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June 21, 2012

CHANCELLORS
 MEDICAL CENTER CHIEF EXECUTIVE OFFICERS
 DIRECTOR – LAWRENCE BERKELEY NATIONAL LABORATORY

RE: FY2012-13 Update of Long-Term Budgeting for the Cost of Employer Contributions to the University of California Retirement Plan from all Payroll Sources, Including Contracts and Grants

Dear Colleagues:

This letter contains the new projected supplementary UCRP contributions rate assessment to all locations to pay for the debt service on the advances made to UCRP for FY2010-11 & FY2011-12.¹ The assessment for FY2012-13 is outlined below and will apply proportionally to all funding sources, including grants and contracts, based on covered compensation. (See **Appendix 1** for an estimate of future contribution rates).

Est. Payroll Assessment per Campus as a % of Covered Compensation for FY2012-13				
	UCRP Contribution	STIP Note	External Financing	Total
All Locations	10.0%	0.38%	0.25%	10.63%

Background

The Regents have approved escalating employer and member contributions to UCRP, with the employer contribution increasing to 10% of covered compensation effective July 1, 2012 and to 12% of covered compensation effective July 1, 2013. It is important to note that the employer contribution in future years will be uniform, applying to both current employees and to those hired under the terms of the new tier (2013 Tier).

For FY 2010 & FY 2011, the total of employer and employee contributions to UCRP were substantially below the Annual Required Contribution (ARC)². Thus, at the December 2010³ Regent’s meeting to address the President’s

¹ The advances to UCRP were to pay for the unfunded portion of the University’s Normal Cost, as well as the interest on the unfunded liability in UCRP (“modified Annual Required Contribution (ARC)”) for FY2010-11 and FY2011-12. The UCRP ARC represents both the Plan’s Normal Cost as well as an additional annual amount needed to eliminate UCRP’s unfunded liability over its 30-year amortization period.

² The UCRP ARC represents both the Plan’s Normal Cost (about 17% of covered compensation) as well as an additional annual amount needed to eliminate UCRP’s unfunded liability over its 30-year amortization period.

³ See complete Regents’ item at <http://www.universityofcalifornia.edu/regents/regmeet/dec10/j1.pdf>

Post-Employment Benefits (PEB) recommendations and again at the March 2011 meeting⁴, The Regents delegated additional authority and discretion to the President to fund the UCRP ARC for FY2010-11 & FY2011-12.

Subsequent to the March 2011 Regents meeting, \$1.1 billion was transferred to UCRP to close the funding gap for FY2010-11 and \$935 million was transferred in July 2011. The first \$1.1 billion transfer was achieved by advancing funds from the Short-term Investment Pool (STIP) and creating a note receivable that will be paid back through campus assessments over a 30 year amortization period. The interest and principal repayment for this Note is to be reset each year and is currently set at 2.57% interest only for FY2012-13. The \$935 million transfer was achieved through external financing. The interest rate and principal repayment for the external financing is also to be reset annually and is 2.00% interest only for the 2012-13 fiscal year.

FY of Modified ARC Pymt	Asset Transfer to UCRP - \$	Instrument Utilized to Achieve Asset Transfer	Interest Rate for FY2012-13	Cost for FY2012-13
FY2010-11	1,100,766,000	Short-term Investment Pool Note	2.57%	27,986,000
FY2011-12	935,000,000	External Borrowing	2.00%	18,866,000

Given the rates listed above, the overall interest cost for the University as a percentage of estimated covered compensation is 0.63% for FY2012-13. As the federal Office of Management and Budget (OMB) considers interest on pension contributions an unallowable cost, federal fund sources may not contribute towards the payment of the interest cost on these debt instruments. Thus, the total interest payment due has to be divided among its non-federal sources only, so the rate per location will be 0.63%, to include the interest cost due from federal funds. However, this does not mean that grants and contracts will be excluded from the assessment. Federal grants and contract funds will also be assessed the same rate as other funds on campus, but their contribution will be earmarked towards paying down the principal of these notes, therefore complying with OMB guidelines regarding pension contributions. While the assessment amount will reset each year, we project the assessment will range from 0.6%-1.1% of covered compensation over the next 5-10 year period.

There are promising developments for the State to resume contributions to UCRP for those employees whose salaries are State-supported. A modest contribution (\$52 million) from the State is likely to be included in the final budget to be adopted by the State in the next week or so. However, this is far short of the total amount needed to cover the State's share of this obligation. While the University will continue to engage with State officials and urge the State to provide its share of the UCRP employer contribution in the future, full funding for UCRP may not be included in the State budget in the near term. Consequently, campuses should be prepared to cover this cost.

Please share this reminder with those in your organization who are responsible for budgetary planning.

Sincerely,



Nathan Brostrom
Executive Vice President
Business and Finance

Sincerely,



Steven Beckwith
Vice President
Office of Research and Graduate Studies

Sincerely,



Peter Taylor
Executive Vice President

⁴ See complete Regents' item at <http://www.universityofcalifornia.edu/regents/regmeet/mar11/fl12.pdf>

Chief Financial Officer

cc: Members, President's Cabinet
General Counsel and Vice President Robinson
Vice President Duckett
Vice President Lenz
Associate Vice President Obley
Associate Vice President Reese
Director Schlimgen
Director Schwartz
Associate Director Bowen
Associate Director DiGrazia
Campus Budget Directors
Sponsored Project Offices
Chair of the Academic Business Officers Group

Appendix 1

UCRP Contribution Rates

The table below provides the UCRP employer contribution rates on covered compensation that have been approved by The Regents up to fiscal year beginning 2013. The table also provides a projection of the prospective UC employer contribution rates that are expected to be approved by The Regents in the future. The table includes the projected assessment for the repayment of the UCRP advances.

For budgetary planning purposes, it should be assumed that the required UCRP employer contribution rate will be increased from 10.63 percent to 12.65 percent effective July 1, 2013 and will increase by an additional 2% each July 1 thereafter, until it reaches a level of 19.1 percent of covered compensation. It is important to note that the employer contribution in future years will be uniform, applying to both current employees and to those hired under the terms of the new tier (2013 Tier).

UCRP CONTRIBUTION RATES

Effective Date	UC Employer Contribution	STIP Note/External Note Pymt.	New Total UC Employer Assessment
	(Approved Rates)		
July 1, 2010	4 percent	0.0 percent	4 percent
July 1, 2011	7.0 percent	0.7 percent	7.7 percent
July 1, 2012	10.0 percent	0.63 percent	10.63 percent
July 1, 2013	12.0 percent ⁵	0.65 percent	12.65 percent
	(Prospective Rates / Not Yet Approved)		(Prospective Rates / Not Yet Approved)
July 1, 2014	14.0 percent	1.0 percent	15.0% percent
July 1, 2015	16.0 percent	1.1 percent	16.8 percent
July 1, 2016	18.0 percent	1.1 percent	19.1 percent
July 1, 2017	18.0 percent	1.1 percent	19.1 percent

⁵ At the November 2011 Regent's meeting, an increase in the employer UCRP contribution was approved, effective July 1, 2013. The employer UCRP contribution will be prospectively be uniform, applying to all members, both in the current tier and those hired July 1, 2013 and later (i.e., 2013 Tier).

<http://www.universityofcalifornia.edu/regents/regmeet/nov11/f5.pdf>