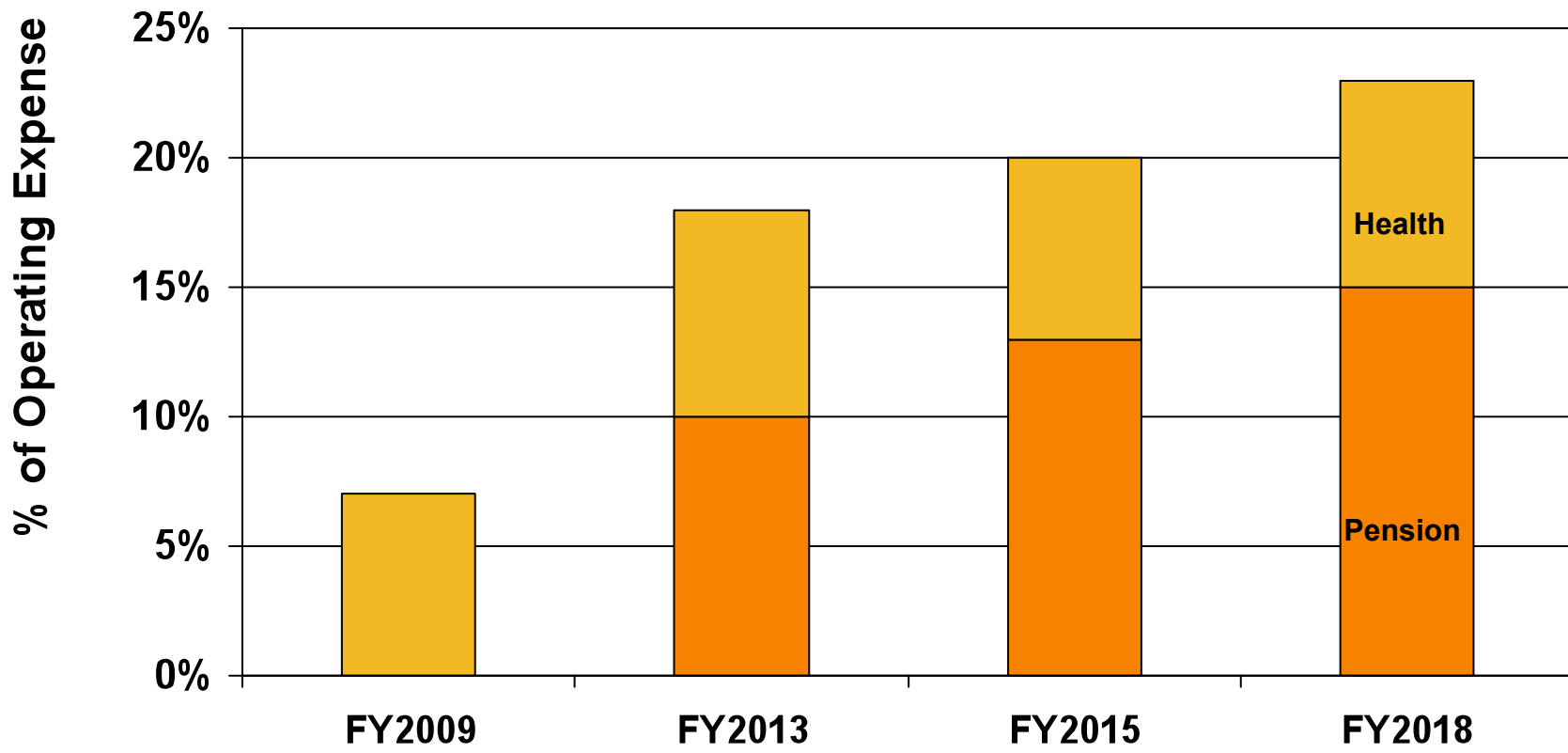




PEB Financial Highlights

Status Quo Retirement Costs Will Take Up Significant Resources

Required contributions as % of Operating Expense



Today's % of operating expense equivalent:

