UC: Solutions for the Real World

The University of California Retirement System
Retirement Plan

Year Ended June 30, 2001

University of California
Retirement Plan
Year Ended June 30, 2001

Annual Financial Report

of the University of California Retirement System

UCRS Plan Administration

Summary Statement

This report contains information about the University of California Retirement Plan for the fiscal year ended June 30, 2001, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2000–2001 fiscal year end are as follows:

Net assets	$38,869,900,000
Net dividend and interest income	$1,302,976,000
Benefit payments (excluding member withdrawals and lump sum cashouts)	$707,119,000
Plan administrative and other expenses	$23,224,000

Active Plan Membership

Senate Faculty and Non-Faculty Academics	19,755	members
Management/Senior Professional	17,793	members
Professional/Support Staff	72,300	members
• Average annual salary –		
Senate Faculty	$100,402	
Non-Faculty Academics	$56,628	
Management/Senior Professional	$69,014	
Professional/Support Staff	$42,562	
• Average age –		
Senate Faculty	50	years
Non-Faculty Academics	43	years
Management/Senior Professional	46	years
Professional/Support Staff	43	years

Inactive Plan Membership

Inactive Plan Membership	23,278	members

Annuitant Membership

Faculty	3,455	retirees
Management/Senior Professional	14,087	retirees
Professional/Support Staff	10,449	retirees
• Average retirement age –		
Faculty	63	years
Management/Senior Professional	59	years
Professional/Support Staff	59	years
• Average service credit at retirement –		
Faculty	26	years
Management/Senior Professional	21	years
Professional/Support Staff	14	years
• Average annual UCRP income –		
Faculty	$52,298	
Management/Senior Professional	$24,867	
Professional/Support Staff	$12,375	
Survivor/Beneficiary	4,661	recipients
Disabled	2,032	recipients

Plan Overview and Administration

The University of California Retirement Plan (UCRP or the Plan) is a valuable component of the comprehensive benefits package offered to employees of the University of California (the University), its affiliate, Hastings College of the Law, and Associated Students of UCLA. The Plan is a governmental defined benefit pension plan qualified under §401(a) of the Internal Revenue Code (IRC).

The University's pension program dates back to 1904, with a plan that provided for the purchase of commercial annuities for retiring professors at UC Berkeley and UC San Francisco. The current Plan was designed in 1961, before the University's participation in Social Security and before the introduction of employee life and disability insurance coverage. Over the years, the Plan has evolved to include provisions for:

- basic retirement income with four payment options;
- disability benefits;
- death benefits;
- preretirement survivor benefits; and
- annual, automatic adjustments for increases in the cost of living for retirees and inactive members.

Further, in lieu of lifetime retirement benefits, members may choose a refund of their accumulated Plan contributions and earnings or, if eligible to retire, they may elect a lump sum payment equal to the present value of their accrued retirement benefit.

At June 30, 2001, active UCRP members included 109,848 employees at the University's 10 campuses, five medical centers, three Department of Energy laboratories, Hastings College of the Law, and ASUCLA.

The President of the University of California is the Plan Administrator and delegates the responsibility for the day-to-day management and operation of the Plan to the Human Resources and Benefits department. This department conducts policy research, implements regulations to preserve the Plan's qualification with the Internal Revenue Service, and provides member recordkeeping, accounting and reporting, and receipt and disbursement of Plan assets to eligible members.

Plan Progression

1904	Commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	PRAS pension plan introduced for faculty and high-ranking administrators.
1937	Pension plan coverage established for nonacademic employees through CalPERS.
1961	PRAS terminated due to insolvency and UCRP established to provide retirement, disability, and preretirement survivor benefits to all University career employees.
1971	Annual 2% (maximum) COLAs applied to retirement, survivor, and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990	Employer/employee UCRP contributions suspended.
1991-94	Offered a total of three early retirement incentive programs to UCRP members and one to members of CalPERS.
1992-94	Made a total of five Capital Accumulation Provision (CAP) allocations in behalf of eligible members.
2001	Modified membership eligibility to include employees who work 1,000 hours in a 12-month period and increased UCRP age factors to enhance retirement benefits.

Changes in the Plan

The following Plan changes occurred during fiscal year 2000–2001. These changes were mandated by legislation or recommended by the President of the University and approved by The Regents.

All currently effective Plan provisions are contained in the University of California Retirement Plan document.

Date	Change
January 2001	Modified the definition of "eligible employee" to include employees who work 1,000 hours during a rolling 12-month period and to exclude "floater appointments" for employees in University-sponsored temporary employment pools.
	Increased the UCRP age factors for members as follows—members with and without Social Security: a maximum of 2.5% at age 60; Safety members: a maximum of 3% for ages 50 and older; Tier Two members: a maximum of 1.25% at age 60. Also changed to monthly age factors for all members of all ages.
	Adopted a new provision to allow active Tier Two members to return to their original UCRP membership classification (with or without Social Security) by paying an amount equal to the amount of member contributions they would have made under their original membership classification, plus interest. Payment options are through pretax salary reduction or in an after-tax lump sum.
	Adopted a provision to allow active members to eliminate or reduce any Plan 02 noncontributory balance in an after-tax lump sum, in addition to pretax installment payments.
	Provided a one-time ad hoc cost-of-living adjustment to restore the purchasing power of UCRP benefits to an 85% level for annuitants with retirement dates of July 1, 1985, and earlier.

Membership

Employees participate in the Plan in one of four membership classifications:

- Members with Social Security coverage
- Members without Social Security coverage
- Safety Members (police and firefighters)
- Tier Two

The following table reflects Plan membership by classification over the past 10 years.

Plan Membership

	Active Membership						
Year Ended June 30	With Social Security	Without Social Security	Safety Members	Tier Two Members	Total Active	Inactive Members	Total Membership*
2001	101,261	8,127	396	64	109,848	23,278	133,126
2000	94,361	8,558	393	70	103,382	21,950	125,332
1999	88,723	8,923	395	82	98,123	22,109	120,232
1998	83,490	9,388	401	84	93,363	21,998**	115,361
1997	83,100	9,820	395	89	93,404	28,778	122,182
1996	81,510	10,197	392	95	92,194	25,422	117,616
1995	80,246	10,584	390	98	91,318	21,913	113,231
1994	77,421	11,164	391	101	89,077	18,734	107,811
1993	78,121	13,326	406	108	91,961	16,187	108,148
1992	77,571	14,379	409	120	92,479	15,058	107,537

** Excludes UCRP benefit recipients, as accounted for in the table on page 7.*

*** The decrease in inactive membership since fiscal year 1997-98 is attributable to a change in the definition of inactive membership; i.e., inactive members include separated University employees with less than 5 years service credit and no UCRP account balance.*

Funding Policy

The Regents' funding policy has been to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method. In fiscal year 1990–91, The Regents adopted a full funding policy. Under that policy, The Regents suspend contributions to the Plan when the market value or the actuarial value of Plan assets (whichever is smaller) exceeds the lesser of the actuarial accrued liability or 150% of current liability plus normal cost.

