

**Office of the President**

**TO MEMBERS OF THE COMMITTEE ON FINANCE:**

**ACTION ITEM**

*For Meeting of September 18, 2013*

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – AMENDMENT TO PROVIDE VESTING CREDIT FOR ELIGIBLE EMPLOYEES TRANSFERRING FROM CHILDREN’S HOSPITAL AND RESEARCH CENTER AT OAKLAND**

**EXECUTIVE SUMMARY**

The President recommends that the University of California Retirement Plan (UCRP) be amended to grant an eligible employee transitioning employment from Children’s Hospital and Research Center at Oakland (CHO) to the University of California, San Francisco (UCSF) service credit under UCRP, solely for vesting purposes, that is equivalent to the employee’s vesting service under the Retirement Plan for Children’s Hospital and Research Center at Oakland (CHO Retirement Plan), taking into account the plans’ different service crediting methods and plan years. Recognizing transitioning employees’ CHO service for vesting purposes will support the affiliation of UCSF and CHO consistent with the Affiliation Agreement entered into by the Regents of the University of California (on behalf of UCSF) and CHO. A former CHO employee’s CHO Retirement 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 part of the affiliation.

**RECOMMENDATION**

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

1. The University of California Retirement Plan (UCRP) be amended to grant an eligible employee of Children’s Hospital and Research Center at Oakland (CHO) who transitions employment directly from CHO to the University of California, San Francisco (UCSF) on or after the closing date of the Affiliation Agreement between UCSF and CHO, and in furtherance of the affiliation, service credit under UCRP for vesting purposes that is equivalent to the vesting service accrued by the employee under the Retirement Plan for CHO (CHO Retirement Plan) as of the employee’s transition date, taking into account the different methods of crediting vesting service under the UCRP and the CHO Retirement Plan.

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

### **BACKGROUND**

In January of this year, the Regents approved the University's participation in CHO subject to certain terms and conditions. As of August 1, 2013, the Regents, on behalf of UCSF, entered into an Affiliation Agreement with CHO that is scheduled to close February 28, 2014 (Closing Date) subject to CHO's satisfaction of all conditions. During the extensive due diligence process on the proposed affiliation, it was determined that the affiliation of the two entities would be furthered by granting a CHO employee, who transitions employment directly to UCSF in connection with the affiliation, credit for vesting purposes under UCRP for the employee's service under the CHO Retirement Plan. Thus, if a CHO employee had completed three years of vesting service at CHO 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 CHO service for UCRP vesting purposes would not affect an employee's benefit accruals under UCRP, which would be based only on University service, nor would it affect an employee's Member Tier in UCRP. Eligible CHO employees who transition employment to the University will accrue UCRP benefits under the new 2013 Member Tier that was approved by the Regents in December 2010 and became effective July 1, 2013 for individuals hired as University employees on and after that date.

The methodology for recognizing CHO Retirement Plan vesting service under UCRP would take into account the different methods of crediting service for vesting purposes under the two plans and the different definitions of "plan year" that serve as measuring periods. The recognition of such service credit would apply only to an employee who transitions to UCSF employment on or after the closing date of the Affiliation Agreement in furtherance of the affiliation.

The proposed UCRP amendment would be similar to the amendment 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. The employees were credited with one year of UCRP service credit for vesting purposes for any 12-month calendar period during which they had accumulated 1,000 hours of service.

The CHO Retirement Plan will continue as a tax-qualified private employer plan. Any benefits previously accrued under the CHO Retirement Plan by an employee who transitions employment to UCSF will be preserved consistent with the CHO Retirement Plan terms and applicable law. As of June 30, 2013, the CHO Retirement Plan had approximately \$264 million in assets. As of December 31, 2011 the Plan covered approximately 2,200 active participants (50 percent represented), 550 pensioners receiving benefits and 1,000 inactive vested participants entitled to deferred benefits.

As of the Closing Date, the intent is for a limited number of CHO management employees to transition employment to UCSF to initiate the affiliation process. Plans for transitioning additional CHO employees to UCSF have not been fully developed and are subject to a number of factors, including collective bargaining requirements applicable to any represented employees who might transition.

### **COST IMPACT TO UCRP**

Based on estimates from UCRP's consulting actuaries, the Segal Company, the financial impact on UCRP for providing vesting service credit to transitioning CHO employees would be very small, even if all CHO employees transitioned to UCSF. There would be either a slight increase in Actuarial Accrued Liability (AAL) and the long-term Normal Cost rate or a slight decrease in the overall total present value of future benefits (PVB). The impact on AAL or PVB would be approximately \$3 million in each respective direction. The effect is small because it is only felt during the first five years of UCRP service credit when an employee's benefits are still relatively small, even for those who are highly paid or are near retirement age.

### **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.