

To: Contract & Grants Officers; Vice Chancellors - Administration

Subject: Calculation and Documentation of Employee Benefit Rates and Salary Projections

Background

The estimated costs proposed in an extramural proposal budget are, to the extent possible, based on actual documentation for the estimated expenses available to campus personnel. Documentation of anticipated expenses provides justification for the proposed budget line-items and an appropriate basis for Principal Investigators to estimate the costs of a proposed project. Additionally, [FAR 15.403](#) requires that the offeror certify that the cost or pricing data in a proposal are accurate for federal contracts or subcontracts expected to exceed \$650,000. Specific data could potentially be requested to back-up a proposed budget.

In the past, the Office of the President Research Administration Office (restructured into Research Policy Analysis & Coordination) has provided systemwide estimates for benefit rates and salary projections for use on extramural proposal budgets and for documentation of these proposed costs. After the last operating guidance memo on this subject was published in 2001 (www.ucop.edu/raohome/cgmemos/sup99-01.htm), campuses were informed that future determination of benefits rates and salary projections should be determined by and documented at a campus level.

While the memos published by Research Administration Office (RAO) with this data continue to be useful in providing information about how such rates are determined, the actual rates themselves are now calculated at a campus level. The three RAO memos covering salary and benefit rates were cancelled but are still available online for background information. They are:

97-11 Revised Salary Range Projections (12/10/97)
www.ucop.edu/raohome/cgmemos/97-11.html

99-01 Revised Employee Benefit Projections (1/14/99)
www.ucop.edu/raohome/cgmemos/99-01.html

99-01 Sup. 1 Revised Employee Benefit Projections (11/30/01)
www.ucop.edu/raohome/cgmemos/sup99-01.htm

Current Guidance

As components for the University's benefits may change in price annually, campus departments and Sponsored Projects Offices should now rely on projected benefit rates provided by their respective campus Human Resources, Budget or Costing Policy Offices. For example, specifically with regard to the University's retirement (UCRP) contributions, the projected escalation of these rates approved by The Regents in September 2010 (see attached letter) is:

April 15, 2010 to June 30, 2011	4%
July 1, 2011 to June 30, 2012	7%
July 1, 2012 to June 30, 2013	10%

Prospective future rates **not yet approved** by The Regents are:

July 1, 2013	12%
July 1, 2014	14%
July 1, 2015	16%
July 1, 2016	18%
July 1, 2017	20%

For changes to all other components of the benefits rate and for determination of projected rates Please consult with the appropriate office on your campus and advise your departmental proposal budget preparers of the applicable campus documentation for salary and benefit rates and projections.

Contact:

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(510) 987-9850



Wendy Streit
Executive Director
Research Policy Analysis & Coordination

Attachment: Regents UCRP Letter

cc: Dwaine Duckett, UCOP Vice President – HR
Michael Baptista, UCOP Executive Director - Benefits
Michael Clune, UCOP Budget Director
Jorge Ohy, Manager UCOP Costing Policy
Robert Semple, UCOP HRB Pension



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December 16, 2010

CHANCELLORS
MEDICAL CENTER CHIEF EXECUTIVE OFFICERS
DIRECTOR – LAWRENCE BERKELEY NATIONAL LABORATORY

RE: Long-Term Budgeting for the Cost of Employer Contributions to the University of California Retirement Plan from all Payroll Sources, Including Contracts and Grants

Dear Colleagues:

As you are aware, following a contribution holiday that lasted nearly two decades, The Regents approved the restart of University of California Retirement Plan (UCRP or Plan) contributions and have established contribution rates through fiscal year 2012 (i.e., plan year 2012-2013).

The purpose of this letter is to remind locations to properly budget for the required current and future employer UCRP contributions and to allocate the additional costs to the appropriate funding sources. Since the federal Office of Management and Budget considers required contributions to an institution's pension plan to be an allowable cost, it is essential that the proportionate cost of the UCRP employer contributions be correctly allotted to contracts and grants.

The table below provides the UCRP employer contribution rates on covered compensation that have been approved by The Regents through fiscal year 2012. The table also provides a projection of the prospective UC employer contribution rates that are expected to be approved by The Regents in the future.