The University has not made contributions to the Plan since November 1990 due to the Plan's fiscal position and its fully funded status as described in IRC §412.

UCRP Funding Status

($ in millions)

Plan Year Beginning July 1	(a) Actuarial Value of Assets in Excess of AAL	(b) Assets in Excess of Full Funding Liability	(c) Market Value of Assets in Excess of AAL
2001	$13,103.3	$10,443.6	$11,418.7
2000	12,959.0	12,110.3	18,003.7
1999	9,929.8	9,168.6	15,942.3
1998	6,515.7	5,816.8	14,105.3
1997	3,593.9	2,932.1	9,871.8
1996	1,810.6	1,186.8	5,816.9
1995	1,091.5	508.0	3,513.3
1994	1,241.4	719.8	1,001.5
1993	1,305.1	723.6	4,462.3
1992	2,438.6	2,317.9	3,820.2

(a) Beginning July 1, 1994, the Actuarial Value of Assets (AVA) is determined using the Adjusted Market Value Method. Prior to July 1, 1994, AVA is calculated using the Moving Average Market Value Method. The Actuarial Accrued Liability (AAL) is based on the funding method used to value the Plan. The AAL is equal to the present value of benefits to be paid less the present value of all future contributions required to finance the Plan.

(b) Assets: The lesser of the Actuarial Value of Assets or the Market Value of Assets. Full Funding Liability: IRC §412, the full funding limitation applied to the Plan, is the lesser of (a) the actuarial accrued liability plus normal cost, or (b) 150% of the current liability plus normal cost.

(c) Market Value of Assets is the June 30, 2001, net asset value.

Plan Benefits

The Plan paid approximately $707 million in retirement, disability, and preretirement survivor benefits to 34,684 members and their beneficiaries during fiscal year 2000–2001.

Retirement payments include cost-of-living adjustments, and payments to survivors include basic death payments. The table below reflects total benefits paid in each category over the past 10 years.

UCRP Benefit Payments

($ in thousands)

Year Ended June 30	Retirement	Disability	Death & Survivor	Total*
2001	$657,105	$25,414	$24,600	$707,119
2000	614,302	22,974	22,869	660,145
1999	583,133	20,047	21,141	624,321
1998	557,669	17,115	20,707	595,491
1997	538,125	14,882	19,495	572,502
1996	523,436	13,098	17,711	554,245
1995	529,839	11,789	16,821	558,449
1994	462,891	10,951	16,141	489,983
1993	333,797	10,666	14,819	359,282
1992	283,382	9,541	14,361	307,284

** Does not include member withdrawals and lump sum cashouts.*

The number of UCRP benefit recipients in each category as of June 30 for each of the past 10 years is shown below.

UCRP Benefit Recipients

Year Ended June 30	Retired Members	Disabled Members	Deceased Members	Survivors
2001	27,991	2,032	753	4,661
2000	26,879	1,927	503	3,964
1999	25,639	1,713	648	3,890
1998	25,075	1,517	647	3,754
1997	24,780	1,338	643	3,541
1996	24,365	1,203	569	3,350
1995	24,230	1,081	573	3,130
1994	23,301	1,024	596	2,919
1993	18,873	993	559	2,732
1992	16,606	961	600	3,074

Investment Management

In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay promised benefits, with or without the necessary assets segregated in a trust fund. The employer bears the mortality and investment risk because members' benefits are not based on contributions or Plan assets.

As Plan Trustees, The Regents are responsible for the investment of the Plan's assets, consistent with fiduciary laws of the State of California. The Treasurer of The Regents is the investment manager and custodian for the Plan's assets. The Treasurer's function is executed under the policies established by the Regents' Committee on Investments to protect the interests of all Plan members and their beneficiaries.

The assets of the Plan are held separately under a custodial agreement with State Street Bank & Trust Co. The bank carries insurance against loss of property caused by employee dishonesty, theft, misplacement, damage, distribution, or mysterious disappearance.

Asset Allocation

Total Fund. UCRP is a balanced fund, with the majority of the $39 billion investment portfolio invested in domestic and foreign common stocks. The balance includes high-quality government, corporate, foreign, and mortgage–backed bonds, and a modest allocation to private equity securities.

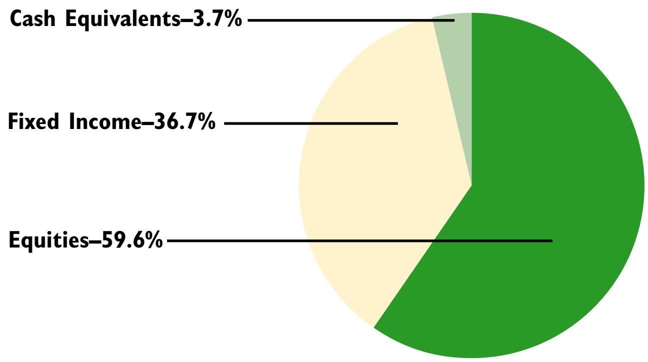
Proxy Voting Policy

The following summarizes Regents' policy on proxy voting.

The Regents, as shareholder, have instructed the Treasurer to vote with management recommendations on most proxy issues that are of a routine business management nature. Proxy issues of a more controversial nature or relating to social matters are examined on a case-by-case basis and voted by the Treasurer according to The Regents' guidelines.

Total Investment Return

The Regents are committed to achieving a long-term total return that meets the Plan's benefit obligations to its members and beneficiaries. In executing investment policy, the Treasurer looks to maximize real, long-term total returns (income plus capital appreciation, adjusted for inflation), while assuming appropriate levels of risk.



