ANNUAL FINANCIAL REPORT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
YEAR ENDED JUNE 30, 2002

UCRS Plan Administration

Summary Statement

This report contains information about the University of California Retirement Plan as of and for the fiscal year ended June 30, 2002, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2001–2002 fiscal year end are as follows:

Net assets	$34.4	billion
Net dividend and interest income	$1.1	billion
Benefit payments (excluding member withdrawals and lump sum cashouts)	$783.7	million
Plan administrative and other expenses	$26.2	million

Active Plan Membership

Senate Faculty and Non-Faculty Academics	21,246	members
Management/Senior Professional	24,512	members
Professional/Support Staff	72,018	members
Total	117,776	members
• Average annual salary –		
Senate Faculty	$105,137	
Non-Faculty Academics	$63,321	
Management/Senior Professional	$77,813	
Professional/Support Staff	$45,356	
• Average age –		
Senate Faculty	50	years
Non-Faculty Academics	42	years
Management/Senior Professional	45	years
Professional/Support Staff	41	years

Inactive Plan Membership

Inactive Plan Membership	25,198	members

Annuitant Membership

Faculty	3,545	retirees
Management/Senior Professional	15,295	retirees
Professional/Support Staff	10,407	retirees
Total	29,247	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	$52,401	
Management/Senior Professional	$26,446	
Professional/Support Staff	$12,015	
Survivor/Beneficiary	4,822	recipients
Disabled	2,096	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 (ASUCLA). 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, 2002, active UCRP members included 117,776 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 percent (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.
2002	Made an additional Capital Accumulation Provision (CAP II) allocation in behalf of eligible members.

Changes in the Plan

The following Plan changes occurred during fiscal year 2001–2002. 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 2002	Amended the Plan to accommodate federal tax reform provisions enacted under the Economic Growth and Tax Relief Reconciliation Act. New provisions expanded the distribution options for rollovers out of the Plan.
April 2002	Provided a CAP II allocation equal to 3 percent of active UCRP members' covered compensation received during the previous 12 months.

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

Year Ended June 30	Active Membership: With Social Security	Active Membership: Without Social Security	Active Membership: Safety Members	Active Membership: Tier Two Members	Active Membership: Total Active	Inactive Members/ Other*	Total**
2002	109,708	7,614	398	56	117,776	25,198	142,974
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

** Includes terminated nonvested employees eligible for a refund of Plan accumulations*

*** 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 are 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 percent of current liability plus normal cost.

The University has not made contributions to the Plan since November 1990 due to the Plan's financial 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
2002	$11,549.2	$ 3,247.3	$ 4,342.2
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

(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 percent of the current liability plus normal cost.

(c) Market Value of Assets is the June 30, 2002, net asset value.

Plan Benefits

The Plan paid approximately $784 million in retirement, disability, and preretirement survivor benefits to 36,165 members and their beneficiaries during fiscal year 2001–2002.

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*
2002	$730,115	$27,132	$26,475	$783,722
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

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

The number of UCRP benefit recipients in each category for the year ended 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**
2002	29,247	2,096	589	4,822
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

INVESTMENT MANAGEMENT

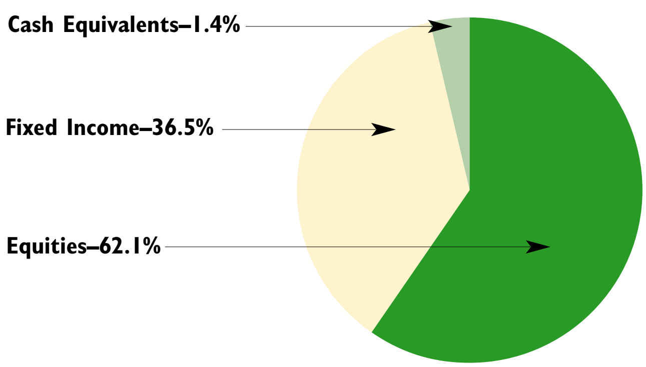
In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay promised benefits, with or without the necessary assets segregated in a trust fund. The employer bears the mortality and investment risk because members' benefits are not based on contributions or Plan 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 $34.5 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 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.

