This document reflects the result of analyses, discussions and review by UCOP staff to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California
Governmental Accounting Standards Board (GASB) Statement No. 50*, Pension Disclosures.*

Issues Resolution Memo No. 50-1

Determining Additional Disclosures Required by GASB Statement No. 50

Background

GASB Statement No. 50, *Pension Disclosures,* amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

The University, and any of its separately issued financial statements, is required to comply with the provisions of GASB Statement No. 50 and implementation is for financial statements for periods beginning after June 15, 2007.

Define Issues

The University must review the current and newly-required disclosure requirements contained in GASB Statement No. 50 to determine how they apply to the University's financial statements, the separate financial statements of the medical centers, UC Press, CEB, etc., those of the University of California Retirement Plan or Defined Contribution Plans, campus foundation financial statements, or the future retiree health benefit trust financial statements.

Authoritative Guidance and Implementation

The authoritative guidance and implementation approach for the University, medical centers, CEB, UC Press, the University of California Retirement Plan financial statements and the University of California Retirement Savings Plan financial statements are presented below. Draft disclosure language for the medical center footnotes is provided in Appendix 1.GASB Statement No. 50 does not apply to the financial statements of the campus foundations or to the retiree health benefit trust.

Employers' Financial Statements (University, Medical Centers, etc.)

Paragraph 7 in GASB Statement No. 50 states the following:

> Employers should include the following additional disclosures about funding policy in notes to the financial statements for each defined benefit pension plan in which they participate:
>
> a. Legal or contractual maximum contribution rate(s) of the employer should be disclosed, if applicable.

For the University
There are not any legal or contractual limitations. Employee contributions are subject to collective bargaining, although that is not a legal or contractual constraint that is in the plan, rather is a broad environmental factor in which UC operates.

UC will include the following language in the 2007 financial statements: *"The rate of employee contributions as a percentage of payroll is determined annually pursuant to The Regents' funding policy, based on recommendations of the consulting actuary, and subject to collective bargaining."*

For the separately issued financial statements of the medical centers, UC Press and CEB
The medical centers will include the following language in the 2007 financial statements: *"The rates for employer and employee contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy based upon recommendations of the consulting actuary. Employee contributions are subject to collective bargaining."*

Paragraph 7 in GASB Statement No. 50 continues as follows:

> b. For cost-sharing employers, the requirement of Statement 27, paragraph 20b(3), for disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years should include a description of how the required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the plan is financed on a pay-as-you-go basis.

For the University
Paragraph 7b does not apply to UC statements.

For the separately issued financial statements of the medical centers, UC Press and CEB
Medical centers will include the following language in the 2007 financial statements: *"The rates for employer and employee contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy based upon recommendations of the consulting actuary. Employee contributions are subject to collective bargaining."*

Paragraph 8 in GASB Statement No. 50 states the following:

> Sole and agent employers should disclose the following additional information for each plan:
>
> a. Information about the funded status of the plan as of the most recent valuation date should be disclosed, including the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.[3]

For the University
All information required to be disclosed is included in the Schedule of Funding Progress.

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 8 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

Paragraph 8a in GASB Statement No. 50 continues as follows:

> Employers that use the aggregate actuarial cost method should prepare this information using the entry age actuarial cost method for that purpose only.[4]

For the University
This section of Paragraph 8a does not apply as UC uses the Entry Age Normal Cost Method.

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 8 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

Paragraph 8 in GASB Statement No. 50 continues as follows:

> b. Information about actuarial methods and assumptions used in valuations on which reported information about the ARC, annual pension cost, and the funded status and funding progress of pension plans is based should be disclosed, including the following:
>
> (1) Disclosure that the required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.[5]

---

[3] Paragraph 22 of Statement 27 requires sole and agent employers to present as RSI (schedule of funding progress) the same elements of information for the most recent actuarial valuation and the two preceding valuations.

[4] For sole employers that include the plan in the financial reporting entity (as a trust fund), presentation of information about the plan's funded status and funding progress as required for the plan by Statement 25, as amended by this Statement, meets the requirements of this paragraph and paragraph 22, as amended by this Statement. For agent employers, the requirements of this paragraph and paragraph 22 of Statement 27, as amended, apply to the employer's individual plan. The information should be presented even if the aggregate multiple-employer plan (all employers) is included as a pension trust fund in the employer's report and the required funded status and funding progress information is presented for the aggregate plan.

[5] The required reference to the schedule of funding progress presented as RSI does not represent or imply incorporation of the schedule of funding progress into notes to the basic financial statements.

For the University
UC will include the following language in the 2007 financial statements: *"The schedule of funding progress presents multi-year trend information about whether the actuarial value of assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits."*

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 8 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

Paragraph 8b in GASB Statement No. 50 continues as follows:

> (2) Disclosure that the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations (as discussed in the disclosure of funding policy in paragraph 7a), if applicable.[6]

For the University
UC will include the following language in the 2007 financial statements: *"The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate."*

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 8 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

Paragraph 8b in GASB Statement No. 50 continues as follows:

> (3) If the disclosure of actuarial methods and significant assumptions required by paragraph 21c of Statement 27:
>
> (a) If the assumptions used to determine the ARC for the current year and the information required by paragraph 8a of this Statement contemplate different rates for successive years (year-based or select and ultimate rates), the rates that should be disclosed are the initial and ultimate rates.