Investment Performance

Annualized Rates of Return at June 30, 2001

	1-Year	3-Year	5-Year	10-Year	20-Year
UCRP	-5.5%	6.1%	12.9%	13.9%	14.6%
Policy Benchmark Indices*					
Russell 3000 Tobacco Free Stock Index	-14.1	4.2	13.7	14.9	14.7
MSCI AC World ex–U.S. Index	-23.6	-0.7	3.5	6.8	11.3
S&P 500 Stock Index	-14.8	3.9	14.5	15.1	15.3
Salomon Smith Barney Large Pension Fund Bond Index	11.8	5.7	7.9	8.7	11.7
Lehman Aggregate Bond Index	11.2	6.3	7.5	7.9	10.7
Lehman Long-Term Gov't/Credit Index	11.3	5.0	8.3	9.4	12.2
Inflation	3.3	3.0	2.6	2.7	3.4

* **Note–**The Policy Benchmark Indices against which UCRP performance is measured changed during fiscal year 2001 as part of a new asset allocation strategy approved by The Regents. In the future, long-term performance results for the Plan will link the new and historical benchmark returns. The new and historical benchmarks are described below as follows:

New Policy Benchmark Indices

- The **Russell 3000 Tobacco Free Stock Index** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, representing approximately 98% of the invested U.S. market.
- The **MSCI All Country World Index ex–U.S.** provides dozens of indices that cover global investments. Two of the most widely used include the MSCI World Index, a broad-based global stock index, and the Europe/Australasia/Far East (EAFE) Index.
- The **Salomon Smith Barney Large Pension Fund Bond Index** is an appropriate tracking vehicle for pension funds with long-term core portfolios that closely match the longer duration of their nominal dollar liabilities. This index uses fixed sector weights and a minimum maturity of seven years for non-mortgage issues.
- The **Lehman Aggregate Bond Index** is a market value-weighted benchmark comprised of fixed-rate debt issues, including government and corporate asset-backed securities with maturities of at least one year.

Historical Benchmark Indices

- The **Standard & Poor's 500 Stock Index** is a broad-based, market value-weighted measurement of 400 industrial company stocks, 20 transportation stocks, 40 financial company stocks, and 40 public utilities.
- The **Lehman Long-Term Gov't/Credit Index** is composed of the longer-term sectors of the Lehman Bros. Gov't Bond Index and the Lehman Bros. Credit Index. The Gov't Bond Index includes the Lehman Bros. 20+ Year Treasury Index. The Credit Index includes publicly issued, fixed rate, nonconvertible investment-grade dollar-denominated, SEC-registered corporate debt with maturities of 10+ years.
- **Inflation** is derived from the Consumer Price Index for all Urban Consumers (CPI-U), not seasonally adjusted, used to measure the rate of change of consumer goods prices.

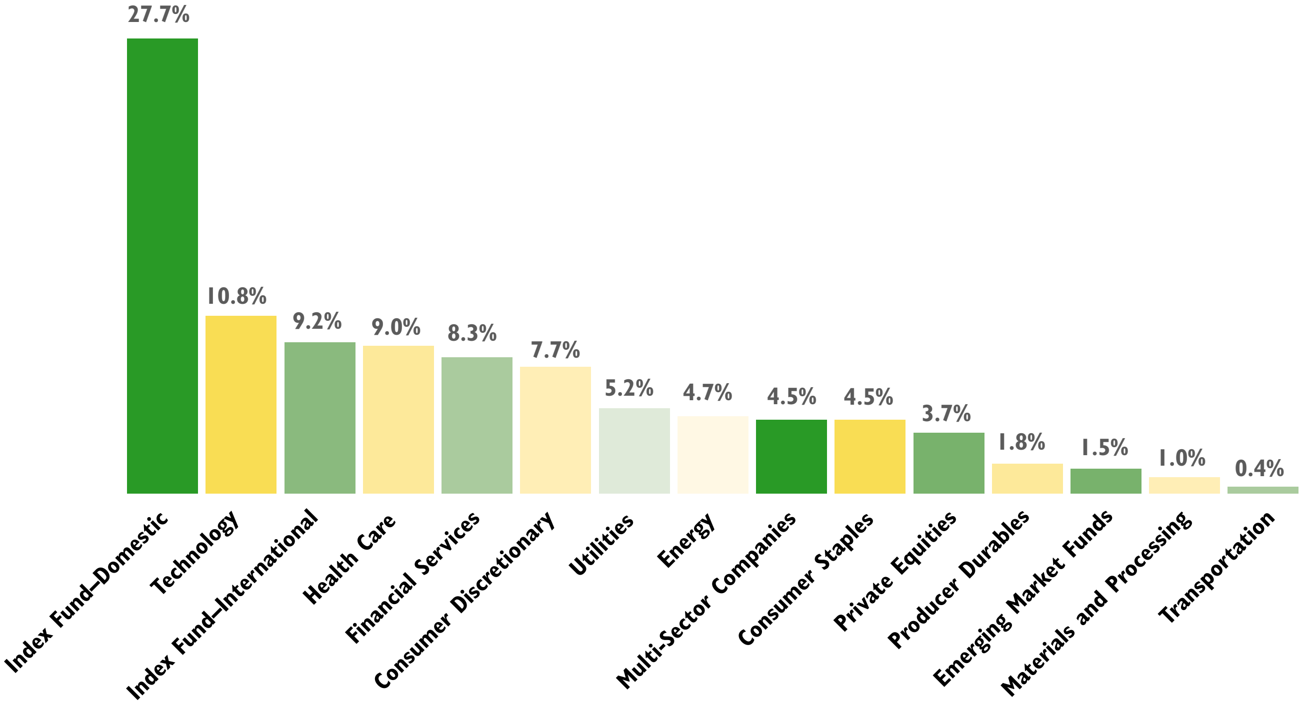
Equity Portfolio

Quality and Diversification

The equity portfolio accounts for approximately 59.6% of the total Fund and is divided among U.S., non–U.S., and private equity securities. The current asset mix is 82.5% U.S. equity, 13.8% foreign equity, and 3.7% private equity. Investments in private equity include premier venture capital partnerships and buy-out and international funds.

The equity portfolio is diversified among multiple strategic economic sectors as illustrated below.