Annualized Rates of Return at June 30, 2002

	1-Year	3-Year	5-Year	10-Year	20-Year
UCRP	-9.2%	-1.1%	5.7%	11.2%	14.3%
Policy Benchmark Indices*					
Russell 3000 Tobacco Free Index	-17.4	-8.0	3.8	11.2	14.4
MSCI AC World ex–U.S. Index	-9.1	-6.1	-1.0	5.8	11.9
S&P 500 Stock Index	-18.0	-9.2	3.7	11.4	14.9
Salomon Smith Barney Large Pension Fund Bond Index	8.8	8.2	7.9	8.1	11.6
Lehman Aggregate Bond Index	8.6	8.1	7.6	7.3	10.5
Lehman Long-Term Gov't/Credit Index	8.3	8.0	8.2	8.6	12.1
Inflation	1.1	2.7	2.3	2.5	3.1

***Note—**The current and historical Policy Benchmark Indices against which UCRP performance is measured are described below as follows:

Current Policy Benchmark Indices

- The **Russell 3000 Tobacco Free Index** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, representing approximately 98 percent of the invested U.S. market.
- The **MSCI All Country World ex-U.S. Index** provides dozens of indexes 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.
- **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.

Historical Benchmark Indices

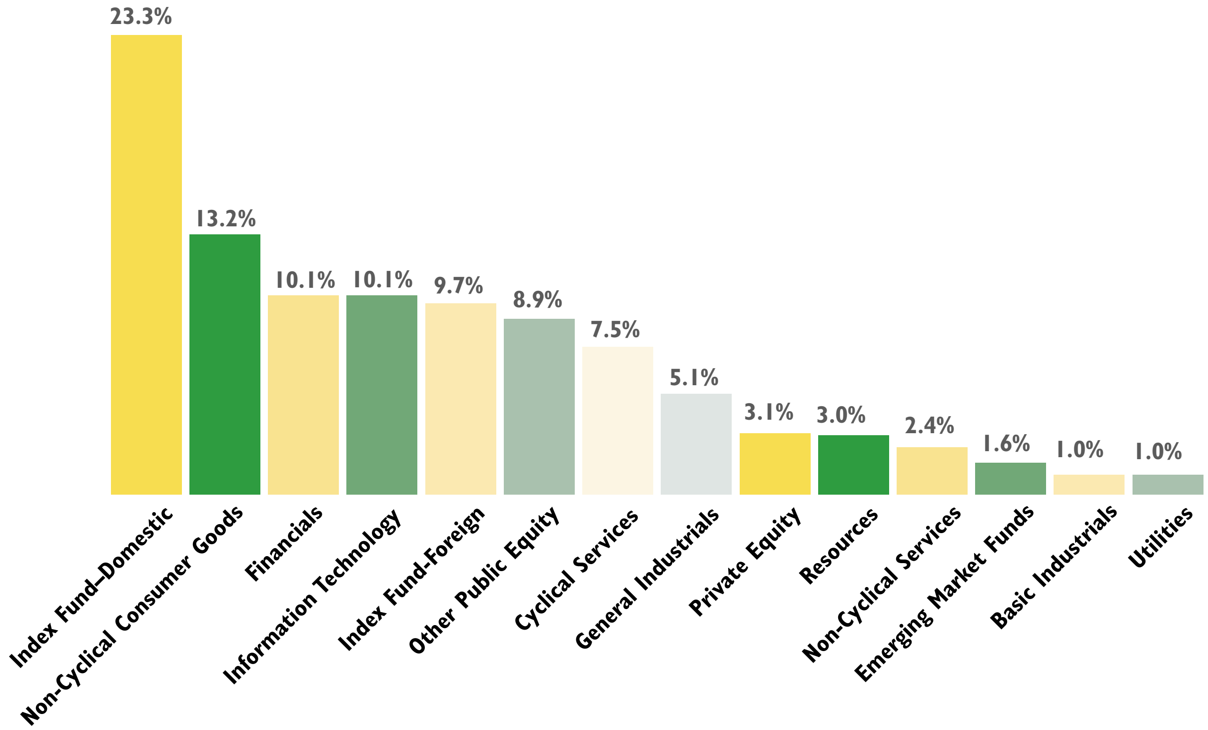
- The **Standard & Poor's 500 Index** is a broad-based, market value-weighted measurement of 400 industrial company stocks, 20 transportation stocks, 40 financial company stocks, and 40 public utilities.
- The **Lehman Long-Term Gov't/Credit Index** is composed of the longer-term sectors of the Lehman 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 or longer.

QUALITY AND DIVERSIFICATION

The equity portfolio accounts for approximately 62.1 percent of the total Fund and is divided among U.S., non–U.S., and private equity securities. The current asset mix is 82.3 percent U.S. equity, 15.3 percent non–U.S. equity, and 2.4 percent 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.

