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University of California

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

Issues Resolution Memo No. 45.1

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Financial Reporting Approach for the Financial Statements of the Consolidated University, the Separately Audited “Carve Out” Segments, the National Laboratories (only LBNL subsequent to September 30, 2007) and The Hastings College of the Law

Define Issues

Other Postemployment Benefits (OPEB) includes postemployment healthcare, as well as other forms of postemployment benefits when provided separately from a pension plan. This Issues Resolution Memo (IRM) outlines the University’s approach to implementing the GASB’s financial reporting requirements for the cost of providing other postemployment benefits in the financial statements of the consolidated University, the separately audited “carve out” segments, the national laboratories and the Hastings College of the Law.

Governmental Accounting Standards Board (GASB) Statement No. 45 requires the effect of OPEB to be reported for any reporting segment or entity that has audited financial statements. The University’s consolidated financial statements as well as the “carve out” financial statements of each medical center (MC), UC Press, Continuing Education of the Bar (CEB), Associated Students – UCLA (ASUCLA), national laboratories (NL) and Hastings College of Law (HCL) are audited by certified public accountants. For management purposes, it may also be necessary to identify the cost of OPEB to certain University business and reporting segments such as the campuses, Office of the President (UCOP), and the Division of Agriculture and Natural Resources (DANR). Therefore, the University must determine whether the OPEB financial information required by GASB Statement No. 45 must be developed and maintained at a level below that of systemwide or individual campuses; and the basis upon which the OPEB information must be recorded.

The University must formulate and implement the process to identify and report the OPEB accumulated accrued liability at June 30, 2007 (transition liability) and at each year-end thereafter, and the annual OPEB costs and the employer’s contributions to the plan at the desired level of detail to meet the requirements of the GASB and the University management.

Background

In June 2004, the GASB published Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement outlines changes to the information that the University is required to record in its financial statements and report in its footnotes regarding post employment benefits other than pensions. OPEB generally includes medical, dental, and vision insurance and other healthcare benefits. These changes are required for the fiscal year 2007-08.

The GASB has taken the position that pension benefits including OPEB are a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. The University currently provides medical and dental benefits to its retirees, and shares in its cost. In addition, it makes available to retirees vision, legal and wellness program benefits at the retiree's expense. Therefore, to the extent the University shares in the cost of OPEB, the cost of these future benefits is a part of the cost of providing services today. Among other matters, the statement requires the University to record as an operating expense the actuarially-determined, accrued annual cost of providing OPEB to its employees. It will also require the University to record and report the accrued liability of its OPEB program. To comply with these requirements, the University must identify the annual OPEB costs and the outstanding obligations for the University as a whole and develop a financial reporting approach for each separate reporting segment and affiliated entity that participate in the University's OPEB programs.

It is clear that the OPEB financial reporting requirements fully apply to the University's consolidated financial statements. Financial reporting requirements must also be established for the DOE laboratory(ies) with a direct contract with the University (only LBNL subsequent to September 30, 2007) and the separately audited "carve out" financial statements. In order to develop a financial reporting approach for the "carve out" situations, it is necessary to assert that the University has an OPEB Plan and qualifying trust where all facets of the University community, including the Hastings College of the Law¹ but excluding the national laboratories², share the risks, rewards and costs of the plan. National laboratories do not participate in the trust.

Authoritative Guidance

For the consolidated financial statements of the University of California, the relevant authoritative guidance is as follows:

- Paragraph 26 of GASB Statement No. 35 permits the University to report as special purpose governments engaged in business-type activities (BTA's).

¹ The Hastings College of the Law is affiliated with the University of California, but is a separate legal entity. The OPEB costs and liability specific to Hastings must be identified.

² Only LBNL is presently part of the University of California. As of June 1, 2006, the LANL contract was terminated and as of October 1, 2007, the LLNL contract was terminated. The contract between UC and the DOE require that the OPEB costs and liability be identified specific to LBNL.

- Paragraph 138 of GASB Statement No. 34 states that governments engaged only in business-type activities should present only the financial statements required for enterprise funds.
- Paragraph 63b of GASB Statement No. 34 includes enterprise funds under proprietary funds.
- Paragraph 11 of GASB Statement No. 45...“For employers with single-employer or agent multiple-employer (agent) plans (sole and agent employers), annual OPEB costs should be equal to the annual required contributions of the employer (ARC) to the plan for that year, calculated in accordance with paragraphs 12 and 13 (the parameters), unless the employer has a net OPEB obligation to the plan at the beginning of the year. ...For purposes of this Statement, a plan’s total membership is the sum of its employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.”
- Paragraph 20 of GASB Statement No. 45...“OPEB expense of proprietary and fiduciary funds should be recognized on the accrual basis in fund financial statements. The employer should report OPEB expense for the year in relation to the ARC equal to annual OPEB cost. The net OPEB obligation should be adjusted for any difference between OPEB expense in relation to the ARC and contributions made in relation to the ARC (including short-term differences incurred), based on the criteria for contributions stated in paragraph 13g. A positive (negative) year-end balance in the net OPEB obligation should be recognized as the year-end liability (asset) in relation to the ARC.”...

For the University’s separately audited “carve out” entities, the relevant authoritative guidance follows:

The GASB generally avoids any conclusions on “carve out” financial statements; therefore, the following information is relevant in documenting an approach that complies with the GASB requirements.

- Paragraph 22 of GASB Statement No. 45...“Employers that participate in cost-sharing multiple-employer plans (cost-sharing employers) should apply the following accounting and financial reporting requirements of this Statement:
 - a. Employers should apply the requirements of this Statement applicable to cost-sharing employers if the plan is administered as a formal trust, or as an equivalent arrangement, in which all of the following conditions are met:
 - 1) Employer contributions to the plan are irrevocable.
 - 2) Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan.