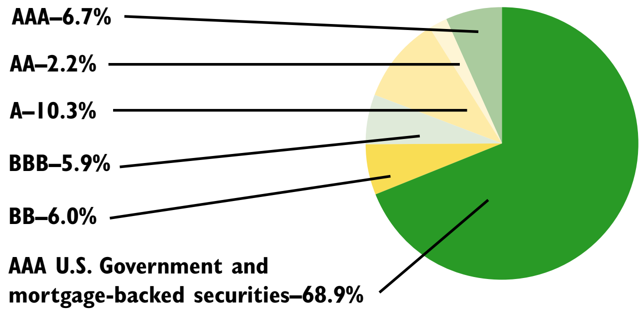
Equity Portfolio Diversification by Economic Sector



Fixed Income Portfolio

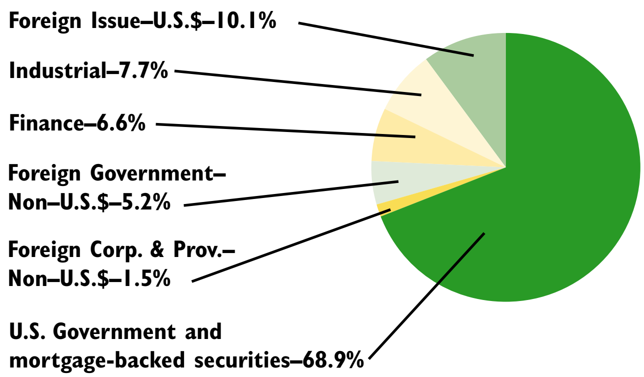
Quality

The fixed income portfolio accounts for 36.7% of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. Approximately 68.9% of the fixed income portfolio consists of U.S. government-guaranteed securities, and 77.7% of the portfolio is rated AAA or AA, the two highest rankings assigned by Standard and Poor's.



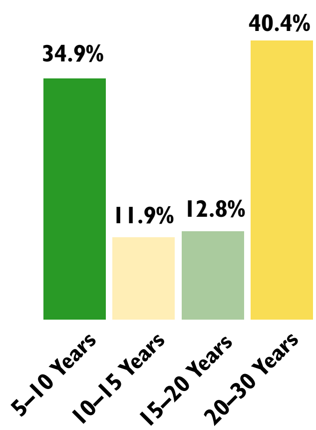
Diversification

Fixed income investments are diversified among the sectors illustrated at right. Of the U.S. government holdings and mortgage-backed securities, approximately 16.3% consists of zero-coupon bonds, the majority of which are in U.S. Treasury and government agency STRIPS.



Maturity Structure

The weighted duration of the fixed income portfolio is approximately 9 years and the weighted average maturity is approximately 15 years.



U.S. Treasury Obligations:

Guaranteed by the full faith and credit of the United States and rated AAA by Standard & Poor's.

Standard & Poor's Bond Ratings

AAA: Highest quality. Extremely strong capacity to pay principal and interest.
AA: High quality. Very strong capacity to pay principal and interest.
A: Upper medium investment grade. Strong capacity to pay principal and interest.
BBB: Medium investment grade. Adequate capacity to pay principal and interest.
BB: Speculative characteristics. Exposure to adverse conditions could impair current ability to pay principal and interest.

PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

To The Regents of the University of California:

In our opinion, the accompanying balance sheets and the related statements of changes in plan net assets present fairly, in all material respects, the financial position of the University of California Retirement Plan (the Plan) at June 30, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in pages 23 through 24 is required under Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The supplemental information included in pages 25 through 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information for the year ended June 30, 2001 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in relation to the general purpose financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 21, 2001

Statements of Plan Net Assets

June 30	2001	2000
	($ in thousands)	
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$19,158,284	$21,727,811
Foreign	3,434,778	2,871,860
Private	637,418	1,315,440
Fixed income securities:		
U.S. government	9,034,953	7,545,457
Other U.S. dollar denominated	4,289,911	3,704,789
Foreign	956,202	2,290,948
Short-Term Investment Pool	1,453,448	2,654,191
Investment of cash collateral	7,208,896	5,108,057
Total Investments	46,173,890	47,218,553
Receivables:		
Contributions	95,047	98,285
Interest and dividends	192,680	190,267
Securities sales and other	88,300	180,675
Total Receivables	376,027	469,227
Total Assets	**46,549,917**	**47,687,780**
Liabilities		
Payable for securities purchased	444,935	6,395
Member withdrawals, refunds, and other payables	32,381	22,596
Collateral held for securities lending	7,202,701	5,587,871
Total Liabilities	**7,680,017**	**5,616,862**
Net Assets Held in Trust for Pension Benefits*	**$38,869,900**	**$42,070,918**

**See Required Supplementary Schedule of Funding Progress.*

See Notes to Financial Statements.

Statements of Changes in Plan Net Assets

($ in thousands)

Years Ended June 30	2001	2000
(Reductions) Additions		
Contributions:		
State of California		$ 181
Contracts, grants, and other	$ 517	257
Members	4,405	3,248
Total Contributions	4,922	3,686
Investment (Loss) Income:		
Net (depreciation) appreciation in fair value of investments and foreign currency exchange contracts	(3,604,935)	3,439,921
Interest, dividends, and other investment income	1,275,670	1,336,199
Securities lending income	424,808	337,007
Less investment expenses	(405,549)	(323,027)
Total Investment (Loss) Income	(2,310,006)	4,790,100
Interest Income from State of California Note	8,047	8,289
Total (Reductions) Additions	**(2,297,037)**	**4,802,075**
Deductions		
Benefit Payments:		
Retirement payments	550,049	520,472
Member withdrawals	23,881	20,016
Cost-of-living adjustments	107,056	93,830
Lump sum cashouts	149,757	133,782
Preretirement survivor payments	18,753	17,342
Disability payments	25,414	22,974
Death payments	5,847	5,527
Total Benefit Payments	880,757	813,943
Expenses:		
Plan administration	22,227	15,650
Other	997	870
Total Expenses	23,224	16,520
Total Deductions	**903,981**	**830,463**
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(3,201,018)	3,971,612
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	42,070,918	38,099,306
End of Year	**$38,869,900**	**$42,070,918**

See Notes to Financial Statements.

Years Ended June 30, 2001 and 2000

NOTE 1—DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES

GENERAL—

The University of California Retirement Plan (the Plan) is a defined benefit plan providing lifetime retirement income, disability protection, death benefits, and preretirement survivor benefits to eligible employees of the University of California (the University) and its affiliate. Established in 1961, membership in the Plan is required for employees appointed to work at least 50% time for a year or more and for employees who work 1,000 hours during a rolling 12–month period. A minimum of five years of service is required for entitlement to Plan benefits. The amount of the pension benefit is determined by salary rate, age, and years of service credit. An offset formula is used for Social Security members. The maximum monthly benefit is 100% of the employee's highest average compensation over a 36-month period, adjusted for annual Internal Revenue Code (IRC) §401(a)(17) and §415 limitations. Cost-of-living adjustments (COLAs) are tied to the Consumer Price Index (CPI), according to and limited by a specified formula. Ad hoc COLA adjustments are subject to funding availability. The Plan also offered three Voluntary Early Retirement Incentive Programs (VERIPs) adopted by The Regents of the University of California (The Regents), which granted enhanced benefits to certain eligible members upon electing early retirement. The VERIPs are known as Plus 5 (fiscal year 1991-1992), Take 5 (fiscal year 1992-1993), and VERIP III (fiscal year 1993-1994).