DOE Labs + Student Financial Aid

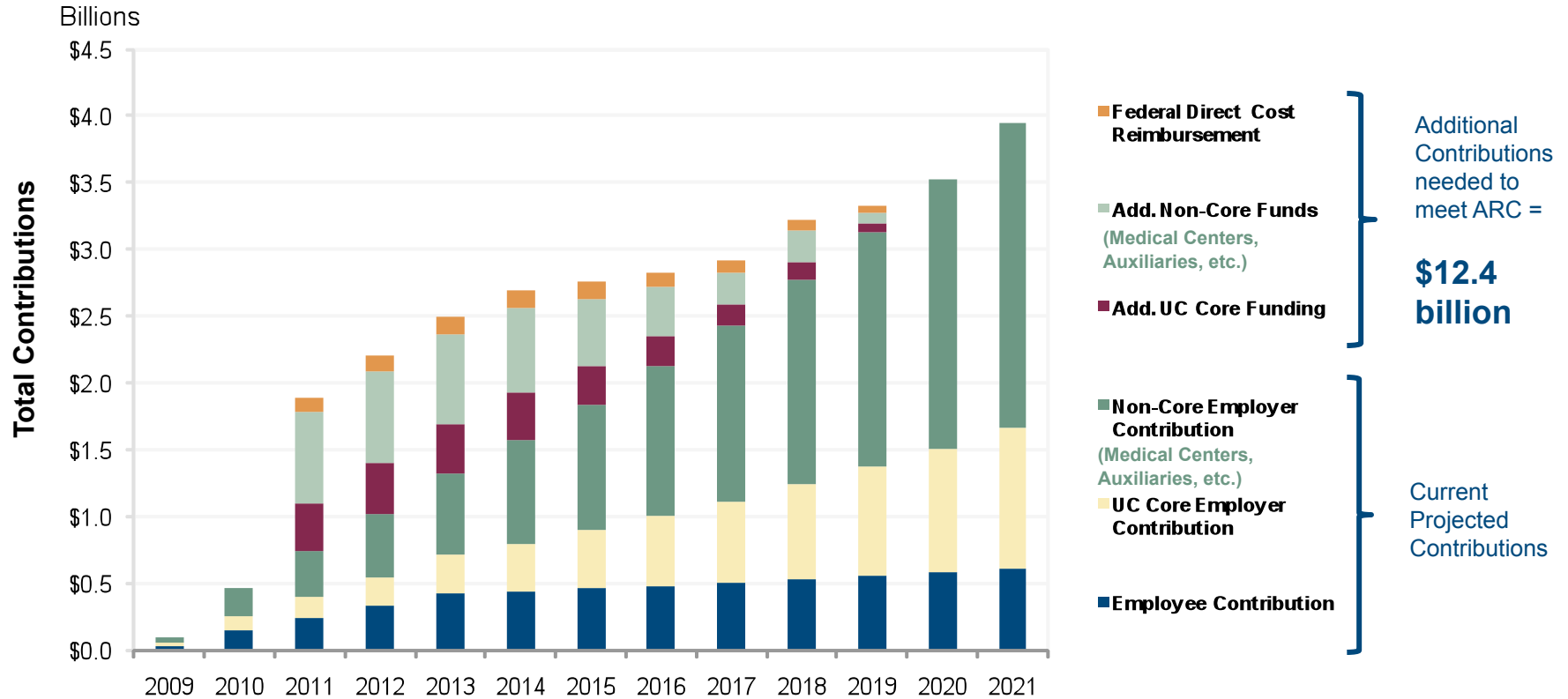
Research

Instruction expenses

Medical center operations

Status Quo: Annual Required Contribution by Fund Source

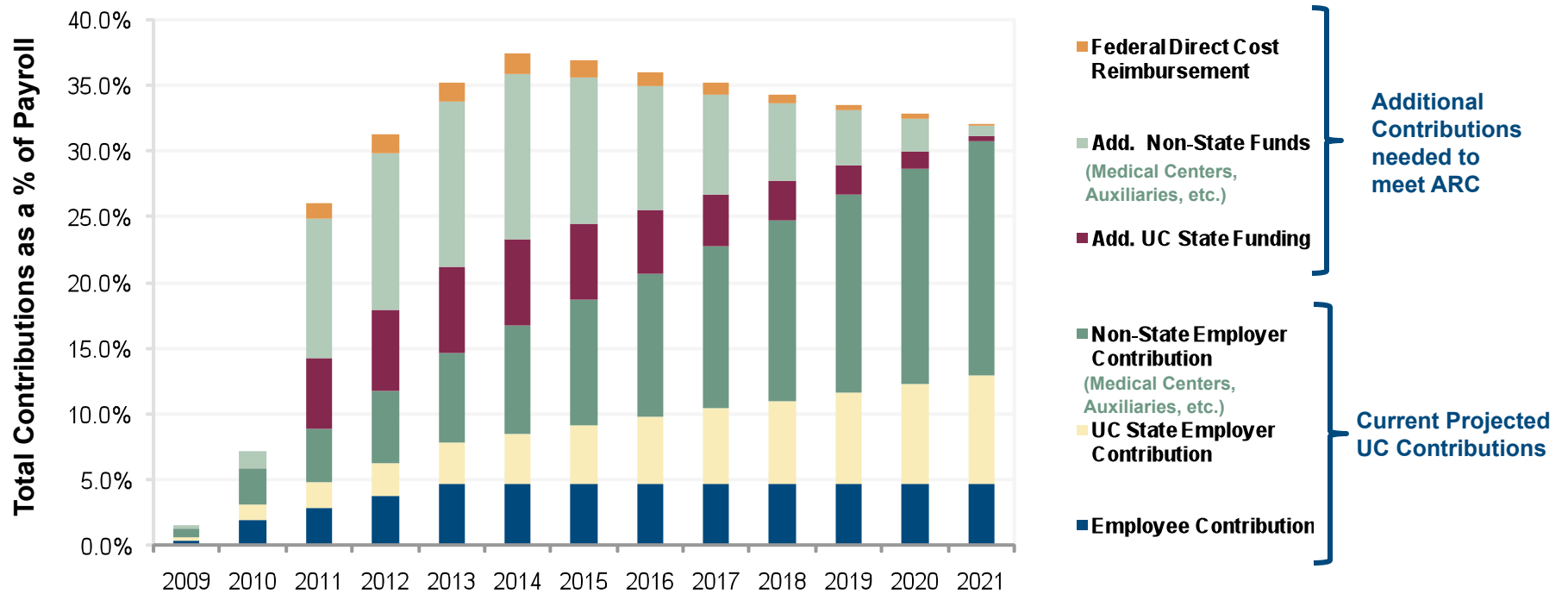
Status Quo: Annual Required Contribution Expenses by Fund Source



Fund Source	UC Core Contributions	Medical Centers	Auxiliaries	Federal	Private Support & Other
% of Total	36%	32.5 %	10%	7.5%	14%

