Data and Questions about UCRP

prepared for the
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TOPICS

- Funded Ratio (shown two ways; old history; comparisons)
- Investment Performance (recent, long term comparison)
- Who will/should pay contributions?

Definitions

UC = University of California

UCRP = UC Retirement Plan – a Defined Benefit Pension Plan

UCOP = UC Office of the President – the Plan Administrator, acting under policies of the Plan Trustees, the Board of Regents

AVA = Actuarial Value of Assets – average of market value of assets over a few recent years

AAL = Actuarial Accrued Liability – future payment obligations, as calculated by actuaries

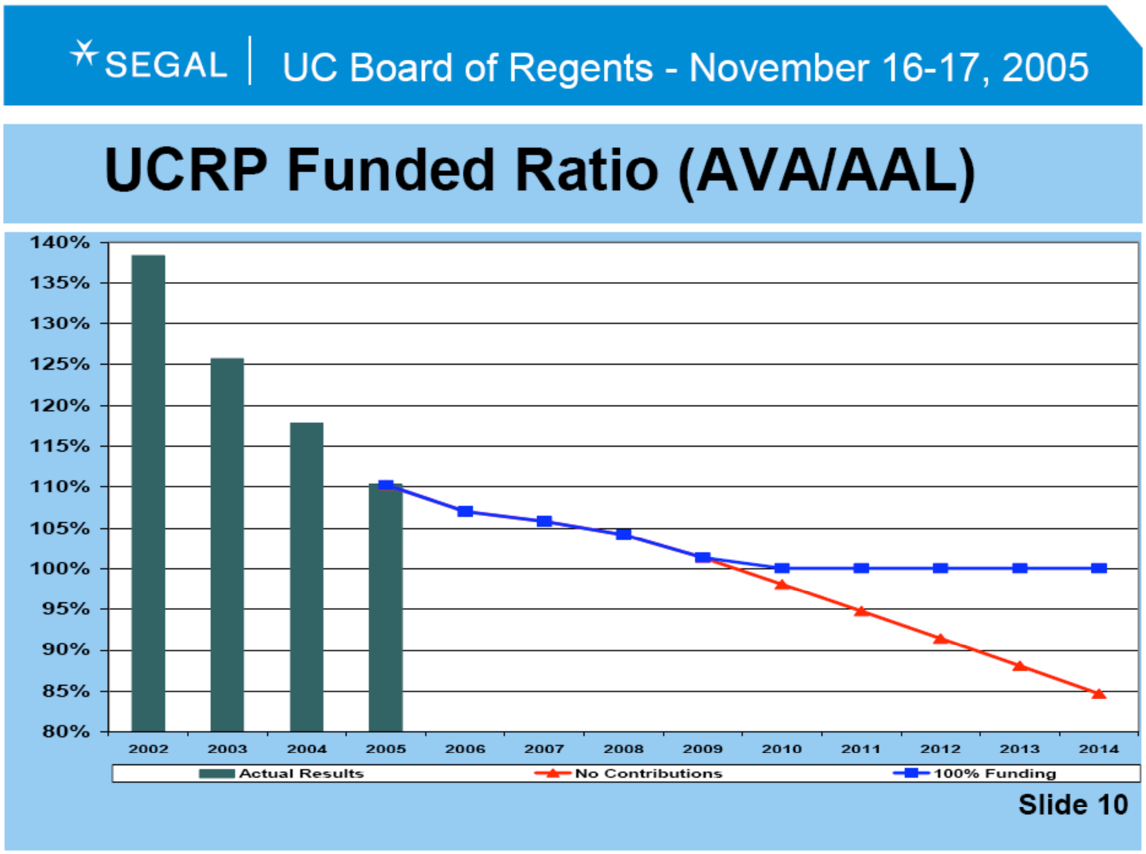
Funded Ratio = AVA/AAL – 100% means fully funded

WHPF = What's Happening with the Pension Fund? – a series of critiques posted at http://socrates.berkeley.edu/~schwrtz