UCRP CONTRIBUTION RATES

Effective Date	UC Employer Contribution
	(Approved Rates)
Current	4 percent
July 1, 2011	7 percent
July 1, 2012	10 percent
	(Prospective Rates / Not Yet Approved)
July 1, 2013	12 percent
July 1, 2014	14 percent
July 1, 2015	16 percent
July 1, 2016	18 percent
July 1, 2017	20 percent

Background

The current UCRP employer contribution, as approved by The Regents in February 2009, is 4 percent of covered compensation of all UCRP active members and should be derived from all funding sources that pay member salaries. The employer contribution should cover all exclusively represented members whether or not negotiations with unions

concerning UCRP employee contributions have been finalized. The 4 percent UCRP employer contribution became effective on April 15, 2010 and is in effect until June 30, 2011.

At their meeting in September 2010, The Regents approved increasing both UCRP employer and employee contributions for fiscal years beginning 2011 and 2012, based on recommendations from the President to mitigate UCRP's growing unfunded liability. Effective July 1, 2011, the UCRP employer contribution will be 7 percent of covered compensation of all active UCRP members. The employer contribution rate increases beginning July 1, 2012 to 10 percent of covered compensation of all active UCRP members. For budgetary planning purposes, it should be assumed that the required UCRP employer contribution rate will be increased from 10 percent to 12 percent, effective July 1, 2013, and will increase by an additional 2 percent each July 1 thereafter, until it reaches a level of 20 percent of covered compensation.

Even with increased scheduled contributions for fiscal years 2011 and 2012, total employer and employee contributions to UCRP will still be below the Plan's Normal Cost (currently 17.6 percent of covered compensation) and its annual required contribution (ARC). The UCRP ARC represents both the Plan's Normal Cost as well as an additional annual amount needed to eliminate UCRP's unfunded liability over its 30-year amortization period. Consequently, at their special meeting in December 2010 to address the President's Post-Employment Benefits (PEB) recommendations, The Regents delegated additional authority and discretion to the President to fund the UCRP ARC. Although the University may borrow from the Short Term Investment Pool (STIP) and/or restructure University debt to help fund the difference of scheduled UCRP contributions and the ARC, the employer contribution to UCRP will need to be steadily increased in future years (as described in the preceding paragraph).

While the University will continue to engage with State officials and urge the State to provide its share of the UCRP employer contribution in the future, funding for UCRP may not be included in the State budget in the near term. Consequently, campuses should be prepared to cover the State's share of this cost.

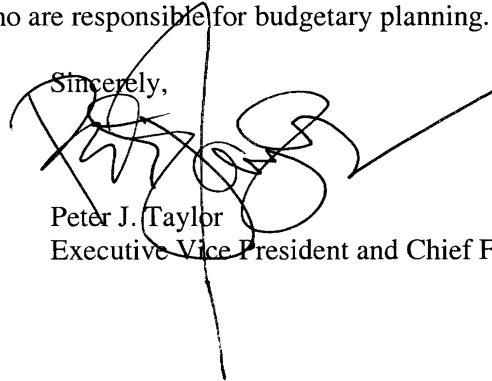
Please share this reminder with those in your organization who are responsible for budgetary planning.

Sincerely,



Nathan Brostrom
Executive Vice President
Business Operations

Sincerely,



Peter J. Taylor
Executive Vice President and Chief Financial Officer

Sincerely,



Steven Beckwith
Vice President
Research and Graduate Studies

cc: Members, President's Cabinet
General Counsel and Vice President Robinson
Vice President Duckett
Vice President Lenz
Associate Vice President Obley
Associate Vice President Reese
Director Schlimgen
Director Schwartz
Sponsored Project Offices

RPAC Research Policy Analysis & Coordination

Office of Research & Graduate Studies
University of California, Office of the President

Memo

Operating Guidance

No. 11-01 Supplement 1

June 7, 2011

To: Contract & Grants Officers; Vice Chancellors - Administration

Subject: Calculation and Documentation of Employee Benefit Rate Projections –
UCRP Financing Assessment

Background:

In September 2010, The Regents approved the reinstatement of University contributions to the University retirement program (UCRP). The projected escalation of these rates approved by The Regents was included in [RPAC Operating Guidance Memo 11-01](#), dated February 1, 2011 (attached).

