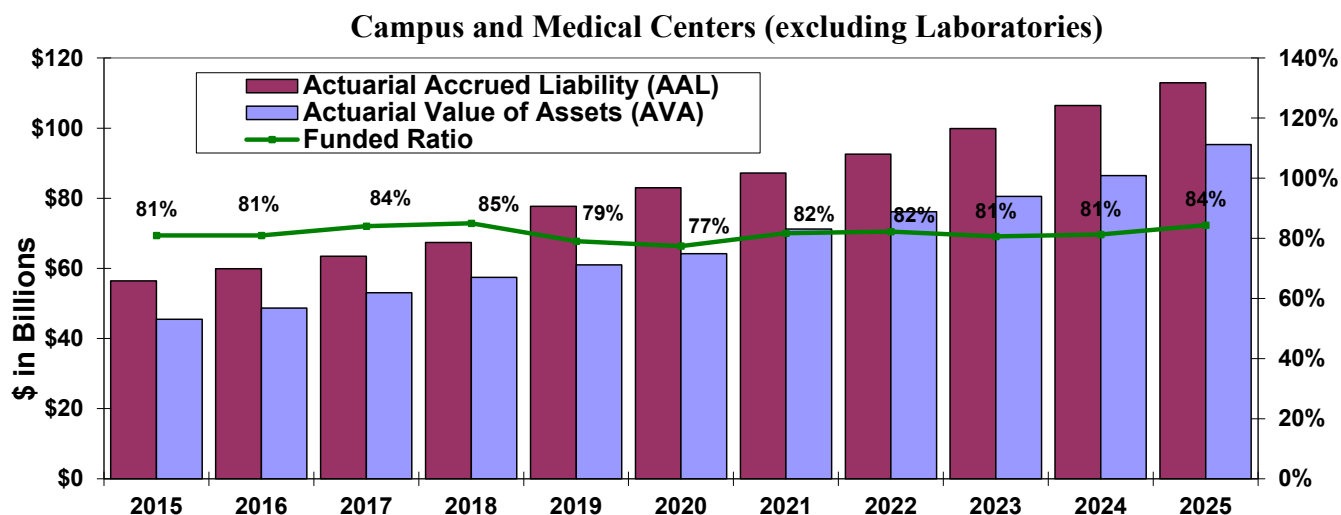
The Plan's overall AAL increased to \$123 billion at July 1, 2025 from \$116.5 billion at July 1, 2024. The Plan's funded ratio on an AVA basis increased to 85.4 percent at July 1, 2025 from 82.5 percent at July 1, 2024, primarily due to the investment gain offset to some extent by actual contributions less than expected under the funding policy and the actuarial experience loss from salary increases greater than assumed. Note that on an MVA basis the funded ratio increased to 90 percent from 84.7 percent, primarily due to full recognition of the 2024-25 investment gain.

Each actuarial valuation contains actuarial experience gains and losses due to actual experience differing from the actuarial assumptions. All assumptions, including those for salary increases, are reviewed every four years as part of the actuarial experience study. The last experience study was completed in 2023 based on experience through June 30, 2022. The salary increase assumptions are long-term assumptions and were set based in part on actual experience through that date. Actual salary increases over the past three years have been higher than assumed, resulting in actuarial losses that have increased UCRP's UAAL in the last three valuations. These higher-than-assumed salary increases may be partially attributed to the recent spikes in inflation that occurred during 2021 and 2022. All actuarial assumptions will be reviewed in the next actuarial experience study, to be conducted in 2027.

The Plan's overall normal cost is the annual amount measured at the valuation date, expressed as a percent of payroll (the "normal cost rate"), that if funded over the total career of each active member is expected to fully provide for future UCRP benefits for active members. Under the entry age actuarial cost method, the UCRP normal cost rate calculated including a mid-year adjustment to reflect a uniform accrual of costs throughout the year is 19.96 percent of covered payroll.

Overview of Funded Status of the Campus and Medical Centers Segment of UCRP (excluding the Laboratories)

The chart below shows the recent history of AAL growth along with changes in the funded ratio on an actuarial value of assets (AVA) basis for the campus and medical centers segment of UCRP. This segment has a slightly lower funded ratio than the Plan as a whole.



Total Funding Policy Contribution Rates for 2026-27

After applying the UCRP funding policy to the July 1, 2025 valuation results of the non-Laboratory segment of UCRP, the total funding policy contribution rate for 2026-27 is 30.44 percent of projected covered payroll. The components of the total funding policy contribution rate are shown below:

Total normal cost rate	19.97%
Amortization of unfunded actuarial accrued liability (or surplus)	10.47%
	=====
Total funding policy contribution rate	30.44%

The total funding policy contribution as an estimated dollar amount for the non-Laboratory segment of UCRP is \$5.9 billion, based on projected payroll of \$19.3 billion for 2026-27.