Future Forecasts of UCRP Funded Ratio – One Way

As presented to the Regents by Segal Company in November 2005

With (blue) and without (red) contributions to the fund



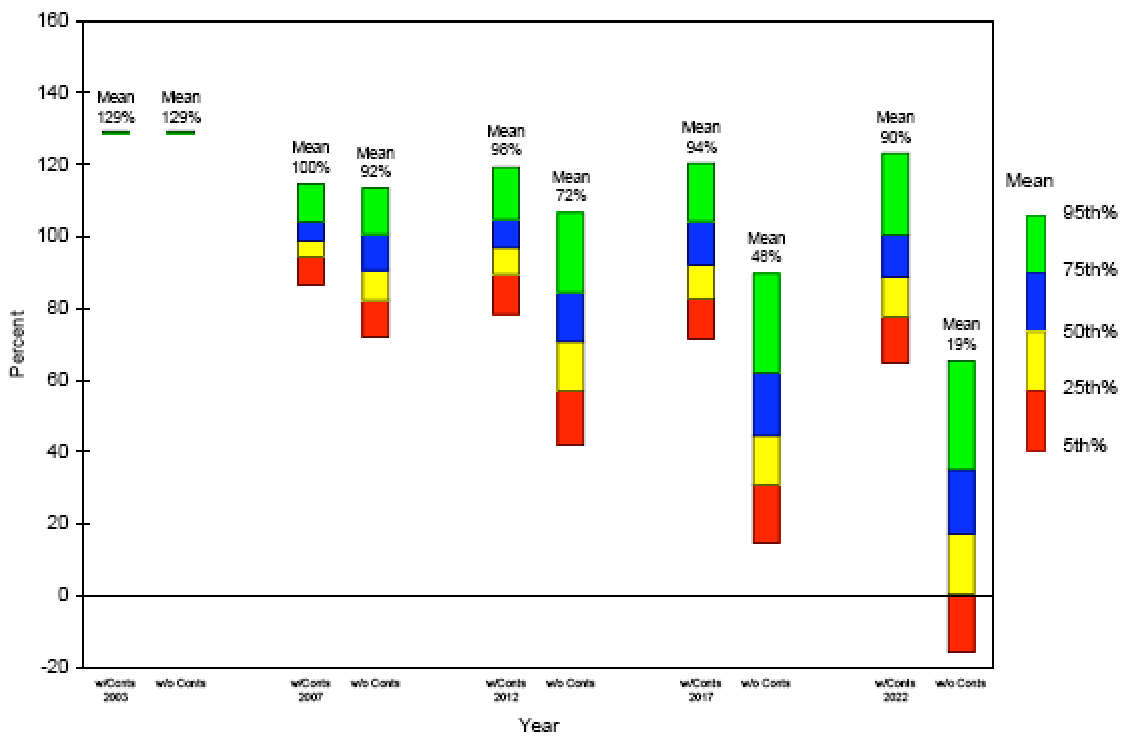
This is a very misleading presentation of data, since it avoids any indication of the uncertainties inherent in any forecast of future conditions.

Future Forecasts of UCRP Funded Ratio – Another Way

As presented to the Regents by Towers-Perrin Company in May 2003

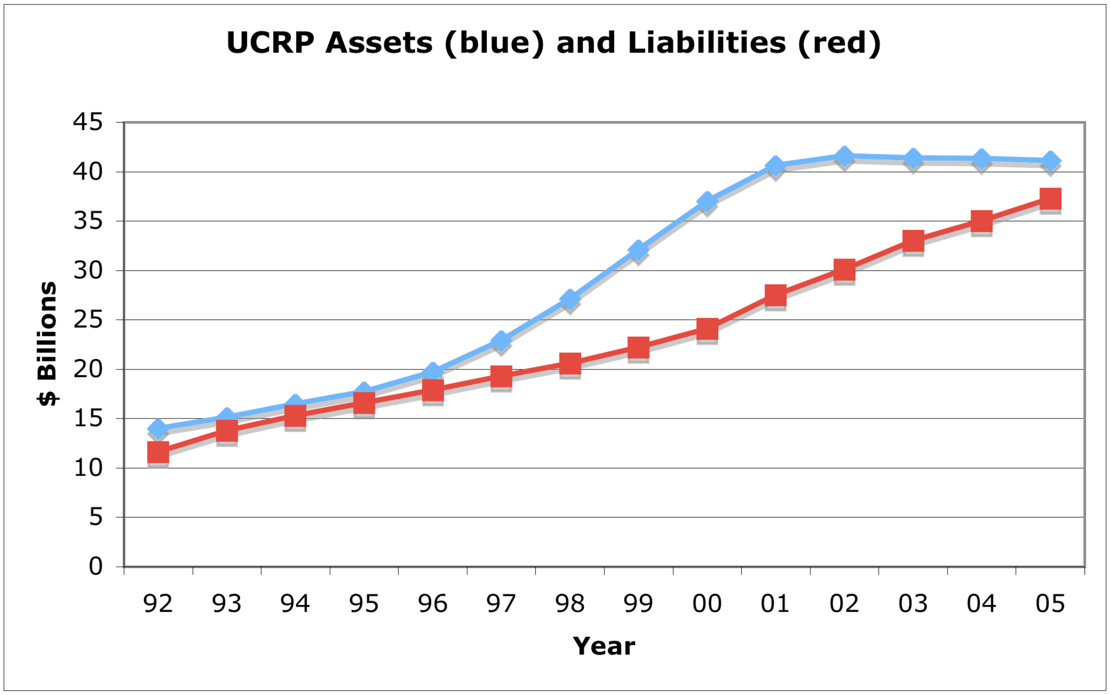
With (1,3,5,7) and without (2,4,6,8) contributions to the fund