- 3) Plan assets are legally protected from creditors of the employers or plan administrator.
- b. If a multiple-employer plan is not administered as a formal trust, or as an equivalent arrangement, in which all of the preceding conditions are met, that plan should be classified as an agent multiple-employer plan for financial reporting purposes, and employers should apply the requirements of the Statement applicable to agent employers.”
- Paragraph 23 of GASB Statement No. 45...“Cost-sharing employers in plans that meet the conditions of paragraph 22a should recognize annual OPEB expense/expenditures for their contractually required contributions to the plan in fund financial statements on the accrual basis or the modified accrual basis, whichever applies to the fund(s) used to report the employer’s contributions. Modified accrual recognition should be in accordance with the criteria stated in the second sentence of paragraph 19. Recognition of expense in government-wide financial statements should be on the accrual basis. OPEB liabilities and assets result from the difference between contributions required and contributions made. OPEB liabilities and assets to different plans should not be offset in the financial statements.”
 - Paragraph 144 of GASB Statement No. 45...“Similar to Statement 27, this Statement requires cost-sharing employers to measure their OPEB expense/expenditures based on their *contractually required contributions* to the plan, rather than requiring a measure of annual OPEB cost derived from the application of the parameters. The obligations of employers participating in cost-sharing plans differ significantly from those participating in single-employer or agent plans. For sole and agent employers, the cost of each employer’s commitment to provide benefits is directly attributable to that employer. An actuarial valuation is performed for each employer, and each employer’s contribution rate is based on the projected benefits of that employer’s employees. Because the cost of future benefits is attributable to each employer, this Statement requires all sole and agent employers to measure and report that cost in accordance with the parameters and related provisions of this Statement. Those measurement requirements apply, even if the contributions assessed by the plan differ from the ARC and are legally required.”
 - Paragraph 145 of GASB Statement No. 45...“In contrast, in a cost-sharing plan, all assets and benefit obligations are pooled, all risks and costs are shared, one actuarial valuation is performed, and the same contribution rate(s) applies to all participating employers. The contribution rate or amount charged to an individual employer may be higher or lower than the amounts that would result from a calculation based upon the projected benefits of only that employer’s employees. Moreover, the obligation or commitment for benefits is not directly attributable to any individual participating employer. For these reasons, the obligation of cost-sharing employers generally is limited to payment of their contractually required contributions, and the employers have little or no control over the amount of required contributions or how they are determined.”

- Paragraph 146 of GASB Statement No. 45...“The Board has concluded that allocation of any differences between the ARC and the sum of the required contributions assessed to participating employers would be arbitrary and inconsistent with the nature of a cost-sharing plan and of the employer’s obligations, and that resulting liabilities or assets would not provide useful information for users of the employer’s financial statements. Therefore, this Statement requires cost-sharing employers to recognize OPEB expense/expenditures equal to their contractually required contributions and a liability to the plan for contributions due and unpaid.”

Finally, due to the lack of guidance by the GASB on “carve out” financial statements, there is guidance from the Securities and Exchange Commission (SEC) that is not binding, but relevant:

From SEC 4220.43 – Corporate-Overhead-Allocations...“Regardless of a consolidated entity’s organizational structure (which may comprise subsidiaries, divisions or other operating units), it is not unusual for certain services benefiting multiple units within the entity to be performed by the parent company or “corporate headquarters” group. Such services could include, for example, accounting, legal, insurance, advertising and tax services, centralized purchasing and marketing functions and executive management. In addition, certain costs such as pension, OPEB, and other employee benefit costs which pertain to all operating units of the entity may be recorded on the parent company or headquarters level. Although such services and costs are common to many entities, the internal methods of allocating such costs vary widely. For example, some entities do not allocate any of the corporate costs incurred, others allocate on a percentage of revenue or other basis deemed to be “reasonable,” while others allocate on a specific identification basis.

Generally, although each situation is unique and requires separate consideration based on its particular facts and circumstances, carve-outs should reflect a “reasonable” basis of allocation of corporate overhead costs from the parent or other unit within the organization providing the services. In such situations, SEC staff has required an explanation in the footnotes of the allocation method used, together with management’s assertion that the method used is reasonable and management’s estimate of what the expenses would have been on a stand-alone basis, if materially different. In the staff’s view, this allocation would be necessary in Generally Accepted Accounting Principles (GAAP) financial statements used in initial public offerings regardless of whether the allocation had been made on an historical basis. Staff Accounting Bulletin (SAB) Topic 1-B emphasizes the importance of presenting operating results that reflect all of the “costs of doing business,” notwithstanding that some of the costs may not have historically been allocated to the carve-out entity. What constitutes “reasonable” is, in part, a matter of judgment. However, the allocation should reflect consideration by management of incremental overhead costs incurred as a result of servicing the carve-out. If material amounts of allocable costs are not reflected in the carve-out financial statements, it is doubtful that such financial statements could purport to fairly present financial position and results of operations in accordance with GAAP. A non-GAAP audit report would be unacceptable.”

For LBNL that is included in the University's reporting entity, the relevant authoritative guidance follows:

Paragraph 32 of GASB Statement No. 45... "Some governmental entities are legally responsible for contributions to OPEB plans that cover the employees of another governmental entity or entities. For example, a state government may be legally responsible for the annual "employer" contributions to an OPEB plan that covers employees of school districts within the state. In those cases, the entity that is legally responsible for the contributions should comply with all applicable provisions of this Statement for measurement and recognition of expense/expenditures, liabilities, assets, note disclosures, and RSI. If the plan is a defined benefit OPEB plan and the entity with legal responsibility for contributions is the only contributing entity, the requirements of this Statement for sole employers apply, regardless of the number of entities whose employees are covered by the plan."

Recommended Approach

See Attachment I for a pictorial overview of the University's approach at the Plan level, the UC consolidated financial statement level and the separately audited financial statement level.

For the consolidated financial statements of the University of California:

Based upon paragraph 11 of GASB Statement No. 45, the University is considered to be a sole and agent employer; therefore the University of California's consolidated financial statements must record the Annual OPEB cost³ and the net OPEB obligation⁴.

³ Annual OPEB cost: An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. It is equal to:

- (a) the employer's Annual Required Contributions (ARC),
- (b) one year's interest on the beginning net OPEB obligation at the rate of return that was assumed when determining the ARC for the current year, and
- (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or overcontributions, calculated by dividing the beginning net OPEB obligation by an amortization factor designed to offset, approximately, the actuary's amortization of the net experience losses from past contribution deficiencies in relation to the ARC.

The ARC is equal to the employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters, and includes:

- (a) the normal cost for the year and
- (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period of time not to exceed thirty years.

Normal Cost is equal to the Actuarial Present Value of the OPEB plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost.

⁴ Net OPEB obligation: The cumulative difference since the effective date of the Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding:

- (a) short-term differences and
- (b) unpaid contributions that have been converted to OPEB-related debt.