Additional Guidance:

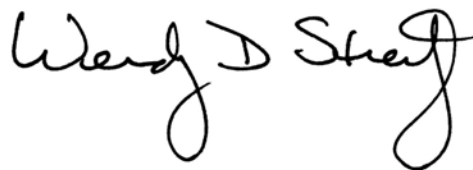
In May 2011, the attached letter entitled *Long-term Budgeting for the Cost of Employer contributions to the University of California Retirement Plan from all Payroll Sources, Including Contracts and Grants*, was sent to campus Chancellors and medical Center Chief Executive Officers. This letter provides the background and calculations for an additional assessment on University UCRP contributions of the financing rate which will pay for advances to UCRP.

Your campus benefit rate applied to extramural budgets should include this supplementary assessment starting in FY 2011-12. Appendix 1 to this letter provides the projected UCRP employer contributions approved by The Regents through FY 2011-2012 along with expected future assessments and the financing rate.

Please consult with the appropriate office on your campus for local benefit rate calculations and documentation and advise your departmental proposal budget preparers of benefit rates projections.

Contact:

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Wendy Streitz
Executive Director
Research Policy Analysis & Coordination

Attachments: UCOP CFO May 2011 Letter; RPAC Memo 11-01



EXECUTIVE VICE PRESIDENT—
CHIEF FINANCIAL OFFICER

OFFICE OF THE PRESIDENT
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Phone: 510-987-0111

May 9, 2011

CHANCELLORS
MEDICAL CENTER CHIEF EXECUTIVE OFFICERS

RE: Long-Term Budgeting for the Cost of Employer Contributions to the University of California Retirement Plan from all Payroll Sources, Including Contracts and Grants

Dear Colleagues:

This letter is a follow up to the December 16, 2010 letter regarding the University of California Retirement Plan (UCRP or Plan) contributions and established rates through fiscal year 2012 (i.e., plan year 2012-2013) and to the Regents' action in March 2011.

In addition to the established rates set forth in the December letter, a supplementary amount will be assessed to each location starting in FY2011-12. This assessment will pay for the advances to UCRP (approved in the March Regents' item) to pay the unfunded portion of the University's Normal Cost, as well as the interest on the unfunded liability in UCRP ("modified ARC"¹) for FY2010-11 and FY2011-12. The assessment is outlined below and will apply proportionally to all funding sources, including grants and contracts, based on covered compensation. (See **Appendix 1** for an estimate of future contribution rates).

Est. Payroll Assessment per Campus as a % of Covered Compensation for FY2011-12				
	UCRP Contribution	STIP Note	External Financing	Total
All Locations	7.0%	0.49%	0.19%	7.68%

¹ The UCRP ARC represents both the Plan's Normal Cost (currently 17.6% of covered compensation) as well as an additional annual amount needed to eliminate UCRP's unfunded liability over its 30-year amortization period

Background

The current UCRP employer contribution, as approved by The Regents in February 2009, is 4 percent of covered compensation of all UCRP active members and should be derived from all funding sources that pay member salaries. The employer contribution should cover all exclusively represented members whether or not negotiations with unions concerning UCRP employee contributions have been finalized. The 4 percent UCRP employer contribution became effective on April 15, 2010 and is in effect until June 30, 2011.

At their meeting of September 2010, The Regents approved increasing both UCRP employer and employee contributions for fiscal years beginning 2011 and 2012, based on recommendations from the President to mitigate UCRP's growing unfunded liability. Effective July 1, 2011, the employer UCRP contribution will be 7 percent of covered compensation of all active UCRP members.

Given the scheduled UCRP contribution rates, total employer and employee contributions to UCRP are still substantially below the ARC². Consequently, at their special meeting of December 2010³ to address the President's Post-Employment Benefits (PEB) recommendations and again during the March 2011 meeting⁴, The Regents delegated additional authority and discretion to the President to fund the UCRP ARC for FY2010-11 & FY2011-12.

Subsequent to the March Regents meeting, \$1.1 billion was transferred to UCRP to close the funding gap for FY2010-11 and \$936 million is scheduled to be transferred in July, for the FY2011-12 modified ARC amount. The first \$1.1 billion transfer was achieved by advancing funds from the Short-term Investment Pool (STIP) and creating a note receivable that will be paid back through campus assessments over a 30 year amortization period. The interest and principal repayment for this Note is to be reset each year and is currently set at 2.57% interest only for FY2011-12. The \$936 million transfer will be achieved through an external financing. The interest rate and principal repayment for the external financing is also to be reset annually and is currently expected to be approximately 1.50% interest only for the 2011-12 fiscal year.