The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members. At June 30, 2001, there were 101,261 active members with Social Security, 8,127 active members without Social Security, 396 active Safety members, and 64 Tier Two members.

Any member contributions are accounted for separately and accrue interest at an annual compounded rate of 6%, credited monthly. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may elect a lump sum payment equal to the present value of their accrued benefits. Both actions forfeit the member's rights to further accrued benefits.

From July 1, 1966, to June 30, 1971, UCRP maintained a noncontributory period for most members; contributions were required only from members who had reached age 30 and had at least one year of service. Plan 02 accounts were established to keep track of contributions that would have been deducted had a member been contributing during this period. Future retirement benefits for members with Plan 02 accounts are reduced to account for the contributions that were not made, unless the member repays the Plan 02 balance.

Plan members may also have a balance in the Plan consisting of Capital Accumulation Provision (CAP) allocations, which were credited in behalf of eligible members on various dates in 1992, 1993, and 1994. Provided to supplement basic Plan benefits, the allocations were equal to a percentage of the eligible member's covered compensation paid during the specified period. The CAP balance is generally payable in a lump sum at retirement or separation from service and includes interest credited monthly equal to an annual percentage yield of 8.5%.

For the period from July 1, 1987, to July 1, 1990, qualifying Plan members could elect to participate in noncontributory Plan membership known as Tier Two. Tier Two provides a lower level of retirement income, disability protection, and survivor benefits, calculated using specific Tier Two formulas based on the member's salary rate, age, and years of service credit.

At June 30, 2001, Plan membership consisted of 34,684 retirees and beneficiaries currently receiving benefits, 18,685 terminated vested employees entitled to benefits but not yet receiving them, and 4,593 terminated nonvested employees entitled to a refund of their Plan accumulations. Of current employees, 62,063 are fully vested and 47,785 are nonvested active employees covered by the Plan.

Employer contributions are made to the Plan in behalf of all members. The rate of employer contributions is established annually pursuant to Regents' funding policy (see Note 3) as a percentage of covered wages, recommended and certified by an enrolled, independent actuary, and approved by The Regents, the Plan's Trustees.

Basis of Accounting—
The financial statements have been prepared on the accrual basis of accounting.

Valuation of Investments—
Investments are stated at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are valued based upon the best available valuations determined by the general partners of the respective partnerships. Investments in registered investment companies are valued based upon the net asset value of those companies.

Accounting for Investments—
Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

Administrative Expenses—
Administrative expenses are incurred in connection with the operation of the Plan for items such as staff salaries and benefits, investment management, information systems, leased space, supplies and equipment, and professional services rendered by the Plan actuary, legal counsel, and independent auditor. Total Plan administrative expenses, which are paid from Plan assets, represent approximately $22.2 million or 0.06% and $15.7 million or 0.04% of the net assets held in trust for pension benefits for fiscal years 2001 and 2000, respectively.

Income Tax Status—
The Internal Revenue Service has determined and informed the University by letter dated January 9, 1997, that the Plan and related trust are designed and operated in accordance with applicable sections of the IRC of 1986, as amended, applicable to governmental defined benefit pension plans. The Plan has been amended since receiving the determination letter. However, the Plan Administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC, and is therefore qualified under §401(a) and the related trust tax exemption under §501(a).

Use of Estimates in the Preparation of Financial Statements—
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—
GASB Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," will be adopted by the Plan for the next fiscal year.

Statement No. 35, effective for the fiscal year beginning July 1, 2001, establishes a fundamentally new financial reporting model for all public colleges and universities and will require inclusion of a Management's Discussion and Analysis (MD&A) in the Plan's financial statements. GASB Statement No. 37 clarifies guidance for preparation of the MD&A. GASB Statement No. 38 modifies, adds, and deletes various financial statement note disclosure requirements.

The Plan is continuing to evaluate the effect, if any, that GASB Statement No. 35 will have on its financial statements. GASB Statements Nos. 37 and 38 will have no effect on the Plan's net assets.

Note 2—Investments and Securities Lending Transactions
The Regents, as the governing Board, is responsible for the management of the University's investments and establishes investment policy that is carried out by the Treasurer of The Regents (the Treasurer).

In March 2000, The Regents adopted an asset allocation strategy that modified the investment policies governing the management of the Plan's investments. The new policy sets a target allocation for each asset class within an allowable range that provides the flexibility to manage the portfolio to maximize returns with lower risk. The changes to the portfolio resulting from the new investment policies were fully implemented as of June 30, 2001.

The equity portion of the investment portfolio may include both domestic and foreign common stocks and preferred stocks, along with a modest exposure to private equities. Private equities include venture capital partnerships and buy-out and international funds. The fixed income portion of the investment portfolio may include both domestic and foreign securities, along with certain AAA-rated mortgage-backed securities.

The Plan participates in the University's Short-Term Investment Pool (STIP). Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five years. Current funds for benefits and administrative expenses are invested in the STIP until expended. In addition, The Regents authorize granting loans primarily to faculty under the University's mortgage origination program with terms of up to 30 years.

The Plan participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Any collateral securities cannot be pledged or sold by the Plan unless the borrower defaults. Loans of domestic equities and all fixed income securities are initially collateralized at 102% of the fair value of securities lent.

Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of securities lent. The Plan receives interest and dividends during the loan period, as well as a fee from the brokerage firm.

Securities on loan for cash collateral are not considered to be categorized. At June 30, 2001, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The Plan is fully indemnified by its custodial bank against any losses incurred as a result of borrower default. The collateral and related obligations are reported on the *Statements of Plan Net Assets*.

Securities loans immediately terminate upon notice by either the Plan or the borrower. Cash collateral is invested by the Plan's lending agent in a short-term

The composition of investments and securities lending transactions at June 30, 2001 is as follows:

Investments and Securities Lending Transactions

($ in thousands)

	Investments Owned					
	Not Lent	Lent for Cash Collateral	Lent for Securities Collateral	Total	Investment of Cash Collateral	Total
Investments, at fair value:						
Equity securities:						
Domestic	$18,643,782	$ 496,708	$ 17,794	$19,158,284		$19,158,284
Foreign	3,434,778			3,434,778		3,434,778
Private	637,418			637,418		637,418
Fixed income securities:						
U.S. government	2,901,900	5,715,110	417,943	9,034,953		9,034,953
Other U.S. dollar denominated	4,242,013	47,898		4,289,911		4,289,911
Foreign	159,708	754,245	42,249	956,202		956,202
Short-Term Investment Pool	1,453,448			1,453,448		1,453,448
Investment of cash collateral					$7,208,896	7,208,896
	$31,473,047	$7,013,961	$477,986	$38,964,994	$7,208,896	$46,173,890

investment fund in the Plan's name, with guidelines approved by the Treasurer. At June 30, 2001, the securities in this fund had a weighted average maturity of 142 days.

