

## UC Retirement Plan: Proposition 2 State Funding

### Background

Under the 2015-16 budget agreement with the Governor, the University of California received \$436 million in one-time funds over three years in Proposition 2 debt repayment funds for the UC Retirement Plan (UCRP), contingent upon Regental approval of a cap on pensionable salary. The Regents approved changes to UCRP in March 2016 and the state confirmed the University is eligible to receive the agreed upon funds. The one-time funds are payable over three years, including \$96M in 2015-16, \$170 million in 2016-17 and \$170 million in 2017-18. These funds must be used to help pay down the unfunded liability associated with UCRP related to state funds and tuition (199xx funds).

Since the funds are contributed directly to UCRP, all the University's funding sources, rather than just the State General Fund, benefit from these additional retirement contributions. The UC Office of the President (UCOP) provided analyses to the campuses to identify amounts to recover the savings in UCRP costs from allowable funding sources. The analysis goes out to 2041-42 so this represents an ongoing cost that is separate and distinct from any future changes that might be made to the UCRP funding plan.

### Impact to UC Davis

UC Davis will recoup approximately \$560,000 from UCD Health in 2016-17, and will recoup an estimated \$1.7 million from all units in 2017-18, growing to \$2.5 million in 2018-19. [note: These funds have already been assumed in BIA's State General Fund and tuition Sources & Uses document and therefore do not represent additional central resources that will offset the structural budget deficit.]

Savings figures are based on UCOP estimates of the payroll assessment that would have otherwise been required if equivalent funds had instead been borrowed from STIP (cash reserves) and repaid over time. We propose to use UCOP's computed dollar figure to bill the Medical Center and to use UCOP's payroll assessment rate to determine how much to bill allowable funding sources for campus units (see Attachment 1 for additional information). For campus units, we propose to bill based on prior year payroll so as to provide units with certainty for the following fiscal year.

Allowable sources include such sources as Auxiliary, Med Comp funds, Student Services Fee, Campus Based Fees, Professional Degree Supplemental Tuition, and Indirect Cost Recovery. Excluded fund sources, based on guidance from UCOP, include state General Fund and tuition, Contracts & Grants, recharge activities that charge Contracts & Grants, and State Appropriations\* (see Attachment 2 UCOP letter).

\*Excluded funds include Sub Fund Group Types 1, B, C, D, F, G, H, J, L, N, P, S, V, W, X; Sub Fund Groups SSEDAC, SSEPDI, and OSSSO; OP Funds 20094, 20095, 20321 and 20323.

As additional funds are transferred from the State to UCRP, the annual assessments will increase for several years and then level off until fully paid off by 2041-42, as follows:

Year	UCD Health*	Campus Cost		Total
		Campus Rate	Est. Cost	
2016-17	\$564,000	N/A	N/A	\$564,000
2017-18	\$1,404,000	0.15%	\$347,000	\$1,751,000
2018-19	\$2,024,000	0.21%	\$501,000	\$2,525,000
2019-20	\$2,220,000	0.22%	\$541,000	\$2,761,000
2020-21	\$2,313,000	0.22%	\$557,000	\$2,870,000
2021-22	\$2,403,000	0.22%	\$574,000	\$2,977,000
2022-23	\$2,585,000	0.23%	\$618,000	\$3,203,000
2023-24	\$2,574,000	0.22%	\$609,000	\$3,183,000
2024-25	\$2,561,000	0.21%	\$599,000	\$3,160,000
2041-42	\$2,561,000	0.11%	\$599,000	\$3,160,000

\*Includes School of Medicine, computed using campus rate

For 2017-18, the estimated assessment by unit and fund type is as follows:

**By Fund Source**

Unit	Amount
Medical Center	\$977,000
Sales and Service of Educational Activities**	\$426,000
Student Fees	\$113,000
Other	\$98,000
ICR	\$55,000
Auxiliary	\$42,000
Endowment Earnings/Gifts	\$40,000
<b>Total</b>	<b>\$1,751,000</b>

\*\*Primarily Med Comp

UC RETIREMENT PLAN: PROPOSITION 2 STATE FUNDING

APRIL 2017

By Unit

Unit	Amount
Medical Center	\$977,000
School of Medicine	\$427,000
Student Affairs	\$96,000
Finance, Operations and Administration	\$46,000
School of Veterinary Medicine	\$44,000
Office of Research	\$25,000
University Extension	\$19,000
College of Agriculture and Environmental Sciences	\$14,000
Graduate School of Management	\$13,000
Development	\$13,000
School of Law	\$12,000
Intercollegiate Athletics	\$11,000
Office of the Provost	\$9,000
College of Biological Sciences	\$9,000
College of Engineering	\$7,000
Office of the Chancellor	\$6,000
Math and Physical Sciences	\$6,000
Social Science	\$5,000
Humanities, Arts and Cultural Studies	\$4,000
Information and Educational Technology	\$4,000
School of Nursing	\$2,000
Office of Graduate Studies	\$1,000
School of Education	\$1,000
Library	\$0
<b>Total</b>	<b>\$1,751,000</b>

Allowable funds will be assessed on a monthly basis using an automated payroll assessment. The assessment will be based off of monthly salary expenses and will post to Object 8510 within Object Consolidation Sub 6, Employee Benefits.