The elements of the ARC reported as an operating expense, “retiree health care benefit costs,” in the SRECNA and the related net OPEB liability would encompass all of the University, including campuses, medical centers, UC Press, CEB, ASUCLA, with the exception of the national laboratories. While national laboratories with direct contracts with the DOE are included in the University’s reporting entity because the employees at the laboratories are University employees under the terms of the University’s contracts with the DOE (only LBNL as of October 1, 2007), the DOE is financially responsible for the retiree health costs of this employee population and reimburses the University for the cost. As a result, similar to all salary-related and other LBNL expenses, the ARC related to LBNL is reported as a “DOE Laboratory Expense” and is included in the University’s net OPEB liability. The ARC and net OPEB liability would exclude Hastings College of the Law because their employees are not University of California employees.

See IRM 45.5 that discusses the recording of a receivable from the DOE for any net OPEB liability related to the national laboratories if the University’s contract is directly with the DOE.

For the separately audited financial statements of “carve out” entities:

While the University is considered to be a sole and agent employer as discussed above, we will consider the separate “carve out” entities fall within the spirit of “cost sharing employers” who participate in “cost sharing multiple-employer plans,” therefore the annual expense on their SRECNA will be based upon the common contractually required assessment rate and there will not be any net OPEB liability or asset on the SNA. The ARC and net OPEB liability will not be “pushed down” to the separately audited financial statements. Separate actuarial valuations will not be necessary for these “carve out” entities.

The common contractually required assessment rate (funding level) will be established annually by UC management, with consideration given to the actuarially determined ARC and the availability of funds.

For the national laboratories:

The DOE contracts directly with the University require the University to prepare separate actuarial valuations for each laboratory so they may comply with the FAFASB accounting standards that require them to apply the provisions of FAS Statement 106 in their separate financial statements and financial reporting to the DOE. If the University participates in a joint venture where the employees are not University employees (such as LANS and LLNS), the University does not have any OPEB liability and does not have a requirement to prepare any actuarial valuation related to OPEB liabilities.

Note however that the DOE contracts that are directly with the University (LBNL) require postemployment actuarial valuations using FASB standards, not GASB standards. The OPEB actuarial calculations for the University will be done using GASB standards, if different from the FASB standards. Therefore, for LBNL, there will be a need for the University’s actuaries to prepare two separate actuarial valuations for each laboratory (if the contract is directly with

the University), one under FASB for the DOE financial reporting and one under GASB standards for the University’s financial reporting.

For the Hastings College of the Law:

Hastings College of the Law is an affiliate of the University but is not included in the university’s reporting entity. They are not UC employees. Therefore the postemployment ARC and net OPEB liability associated with this group will be excluded from the University’s financial statements and actuarial calculations. However, a separate actuarial valuation will be performed for Hastings College of the Law in order for them to comply with the GASB’s OPEB disclosure in their financial statements.

Note: Hastings College of the Law has determined they will effectively become a “cost sharing employer” as discussed above by contributing common “contractual” assessments to the OPEB Plan on the same basis as other University entities and share in the risks, rewards and costs of the OPEB Plan.

For the University’s OPEB Plan:

In order to implement the financial reporting approach as outlined above, the OPEB Plan must be a separate trust, or equivalent arrangement, as discussed in paragraph 22 of the GASB Statement No. 45. Therefore, the University has established a retiree health benefit trust as a separate legal entity, effective July 1, 2007. The trust and the administration agreement with the University are shown in Appendix 1.

Next Steps—Required Actions

Responsibility	Required Completion Date	Action Item/Task
OP	Apr-04	Discuss proposed approach with PwC.
OP	May-07	Discuss UC’s approach to recording a receivable from the DOE for LBNL portion of the ARC and net OPEB liability
UCLA & OP	May-05	Finalize the understanding of the arrangement with ASUCLA in terms of being a cost sharing employer and paying the contractual assessment rate as opposed to the actual annuitant cost.
OP, HRB	2007	Coordinate implementation of the OPEB Trust for discussion at the January, 2007 Regents meeting with approval at the March 2007 meeting
OP, FM & HR&B	March-May 2007	Work with HR&B to establish a trust arrangement for the OPEB Plan effective July 1, 2007.

IRM 45.1

Attachment I: Other Postemployment Benefits (OPEB) - Financial Reporting by UC (not the Plan)

Defined Benefit OPEB Plan
24-Jul-08

Plan Financial Statement Level										
	Agent Plan "Employers" (§ 11)			Cost Sharing Plan "Employers" (§ 22)						
	DOE Laboratories			UC Carve Outs						
	LANL	LLNL	LBNL	Campuses	ASUCLA	Med Cntrs	UC Press	CEB	Hastings	
Shared risks, rewards and costs?	No	No	No	Yes, also see ¶s 144-148						
Separate actuarial valuations?	N/A - no continuing liability.	N/A - no continuing liability.	Yes, separate contribution rate	No, common assessment rate	No, common assessment rate	No, common assessment rate	No, common assessment rate	No, common assessment rate	Yes, due to separate legal entity	
Actual/common assessment rate?	N/A - no continuing liability.	N/A - no continuing liability.	Contributions are actual cost, not assessment rate	Common "contractual" assessment rate applied to all (§ 22 and 23)						
Separate fiduciary plan?	N/A - no continuing liability.	N/A - no continuing liability.	No separate trust, only a fund within UC	Yes, a trust with pooled investments. Separate audit required. (§ 143)						
UC employees?	No	No	Yes							No

UC Financial Statement Level										
Included in UC statements?	No, because they are former UC employees	No, because they are former UC employees	Yes, UC employees via DOE contract	Yes, UC employees	Yes, blended component unit (GASB 14)	Yes, UC employees	Yes, UC employees	Yes, UC employees	Yes, UC employees	No, not UC employees
Include ARC and NOO in UC statements?	No	No	Yes, record ARC as DOE Lab Exp §32	Yes, UC ARC as UC Expense; NOO includes LBNL. (§ 20, and §32 for LBNL)						
Record a receivable from the DOE to offset the ARC?	N/A - no continuing liability.	N/A - no continuing liability.	Yes, record as DOE Lab Revenue. §32	Not applicable						

Separate Financial Statements (MC's, CEB, etc.)										
Record ARC and net OPEB liability?	N/A	N/A	Yes, FASB for DOE; GASB for UC (§ 20 and 144)	No, only record "contractual" assessment as an expense Do not "push down" ARC and liability (§ 23)						

APPENDIX 1—THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST

Provided on the following pages.