The Plan's investment portfolio also includes certain foreign-denominated securities. To reduce the exposure to foreign currency fluctuations inherent in such investments, the Plan may enter into forward foreign currency exchange contracts and options. Under the Plan's investment policy, such investments are not permitted for speculative use or to create leverage.

The investments that are owned and not lent, or owned and lent for securities collateral, are insured, registered or held in the Plan's custodial bank as an agent for the Plan. Investments of cash collateral are held by the Plan's custodian and designated as Plan investments in the records of the custodian. Investments that are not categorized include venture capital/private equity funds, mortgage loans, insurance contracts, other investments, and investments owned and lent for cash collateral.

The total investment return, representing (loss) income plus (depreciation) appreciation on investments, was (5.5)% and 12.8% for the years ended June 30, 2001, and 2000, respectively.

The net unrealized depreciation in investments held at June 30, 2001 was $10.48 billion. During the fiscal year, the Plan realized a net gain of $6.88 billion (on an average cost basis) from the sale of investments. Net depreciation in the fair value of investments during the fiscal year was $3.61 billion. This amount includes all changes in fair value, both realized and unrealized gains and losses, that occurred during the fiscal year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year end.

The components of the net (depreciation) appreciation of investments are as follows:

Net (Depreciation) Appreciation in Fair Value of Investments

($ in thousands)

	2001	2000
Unrealized (Depreciation) Appreciation		
Equity and private equity securities	$(10,624,308)	$ 181,786
Fixed income securities	109,838	(565,010)
Short-Term Investment Pool	29,592	(20,755)
Investment of cash collateral	1,597	2,774
Net Unrealized Depreciation	$(10,483,281)	$ (401,205)
Realized Gains		
Sales of securities	$ 6,878,346	$ 3,841,126
Net (Depreciation) Appreciation	$ (3,604,935)	$ 3,439,921

Unrealized Depreciation in Fair Value of Investments

($ in thousands)

	2001	2000
Investments at fair value as determined by quoted market price:		
Equity and private equity securities	$ (9,448,521)	$ (765,791)
Fixed income securities	109,838	(565,010)
Short-Term Investment Pool	29,592	(20,755)
Investment of cash collateral	1,597	2,774
Investments at estimated fair value:		
Private equity securities	(1,175,788)	947,577
Total	$(10,483,281)	$ (401,205)

Note 3—Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions Made—

The Regents' funding policy provides for actuarially determined periodic contributions at rates that provide for sufficient assets to be available when benefits are due, measured in line with the minimum contribution requirements set forth in IRC §412. The contribution rate is determined using the entry age normal actuarial funding method. The entry age normal funding method has been used since 1975 as the fundamental basis for the valuation of retirement benefits. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the unfunded actuarial accrued liability. Under the current funding policy, the Plan is fully funded at June 30, 2001, and 2000.

As of June 30, 2001, the difference between the net assets held in trust for pension benefits presented in the *Statements of Plan Net Assets* and the net assets allocated to fund the actuarial accrued liability (shown on page 27) was as follows:

($ in millions)

	2001
Net Plan Assets Held in Trust for Pension Benefits	$38,869.9
Less:	
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	(1,684.6)
Net assets allocated to fund the actuarial accrued liability	$40,554.5

The difference between smoothed market value and fair value is not considered available by Plan management for purposes of calculating the net assets allocated to fund the actuarially determined accrued liability.

The effect of the Voluntary Early Retirement Incentive Programs on the actuarial accrued liability at June 30, 2001, was as follows:

	($ in millions) 2001
Actuarial value of assets in excess of actuarial accrued liability without VERIPs	$14,111.6
Less unfunded actuarial liability of the VERIPs:	
Plus 5 (fiscal year 1991-1992)	(195.6)
Take 5 (fiscal year 1992-1993)	(131.2)
VERIP III (fiscal year 1993-1994)	(681.5)
Actuarial value of assets in excess of actuarial accrued liability with VERIPs - entry age normal cost basis	$13,103.3

Mandatory employee contributions, made as a condition of employment, are based upon covered University wages less a specified monthly reduction, determined periodically by The Regents, as shown below:

Member Assessment*

	Members Without Social Security	Members With Social Security		Safety Members	
Effective:		**Below Wage Base**	**Above Wage Base**		**Monthly Reduction**
07/01/93	3.0%	2.0%	4.0%	3.0%	$19
11/01/90	4.5%	2.0%	4.0%	8.0%	$19
06/30/90	6.0%	2.0%	4.0%	8.0%	$19

** The entire member assessment was directed to the Defined Contribution Plan during fiscal year 2000-2001.*

At June 30, 2001, and 2000, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately $754.0 million and $780.1 million, respectively.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and in conformance with the full funding definitions set forth in IRC §412.

Employer contributions, if any, are credited as a percentage of covered University pay. The recommended employer contributions when combined with member contributions are intended to accumulate sufficient assets to fund the actuarial accrued liability under the entry age normal cost method in order to pay accumulated Plan benefits to vested members.

Employer Assessment

Effective:	Members With Social Security, Members Without Social Security and Tier Two Members	Safety Members
11/01/90	0.00%	0.00%
01/01/90	4.03	3.77

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries, (b) beneficiaries of deceased members, and (c) present members or their beneficiaries.

Accumulated Plan benefits are based on members' compensation histories and years of service rendered as of the valuation date of June 30, 2001, and 2000.

Note 4—Contributions Receivable

Contributions receivable includes $94.5 million and $97.7 million at June 30, 2001, and 2000, respectively, related to agreements with the State of California (the State). In 1984, the State agreed to pay contributions to the Plan of $66.5 million in 30 annual installments of approximately $5.9 million, including interest at 8%, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay contributions to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46%, based on the discount rate used in the 1990 actuarial valuation.

Note 5—Plan Termination

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend or discontinue the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, its assets shall be applied solely for the benefit of retired, vested or active participants and beneficiaries, until all liabilities of the Plan have been satisfied.

Once all liabilities have been satisfied, any excess assets shall revert to The Regents as the Plan's Trustees. Neither The Regents as Trustees nor the University carry termination insurance for the Plan, as the Plan is not subject to ERISA Title IV provisions, nor is it overseen by the Pension Benefit Guaranty Corporation.