Comparison: Receive State Proposition 2 Funds for UCRP vs. Borrow this Amount from STIP

1. Receive State Prop. 2 funds for UCRP

Total Repayment: **\$0**

Receive		Repay
Date	Amount	

June 30th			
Date	Amount		
2016	5/24/2016	\$96,000,000	\$0
2017	7/1/2017	170,000,000	0
2018	7/1/2018	170,000,000	0
2019			0
2020			0
2021			0
2022			0
2023			0
2024			0
2025			0
2026			0
2027			0
2028			0
2029			0
2030			0
2031			0
2032			0
2033			0
2034			0
2035			0
2036			0
2037			0
2038			0
2039			0
2040			0
2041			0
2042			0
<b>Total</b>		<b>\$436,000,000</b>	<b>\$0</b>

2. Borrow these amounts from STIP

Total Repayment: **\$678,502,901**

Receive		Repay		
Date	Amount	Principal	Interest	Total

5/24/2016	\$96,000,000			
7/1/2017	170,000,000	2,166,469	3,990,000	6,156,469
7/1/2018	170,000,000	6,335,161	8,676,671	15,011,832
		10,938,329	10,687,459	21,625,788
		11,375,862	12,496,801	23,872,663
		11,830,896	13,168,486	24,999,382
		12,304,132	13,767,365	26,071,497
		12,796,297	15,241,966	28,038,264
		13,308,149	14,730,114	28,038,264
		13,840,475	14,197,788	28,038,264
		14,394,094	13,644,169	28,038,264
		14,969,858	13,068,405	28,038,264
		15,568,652	12,469,611	28,038,264
		16,191,399	11,846,865	28,038,264
		16,839,054	11,199,209	28,038,264
		17,512,617	10,525,647	28,038,264
		18,213,121	9,825,142	28,038,264
		18,941,646	9,096,617	28,038,264
		19,699,312	8,338,951	28,038,264
		20,487,285	7,550,979	28,038,264
		21,306,776	6,731,488	28,038,264
		22,159,047	5,879,217	28,038,264
		23,045,409	4,992,855	28,038,264
		23,967,225	4,071,038	28,038,264
		24,925,914	3,112,349	28,038,264
		25,922,951	2,115,313	28,038,264
		26,959,869	1,078,395	28,038,264
<b>Total</b>		<b>\$436,000,000</b>	<b>\$242,502,901</b>	<b>\$678,502,901</b>

2. Borrow these amounts from STIP - Repayment by Campus - Debt Service and Payroll Assessment

Debt Service is allocated to each campus by share of covered compensat

				Davis	
		Medical Center	Campus		
		Debt Service as % of Payroll (aka Payroll Assessment)		Payroll Assessment	
Debt Service		Debt Service		Debt Service	
400,674	0.06%	601,810	0.06%		
976,997	0.14%	1,467,443	0.15%		
1,407,445	0.20%	2,113,973	0.21%		
1,553,676	0.21%	2,333,611	0.22%		
1,627,005	0.21%	2,443,751	0.22%		
1,696,780	0.21%	2,548,552	0.22%		
1,824,781	0.22%	2,740,809	0.23%		
1,824,781	0.21%	2,740,809	0.22%		
1,824,781	0.21%	2,740,809	0.21%		
1,824,781	0.20%	2,740,809	0.21%		
1,824,781	0.19%	2,740,809	0.20%		
1,824,781	0.18%	2,740,809	0.19%		
1,824,781	0.18%	2,740,809	0.18%		
1,824,781	0.17%	2,740,809	0.18%		
1,824,781	0.16%	2,740,809	0.17%		
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<b>\$44,158,194</b>		<b>\$66,325,313</b>			

# UNIVERSITY OF CALIFORNIA

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SANTA BARBARA • SANTA CRUZ

EXECUTIVE VICE PRESIDENT—  
CHIEF FINANCIAL OFFICER

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May 24, 2016

## CHANCELLORS

Under the 2015-16 budget agreement with the Governor, the University received \$436 million in one-time funds over the next three years in Proposition 2 debt repayment funds for the UC Retirement Plan (UCRP) contingent upon Regental approval of a cap on pensionable salary at the same rate as the State's Public Employee Pension Reform Act (PEPRA) cap for the defined benefit plan for employees hired on or after July 1, 2016. The one-time funds of \$436 million are payable over three years, including \$96 million in 2015-16, \$170 million in 2016-17, and \$170 million in 2017-18.

As specified in the State Constitution, Proposition 2 funds must be supplemental, above Regentally approved contribution rates, and must be used to help pay down the unfunded liability associated with UCRP. The President convened a retirement options task force to advise on the design of new retirement options that will include the new pensionable salary cap consistent with PEPRA. Changes to the University's retirement plans were approved by the Regents in the March meeting and the state confirmed the University is eligible to receive the additional Proposition 2 funding for UCRP.

Since the Proposition 2 funds will be contributed directly to UCRP, all the University's funding sources will benefit from these additional retirement contributions. Therefore, campuses are encouraged to consider developing internal assessments to recover the savings associated with these additional retirement contributions from funding sources other than core funds of State appropriations, tuition and UC general funds. Each campus will have the discretion regarding the approach and form of the internal assessment. Consistent with existing practices, charging this internal assessment is not permitted for certain funding sources such as grants, contracts, gifts and other restricted funding sources. My office, and in particular our systemwide controller Peggy Arrivas, would be available to work with you on eligible fund sources and the applicable amount on your campus.

Please let me know if you have any questions or if we can help you in this process.

Sincerely,

Handwritten signature of Nathan Brostrom.

Nathan Brostrom  
Executive Vice President  
Chief Financial Officer

cc: President Janet Napolitano  
Executive Vice President Rachael Nava  
Chief of Staff Seth Grossman