UCRP MARKET NUMBERS, THE CALCULATIONS, & WHAT THEY SHOW

THE NUMBERS (as of Dec. 31, 2009)

-- Market Value of Assets (MVA): $36.582 B

-- Actuarial Accrued Liability (AAL): $46.368 B

-- Funded Ratio (MVA/AAL): about 78.8%

-- Unfunded Actuarial Liability (UAL) (MVA-AAL): $9.786 B

--UAL amortized over 15 years (UAL/15): $1,108.8 M

-- Cost of 1 year of UCRP benefits (Normal Cost): $1.309 B

--The UC Regents' request for state funding for UCRP for 2010-11: $109 M

--State funding for retirement allocated for UCRP: $0

THE CALCULATIONS (see below)

& WHAT THEY SHOW

HIGHLIGHTS

1. UCRP is 78.8% funded.

2. The unfunded liability keeps growing and is now nearly $10 B. It would take more than $1 B per year for 15 years to amortize the unfunded liability.

3. The annual cost of benefits (Normal Cost) is about $1.3 B.

4. UCRP needs about $2.4 B per year to restore 100% funding and amortize the unfunded liability over 15 years.

5. The State has failed to pay its share of retirement costs for state-supported employees at UC, which has delayed resuming contributions. The total State contribution would be $713 M.

6. Contributions are scheduled to begin on April 15, 2010 at 4% of covered compensation for the employer and 2% for the employee, yielding about $558 M. The unfunded liability would increase by $1.86 B by June 31, 2011.

7. Within the next 5 years, the unfunded liability will increase to well over $15 B. If contributions increase every year from 6%, to 9%, to 12%, to 15%, then UCRP will not be receiving 7.5% return on the unfunded liability and contributions will not equal the Normal Cost. For perspective on the enormity of the problem, we outline the "tuition" solution. In order to amortize the UAL, UC would need to charge each and every one of the 200,000 UC undergrads

$5,544 per year for 15 years, or ADD $3,141 to tuition forever. To pay the Normal Cost, another $6,500 could be added. Thus, a mere $10,000 tuition increase would handle the entirety of the UCRP problem.

CONSEQUENCES OF THE STATE'S POSITION NOT TO FUND UCRP:
A $109 MILLION BUDGET CUT GROWS INTO A $713+ MILLION ANNUAL CUT
Market numbers show that UCRP needs contributions, first in a small amount to get the process started, like $109 million, but soon in much greater amounts NOT ONLY to restore the funding ratio of UCRP to 100% but also to amortize the growing unfunded liability.

Before contributions stopped in 1990, the State paid the employer share of the retirement benefits for state-supported UC employees, mostly faculty and those closely involved in academic support. Once the State made its contribution, then comparable funding from all of the other funding sources at UC, like the federal government and the UC Medical Centers, flowed into UCRP. Since the State has failed to resume funding UCRP for the last two years, so other funding sources have not been directed toward UCRP, nor have employees contributed.

The State's failure to support UCRP will give UC "special" status. State-supported UC professors will be the only state teachers whose retirement is not supported by the State. State-supported UC employees will be the only publicly funded employees for whom the State does not contribute toward retirement. State block funding for UC will also be challenged. With the Regents funding the employer contribution for state-supported employees with no help from the State, some part of student tuition and state funds as well as other UC budget resources will have to be used to fund retirement.

Contributions are scheduled to begin on April 15, 2010 and go through June 31, 2011, with the employer contribution set at 4% and the employee 2%. For employees, it will mean that the DCP contributions get rerouted back to UCRP. At this level for this period, the total contribution will be $558 M or roughly 23% of what UCRP needs; the unfunded liability will increase by $1.86 B.

The UCLA FA has scheduled a meeting with the State's Legislative Analyst on April 12, 2010 to discuss the State's obligation to fund UCRP and the long-term consequences if it does not. The FA is working on a "White Paper," on the subject, which you can find at the UCLA FA website: http://www.uclafaculty.org/

THE CALCULATIONS

TOTAL UCRP ANNUAL COSTS
The Normal Cost: $1.309 B (17% of CC)
The Annual Cost to Amortize UAL over 15 yrs: $1,1088 M (14.4% of CC)
The Total Annual Cost = $2.418 B (31.4% of CC of $7.7 B for the next 15 years)

STATE UCRP COSTS
The State's share of the Normal Cost: $324 M (17% of $2.7 B less 5% employee contribution)
The State's share of Amortizing UAL: $389 M (14.4% of $2.7 B)
The Total Cost for the State=$713 M.

Note: The “missing” $9.786 in unfunded liability does not earn 7.5%; it earns 0%. For example, if you had a 15 year $105,000 mortgage, the lender does not let you pay $7,000 per year; instead, you must pay interest on the unpaid balance. Similarly, in order to amortize the UAL over 15 years, $1,108.8 M must be paid into UCRP for each of 15 years.

EMPLOYEE UCRP COSTS
If UC employees paid 5% of CC (the state employee level), they would pay $390 M.

YOUR FEEDBACK

If you have ideas that might help the FA in developing our argument that the State has an obligation to support UCRP, or in planning our strategy for our meeting with the LAO, we would like to hear from you. Please contact the FA at UCLA ucfa@earthlink.net or 818 341-8664.

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