Total Annual Required Contribution as a % of Payroll

Total Annual Required Contribution Expenses by Fund Source

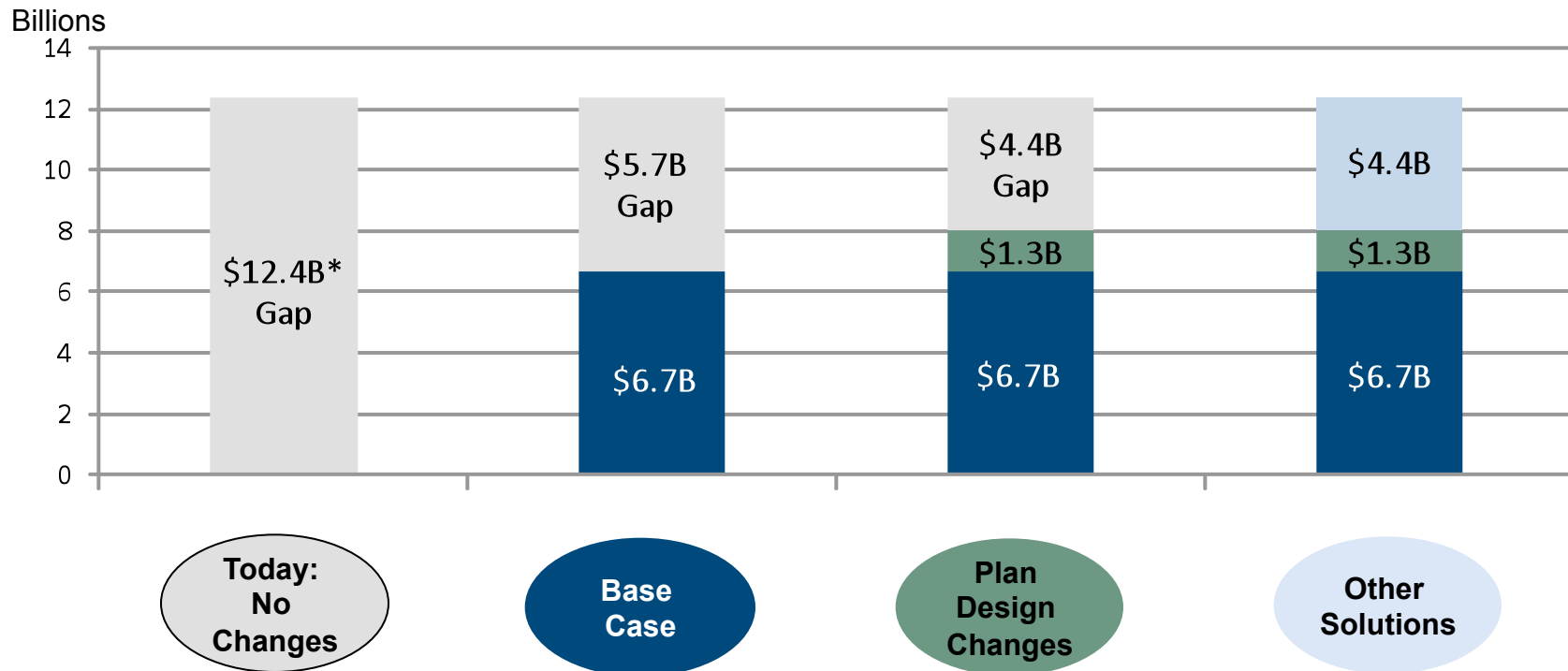


ER Slow Ramp up	0.8%	4%	6%	8%	10%	12%	14%	16%	18%	20%	22%	24%	26%
Add. % of Payroll	0%	0%	17%	19%	21%	21%	18%	15%	12%	10%	7%	4%	1%
Total ER ARC*	0.8%	4%	23%	27%	31%	33%	32%	31%	30%	30%	29%	28%	27%

* Total ER ARC does not include 5% employee contribution

Summary of Recommendations: Managing the \$12.4 Billion Contribution Gap from 2011-2021

Additional Pension Contributions Necessary over Projected Contributions



Note: These figures represent the 2011-2021 funding gap created between annual required contribution and projected UC employer/employee contributions. It does not include total cost of some of the proposed changes. For example, over the entire life of the 30 year level dollar amortization UC will pay more than if a 15 year level dollar amortization was utilized

* Reflects FY2009-2010 UCRP investment earnings of 12.74%

Addressing the \$12.4 billion Gap

Base Case

Base Case

- Increase UAAL amortization period to 30-year level dollar to reduce ARC
- Pay the annual interest unfunded liability only, not the full amortization until contributions increase enough to cover ARC (Approx. FYB 2017)
- Ramp up contributions faster: 3.5% EE/ 7% ER - FYB2011; 5% EE/ 10% ER- FYB2012, 2% increases thereafter

Total Reduction in Gap: \$6.7 billion

Above changes substantially reduce the UCRP funding gap

Open Item Concerns

- Funding gap still \$5.7 billion
- Employer contributions continue to increase each year by 2% to a maximum of 24% by FYB2018

Plan Design Changes



- Reduce normal cost to employer cost by FY 2013-14

	Status Quo	A: ER 7.3% Cost	B: ER 9% Cost
Plan:	17% Normal Cost, with EE contributions at 5% by FY2013-14	Reduce employer Normal Cost by offering choice to of 1) staying in the current plan and paying a higher contribution rate or 2) going to the new hire plan	
“Gap” Reduction	\$0	\$1.3 billion	\$1.3 billion
NC Reductions (2019-2038)	\$0	\$18.8 billion	\$11.8 billion
Total Pension Cost Reduction	\$0	\$20.1 billion	\$13.1 billion
Open Item Concerns			
Remaining Gap	\$12.4B	\$4.4B	\$4.4B
Max. Employer Contribution	24%	22%	22%

- “Normal Contribution Reduction” represents reduction in Normal Cost status quo beyond the 10 year funding gap period.

Other Solutions – “Pay me now or pay me later”

Other Solutions

Both approaches for meeting ARC achieve 100% funding by 2038

Solution A: Pay Annual Required Contribution Close \$4.4 billion Gap between 2011-21

Pros

- Less expensive in the long term
- Better positions the University in case of market volatility, since 90% funded status is achieved by 2028
- Provides budget relief in the years between 2024-38

Cons

- Requires large cash infusion to UCRP in the near term
- Could require immediate difficult operational decisions that could severely damage the University
- Possible Strategies include
 - Restructure debt and use the cash flow savings to pay part of the University’s annual pension expenses
 - Use incremental Short Term Interest Pool (STIP) interest to cover part of the cost of UCRP
 - Borrow from STIP to fund UCRP contributions until the University can meet its obligation through the annual budget process.