For the University
UC will include the following language in the significant actuarial assumptions section of the pension footnote in the 2007 financial statements: *"projected salary increases ranging from 4.5–6.5 percent per year (2.5-4.5 percent for the current year)"*

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 8 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

---

[6] If an employer also elects to include in the annual financial report pro forma *quantitative information* about pension benefits (for example, pro forma calculations of the ARC, annual pension cost, or the funded status of the plan) recalculated to take into consideration a funding limitation, that limitation should be presented as supplementary information.

Paragraph 8b(3) in GASB Statement No. 50 continues as follows:

> (b) If the aggregate actuarial cost method is used, disclose that because the method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and that the information presented is intended to serve as a surrogate for the funded status and the funding progress plan.

For the University
This section of Paragraph 8b does not apply as UC uses the Entry Age Normal Cost Method.

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 8 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

Paragraph 9 in GASB Statement No. 50 states the following:

> Sole and agent employers that use the aggregate actuarial cost method to determine the ARC should prepare the information identified in paragraph 22 of Statement 27 using the entry age actuarial cost method and should disclose that fact and that the purpose of this disclosure is to provide information that *approximates* the funding progress of the plan.[7]

For the University
Paragraph 9 does not apply as UC uses the Entry Age Normal Cost Method.

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in Paragraph 9 do *not* apply in that the Medical Centers are cost-sharing employers, not sole or agent employers.

Paragraph 10 in GASB Statement No. 50 states the following:

> If the cost-sharing plan in which an employer participates does not issue and make publicly available a stand-alone plan financial report prepared in accordance with the requirements of Statement 25, as amended, and the plan is not included in the financial report of a public employee retirement system or another entity, the cost-sharing employer should present as RSI in its own financial report schedules of funding progress and employer contributions for the plan (and notes to these schedules), prepared in accordance with the requirements of Statement 25, as amended. The employer should disclose that the information presented relates to the cost-sharing plan as a whole, of which the employer is one participating employer, and should provide information helpful for understanding the scale of the information presented relative to the employer.

For the University
Paragraph 10 does not apply as UC is not a cost sharing employer.

For the separately issued financial statements of the medical centers, UC Press and CEB
The requirements in all of Paragraph 10 do *not* apply in that the financial statements of the UCRP, as a stand-alone financial report, are prepared in accordance with the requirements of GASB Statement No. 25.

---

[7] See footnote 4.

In addition to the above, the Exposure Draft included additional disclosures that were deleted from the final Statement on the basis that they were potentially useful to some financial statement report users in the context of being of an educational nature, although they were not essential to an understanding of the pension amounts and disclosures contained in the financial statements. This included disclosure that "actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future."

While not required, UC will include the following in its pension footnote: *"Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future."*

UCRP Financial Statements

Paragraph 4 in Statement No. 50 states the following:

> Defined benefit pension plans should make the following additional disclosures in notes to the financial statements:
>
> a. In the summary of significant accounting policies, the requirement of Statement 25, paragraph 32b(2), for disclosure of a brief description of how the fair value of investments is determined should include the methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices.

For the UCRP
All information required to be disclosed is included in the valuation of investments section of the significant accounting policies.

Paragraph 4b in GASB Statement No. 50 continues as follows:

> b. In the disclosure of contributions and reserves required by Statement 25, paragraph 32c, legal or contractual maximum contribution rates should be disclosed, if applicable.

For the UCRP
In the footnote disclosing Contributions and Reserves, the first sentence indicates "The Regents funding policy provides for actuarially determined periodic University and employee contributions at rates reasonably expected to maintain the Plan on an actuarially sound basis." A new sentence following the preceding sentence will be added as follows, "*Employee contributions are subject to collective bargaining.*"

Paragraph 4 in GASB Statement No. 50 continues as follows:

> c. Information about the funded status of the plan as of the most recent valuation date, including the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial accrued liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability to annual covered payroll.[1] The information should be calculated in accordance with the parameters set forth in paragraphs 35 and 36 of Statement 25. Plans that use the aggregate actuarial cost method to calculate the annual required contribution of the employer(s) (ARC) should prepare funded status information using the entry age actuarial cost method.

For the UCRP
All information required to be disclosed is included in the Required Supplementary Schedule of Funding Progress. The Plan does not use the aggregate actuarial cost method.

Paragraph 4 in GASB Statement No. 50 continues as follows:

> d. Information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress of pension plans are based, including the following:
>
> (1) Disclosure that the required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.[2]

For the UCRP
All information required to be disclosed is included in the actuarial information discussion that precedes the Required Supplementary Schedule of Funding Progress.