EXECUTION COPY

**THE UNIVERSITY OF CALIFORNIA
RETIREE HEALTH BENEFIT TRUST**

EFFECTIVE JULY 1, 2007

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**DECLARATION OF TRUST OF
THE UNIVERSITY OF CALIFORNIA
RETIREE HEALTH BENEFIT TRUST**

This UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (the “Trust”) is hereby established by the UNIVERSITY OF CALIFORNIA (the “University”).

RECITALS:

WHEREAS, the University and certain other employers affiliated with the University provide medical benefits and other health and welfare benefits to eligible retirees and their spouses, domestic partners, dependents, and beneficiaries;

WHEREAS, providing such non-pension post-employment benefits is an essential function and integral part of the exempt activities of the University and the affiliated employers; and

WHEREAS, The Regents of the University of California (the “Regents”) wish to provide a means to allow the University and authorized locations and affiliates that share the risks, rewards and costs of providing for post-employment healthcare benefits to fund such benefits by contributing and accumulating funds on a tax-exempt basis under an arrangement segregated from University funds;

WHEREAS, the Regents wishes to establish this cost sharing Trust for such purposes.

NOW, THEREFORE, effective July 1, 2007, the Regents hereby establish this Trust on the terms and conditions set out below.

Unless context indicates otherwise, capitalized terms are defined in Article 2.

**ARTICLE 1
PURPOSE**

The primary purpose of the Trust is to fund non-pension post-employment benefits, such as medical, dental, vision, life insurance, long-term care and similar benefits, offered to Participants and Beneficiaries under Benefit Plans maintained by the University and Authorized Affiliates. The Trust is intended to qualify as a tax-exempt trust performing an essential governmental function within the meaning of section 115 of the Code. The Trust shall comply with the applicable requirements of the Governmental Accounting Standards Board.

**ARTICLE 2
USE OF TERMS**

Section 2.1 Definitions

(a) “Affiliate” means an employer affiliated with the University but governed separate and apart from the University.

(b) “Authorized Affiliate” with respect to a Benefit Plan means, as of July 1, 2007, each Affiliate whose former employees, and their eligible beneficiaries and dependents, are authorized to participate in the Benefit Plan under the terms of such plan as in effect on June 30, 2007. Effective on and after July 1, 2007, an Affiliate will become an Authorized Affiliate with respect to a Benefit Plan only upon designation as such by The Regents and provided the Affiliate adopts the Trust by executing a participation agreement that specifies the effective date of participation. The sole purpose of The Regents’ designation of an Affiliate as an Authorized Affiliate is to establish the entity’s eligibility to participate in the Trust.

(c) “Beneficiary” means, with respect to a Benefit Plan, any spouse, domestic partner or dependent of a Participant or any former spouse or former domestic partner of a deceased Participant or dependent of such former spouse or former domestic partner of a deceased Participant entitled to benefits under the Benefit Plan.

(d) “Benefit Plan” means each health and welfare benefit program listed on Appendix A, maintained by the University or an Authorized Affiliate to provide medical benefits and other similar non-pension post-employment benefits to eligible Participants and Beneficiaries. A Benefit Plan may consist of both a portion covering Participants and Beneficiaries of Cost-sharing Locations and a portion covering participants and beneficiaries of Non-Participating Locations.

(e) “Code” means the Internal Revenue Code of 1986, as amended.

(f) “Cost-sharing Benefit Plan” means the portion of any Benefit Plan that provides benefits to the eligible Participants and Beneficiaries attributable to Cost-sharing Locations. All risks, rewards and costs of providing benefits under a Cost-sharing Benefit Plan are shared and are not attributable to any individual location.

(g) “Cost-sharing Location” means each University location and any Authorized Affiliate location that individually makes contributions to the Trust, at the common assessment rate, or set of rates, determined by the Trust Administrator to pay for the benefits provided to Participants and Beneficiaries under the Cost-sharing Benefit Plans. No assets of the Trust shall be used to pay benefits to participants and beneficiaries attributable to a Non-Participating Location.

(h) “Custodian” means the Office of the Treasurer of the University or its designee in accordance with Section 6.2.

(i) “GASB Statement No. 43” means Statement No. 43 issued by the Governmental Accounting Standards Board, including all binding interpretive guidance thereunder.

(j) “GASB Statement No. 45” means Statement No. 45 issued by the Governmental Accounting Standards Board, including all binding interpretive guidance thereunder.

(k) “Non-Participating Location” means each University or Affiliate location that is not a Cost-sharing Location and is not participating in this Trust. A Non-Participating

Location does not share in the assets, risks, rewards and costs of providing benefits under any Cost-sharing Benefit Plan with any other University location or Affiliate.

(l) “Participant” means, with respect to a Benefit Plan, a former employee of a Cost-sharing Location who is eligible for benefits or services under the eligibility terms of the Benefit Plan.

(m) “Regents” means The Regents of the University of California, a California public corporation and agency of the State of California and the constitutional trustee of the public trust known as the University of California.

(n) “Trust” means this University of California Retiree Health Benefit Trust.

(o) “Trust Administrator” means the Associate Vice President, Human Resources and Benefits.

(p) “Trustee” means the person(s) or entity, and any successors thereto, named to act as Trustee under Article 5.

(q) “Trust Fund” means the assets held under the Trust.

(r) “University” means the University of California, a system of campuses, national laboratories, law schools, medical centers, and management and support operations under the governance of The Regents.

Section 2.2 Headings

Headings used in this Trust document are inserted for convenience of reference only, and any conflict between such heading and the text will be resolved in favor of the text.

Section 2.3 Plurals and Gender

Where appearing in this Trust document, the masculine gender includes the feminine and neuter genders, and the singular includes the plural, and vice versa, unless the context clearly indicates a different meaning.

Section 2.4 Interpretation

The Trust Administrator has the exclusive power and authority, in its sole and absolute discretion, to interpret and construe the Trust and all matters arising thereunder, including the right to remedy possible ambiguities, inequities, and inconsistencies, as well as determine factual matters or omissions and to take such equitable action as may be necessary or appropriate to correct any errors or omissions discovered in the administration of the Trust. All interpretations and decisions of the Trust Administrator with respect to any matter arising under the Trust will be final, conclusive and binding on all persons.

ARTICLE 3
COST-SHARING LOCATIONS

Section 3.1 Identification of Cost-sharing Locations.