Solution B: Modified Ramp-Up to 20%

Pros

- Provides budget relief in the next 5 years
- Gives the University more time to adjust its operations to support higher pension contributions

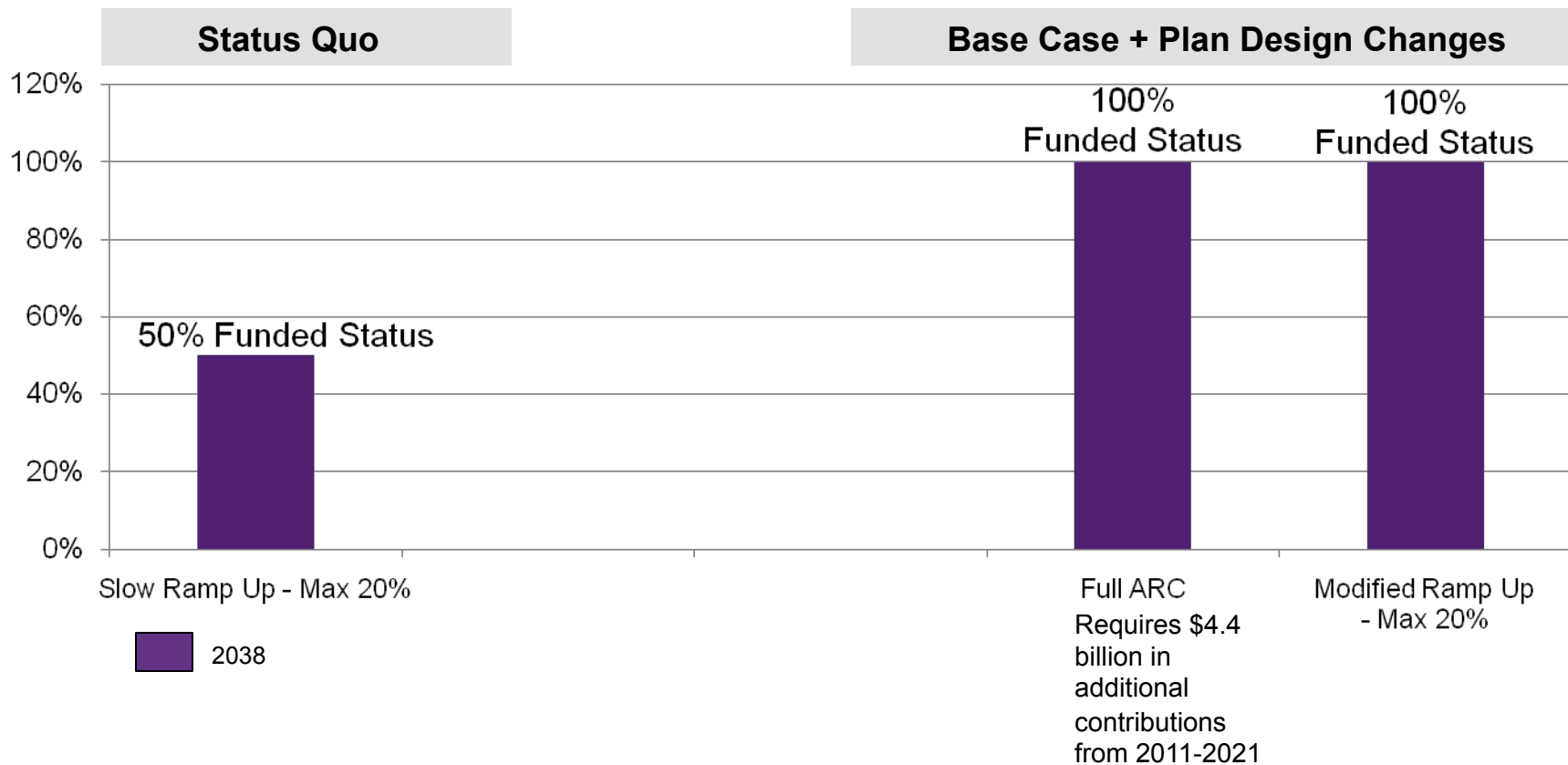
Cons

- More expensive in the long term
- Requires 20% of payroll contribution longer, limiting the amount of money available for other human resource needs
- Slower ramp up to 100% funded status