UNIVERSITY OF CALIFORNIA Funded Ratio - AVA (With and without Contributions) - Current Plan



This is honest presentation of data, showing the unavoidable uncertainties with any forecast of future conditions.

UCRP Assets and Liabilities over the Years



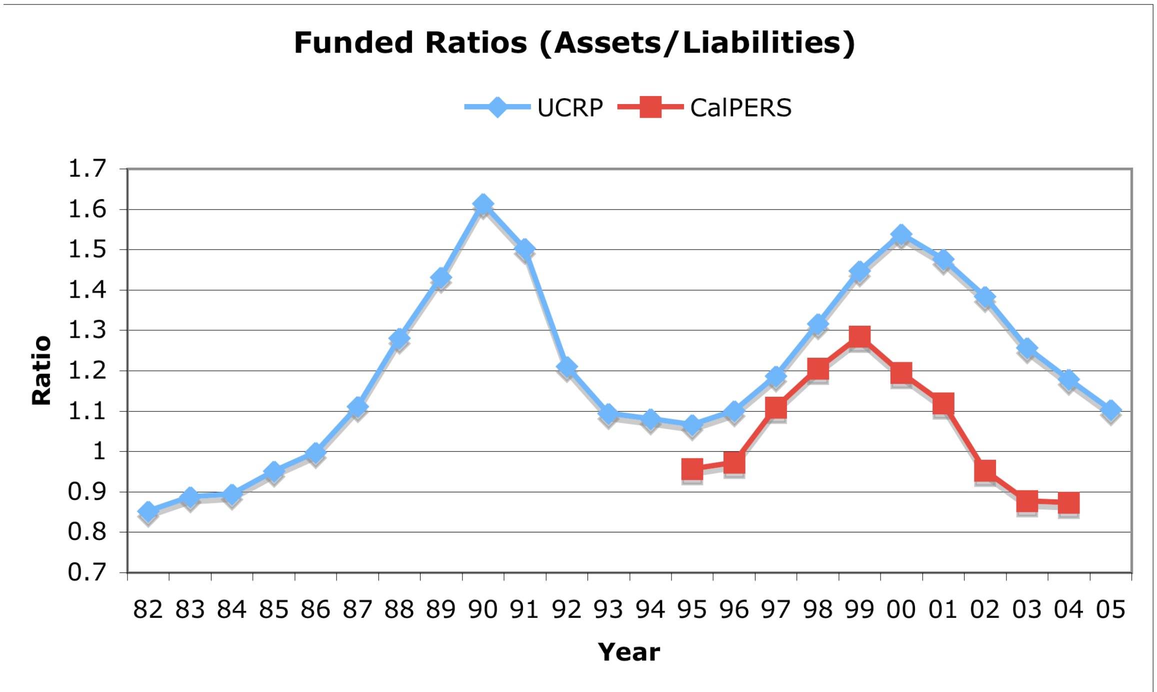
Sources: Annual Financial Reports of UCRP

The surplus, AVA – AAL, maximized at $13 Billion in 2001.

If, instead, you looked at Market Value of Assets, rather than AVA, that maximum surplus was $18 Billion in 2000 and you would see a steep drop in assets after that date.

It is also important to note the rapid rise in Liabilities.
** What is the reason for this?

A Comparative History of Funded Ratios



Sources: Annual Reports of UCRP and of CalPERS

Wilshire Associates, Inc., publishes an annual Report on State Retirement Systems in which they compare Funding Ratios using Market Value of Assets/AAL. My earlier study of their data (see WHPF #22) showed that UCRP ranked #1 almost every year throughout the period 1990-2003.

Wilshire's latest report (issued March 2006) compares 58 state pension systems providing data for FY05: Only 9 of them are over 100% funded; and only 1 is over 110%. (Guess who that is!)