Actual Contribution Rates

The current and future University contribution rates are shown in the table below. This reflects the revised schedule of contribution rates adopted by the Regents at the May 2025 meeting.

University Contributions

Effective Date	University Contribution Rate to UCRP	
	UCRP Active Members ¹	Savings Choice “UAAL Surcharge” ²
July 1, 2025	14.5%	6.5%
July 1, 2026	15.0%	7.0%
July 1, 2027	15.5%	7.5%
July 1, 2028	16.0%	8.0%
July 1, 2029	16.5%	8.5%
July 1, 2030	17.0%	9.0%
July 1, 2031	17.5%	9.5%
July 1, 2032	18.0%	10.0%

The current member contribution rates are shown in the table below.

Member Contributions

Member / Tier	Member Contribution Rates on Covered Compensation ³
1976 Tier Members Certain Bargaining Units ⁴ / All Others	9% / 8%
2013 Tier Members Certain Bargaining Units ⁴ / All Others	9% / 7%
2016 Tier Members	7%
Safety Members	9%

For years in which the actual contributions, including amounts transferred (see below), are less than the total funding policy contributions, future actuarial losses are generated that will lead to increases in future total funding policy contributions.

¹ These contribution rates also apply to the LBNL segment of UCRP. There are no contribution rates for the LANL and LLNL Retained Segments of UCRP. The annual contribution amounts for those segments are determined based on provisions in each contract between the DOE and the University.

² The “UAAL Surcharge” is an employer contribution to UCRP on behalf of active employees who elected Savings Choice as their primary retirement benefit and are current participants in the defined contribution plan. The UAAL Surcharge helps pay down UCRP’s unfunded actuarial accrued liability (UAAL).

³ Contribution amounts are reduced by \$19 per month for 1976 Tier and Safety members.

⁴ The following bargaining units have agreed to the nine percent rate: California Nurses Association (CNA), University Professional and Technical Employees-Communication Workers of America (UPTE-CWA) Local 9119, and American Federation of State, County and Municipal Employees (AFSCME)–Service, Patient Care Technical, College Services Unit (UC College of the Law, SF) and Santa Cruz Skilled Crafts.

Funding of Total Funding Policy Contribution

In July 2017, the Regents delegated authority and discretion to the President of the University to make additional contributions to UCRP up to the following amounts: \$500 million for fiscal years 2018-19 and 2019-20, \$600 million for 2020-21, and \$700 million for 2021-22. In November 2021, additional amounts of \$500 million in both 2022-23 and 2023-24 were approved. In November 2023, an additional five years of transfers from the Short Term Investment Pool (STIP) were approved by the Regents for the following amounts: \$800 million for fiscal year 2024-25, \$700 million for 2025-26, \$550 million for 2026-27, \$550 million for 2027-28, and \$400 million for 2028-29. In May 2025, the Regents adjusted those STIP transfers to no longer make a transfer for the 2025–26 plan year. The next approved transfer amount is \$550 million for the 2026–27 plan year.