Each University location and Authorized Affiliate that is a Cost-sharing Location shall share in the assets, risks, rewards, and costs associated with the benefits provided by the Trust for the Cost-sharing Benefit Plans and such assets, risks, rewards, and costs shall not be attributed individually to any such Cost-sharing Location.

Section 3.2 Withdrawal of a Cost-sharing Location

(a) A Cost-sharing Location may terminate its participation in the Trust by providing the Trust Administrator with at least 90 days advance written notice, or such longer or shorter period as then required by the Trust Administrator (not to exceed 180 days), provided, however, that if the Cost-sharing Location is a University location, The Regents must approve such withdrawal before it will become effective.

(b) If a Cost-sharing Location elects to terminate its participation and the withdrawal is approved by The Regents, if required under Section 3.2(a), the Cost-sharing Location's interest in the Trust Fund, if any, shall be reasonably calculated by the Trust Administrator and shall rely on reasonable determinations of the Trust's actuary. As soon as administratively practicable on or after the effective date of withdrawal, the Trustee shall transfer the withdrawing Cost-sharing Location's interest, if any, from the Trust Fund to a separate trust established by the Cost-sharing Location, but only if all assets held or to be held under such trust will constitute "plan assets" within the meaning of GASB Statement No. 45, as determined by the Trust Administrator, provided, however, that such assets may be distributed directly to the withdrawing Cost-sharing Location if all current and future liabilities of the Cost-sharing Location under the Benefit Plan(s) have been satisfied as determined by the Trust Administrator in its sole discretion. If a Cost-sharing Location makes a valid election to terminate its participation in a Cost-sharing Benefit Plan, the Trust Administrator shall require the Trust's actuary to determine whether any, and if so, how much, withdrawal liability shall be paid by the withdrawing Cost-sharing Location.

Section 3.3 Termination of Participation

The Regents may at any time, for any or no reason, unilaterally terminate any Cost-sharing Location's participation in the Trust. The Regents shall provide at least 30 days advance written notice of such termination, provided that such notice will not be required if continued participation of the Cost-sharing Location during the 30-day period would adversely affect the purposes of the Trust. As soon as administratively practicable on or after the effective date of termination, the Cost-sharing Location's interest in the Trust Fund will be disbursed by the Trustee in accordance with the procedures described in Section 3.2.

**ARTICLE 4
THE TRUST FUND**

Section 4.1 Establishment of Trust Fund and Trust Year

Upon execution of this Trust document, the University shall contribute no less than \$100.00 to the Trust, and the Trustee shall establish and maintain a Trust Fund to hold that contribution and all future contributions made under the Trust, together with any income, gains or profits and taking account of any losses. All custodial accounts and annuity contracts and other investments held under the Trust will be titled in the name of the Trust and deemed part of the Trust Fund. The fiscal year of the Trust shall be each twelve month period commencing with July 1 and ending on June 30.

Section 4.2 Exclusive Benefit

(a) All contributions made to the Trust, all property and rights purchased with such amounts, and all income attributable to such amounts will be held in trust for the exclusive purpose of providing post-employment benefits to Participants and Beneficiaries pursuant to the Benefit Plans, and defraying the reasonable expenses associated with providing such benefits.

(b) Except as provided in Sections 3.2(b), 4.3 and 7.3, it will be impossible, at any time prior to the satisfaction of all liabilities under the Benefit Plans with respect to Participants and their Beneficiaries, other than such part as is required to pay taxes (if any) and reasonable expenses of administration of the Trust (including payment of any Trustee fees), for the Trust Fund to be used for or diverted to purposes other than for the exclusive benefit of Participants and Beneficiaries.

(c) The Trust Fund will be exempt from the claims of creditors or other claimants and from all orders, decrees, garnishments, executions or other legal or equitable process or proceeding to the fullest extent permissible by law.

Section 4.3 Reversion if Unfavorable IRS Determination

All contributions to the Trust are expressly conditioned on the expectation that contributions to the Trust and earnings thereon are exempt from federal taxes. If the Internal Revenue Service determines that the Trust is not tax exempt, then all amounts in the Trust Fund may be returned to the University and Cost-sharing Locations following such determination by the Internal Revenue Service.

Section 4.4 Pooled Fund

All assets under the Trust will be pooled for investments and administrative functions. No individual account will be maintained at any time under the Trust for any Cost-sharing Location, or any Participant or Beneficiary. All assets, risks, rewards, and costs associated with benefits provided under the Trust for the Cost-sharing Benefit Plans will be shared by the Cost-sharing Locations, and will not be attributed individually to any Cost-sharing Location.

Section 4.5 Required Contributions

(a) The Trust Administrator shall, in accordance with the applicable requirements of GASB, periodically determine each Cost-sharing Location's "contractually required contributions" (within the meaning of GASB Statement No. 45), and shall notify each Cost-sharing Location of the relevant contribution amount within a reasonable period after such determination.

(b) Each Cost-sharing Location shall make contributions to the Trust, at the time and at the rates assessed as a percentage of covered compensation paid to employees employed at the Cost-sharing Location or in the amounts determined and specified by the Trust Administrator. All Cost-sharing Locations shall be assessed a uniform rate, or set of rates.

(c) All contributions to the Trust will be irrevocable and may be used only for the benefit of the Participants or their Beneficiaries, except as expressly provided in this Trust document; provided, however, a contribution which was made in error or by mistake may be returned to the contributing employer in the discretion of the Trustee.

Section 4.6 Benefit Payments

The Trustee shall, from time to time, upon the written direction of the Trust Administrator, or an authorized designee, make distributions from the Trust Fund to the insurers, health care and welfare providers or other entities providing benefits or services under Cost-sharing Benefit Plans; provided, however, that the Trustee will make such distributions only to the extent they are consistent with the terms of this Trust document and do not adversely affect the purposes of the Trust.

Section 4.7 Disclaimer

None of the Regents, the University, any Cost-sharing Location, the Trustee, the Trust Administrator or the Trust will be responsible for the validity of any contract of insurance or coverage issued in connection with any Benefit Plan, or for the failure on the part of the insurer or provider to make payments provided by such contract, or for the actions of any person that may delay payment under such contract, or render a contract null and void or unenforceable in whole or in part.