Paragraph 4d in GASB Statement No. 50 continues as follows:

> (2) Disclosure that the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

For the UCRP
The following sentence will be added to the discussion preceding the Actuarial Accrued Liability table in the Other Supplementary Information section of the footnotes: *"The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate."*

---

[1] Paragraph 37 of Statement 25 requires plans to disclose the same elements of information for each of the past six consecutive fiscal years of the plan as RSI (schedule of funding progress).
[2] The required reference to the schedule of funding progress presented as RSI does not represent or imply incorporation of the schedule of funding progress into notes to the basic financial statements.

Paragraph 4d in GASB Statement No. 50 continues as follows:

> (3) Identification of the actuarial methods and significant assumptions used to determine the ARC for the current year and the information required by paragraph 4c of this Statement. The disclosures should include:
>
> (a) The actuarial cost method.
>
> (b) The method(s) used to determine the actuarial value of assets.
>
> (c) The assumptions with respect to the inflation rate, investment return (discount rate), projected salary increases, and postretirement benefit increases. If the economic assumptions contemplate different rates for successive years (year-based or select and ultimate rates), the rates that should be disclosed are the initial and ultimate rates.
>
> (d) The amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open. Plans that use the aggregate actuarial cost method should disclose that because the method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and that the information presented is intended to serve as a surrogate for the funded status and funding progress plan.

For the UCRP
All information required to be disclosed is included in the actuarial information and additional trend information in the Note to Required Supplementary Information.

Paragraph 5 in Statement No. 50 states the following:

> For defined contribution plans, the requirement of Statement 25, paragraph 41b, for disclosure of a brief description of how the fair value of investments is determined should include the methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices.

For the UCRP
Paragraph 5 in GASB Statement No. 50 does not apply to the UCRP in that it is a defined benefit pension plan, not a defined contribution plan.

Paragraph 6 in Statement No. 50 states the following:

> Plans that use the aggregate actuarial cost method should prepare the information presented in the schedule of funding progress using the entry age actuarial cost method and should disclose that fact and that the purpose of this disclosure is to provide information that serves as a surrogate for the funding progress of the plan.

For the UCRP
Paragraph 6 does not apply as the UCRP uses the Entry Age Normal Cost Method.

In addition to the above, the Exposure Draft included additional disclosures that were deleted from the final Statement on the basis that they were potentially useful to some financial statement report users in the context of being of an educational nature, although they were not essential to an understanding of the pension amounts and disclosures contained in the financial statements. This included disclosure that “actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.”

While not required, UCRP will include the following in its footnotes: *“Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.”*

UCRSP Financial Statements

Paragraph 5 in Statement No. 50 states the following:

> For defined contribution plans, the requirement of Statement 25, paragraph 41b, for disclosure of a brief description of how the fair value of investments is determined should include the methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices.

For the University of California Retirement Savings Plan
All information required to be disclosed is included in the valuation of investments section of the significant accounting policies.

Next Steps—Required Actions

Responsibility	Required Completion Date	Action Item/Task
N/A	N/A	None

Appendix 1

Disclosure for the separately issued financial statements of the medical centers, UC Press and CEB.

Summary of Significant Accounting Policies - *Basis of Presentation*

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was adopted during the year ended June 30, 2007. Statement No. 48 establishes criteria to ascertain whether certain transactions should be recorded as a sale or collateralized borrowing.

GASB Statement No. 50, *Pension Disclosures*, was also adopted during the year ended June 30, 2007. Statement No. 50 enhances information disclosed in notes to financial statements or presented as required supplementary information by employers who provide pension benefits.

The implementation of GASB Statement No. 48 and Statement No. 50 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2007 or 2006.

Retirement Plans Footnote

Substantially all full-time employees of the Medical Center participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single employer defined benefit plan, and the University of California Retirement Savings Program ("UCRSP") that includes three defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions.

The UCRP provides lifetime retirement income, disability protection, and survivor benefits to eligible employees. Benefits are based on average highest three years compensation, age, and years of service and are subject to limited cost-of-living increases.

Contributions to the UCRP may be made by the University and the employees. The University's policy is to provide for a targeted funding level of 100 percent over the long-term, and for University and UCRP member contributions to be set at rates necessary to maintain that level within a range of 95 percent to 110 percent. The rates for employer and employee contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy based upon recommendations of the consulting actuary. Employee contributions are subject to collective bargaining.

The actuarial value of UCRP assets and the actuarial accrued liability using the entry age normal cost method as of June 30, 2007 were $___ billion and $____ billion, respectively. The net assets held in trust for pension benefits on the UCRP Statement of Plan's Fiduciary Net assets were $____ billion at June 30, 2007. For the years ended June 30, 2007 and 2006, there was no employer contribution, annual pension cost or net pension obligation for the University. The annual pension cost was equal to the actuarially determined contributions.

The UCRSP plans (DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The 403(b) and 457(b) plans accept pre-tax employee contributions. The Medical Center may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to contributions made, plan assets and liabilities, as they relate to Medical Center employees, is not readily available. Additional information on the retirement plans can be obtained from the 2006-2007 annual reports of the University of California Retirement plan, the University of California Retirement Savings Plan and the University of California PERS-VERIP.