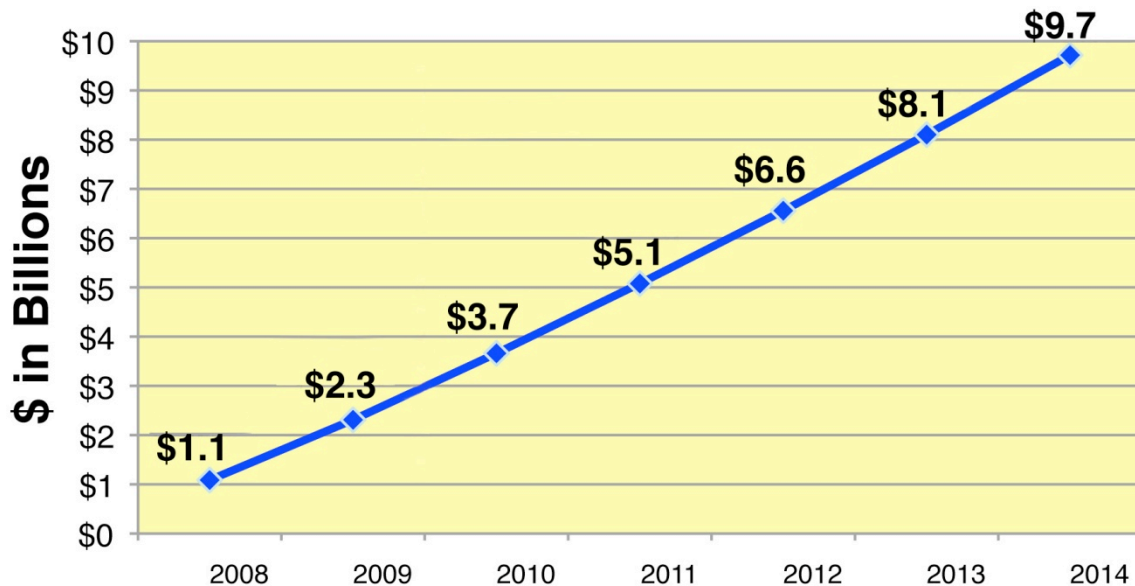


Retiree Health Projected Balance Sheet Obligation 2009-2014



The balance sheet obligation is the cumulative shortfall between actual funding and the program’s Normal Cost plus the amortized unfunded liability.

Valuation Concepts

Each year a valuation is performed as of July 1 and presented to The Regents in November. In 2003 the University began to examine the implications of the Government Accounting Standards Board Regulation (GASB 45) that, beginning in 2005, required public employers to include retiree health plan unfunded liability in their annual accounting – as they do for unfunded pension liability. The University is not alone in this; every other public entity with a retiree health plan is assessing the plan design and liabilities.

As part of a longer-term strategy, The Regents created a trust under Section 115 of the Internal Revenue Code that could be used to pre-fund the Retiree Health Program at a future date. Currently, pay-as-you-go contributions flow through the trust. The unfunded liability of the program in 2009 was \$14.5 billion and, if no program changes are made, is projected to be \$20.6 billion in 2014. GASB 45 requires that the University post the balance sheet obligation. This was \$2.3 billion in 2009 and is projected to be \$9.7 billion by 2014 if no changes are made. These large liabilities on University balance sheets may impact the availability of unrestricted net assets and the University’s credit rating.

During the years from 2000 to 2005 medical care costs increased nationally at an annual rate between 9% and 14%. During the last three years the average annual increase has been between

5% and 7%. For 2011 costs are expected to increase by 8 to 10%, varying by geographic region. During the past six years the average increase in the aggregate rates charged by UC medical plans and in the aggregate UC contributions has been over 9%.