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets available for benefits, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability or assets in excess of the actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability or surplus as a percentage of annual covered payroll generally adjusts for the effects of inflation and aids in the analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Years Ended June 30

($ in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets Available for Benefits	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)	(5) Annual Covered Payroll	(6) Actuarial Surplus as a Percentage of Annual Covered Payroll (3)÷(5)
6/30/01	$40,554.5	$27,451.2	$13,103.3	147.7%	$6,539.2	200.4%
6/30/00	37,026.2	24,067.2	12,959.0	153.8	5,903.2	219.5
6/30/99	32,086.8	22,157.0	9,929.8	144.8	5,346.9	185.7
6/30/98	27,132.4	20,616.7	6,515.7	131.6	4,959.8	131.4
6/30/97	22,850.9	19,257.0	3,593.9	118.7	4,762.3	75.5
6/30/96	19,735.6	17,925.1	1,810.6	110.1	4,500.1	40.2

Required Schedule of Employer Contributions

Since 1991, the University has not been required to make employer contributions to the Plan due to the fully funded status of the Plan.

Actuarial Information

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuation is as follows:

Additional Trend Information

Valuation Date

Year Ended June 30, 2001

Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	18.19 Years
Asset valuation method	5-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	4.5-6.5%
Cost-of-living adjustments	2.00%

**Includes inflation at 4% for fiscal year 2000-2001.*

The actuarial assumptions are based on the presumption that the Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

Other Supplementary Information

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $27,451.2 million at June 30, 2001. This liability is then compared against the actuarial value of Plan assets to determine the annual required contribution to fund the Plan.

Actuarial Accrued Liability

	($ in millions) 2001
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$10,276.2
Current employees:	
Accumulated employee contributions, including allocated investment earnings	754.0
Employer-financed vested	15,487.1
Employer-financed nonvested	933.9
Total actuarial accrued liability – entry age normal cost basis	27,451.2
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	40,554.5
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	$13,103.3

REVENUES BY SOURCE AND EXPENSES BY TYPE FOR THE PAST TEN YEARS

REVENUES BY SOURCE

($ in thousands)

Year Ended June 30	Member Contributions*	Employer Contributions*	Investment & Other Income**	Total
2001	$4,405	$517	$8,181,322	$8,186,244
2000	3,248	438	5,199,594	5,203,280
1999	2,755	472	4,489,379	4,492,606
1998	3,162	328	3,830,508	3,833,998
1997	2,491	358	2,902,893	2,905,742
1996	2,081	331	1,242,516	1,244,928
1995	2,436	407	999,291	1,002,134
1994	6,232	483	1,305,483	1,312,198
1993	14,239	603	993,228	1,008,070
1992	13,198	529	820,617	834,344

EXPENSES BY TYPE

($ in thousands)

Year Ended June 30	Benefits***	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2001	$856,876	$23,224	$23,881	$903,981
2000	793,927	16,520	20,016	830,463
1999	725,543	20,110	17,453	763,106
1998	667,108	13,956	15,319	696,383
1997	622,744	12,517	15,259	650,520
1996	584,367	13,829	14,981	613,177
1995	587,552	17,492	22,979****	628,023
1994	511,351	23,078	35,656****	570,085
1993	376,543	22,274	19,652****	418,469
1992	307,451	18,463	5,718	331,632

** All or a portion of UCRP member contributions since fiscal year 1991 have been redirected to the Defined Contribution Plan. Employer contributions also reflect the zero University contribution rate. Both of these changes became effective November 1, 1990.*

*** This includes investment income, realized gain or loss on the sales of investments, and miscellaneous income net of investment expenses. It does not include unrealized gains or losses in the value of assets.*

**** Does not include member withdrawals.*

***** The increase in member withdrawals reflects Capital Accumulation Provision (CAP) payments to members who elected early retirement under the VERIPs.*

PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

To The Regents of the University of California:

In our opinion, the accompanying balance sheets and the related statements of changes in plan net assets present fairly, in all material respects, the financial position of the University of California PERS Voluntary Early Retirement Incentive Program Plan (the Plan) at June 30, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in pages 31 through 32 is required under Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The supplemental information included on page 33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information for the year ended June 30, 2001 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in relation to the general purpose financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 21, 2001

Statements of Plan Net Assets

($ in thousands)

June 30	2001	2000
Assets at fair value	$84,630	$94,682
Net Assets Held in Trust for Pension Benefits	**$84,630**	**$94,682**

Statements of Changes in Plan Net Assets

($ in thousands)

Years Ended June 30	2001	2000
Additions		
Investment (loss) income	$ (5,471)	$16,525
Deductions		
Retirement payments	4,581	4,629
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(10,052)	11,896
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	92,682	82,786
End of Year	**$84,630**	**$94,682**

See Notes to Financial Statements.

Years Ended June 30, 2001 and 2000

Note I—Description of the Plan and Significant Accounting Policies

General—

The University of California PERS Voluntary Early Retirement Incentive Program (the Plan) is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC-PERS members who elected early retirement under the provisions of the Plan. The University of California contributed to the California Public Employees' Retirement System (PERS) in behalf of these UC-PERS members.

As of June 30, 2001, Plan membership consists of 771 retirees and 48 beneficiaries. Generally, to participate in the Plan, an eligible employee was required to elect concurrent retirement under PERS and the Plan effective October 1, 1991; must have had Plan Age plus Plan Service Credit equal to 80 years as of September 30, 1991, if classified as a Qualified Academic Senate Faculty Member, or, equal to 75 years if not classified as a Qualified Academic Senate Faculty Member. Plan benefits include a one-time transition assistance payment equal to three times June 1990 salary multiplied by a factor 1.07 and a monthly retirement benefit. The monthly retirement benefit is payable in the form of a single life annuity equal to five years of service credit multiplied by an age factor and by highest average plan compensation calculated over a period of 35 months and multiplied by a factor of 1.07. Of 1,579 eligible employees, 879 elected to retire under this voluntary early retirement incentive program.

The cost of contributions made to the Plan is borne entirely by the University and the Department of Energy (DOE) laboratories. Over the five-year period ended June 30, 1996, the University and DOE laboratories were required to make contributions to the Plan as determined by the Plan actuary sufficient to maintain the promised benefits and the qualified status of the Plan under the regulations of the Internal Revenue Code of 1986 (IRC). No additional contributions are required as long as the Plan remains fully funded under the actuarial basis used by the Plan.

Basis of Accounting—

The financial statements have been prepared on the accrual basis of accounting.