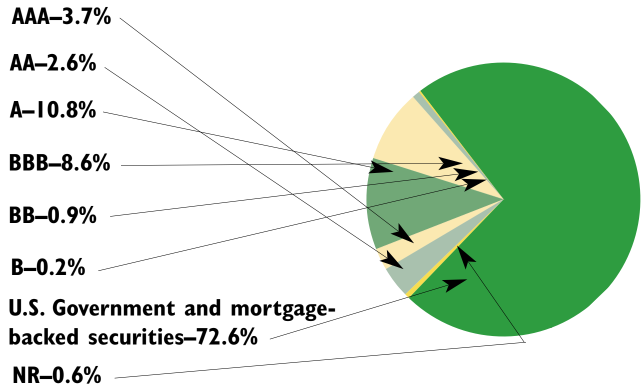
EQUITY PORTFOLIO DIVERSIFICATION BY ECONOMIC SECTOR



Fixed Income Portfolio

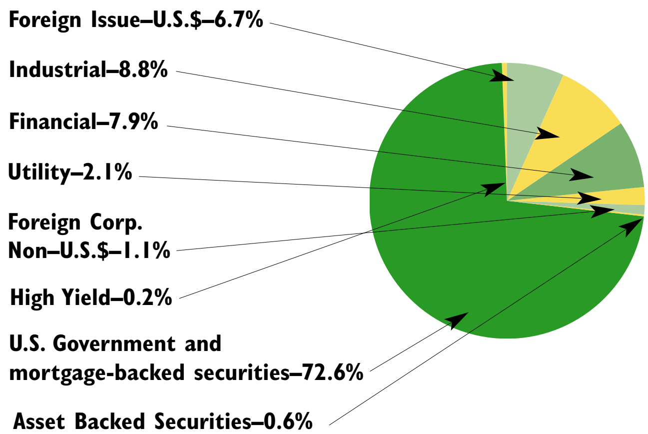
Quality

The fixed income portfolio accounts for 36.5 percent of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. Approximately 72.6 percent of the fixed income portfolio consists of U.S. government-guaranteed securities, and 76.3 percent of the portfolio is rated AAA or AA, the two highest rankings assigned by Standard and Poor's.



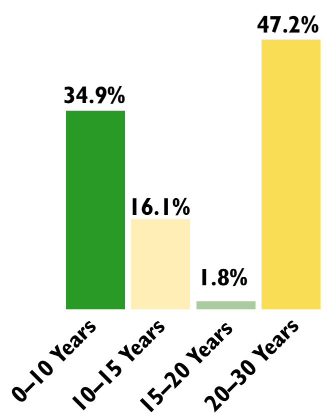
Diversification

Fixed income investments are well diversified among the sectors illustrated at right. Of the U.S. government holdings and mortgage-backed securities, approximately 13.3 percent 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 8 years and the weighted average maturity is approximately 13 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:	Prime, maximum safety. Extremely strong capacity to pay principal and interest.
AA:	High grade, high quality. Very strong capacity to pay principal and interest.
A and A1: A-3	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.
B:	Highly speculative.
NR:	Not rated or not available.

The objective of Management's Discussion and Analysis is to help readers of the University of California Retirement Plan (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The net assets held in trust for pension benefits at June 30, 2002, are $34.4 billion. The net assets are available to meet the Plan's ongoing obligations to Plan members, retirees, and their beneficiaries.
- The net assets of the Plan decreased by $4.4 billion, or 11.4 percent from the prior fiscal year.
- The Plan's total investment rate of return was (9.2) percent in fiscal 2002 compared to (5.5) percent in fiscal 2001.
- As of June 30, 2002, the date of the most recent actuarial valuation, the Plan's funded ratio was 138.4 percent, compared to 147.7 percent as of June 30, 2001. For June 30, 2002, this indicates that for every dollar of benefits due to the Plan's members, assets of $1.38 are available to cover benefit obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- *Statements of Fiduciary Net Assets*
- *Statements of Changes in Fiduciary Net Assets*
- *Notes to Financial Statements*
- *Required Supplementary Information* and *Note to Required Supplementary Information*
- *Other Supplementary Information*

The *Statements of Fiduciary Net Assets* presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables, and other assets and liabilities.

The *Statements of Changes in Fiduciary Net Assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2002, and 2001. It reflects contributions along with investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits, withdrawals, cost-of-living adjustments, lump sum cashouts, survivor, disability, death benefits, and administrative expenses are also presented.

The *Notes to Financial Statements* provides additional information that is essential to a full understanding of the data provided in the financial statements.

The *Required Supplementary Information* consists of two schedules and a related note concerning the funded status of the Plan. The *Note to Required Supplementary Information* provides additional trend information as of the valuation date. This information includes actuarial cost method, amortization method, remaining amortization period, asset valuation period, and actuarial assumptions.