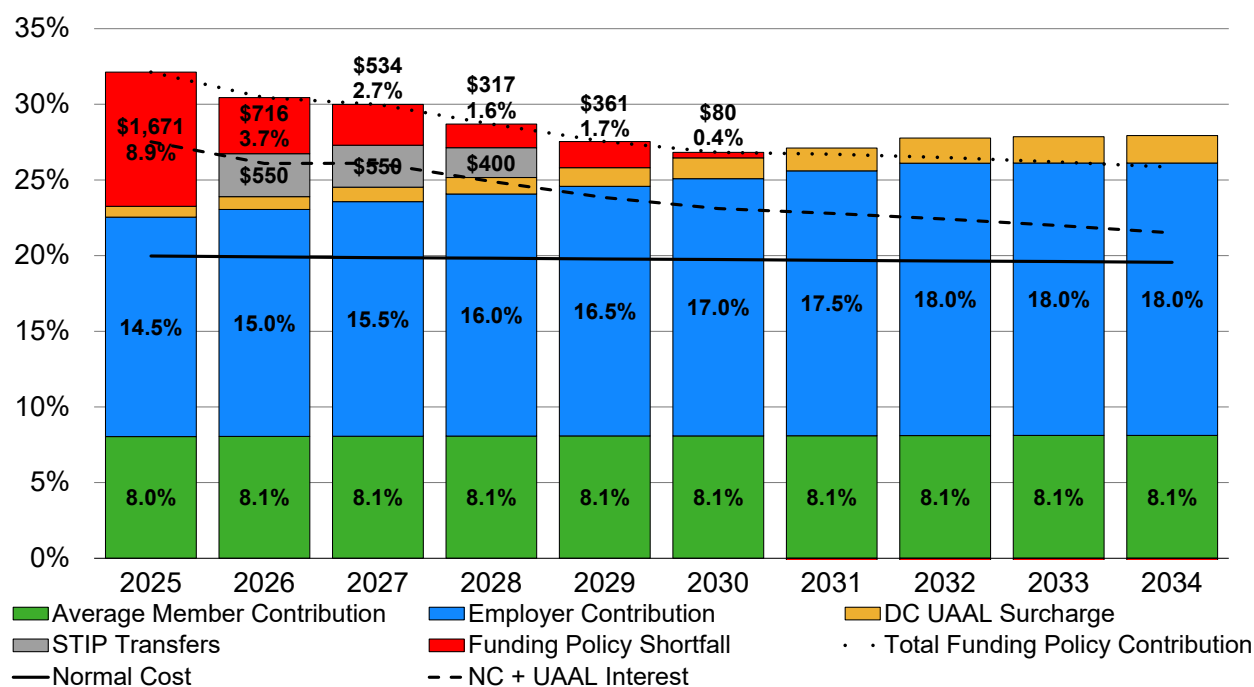
The President of the University may either transfer from the STIP and/or obtain funding from other internal or external sources to transfer funds to UCRP in the amounts shown above. In the event that STIP has insufficient funds for these transfers, funds equal to the shortfall(s) will first be transferred from the Total Return Investment Pool (TRIP) to STIP.

STIP transfers and debt proceeds used to fund UCRP result in the creation of internal loans that are repaid by all non-Laboratory locations with a final maturity of 2042.

UCRP Funding Illustration

The following chart shows the funding elements and projected total funding policy contribution for the non-Laboratory segment of UCRP broken into various components over the next ten Plan Years, if all assumptions stated below are met:

- All actuarial assumptions in the July 1, 2025 valuation are met.
 - Including a market value return of 6.75 percent per year beginning July 1, 2025.
 - Includes a 40 percent Savings Choice election rate for eligible new hires.
- Total UCRP and Savings Choice active member population remains level each year.
- Approved STIP (or other sources) transfers are made through 2028-29 and only approved contributions, as adopted in May 2025, are made.



As described earlier, the total funding policy contribution, which is the total of each bar for the first six years and is represented by the dotted line, consists of the annual normal cost plus an amount to amortize the UAAL. The normal cost is shown as the solid black line and decreases over time as members retire from the 1976 Tier and are replaced by new hires under the lower normal cost Modified 2013 Tier and 2016 Tier.

The portion of the total funding policy contribution above that line represents the UAAL payment under the funding policy. That UAAL amortization payment includes both interest on the outstanding UAAL and a payment to reduce the outstanding balance of the UAAL. The dashed black line represents the normal cost plus interest on the UAAL component; if actual contributions are less than this amount, the UAAL will continue to increase. As shown above, with the exception of the Plan Year 2025-26 (due to the removal of the STIP transfer), approved contributions are expected to meet this threshold.

The green bars are the projected member contributions, which are approximately eight percent of payroll on average. The blue bars are the employer contributions, currently at 14.5 percent of payroll and increasing on July 1, 2026 to 15 percent and then by 0.5 percent on each July 1 thereafter to a total of 18 percent of payroll. The grey bars represent the transfers from STIP that have been approved through Plan Year 2028-29. The orange bars are the UAAL surcharge that is contributed by the University for participants in Savings Choice.

The difference between the total funding policy contribution (total of each bar) and the approved contributions is the funding shortfall, which is represented by the red bars. Based on the current schedule of contribution rates adopted by the Regents, the projected shortfall for the next Plan

Year is \$1,671 million, which is partially due to the fact that no STIP transfers are scheduled to occur during 2025-26. Based on the current schedule of contribution rates adopted by the Regents, this shortfall is projected to decrease over the following five years, at which time the approved contributions are expected to meet the total funding policy contribution.

Based on this projection, the campus and medical center segment of UCRP is projected to reach a 100 percent funded ratio in 12 years. However, it is important to keep in mind that these projection results will continue to fluctuate on a year-by-year basis depending on actual investment returns, other actuarial gains and losses, and additional factors.

The key driver in the number of years to reach a 100 percent funded ratio is that all projections assume that the ultimate employer contribution rate reaches 18 percent of payroll. To the extent that the ultimate employer contribution rate does not reach 18 percent of payroll or is significantly delayed, then the number of years to reach full funding could be significantly different.