ARTICLE 5 TRUSTEE

Section 5.1 Appointment and Authority of Trustee

The Regents shall serve as Trustee and administer the Trust in accordance with the provisions of this Trust document. The Regents may substitute another person to serve as the Trustee. The Trustee may delegate all or any part of its powers and duties as Trustee. As Trustee, The Regents have responsibility for overseeing the establishment of investment policies for, and management of the assets of, the Trust. The Office of the Treasurer has primary responsibility for implementing the investment policies established by The Regents. The Office of the Treasurer also serves as custodian of the assets of the Trust; provided, however, that the

Office of the Treasurer may redelegate all or part of its duties as custodian to an entity that satisfies the requirements of Section 408(n) of the Code.

Section 5.2 Term of Trustee

The Trustee shall serve until resignation or removal as provided in Section 5.3.

Section 5.3 Resignation or Removal

(a) The Trustee may resign at any time. If the Trustee that is resigning is The Regents, the Trustee's resignation will be accomplished by The Regents' substituting another person as Trustee in accordance with Section 5.1. Any other Trustee may resign by delivering to The Regents a written notice of resignation to take effect not less than 60 days after delivery unless such time period is waived by The Regents. The Regents may remove a Trustee that is not The Regents at any time by delivering to the Trustee a written notice of removal. Such resignation or removal will take effect no less than 60 days after delivery of written notice thereof to the Trustee unless the Trustee waives such time period. However, The Regents may require that a resignation or removal will take effect at an earlier time specified by The Regents if such earlier time is necessary to satisfy the Trustee's duties and responsibilities under Article 6.

(b) Upon the resignation or removal of a Trustee that is not The Regents, the Regents shall appoint a successor Trustee, which may be the Regents.

(c) Upon the effective date of removal or resignation, the Trustee shall immediately transfer to the successor Trustee the entire Trust Fund as it is then constituted and true copies of all of its records relating to the Trust. The Trustee shall execute and deliver all documents and instruments that are necessary or appropriate to transfer and convey the right, title and interest in the Trust Fund to any successor Trustee, as instructed by the Trust Administrator. No later than 90 days after such transfer, the Trustee shall provide a true and complete final accounting to the University of all items with respect to the Trust Fund as are requested, in writing, by the Trust Administrator.

(d) Upon receiving assets of the Trust and the related documents, the successor Trustee will become vested in all the assets, powers, duties and rights of the Trustee under the Trust with respect to such assets with the same effect as though the successor Trustee were originally named as Trustee hereunder.

Section 5.4 Agent for Service of Process

The Trustee will be considered an agent of the Trust for the purpose of accepting service of legal process.

Section 5.5 Limitation on Liability

(a) The Trustee will not be liable for any act or omission related to the performance of its duties or exercise of its powers under the Trust, unless such act or omission is a breach of the fiduciary standards under Section 6.7.

(b) The Trustee will not be liable for any act or omission of any accountant, counsel, or agent that is appointed selected and monitored in accordance with its fiduciary duty pursuant to Sections 6.3(c) and 6.6.

(c) Except to the extent that The Regents delegates its duties as Trustee to a non-governmental entity or a person not employed by the University or an Affiliate, the Trustee's duties under this Trust will be treated as official duties, and the Trustee will be entitled to relief from liability, and defense and indemnification, to the same extent as provided for any governmental entity, officer or employee, as applicable, in the conduct of official duties.

ARTICLE 6 POWERS AND DUTIES OF TRUSTEE AND CUSTODIAN

Section 6.1 General Powers

The Trustee is vested with title to all the assets of the Trust and shall have full power and authority to do all acts necessary or appropriate to carry out its duties hereunder. No Participant, Beneficiary, or any other person shall have any right or interest in the Trust except as provided in the Trust. Neither a Participant nor a Beneficiary (nor a legal representative of a Participant, a Beneficiary, or any other person) shall have any right, by way of anticipation or otherwise, to assign, encumber, or in any manner dispose of any interest in the Trust.

Section 6.2 Custody

The Office of the Treasurer shall act as custodian of the assets of the Trust. The Office of the Treasurer may redelegate such custodial duties to one or more banks within the meaning of Section 408(n) of the Code. Each custodian so designated shall receive and hold as part of the Trust such assets as may be transferred to it from time to time. A custodian shall be accountable only for the assets actually received by it.

Section 6.3 Investment

(a) The Office of the Treasurer shall invest and reinvest the assets of the Trust consistent with the investment policies established for the Trust by The Regents, as described in Section 5.1. Trust assets may be invested and reinvested, and kept invested, without distinction between principal and income, in stocks, bonds, options contracts of any type, contracts for the immediate or future delivery of financial instruments and other property or other securities, interests in limited partnerships, limited liability companies or other investment funds; certificates of participation or shares of any mutual investment company, trust or fund; or annuity or investment contracts issued by an insurance company or in any other property of any kind, real or personal, tangible or intangible, as it may deem advisable, subject to any restrictions contained in this Article 6 as determined by the Office of the Treasurer consistent with the investment policies of The Regents.

(b) The Office of the Treasurer may appoint one or more third-party managers to manage the investment of a designated part of the Trust assets directly or through a separate fund. The Office of the Treasurer may remove a third-party manager when the Office of the Treasurer deems such removal to be necessary or appropriate. If a third-party manager is

removed or resigns, the authority and duty to direct the investment and reinvestment of the assets under the control and management of the third-party manager shall revert to the Office of the Treasurer except to the extent the Office of the Treasurer appoints a successor third-party manager for such assets. Neither the Trustee nor the Office of the Treasurer shall be liable for the acts or omissions of a third-party manager appointed by the Office of the Treasurer, nor be under obligation to invest or otherwise manage any asset of the Trust that is subject to the direction of such manager. The fees and reasonable expenses of a third-party manager appointed by the Office of the Treasurer shall be paid from the Trust.

(c) The Office of the Treasurer, as a fiduciary, shall have primary responsibility for its own investment decisions. With respect to the appointment of third-party managers or trustees who manage Trust assets directly or through a separate trust or other fund, the Office of the Treasurer shall have secondary or oversight responsibility for the prudence of the initial appointment and continuation of the manager's or trustee's appointment. Neither the Trustee nor the Office of the Treasurer shall be liable for the acts or omissions of a third-party manager, or be under obligation to invest or otherwise manage any asset of the Trust that is subject to the direction of such appointed third-party manager. With respect to other third-party managed investment funds where the manager is not appointed by the Office of the Treasurer, the Trust asset shall be the interest in such fund held by the Trustee and the Office of the Treasurer shall be responsible as a fiduciary for the prudence of its selections of, and continuing investments once made in, such funds, but not for the individual investment decisions made by the third-party fund managers.