Funded Status by 2028 & 2038: Various Scenarios

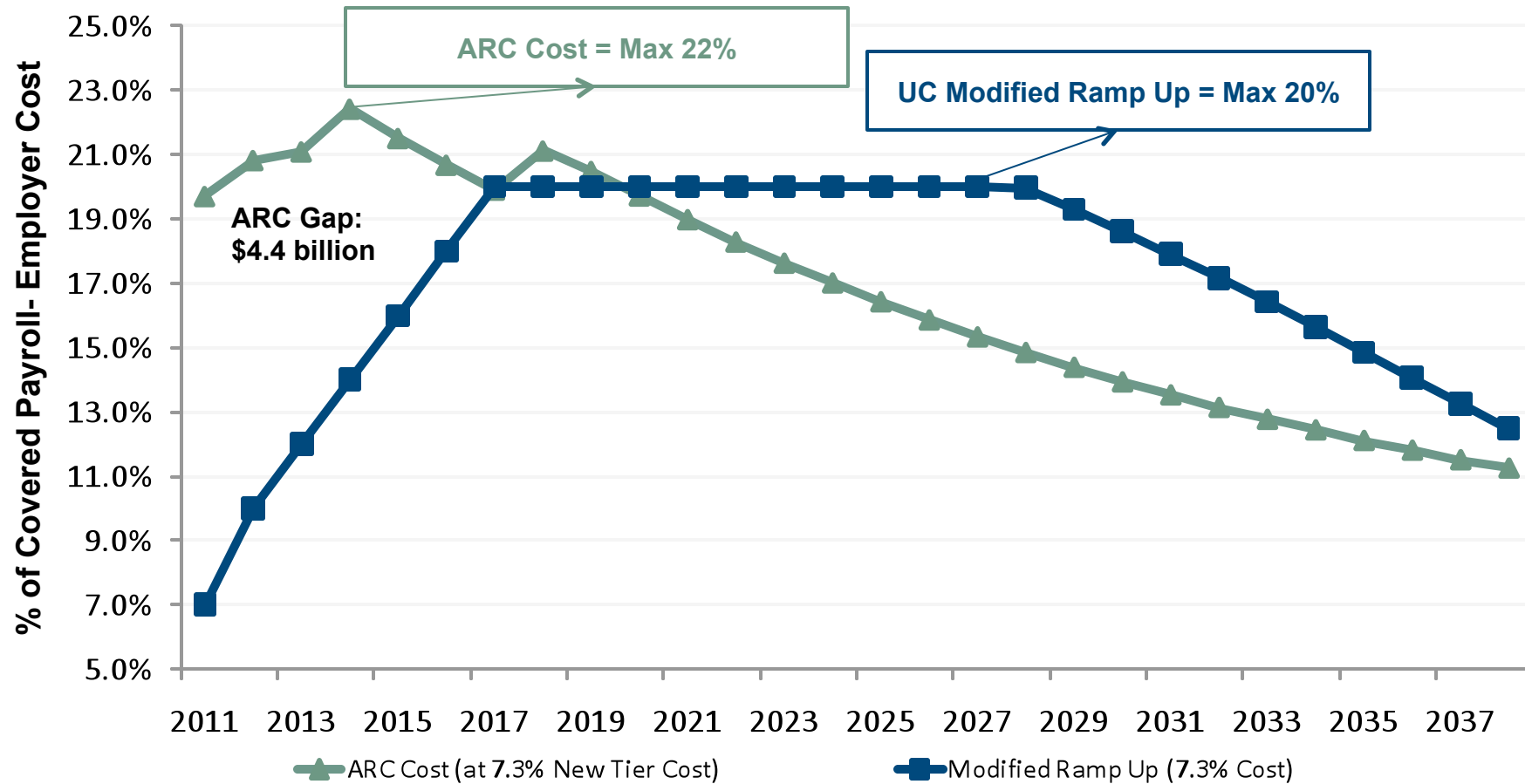
While a ramp-up approach is not feasible under the current benefits structure – Reducing UCRP benefits for new hires can achieve 100% funded status at a reasonable contribution level over the long term

UCRP Projected Pension % Funded Status by 2038



New Tier Employer Cost Comparison as a % of Payroll

Employer Contribution : ARC starting FYB2011 or Modified Ramp Up



* Assumes new tier in place by FYB2013, 7% contribution for employees that stay in the current UCRP plan