

## FACTSHEET

### **REGENTS TO CONSIDER UC/DOE AGREEMENTS ON ONGOING OBLIGATIONS REGARDING LANL PORTION OF UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) AND THE TRANSFER OF ASSETS AND LIABILITIES TO LANS PENSION PLAN**

- **LANL retirees and inactive members to remain in UCRP**
- **Agreement to funding formula to provide reimbursement under DOE's ongoing obligation for any pension shortfall in the Retained LANL Segment of UCRP**
- **The Regents and UC to continue their fiduciary duties over UCRP**
- **The asset transfer agreement has no adverse effect on current, future or retained UCRP members or those who transitioned to the LANS Pension Plan.**

At the March 2007 meeting of the University of California Board of Regents, UC will seek authorization to enter into two agreements with the Department of Energy/National Nuclear Security Administration (DOE/NNSA) regarding the transfer of UCRP assets and liabilities associated with Los Alamos National Laboratory (LANL) service and DOE/NNSA's ongoing obligation to reimburse UC if a shortfall occurs in the Retained LANL Segment.

The agreements include (1) an asset transfer agreement that formally articulates rules for the transfer of assets and liabilities from UCRP to the Los Alamos National Security, LLC Defined Benefit Pension Plan (LANS Pension Plan), and (2) an agreement between UC and DOE/ NNSA under DOE's ongoing obligation to reimburse UC for contributions made to UCRP to maintain funding for the LANL retirees and inactive members at 100%. Both agreements must be signed by both UC and DOE/NNSA officials before either will become effective. If both are approved, the asset and liability transfer is planned to occur on or about April 2, 2007.

#### **Background**

In December 2005, the DOE/NNSA awarded the management and operations contract for LANL to Los Alamos National Security, LLC (LANS). The new contract began June 1, 2006. As part of the transition process to the new management team, and consistent with the requirement set forth in the University's contract with the Department of Energy, UC is required to transfer UCRP assets to fund the prior-service pension benefits of those LANS employees who elected to participate in the LANS Pension Plan.

The agreements between UC and DOE/NNSA outline:

- The amount of assets to be transferred from UCRP to the LANS Pension Plan to provide funding for the prior-service pension benefits of former University employees who elected to participate in the LANS Pension Plan;
- Clarification of DOE/NNSA's ongoing obligation to reimburse UCRP for funding shortfalls, if any, associated with the benefits of former University employees who accrued service credit while employed at LANL prior to June 1, 2006 and their eligible beneficiaries who are retained in UCRP (Retained LANL Segment);
- The method for identifying the particular assets to be transferred to the LANS Pension Plan; and
- The respective rights of the University and DOE/NNSA in making future decisions affecting the benefits of the Retained LANL Segment.

### **Funded Status of LANL Segment Retained within UCRP**

- The Retained LANL Segment—the assets and liabilities allocated to the benefits of LANL employees who became retired or vested inactive UCRP members prior to June 1, 2006, or their beneficiaries—will remain within UCRP, provided DOE/NNSA satisfies its obligations under the funding formula described in the agreement.
- The DOE/NNSA has agreed to a target funded ratio of 100% for the Retained LANL Segment. To the extent that the funding of the Retained LANL Segments falls below 100%, DOE/NNSA will begin seven years of level payments in an amount projected to restore full funding by the end of the seven-year term. This seven-year payment approach, which is based on the new federal funding rules that will generally apply at other DOE sites that offer corporate pension plans, clarifies DOE/NNSA's obligations and provides a high degree of protection for UCRP.
- The University will not change the asset allocation or adopt actuarial assumptions and methods for the Retained LANL Segment that are different from the asset allocation and actuarial assumptions and methods for UCRP generally without prior approval of DOE/NNSA.
- The Regents continue to retain all of the fiduciary authority to manage UCRP as in the past, but will continue, as in the past, to provide notice to DOE/NNSA of changes to UCRP. DOE/NNSA will have approval authority over any ad hoc inflation-based increases in benefits for the Retained LANL Segment and over changes that would raise costs, change actuarial assumptions or change asset allocation for the Retained LANL Segment to be different from those used generally for UCRP.

### **UCRP Asset Transfer to LANS Plan**

- As of May 31, 2006, the total market value of UCRP assets associated with UCRP members' LANL service during the performance of the management contract between UC and the DOE/NNSA was \$4.449 billion. This is based on analysis provided by The Regents' actuary, the Segal Company, and accepted by DOE/NNSA.
- As of May 31, 2006, the liabilities for the Retained LANL Segment were \$3.17 billion. Under the UC-DOE/NNSA contract, a market value of \$3.17 billion of UCRP assets will be retained for the Retained LANL Segment, which funds 100% of the liabilities.
- Based on the terms of the former management contract between DOE/NNSA and UC, the difference between these amounts will be transferred from UCRP to the LANS Pension Plan. As of May 31, 2006, the market value of assets to be transferred was \$1.279 billion. The IRS has been requested to provide approval that this transfer meets any requirements of the Internal Revenue Code that may apply.
- The \$1.279 billion to be transferred will be adjusted for the total return earned by the UCRP portfolio since May 31, 2006, allocable expenses, buybacks for UCRP service credit, and distributions to the small number of LANS retirees who commenced benefit payments from UCRP, as authorized by The Regents in December 2006.
- No assets will be transferred for the Capital Accumulation Payment (CAP) benefits of any LANS employee. All CAP benefits will be paid from UCRP.

### **Other UCRP issues**

- These agreements will not affect the benefits of any UCRP retired and inactive members, including LANL retired and inactive members retained in UCRP, who will receive the benefits to which they are entitled under UCRP.
- These agreements have no relationship to or effect on The Regents' current plan to restart employer and employee contributions to UCRP. The UCRP assets and liabilities associated with the LANL Retained Segment will be carefully tracked and accounted for, and any underfunding will be addressed by the funding formula under the agreement with the DOE/NNSA.