Valuation of Investments—

The assets of the Plan are combined for investment purposes with the assets of the University of California Retirement Plan (UCRP). Accordingly, the assets of the Plan are valued based on a pooled interest of the combined investments. The two plans are separate trusts, and each Plan is accounted for on a separate basis. Investments are stated at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are valued based upon the valuations determined by the general partners of the respective partnerships. Investments in registered investment companies are valued based upon the net asset value of those companies.

Accounting for Investments—

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

Administrative Expenses—

Administrative expenses of the Plan are paid by an annual account servicing charge of $10 per participant.

Income Tax Status—

The Plan is intended to qualify under the statutory requirements of the Internal Revenue Code of 1986, as amended, applicable to governmental defined benefit pension plans. The Plan's tax counsel believes that the Plan as currently designed and operated is in compliance with applicable requirements of IRC §401(a) and the related trust tax exemption under §501(a).

Use of Estimates in the Preparation of Financial Statements—

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—

GASB Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," will be adopted by the Plan for the next fiscal year.

Statement No. 35, effective for the fiscal year beginning July 1, 2001, establishes a fundamentally new financial reporting model for all public colleges and universities and will require inclusion of a Management's Discussion and Analysis (MD&A) in the Plan's financial statements. GASB Statement No. 37 clarifies guidance for preparation of the MD&A. GASB Statement No. 38 modifies, adds, and deletes various financial statement note disclosure requirements.

The Plan is continuing to evaluate the effect, if any, that GASB Statement No. 35 will have on its financial statements. GASB Statements Nos. 37 and 38 will have no effect on the Plan's net assets.

Note 2–Investments

The Plan's investments of $84.7 million are included within the UCRP investment pool. These monies are pooled with the monies of the University of California and invested by the Treasurer of The Regents.

The total investment return, representing (loss) income plus (depreciation) appreciation on investments, was (5.5)% and 12.8% for the years ended June 30, 2001, and 2000, respectively.

Note 3–Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions–

The Regents' funding policy provides for actuarially determined lump sum or periodic contributions to be made by the Office of the President, campuses, and DOE laboratories in behalf of Plan members at rates that provide for sufficient assets to be available when benefits are due. The campuses and DOE laboratories were given the option of funding their contribution in a lump sum, over three years, or over five years. As of June 30, 2001, and 2000, the Plan was fully funded and no annual contributions were required.

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired members or their beneficiaries and (b) beneficiaries of deceased members.

Note 4–Plan Termination

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, Plan assets shall be applied solely for the benefit of retired members and their beneficiaries, until all liabilities of the Plan have been satisfied.

In the event Plan assets available for benefits are insufficient to meet its obligations, The Regents' funding policy provides for additional contributions to be made in behalf of Plan members by the Office of the President, campuses, and DOE laboratories.

Once all liabilities have been satisfied, any excess assets shall revert to The Regents as the Plan's Trustees. Neither The Regents as Trustees nor the University carry termination insurance for the Plan, as the Plan is not subject to ERISA Title IV provisions, nor is it overseen by the Pension Benefit Guaranty Corporation.

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets available for benefits, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Years Ended June 30 *($ in thousands)*

Actuarial Valuation Date	(1) Actuarial Value of Assets Available for Benefits*	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)
6/30/01	$84,630	$40,626	$44,004	208.3%
6/30/00	94,682	41,871	52,811	226.1
6/30/99	82,786	43,311	39,475	191.1
6/30/98	72,550	44,502	28,048	163.0
6/30/97	63,751	46,792	16,959	136.2
6/30/96	52,908	46,783	6,125	113.1

** Reported at fair value.*

Because 100% of the members in the Plan are retired, there is no annual covered payroll.

Required Supplementary Schedule of Employer Contributions for the Past Six Years

($ in thousands)

	Employer Contributions	
Years Ended June 30	Annual Required Contribution	Contribution Percentage
2001	$0	100%
2000	0	100
1999	0	100
1998	0	100
1997	0	100
1996	2,732	100

Note to Required Supplementary Information

Actuarial Information

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuation is as follows:

Additional Trend Information

Valuation Date

Year Ended June 30, 2001

Actuarial cost method	Unit Credit
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases	N/A
Cost-of-living adjustments	None

** Includes inflation at 4% for fiscal year 2000-2001.*

The actuarial assumptions are based on the presumption that the Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

The total net assets available in excess of the total actuarial accrued liability (AAL) of the Plan based on the measure of the AAL, which uses the unit credit basis, as appears in the actuarial valuation, was approximately $44.0 million at June 30, 2001, as follows:

Actuarial Accrued Liability

	($ in millions) 2001
Retirees and beneficiaries currently receiving benefits	$40.6
Total actuarial accrued liability - unit credit basis	40.6
Net assets allocated to fund the actuarial accrued liability, at fair value	84.6
Actuarial value of assets in excess of the actuarial accrued liability - unit credit basis	$44.0

UCRS Advisory Board

Member	Location	Term
Julia Armstrong-Zwart (Chair)	UC Santa Cruz	July 1997 – June 2001
Stephen Barclay (Vice Chair)	UC San Francisco	July 1996 – June 2004
Jacqueline Edwards	UC San Diego	July 1998 – June 2002
Anne C. Fink	UC Irvine	April 2001–June 2004
Daniel J.B. Mitchell	UC Los Angeles	July 2001– June 2004
Joseph P. Mullinix	Office of the President	Permanent
David H. Russ	Office of the Treasurer	Permanent
Lori C. Stein	UC Los Angeles	July 1999 – June 2003
Steve Sugarman	UC Berkeley	July 1998 – June 2002

None of the UCRS Board members received any compensation from the Plan for services rendered during fiscal year 2000–2001.

UCRS Investment Management

Treasurer	David H. Russ

Plan Administration

Plan Administrator	Richard C. Atkinson
Senior Vice President	Joseph P. Mullinix
UCRS Associate Vice President	Judith W. Boyette
UCRS Internal Counsel	Dorothy E. Dana
UCRS Retirement Planning and Service Center	Judy F. Ackerhalt
UCRS Retirement Planning and Analysis	Eva Devincenzi
UCRS Benefits Initiatives	Yvonne DeVaughn
UCRS Retirement Services	Kay Miller
UCRS Financial Services and Plan Disbursements	David L. Olson
UCRS Communications and Training Services	Barbara J. Facey
UCRS Information Systems Support	Michael Baptista
Plan Actuary	Towers Perrin
Plan Auditor	PricewaterhouseCoopers LLP
Plan Counsel	O'Melveny & Myers

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