Performance of UCRP Investments

Recent Comparisons of 1-Year Total Returns on Investments
for California's Three Largest Retirement Plans

Pension Fund	6/30/04	6/30/05	6/30/06
CalPERS	16.6%	12.3%	12.26%
CalSTRS	17.38%	11.09%	13.2%
UCRP	14.34%	10.30%	7.10%

Sources: Annual Reports and press releases.

Longer-time Comparison of 1-Year Total Returns on Investments

Fiscal Year	UCRP (%)	CalPERS (%)
1990	13.7	9.7
1991	9.3	6.5
1992	15.3	12.5
1993	17.1	14.5
1994	-2.9	2
1995	26.2	16.3
1996	21.2	15.3
1997	25.8	20.1
1998	21.8	19.5
1999	12.2	12.5
2000	12.8	10.5
2001	-5.6	-7.2
2002	-9.2	-5.9
2003	5.6	3.9
2004	14.3	16.7
2005	10.3	12.7
2006	7.1	12.3

From 1990 through 2001 (with only two exceptions) UCRP got higher returns on its total investment portfolio than did CalPERS, averaging a margin of +2.9%. Since then, it has fallen behind CalPERS in performance almost every year, with an average margin of -2.3%.

Note: In recent years CalPERS' returns are given gross of fees while UCRP's are net of fees. This implies only a small correction.

Brief Survey of Recent Changes in UCRP Investment Strategy

The overall path down which the Regents have been taking the UC Pension Fund in recent years is unmistakably the path toward privatization (outsourcing) of the investment management activity. Until the year 2000, almost all of the UCRP investment activity was done internally, by the staff in the Office of the Treasurer (UCOT). Then, following the (secret) adoption of Wilshire Associates' new investment strategy, some $8 Billion in stockholdings was shifted out into an externally managed index fund. Next, in late 2002 (in another secret meeting) the Regents, again under Wilshire's advice, fired the entire equity staff in UCOT and moved another $15 Billion outside for eventual funding to external investment managers. At that time, the fixed income investments were left in the hands of the internal staff, which had an impressive record of outstanding performance. With their latest (secret) changes, in November 2005, the Regents took a big bite out of the fixed income portfolio in shifting another $8 Billion to offshore investments.

Documents recently obtained from UCOT (under the California Public Records Act) allow us to see how the newly contracted external investment managers have performed. During the last fiscal year (ending 6/30/06):

More than half of the 40 external managers failed to perform at the level of their assigned benchmarks.

In every one of the four major asset classes, the aggregate performance of the external investment managers fell significantly below the assigned benchmark.

The details of this analysis are posted on my web site. The Treasurer and the regents have been presented with these disturbing facts and have given no response whatsoever.

Who Will/Should Pay Contributions into UCRP?

The latest word from UCOP (9/21/06) :

"UCRP Contribution Restart
…... Contributions are scheduled to restart for July 1, 2007, subject to the availability of funding, the budget process and collective bargaining for represented employees. ……"

What does this mean?

"the budget process" usually means seeking state appropriations from Sacramento.

QUESTION: What portion of UCRP's "Annual Covered Payroll" comes from General Funds (state appropriations to UC) ?

1990	1995	2000	2005
39%	34%	34%	29%

Sources: UCRP Annual Reports and UC Campus Financial Schedules (D)

So, most of it comes from other sources (mainly the federal government and private companies, paying for research and for health services) and that share has been growing in recent years.

** What does this mean for the question of who should pay how much in contributions to the pension fund?

** Questions of fairness. Don't put the whole burden on Sacramento or UC employees.

** Questions of why the UCRP Liabilities have been growing so fast.

Sources of Contributions to UCRP in Earlier Years

During the decade of the 1980s, contributions to UCRP were shared between employees and employers in a quite uneven manner:

Average Employee contributions (for members with Social Security, under the SS wage base) = 2.4% of covered payroll

Average Employer contribution = 12% of covered payroll.

The employer (The Regents) collected their contribution to UCRP from various external funding sources, as follows.

Details of Contributions to UCRP per Fiscal Year
($ Millions)

Contributor	1991	1990	1989	1988	1987
State of California	16.6	58.8	77.8	94.3	97.1
DOE Laboratories	11.0	39.1	52.6	65.6	66.6
Contracts, Grants, etc.	19.9	64.6	81.0	97.6	98.5
Regents' Total	47.5	162.5	211.4	257.5	262.2

All contributions were suspended on November 1, 1990.

Source: UCRP Annual Reports