FY of Modified ARC Pymt	Asset Transfer to UCRP - \$	Instrument Utilized to Achieve Asset Transfer	Interest Rate for FY2011-12	Cost for FY2011-12
FY2010-11	1,100,766,000	Short-term Investment Pool Note	2.57%	35,283,654
FY2011-12	934,957,000	External Borrowing	1.50% (estimate)	13,513,246

Given the rates listed above, the overall interest cost for the University as a percentage of covered compensation is 0.63 % for FY2011-12.⁵ As the federal Office of Management and Budget (OMB) considers interest on pension contributions an unallowable cost, federal fund sources may not contribute towards the payment of the interest cost on these debt instruments. Thus, the total interest payment due has to be divided among its non-federal sources only, so the rate per location will be 0.68%, to include the interest cost due from federal funds. However, this does not mean that grants and contracts will be excluded from the assessment. Federal grants and contract funds will also be assessed the same rate as other funds on campus, but their contribution will be earmarked towards paying down the principal of these notes, therefore complying with OMB guidelines regarding pension contributions. While the assessment amount will reset each year, we project the assessment will range from 0.5%-0.8% of covered compensation over the next 5-10 year period.

While the University will continue to engage with State officials and urge the State to provide its share of the UCRP employer contribution in the future, funding for UCRP may not be included in the State budget in the near term. Consequently, campuses should be prepared to cover the State's share of this cost.

² The UCRP ARC represents both the Plan's Normal Cost (currently 17.6% of covered compensation) as well as an additional annual amount needed to eliminate UCRP's unfunded liability over its 30-year amortization period

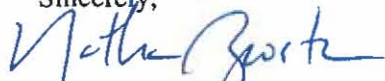
³ See complete Regents' item at <http://www.universityofcalifornia.edu/regents/regmeet/dec10/j1.pdf>

⁴ See complete Regents' item at <http://www.universityofcalifornia.edu/regents/regmeet/mar11/f12.pdf>

⁵ Based on June 2010-December 2010, covered compensation by location.

Please share this reminder with those in your organization who are responsible for budgetary planning.

Sincerely,



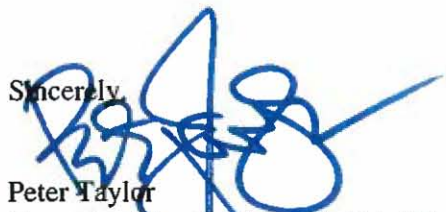
Nathan Brostrom
Executive Vice President
Business and Finance

Sincerely,



Steven Beckwith
Vice President
Office of Research and Graduate Studies

Sincerely,



Peter Taylor
Executive Vice President & Chief Financial Officer
CFO Immediate Office

cc: Members, President's Cabinet
General Counsel and Vice President Robinson
Vice President Duckett
Vice President Lenz
Associate Vice President Obley
Associate Vice President Reese
Director Schlimgen
Director Schwartz
Sponsored Project Offices

Appendix 1

UCRP Contribution Rates

The table below provides the UCRP employer contribution rates on covered compensation that have been approved by The Regents through fiscal year 2012. The table also provides a projection of the prospective UC employer contribution rates that are expected to be approved by The Regents in the future. The table includes the projected assessment for the repayment of the UCRP advances.

For budgetary planning purposes, it should be assumed that the required UCRP employer contribution rate will be increased from 10.8 percent to 12.8 percent effective July 1, 2013 and will increase by an additional 2% each July 1 thereafter, until it reaches a level of 18.8 percent of covered compensation.

UCRP CONTRIBUTION RATES

Effective Date	UC Employer Contribution	STIP Note/External Note Pymt.	New Total UC Employer Assessment
	(Approved Rates)		
Current	4 percent	0.0 percent	4 percent
July 1, 2011	7.7 percent	0.7 percent	7.7 percent
July 1, 2012	10.8 percent	0.8 percent	10.8 percent
	(Prospective Rates / Not Yet Approved)		(Prospective Rates / Not Yet Approved)
July 1, 2013	12.8 percent	0.8 percent	12.8 percent
July 1, 2014	14.8 percent	0.8 percent	14.8 percent
July 1, 2015	16.8 percent	0.8 percent	16.8 percent
July 1, 2016	18.8 percent	0.8 percent	18.8 percent
July 1, 2017	18.8 percent	0.8 percent	18.8 percent