Overview of UCRP Funding, Policy and History

LLNL CUCRA
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University of California

Retirement Programs & Services
Human Resources

Topics for Today

- Brief History of UCRP
- DOE – UC Relationship (as it relates to UCRP)
  - o Prior to NNSA Lab Transitions
  - o NNSA Lab Transitions and Later
- UCRP Funding Policy
  - o Campus & Medical Centers Segment
  - o LBNL Segment
  - o NNSA Retained Segments
- July 1, 2013 Actuarial Valuation Results
  - o Total UCRP
  - o LLNL Retained Segment
- Q & A (time permitting)

Brief History of UCRP

- UC created first pension program through CalPERS.
  - o 1924 for Faculty
  - o 1937 for Staff
- 1961 – UCRP, a “defined benefit” plan established for all career employees.
- 1976 – Members offered choice of coordinating with Social Security; required for new hires.
- 1990 – “Contribution Holiday” Begins. As a result of the plan’s significant surplus, Regents authorized:
  - o Suspension of University’s annual contribution and
  - o Redirection of member contributions to DC Plan.
  - o Surplus and Contribution Holiday lasted nearly two decades.

Brief History of UCRP

- NNSA Lab Transitions
  - 6/1/2006 - LANL now managed by LANS
  - 10/1/2007 – LLNL now managed by LLNS
  - “Retained Segments” created – both 100% funded at creation
- 2008, 2009 – Market crash, UCRP no longer in surplus.
- 2010 – University and Member contributions to UCRP resume along with Funding Policy with 100% Target.
- 2010-2013 – Regents approve recommendations for UCRP changes from President’s “PEB” Task Force.
  - Ramp-up schedule for UC and Member contribution rates and
  - “2013 Tier” for new members, effective 7/1/2013.

DOE – UC Relationship

- Prior to NNSA Lab Transitions
  - Prime Lab Contracts established UCRP as the retirement plan covering all lab employees.
    - All labs had basically the same contract provisions.
  - Early 1990s – DOE adopted its own accounting, reporting and disclosure requirements that are separate from UCRP's
    - Producing this information requires assets, liabilities and costs for LLNL.
  - For that reason *only* separate lab segments were set up
    - Assets initially allocated to segments based on the lab's pro-rata share of the entire UCRP assets.
    - Initial proration percentage based on Segment AAL / UCRP AAL.
  - Allocated assets tracked separately each year by adding or subtracting net LLNL contribution/benefit payment and administrative expense cash flows and a pro-rata share of the annual investment earnings.
  - ***Important to repeat: the split is purely for accounting and funding purposes. All funds in the UCRP trust are available to pay benefits to retirees of any segment.***

DOE – UC Relationship

- NNSA Lab Transition and Later
  - o "A" represented segment market value of assets prior to transition.
  - o "B" represented the liability associated with those segment members who are retired or inactive and retained by UCRP.
  - o The amount of assets transferred from UCRP to the new contractor's defined benefit plan was "A – B".
    - Therefore, each retained segment had assets = liabilities = "B" immediately after the transition (i.e. 100% funded ratio).
  - o For LLNL there was an additional $140 million in assets retained by the segment in a Contribution Reserve Amount (CRA) that would be used to fund future required contributions.
    - o Unfortunately, CRA was exhausted after the market crash of 2008-09.
  - o DOE/NNSA contractually agreed to pay any future shortfalls in excess of the CRA that arise over time in the segments according to a funding policy (see next slides).
  - o DOE/NNSA must be noticed in advance of any changes in benefits, or actuarial methods or assumptions that are expected to have a material effect on the segment funded status.

UCRP Funding Policy

- Overall Long-Term Funding Target – 100% Funded Ratio
- Campus and Medical Centers (C/MC)
  - o Valuation as of 7/1/Z determines contribution for FY Z+1/Z+2.
  - o Segment Normal Cost (NC) + or – an amount to amortize segment Unfunded Actuarial Accrued Liability (UAAL) or Surplus, generally over 30 years as a level dollar amount, with 1/2-year interest adjustment.
  - o Regents determine actual rate of contribution as a percent of covered pay and the split between UC and member.
- LBNL
  - o Segment members pay same rate as members at C/MC locations.
  - o DOE/Office of Science reimburses UC for amount equal to same rate as C/MC UC rate.
  - o IRS "Full Funding Limitation" is a cap on DOE contribution, but not likely to apply for several years.

UCRP Funding Policy

- NNSA Lab Retained Segments
  - No NC for segments, so just amount to amortize segment UAAL, over 7 years as a level dollar amount, with 1/2-year interest adjustment.
  - Valuation as of 7/1/Z determines contribution for FY Z+1/Z+2, payable on 2/28/Z+3 (8 months after close of FY).
  - DOE/NNSA “reimburses” UC for the required contribution, then UC immediately contributes the amount into UCRP.

