October 25, 2010

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

Enclosed for your information are the draft recommendations for post-employment benefits that are emerging from the consultation process. Since this draft is circulating within the campus community, I wanted you to be aware of it. Please note, however, that the consultation process is still ongoing so these recommendations are still very much in draft form and could possibly change.

There will be a discussion of the actual recommendations at our meeting in November, and then action will be taken at a special December meeting of the Board.

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

Enclosure

cc: Chancellors
CONFIDENTIAL DRAFT – FOR DISCUSSION PURPOSES ONLY

Proposed PEB Recommendations to The Regents

for Discussion at The November Meeting and Action in December

Financing recommendations:

- Amortize UCRP unfunded liability over 30 years rather than 15 years (action taken at September Regents)
- Accelerate University and employee contributions to UCRP (action taken at September Regents)
- Gradually increase employer contributions by 2% per year effective July 2013 (to 12%, then 14% etc.) to a level of 20%
- Fund UCRP annual required contribution (ARC) as quickly as practical by:
  - Paying UCRP normal cost and interest on ARC until 2018;
  - Use other University resources to make up gap between normal cost and ARC, including:
    - Borrowing from STIP
    - Restructuring of University debt
    - Redirecting portion of STIP interest

Pension new-tier / other recommendations:

- Develop new tier for new employees hired on or after July 1, 2013 with the following features (November discussion/December action):

<table>
<thead>
<tr>
<th>New Hire Benefit Formula</th>
<th>Estimated Long-term Total Normal Cost</th>
<th>Employee contribution rate</th>
<th>Estimated Long-term Employer Portion of Normal Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5% maximum age factor at age 65</td>
<td>15.1%</td>
<td>7.0%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

- Incorporate other Task Force recommendations on plan design in the new tier:
  - Minimum retirement age raised to 55, and age for maximum benefits raised to 65
  - 5-year vesting period, same as current UCRP
  - Reduction for early retirement: 5.6% per year, same as current UCRP
  - Highest Average Plan Compensation: 36 months, same as current UCRP
• Maximum Benefit: 100%, same as current UCRP
• Post-retirement COLA: under review between current UCRP COLA formula and Task Force recommendations
• Disability benefits: subject to review in coming months
• CalPERS reciprocity, e.g. Including service credit with both systems for vesting

• Per Task Force recommendations, eliminate the following features from the new tier design:
  o Lump sum cash out
  o Inactive member COLA increases
  o Subsidized survivor benefits
  o Social Security supplement
  o $133 offset to HAPC
  o $19 offset to member contributions

• In the coming months consider additional lower-cost/lower-benefit tier as choice for new employees and, pursuant to IRS approval, offer to existing employees

• In the coming months evaluate feasibility of a defined contribution plan for certain clinical employees at UC medical centers

• At future Regents meeting determine contribution levels for employees and University in current UCRP

• No action on Appendix E

Retiree Health Recommendations:

• Reduce the University contribution to retiree health premiums to a floor of 70% over time (November discussion/December action)

• Effective July 1, 2013, change retiree health eligibility and implement revised retirement health eligibility based on graduated contributions based on years of UCRP service credit and age (November discussion/December action)

• Effective July 1, 2013, grandfather faculty and staff under current eligibility rules if their age and UCRP service credit are greater than or equal to 50 and they have at least 5 years of UCRP service credit as of June 30, 2013 (November discussion/December action)

1 Action taken in December on matters within the scope of representation will be subject to collective bargaining for represented employees.