Section 6.4 Power of Trustee

The Trustee will have all of the powers necessary or desirable to properly perform its duties under this Trust, including but not limited to the following:

(a) To keep any or all securities or other property in the name of a nominee with or without power of attorney for a transfer or in its own name without disclosing its fiduciary capacity, or in bearer of book entry form;

(b) To make, execute, acknowledge and deliver any and all instruments deemed necessary or appropriate to carry out the powers herein granted;

(c) To employ suitable agents, including, but not limited to, auditors, actuaries, accountants, and legal and other counsel, and to pay their expenses and reasonable compensation for services to the Trust from the Trust Fund. The Trustee may consult, from time to time, with legal counsel who may, but need not be, legal counsel for the Regents and will be fully protected in acting or refraining from acting upon the advice of any counsel with respect to legal questions;

(d) To settle securities trades through a securities depository that utilizes an institutional delivery system, in which event the Trustee may deliver or receive securities in accordance with appropriate trade reports or statements given to the Trustee by such depository; and

(e) To vote upon any stock, bonds or other securities of any corporation, association, trust or investment fund at any time held by the Trust, or otherwise consent to or

request any action on the part of such corporation, association, trust or investment fund, and to give general or special proxies or powers of attorney, with or without power of substitution, and to exercise any conversion privileges, subscription rights or other options; to participate in reorganizations, recapitalizations, consolidations, mergers and similar transactions with respect to such securities; to deposit such securities in any voting trust, or with any protective or like committee, or with a trustee, or with depositories designated thereby; and generally to exercise any of the powers of an owner with respect to securities or property held by the Trust that the Trustee deems to be for the best interests of the Trust.

In addition, the Trustee will have all of the powers, rights and privileges conferred upon and granted to, trustees under the trust laws of the state of California. Without limiting the generality of the foregoing, the Trustee will be authorized to buy and sell property on such terms as it deems advisable, to enter into contracts and leases, to borrow money and to mortgage or pledge any Trust property, to employ agents, to engage in litigation as plaintiff or defendant, to exercise all rights of ownership of stock owned by the Trust and to pay any expenses or assessments against the Trust or its property.

Section 6.5 Recordkeeping and Actuarial Valuation

(a) The Trustee shall maintain accurate records and detailed accounts of all investments, receipts, disbursements and other transactions hereunder at the Trust level. In addition, the Trustee shall be responsible for meeting the requirements of GASB Statement No. 43 as applied to the Trust, including but not limited to preparation of the required financial statements for the Trust.

(b) All records maintained by the Trustee will at all times be available for inspection by the University or a Cost-sharing Location. The Trustee shall, at the direction of the Trust Administrator, submit such valuations, reports or other information as The Regents may require. In addition, if the Trustee is other than The Regents, the Trustee shall, within 60 days after every June 30, or at additional times as directed by the Trust Administrator, render to the University and each Authorized Affiliate a written account showing in reasonable summary the investments, receipts, disbursements and other transactions engaged in by the Trustee during the fiscal year ending June 30 or other period specified by the Trust Administrator with respect to the Trust. Such account must set forth the assets and liabilities of the Trust valued as of the end of the relevant period.

(c) Assets of the Trust will be valued at their fair market values on the date(s) of valuation, as determined by the Trustee, based upon such sources of information as it may deem reliable including, but not limited to, stock market quotations, statistical evaluation services, newspapers of general circulation, financial publications, advice from investment counselors or brokerage firms, or any combination of sources.

(d) The Trust Administrator will engage an actuary to prepare an actuarial valuation for the Trust.

Section 6.6 Fiduciary Standards

The Trustee (and any person or entity to whom the Trustee delegates any duties) shall discharge its duties under this Trust solely in the interest of the Participants and Beneficiaries and in accordance with governing State and federal law and the terms of this Trust document. Such duties must be discharged for the exclusive purpose of providing benefits to the Participants and Beneficiaries and paying expenses of the Trust. In addition, the Trustee (and any person or entity to whom the Trustee delegates any duties) shall discharge its respective duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Section 6.7 Trust Expenses

The Trustee or its designee will have the power and authority to use and apply Trust assets to pay or provide for the payment of any reasonable and necessary expense related to administration of the Trust, including but not limited to expenses for professional, legal, accounting, actuarial, and investment services.

Section 6.8 Legal Actions

If the Trustee commences or defends any action, administrative, judicial or otherwise, the Trustee may retain professionals, including legal or financial advisors to represent the Trustee in its capacity as Trustee hereunder. The reasonable expenses of retaining such professionals may be paid from the Trust. No Participant or Beneficiary will be considered a necessary party in any legal action or proceeding with respect to the Trust. Any judgment entered on any such action or proceeding will be binding on all persons claiming under the Trustee.

ARTICLE 7 AMENDMENT AND TERMINATION

Section 7.1 Term

This Trust will continue until terminated in accordance with Section 7.3.

Section 7.2 Amendment

The Regents reserves the right at any time and from time to time to amend, retroactively if necessary, in whole or in part, any or all of the provisions of this Trust document by notice thereof in writing delivered to the Trustee, provided that no such amendment may (i) affect the rights, duties, liabilities or responsibilities of the Trustee without its consent, or (ii) authorize or permit any part of the Trust Fund to be used for or diverted to purposes other than for the exclusive benefit of Participants and Beneficiaries, except that such changes may be made to permit the Trust to meet the requirements of applicable law. The Regents delegate the authority to amend the Trust to the Associate Vice President, Human Resources and Benefits or the President.

Section 7.3 Termination

The Regents reserves the right to terminate the Trust at any time for any or no reason. Upon termination of the Trust, any assets remaining in the Trust Fund will be allocated to satisfy the liabilities under the Benefit Plans, determined as of the date of such termination, and to pay taxes due and expenses of administration of the Benefit Plans and Trust. Such allocation will be reasonably calculated by the Trust Administrator. Any assets remaining in the Trust Fund after such liabilities are satisfied will revert to the Cost-sharing Locations, in such amounts as reasonably determined by the Trust Administrator.