UCRP Funding Policy

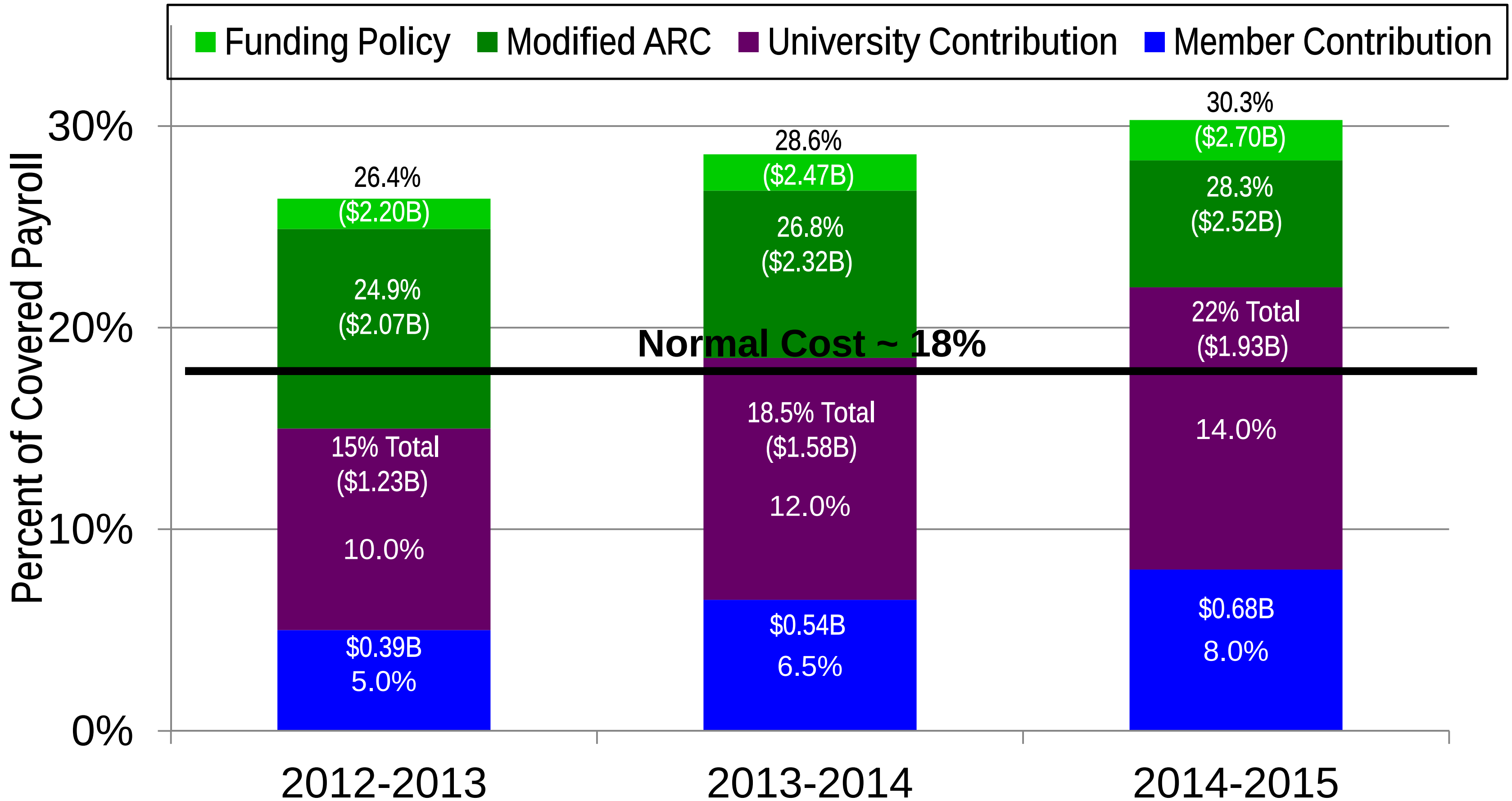
- NNSA Lab Retained Segments (cont.)

- What happens if…? (non-standard situations):
  - Segment has surplus – no DOE/NNSA reimbursement for the FY.
  - Dwindling number of retirees left in segment – minimum required contribution based on “current obligations”.
  - DOE/NNSA doesn’t fully meet the required contribution for a FY – any contribution shortfall is treated like any other actuarial loss (e.g. investment loss or retirees living longer than expected) and is amortized over next 7 years with interest and added to next seven FY’s required contributions.
  - Assets remain in segment after last segment retiree or beneficiary dies – assets revert back to DOE/NNSA.

UCRP Valuation Results ($ in billions)

	7/1/2013	7/1/2012
Market Value of Assets (MVA)	$45.3	$41.8
Actuarial Value of Assets (AVA)	$43.6	$43.0
Actuarial Accrued Liability (AAL)	$57.4	$54.6
Unfunded AAL – AVA Basis (AAL less AVA)	$13.8	$11.6
Unfunded AAL – MVA Basis (AAL less MVA)	$12.1	$12.8
Funded Percentage (AVA Basis)	76%	79%
Funded Percentage (MVA Basis)	79%	77%
Normal Cost (beginning of year)	$1.6	$1.5
Normal Cost (% of pay, middle of year)	18.35%	18.09%
Funding Policy Contribs (% of pay)	30.33%	28.56%

UCRP Contribution Illustration



-Results based on July 1, 2013 actuarial valuation.

-Member contribution rates shown apply to 1976 Tier members; offset of $19 per month applies; all member contributions subject to collective bargaining, as applicable. Contribution amounts ($) are based on campus/med center payroll.

-Employer rates exclude the extra assessment to pay back any internal or external financing.

LLNL Retained Segment Valuation Results
($ in billions unless noted)

	7/1/2013	7/1/2012
Market Value of Assets (MVA) allocated to LLNL	$2.8	$2.9
Actuarial Value of Assets (AVA)	$2.7	$3.0
Actuarial Accrued Liability (AAL) “Funding Target”	$3.8	$3.8
Unfunded AAL – AVA Basis (“Funding Shortfall”)	$1.1	$0.9
Unfunded AAL – MVA Basis	$1.0	$1.0
Funded Ratio (AVA Basis)	71%	77%
Funded Ratio (MVA Basis)	74%	75%
Required Contribution (in $millions) *	$307.0	$231.8
Benefit Payments Prior 12 Months (in $millions)	$280.6	$272.4

**$231.8 million due on 2/28/2014; $307.0 million due on 2/28/2015.*

Questions and Answers