UC-VERIP Valuation Results

On October 18, 1990, the Regents approved an early retirement incentive program for University employees who were covered under the California Public Employees' Retirement System (CalPERS) pension plan. The most tax-effective method to provide this group with a benefit generally comparable to an incentive offered to UCRP members was to establish a "frozen" defined benefit plan described in Section 401(a) of the Internal Revenue Code.

The UC-VERIP required campus and Laboratory locations to fund their individual liabilities over a period no longer than five years. The UC-VERIP is a standard terminal funding arrangement under a wasting trust which, in this instance, is obligated to make fixed lifetime payments under either a single life or joint and survivor annuity option. The assets must remain in the trust until all benefit obligations have been satisfied. MVA, rather than a smoothed value, is used for actuarial valuation purposes. Segal reviews the trust's fiscal position and funding status annually to assure that the UC-VERIP is adequately funded.

The UC-VERIP's funded ratio for valuation purposes including all future assumed two percent annual cost-of-living adjustments (COLAs) is 641.9 percent at July 1, 2025, compared to 523.1 percent at July 1, 2024. The increase in the funded ratio was mainly the result of the investment gain during the 2024-25 Plan Year and the decrease in the AAL due to the continued decline in the number of members receiving benefits. The net assets at July 1, 2025 were \$81.5 million and the AAL was \$12.7 million.

For purposes of granting an annual COLA as of July 1, 2025, an additional funded ratio has been developed that does not include any future annual COLAs in the calculation of the AAL. This "funded ratio for COLA purposes" as of July 1, 2025 is 695.8 percent. Since this ratio is greater than 100 percent, a July 1, 2026 COLA can be granted in a percentage equal to that determined under the UCRP formula for UCRP annuitants whose retirement income commenced July 2, 1991 through and including July 1, 1992.

There were 243 retired members and beneficiaries in the UC-VERIP at July 1, 2025, down from 267 at July 1, 2024.

Key to Acronyms

AAL	Actuarial accrued liability
AFSCME	American Federation of State, County and Municipal Employees
AVA	Actuarial value of assets
CNA	California Nurses Association
COLA	Cost-of-living adjustment
DOE	U.S. Department of Energy
IRC	Internal Revenue Code
MVA	Market value of assets
LANL	Los Alamos National Laboratory
LBNL	Lawrence Berkeley National Laboratory
LLNL	Lawrence Livermore National Laboratory
PEPRA	Public Employees' Pension Reform Act of 2013
PERS or CalPERS	California Public Employees Retirement System
STIP	Short Term Investment Pool
TRIP	Total Return Investment Pool
UAAL	Unfunded actuarial accrued liability
UCRP	University of California Retirement Plan
UPTE	University Professional and Technical Employees

APPENDIX I - Glossary of Actuarial Terms

[Attachment 1 - UCRP Actuarial Valuation Report as of July 1, 2025](#)

[Attachment 2 - UC-VERIP Actuarial Valuation Report as of July 1, 2025](#)

APPENDIX I: GLOSSARY OF ACTUARIAL TERMS

- **Present Value of Benefits (PVB):** the “value” at a particular point in time of all projected future benefit payments for current plan members. The “future benefit payments” and the “value” of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for active members.
- **Actuarial Cost Method:** allocates a portion of the total cost (PVB) to each year of service, both past service and future service.
- **Normal Cost (NC):** the cost allocated under the Actuarial Cost Method to each year of active member service.
- **Actuarial Accrued Liability (AAL):** the value at a particular point in time of all past Normal Costs. Plan assets would match this amount if the current plan provisions, actuarial assumptions, and participant data had always been in effect, contributions equal to the Normal Cost had been made, and all actuarial assumptions came true.
- **Actuarial Value of Assets (AVA) or “smoothed value”:** a market-related value of the plan assets for determining contribution requirements. The AVA tracks the market value of assets over time, smooths out short-term fluctuations in market values, and produces a smoother pattern of contributions than would result from using market value.
- **Market Value of Assets (MVA):** the fair value of assets of the plan as reported by the plan’s trustee, typically shown in the plan’s audited financial statements.
- **Unfunded Actuarial Accrued Liability (UAAL):** the positive difference, if any, between the AAL and the AVA.
- **Surplus:** the positive difference, if any, between the AVA and the AAL.
- **Actuarial Value Funded Ratio:** the ratio of the AVA to the AAL.
- **Market Value Funded Ratio:** the ratio of the MVA to the AAL.
- **Actuarial Gains and Losses:** changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if, during a given year, the assets earn more than the current assumption of 6.75 percent, the amount of earnings above 6.75 percent will cause an unexpected reduction in UAAL, or “actuarial gain” as of the next valuation. Actuarial gains and losses also include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the funding policy.