Section 7.4 No “Vested Rights”

The Regents also may, at any time and without limitation, amend or terminate the Trust in any manner whatsoever, subject to Sections 7.2 and 7.3. No Participant, Beneficiary, or other person will have any right to limit the exercise of the powers set forth in the preceding sentences. In addition, no person will have any “vested rights” under California or federal law to have any contributions made to the Trust. No person will have any “vested rights” under California or federal law to the continuation of the Trust or its continuation in whatever form it takes at any point in time. Nothing in this Trust establishes any vested right to any benefit under the Benefit Plans nor is intended to imply that any employee or former employee of a Cost-sharing Location or any Participant or Beneficiary has or will accrue a vested right under any Benefit Plan.

ARTICLE 8 MISCELLANEOUS

Section 8.1 Nonalienation

Participants and Beneficiaries do not have an interest in the Trust. Accordingly, the Trust will not be liable to attachment, garnishment, assignment or other process, or be seized, taken, appropriated or applied by any legal or equitable process, to pay any debt or liability of a Participant or Beneficiary or other party.

Section 8.2 Severability

In the event any provision of this Trust document is held illegal or invalid for any reason, said illegality or invalidity will not affect the remaining provisions hereof, and this Trust document will thereafter be construed and enforced as if said illegal or invalid provisions had never been included therein, unless the illegality or invalidity adversely affects the purposes of the Trust to accept contributions from the University and Cost-sharing Locations or to pay the benefits as provided in Section 4.6.

Section 8.3 Separate Entity

The Trust is an entity separate and apart from the University and each Authorized Affiliate. Accordingly, unless authorized in a motion or resolution of the Trustee, neither the University, its Affiliates, a Cost-sharing Location, nor any individual will have any authority to act or function for or on behalf of the Trust or as an agent thereof.

Section 8.4 Governing Law

This Trust document and the performance hereunder is governed by and construed according to the laws of the State of California and, to the extent applicable, federal law.

IN WITNESS WHEREOF, the Regents has executed this Trust on this 27 day of

June, 2007.

**THE REGENTS OF THE
UNIVERSITY OF CALIFORNIA**

By: Julitta W. Boyle

**The University of California
Retiree Health Benefit Trust**

**Appendix A
Benefit Plans
As of July 1, 2007**

HMOs

- Health Net
- Health Net Seniority Plus
- Kaiser Permanente
- Kaiser Permanente/Senior
- Pacific Care
- Western Health Advantage

Point of Service

- Blue Cross Plus

PPO

- Blue Cross PPO

Core-California

- Core California for Retirees with Medicare
- Core Outside of California
- Core Outside of California with Medicare
- Core Medicare Part D Prescription Drug Benefit
- Core High Option Plan in California
- Core High Option Plan Retiree with Medicare
- Core High Option Plan Medicare Part D Prescription Drug Benefits

Outside of California

- UHC Select EPO
- Kaiser Permanente Mid Atlantic
- Pacificare of Nevada

The University may add Benefit Plans to or delete Benefit Plans from this Appendix A without amending the Trust.

**ADMINISTRATION AGREEMENT
BETWEEN THE REGENTS OF THE UNIVERSITY OF CALIFORNIA AND THE
TRUST ADMINISTRATOR OF THE UNIVERSITY OF CALIFORNIA RETIREE
HEALTH BENEFIT TRUST**

The Regents of the University of California (the "University") has adopted the University of California Retiree Health Benefit Trust to receive contributions from Cost-sharing Locations and to pay benefits under certain University sponsored Benefit Plans on behalf of former employees and their beneficiaries and Trust expenses. This Administration Agreement (the "Agreement") is a services agreement under which the University will provide certain administrative services on behalf of the Trust, including payment of certain benefits that will be reimbursed by the Trust to the University. Capitalized terms are as defined in the Trust unless separately defined in this Agreement.

1. The University agrees to collect, on behalf of the Trust, the contractually required contributions from Cost-sharing Locations that participate in the Cost-sharing Benefit Plans of the University as directed by the Trust Administrator. The University shall transfer to the Trust all contractually required contributions collected on its behalf within 30 days after collecting such contributions in a manner directed by the Trust Administrator, including any interest. Any contribution amounts collected by the University on the Trust's behalf shall be Trust assets and shall not be available to any creditor of the University. Payments to the Trust shall be in the form and manner required by the Trust Administrator.
2. The University agrees to provide the Trust Administrator with a complete listing of the amounts contributed by each Cost-sharing Location that the University forwards to the Trust.
3. The University agrees to act as a third-party payor on behalf of the Trust and shall pay health care providers and vendors for amounts due and payable by the Trust to maintain coverage and provide benefits under the Benefit Plans for Participants and Beneficiaries as directed by the Trust Administrator. The Trust Administrator or its delegate shall notify the University of the identity of, and the amounts due or payable to, such providers and vendors, and the University shall have no responsibility to make or accrue for such payments until receiving notification from the Trust Administrator. The University shall provide to the Trust Administrator a full accounting of all payments made to providers or vendors as directed by the Trust Administrator. The Trust shall reimburse the University for such payments within 30 days after receiving such accounting in the manner required by the University.
4. The University and the Trust Administrator understand and acknowledge that the assets held under the Trust can only be used to pay post-employment benefits under the Cost-sharing Benefit Plans or expenses of the Trust and may not be used to the benefit of the University or any Cost-sharing Location.

5. No less than once each fiscal year (ending June 30), the University shall provide a full accounting to the Trust Administrator of all contributions collected on behalf of the Trust and the source of such contribution, all payments made to providers or vendors on behalf of the Trust and all reimbursements received by the University from the Trust. The Trust Administrator will have 180 days within which to provide notice of any questions or discrepancies related to such accounting, which will be final within 180 days after issuance if no notice is received by the University.
6. Once the Trust Administrator, or its delegate, provides notification to the University that amounts are due and payable, the Trust Administrator acknowledges the Trust's contractual obligation to reimburse the University for such amounts.
7. The Trust agrees to reimburse the University for reasonable administrative costs to provide the services under this agreement, including any interest costs.
8. The University and the Trust Administrator acknowledge that errors may occur in the processing of contributions or payments made on behalf of the Trust and that either party must provide notice of any discovered error as soon as practicable to the other party. Any such errors may be corrected by additional payments or reimbursements or by offsetting any future payments or reimbursements as agreed upon between the University and the Trust Administrator

**THE REGENTS OF THE UNIVERSITY
OF CALIFORNIA**

Julita W. Bragette
Signature

Associate Vice President
Title
June 27, 2007
Date

**THE UNIVERSITY OF CALIFORNIA
RETIREE HEALTH BENEFITS TRUST**

Signature

Trust Administrator

Date