The *Other Supplementary Information* consists of two schedules concerning the actuarial accrued liability of the Plan and the revenues by source and expenses by type for the past 10 years of the Plan.

FINANCIAL ANALYSIS

The Plan provides retirement benefits to University of California employees. Plan benefits are funded by member and employer contributions and by investment income. The Plan's net assets held in trust for benefits as of June 30, 2002, amounted to $34.4 billion, a decrease of $4.4 billion (11.4 percent) from $38.9 billion as of June 30, 2001.

Additions to the Plan's net assets held in trust for benefits include contributions and any investment income. Member and employer contributions during the fiscal year ended June 30, 2002, amounted to $3.1 million primarily for service credit buybacks. The Plan recognized a net investment loss of $3.5 billion for the 2002 fiscal year, compared with a net investment loss of $2.3 billion for the 2001 fiscal year. The investment loss was due primarily to a continued downturn in the domestic and foreign equity markets during the 2001-2002 fiscal year.

Deductions from the Plan's net assets held in trust for benefits include retirement benefit payments, member withdrawals, cost-of-living adjustments, lump sum cashouts, preretirement survivor benefits, disability and death benefits, and administrative expenses. For the 2002 fiscal year, deductions amounted to $970.5 million, compared to $904.0 million in fiscal 2001. The increase in deductions was primarily due to an increase in retirement benefit payments and cost-of-living adjustments.

Fiduciary Net Assets

	($ in thousands) 2002	2001	Total Percentage Change
Assets			
Short-Term Investment Pool and receivables	$ 1,034,385	$ 1,829,475	(43.5)%
Investments	34,055,519	37,511,546	(9.2)%
Investment of securities lending collateral	5,468,665	7,208,896	(24.1)%
Total Assets	**$40,558,569**	**$46,549,917**	**(12.9)%**
Liabilities			
Payable for securities purchased, member withdrawals, refunds, and other payables	$ 650,629	$ 477,316	36.3%
Collateral held for securities lending	5,466,135	7,202,701	(24.1)%
Total Liabilities	**$ 6,116,764**	**7,680,017**	**(20.4)%**
Net Assets Held in Trust for Pension Benefits	**$34,441,805**	**$38,869,900**	**(11.4)%**

Changes in Fiduciary Net Assets

	($ in thousands) 2002	2001	Total Percentage Change
Additions (Reductions)			
Employer contributions	$ 118	$ 517	(77.2)%
Member contributions	2,954	4,405	(32.9)%
Investment loss	(3,468,499)	(2,310,006)	50.1%
Other	7,785	8,047	(3.3)%
Total Reductions	**$ (3,457,642)**	**$ (2,297,037)**	**50.5%**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	$ 917,747	$ 856,876	7.1%
Member withdrawals	26,460	23,881	10.8%
Administrative and other expenses	26,246	23,224	13.0%
Total Deductions	**$ 970,453**	**$ 903,981**	**7.4%**
Decrease in Net Assets Held in Trust for Pension Benefits	**$ (4,428,095)**	**$ (3,201,018)**	**38.3%**

Investments

At June 30, 2002, the Plan held $21.5 billion in domestic, foreign and private equity securities, a decrease of $1.7 billion from the 2001 fiscal year. The domestic equity securities component return was (21.4) percent for the 2002 fiscal year, compared to the policy benchmark return of (17.4) percent. The foreign equity securities component return was (7.4) percent for the 2002 fiscal year, compared to the Plan's policy benchmark return of (8.2) percent. The private equity securities component return was (14.9) percent for the 2002 fiscal year, compared to the policy benchmark return of (14.8) percent. The Plan held $12.6 billion in U.S. government, other U.S. dollar-denominated, and foreign fixed income securities—a decrease of $1.7 billion from the 2001 fiscal year. The fixed income securities component earned a total return of 9.5 percent, compared to the Plan's policy benchmark return of 8.8 percent. The Plan's total fund investment rate of return was (9.2) percent in fiscal 2002, compared to the Plan's total fund policy benchmark return of (7.7) percent.

Funded Status

The Plan's actuarial value of assets available for benefits was $41.6 billion as of June 30, 2002—an increase of $1.0 billion (2.5 percent) from the 2001 fiscal year. The actuarial accrued liability was $30.1 billion—an increase of $2.6 billion (9.6 percent) from the 2001 fiscal year.

The Plan's actuarial surplus was $11.5 billion—a decrease of $1.6 billion (11.9 percent) from the 2001 fiscal year. The funded percentage at June 30, 2002, was 138.4 percent compared to 147.7 percent for the 2001 fiscal year.

An analysis of the funding progress, employer contributions, and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

Fiduciary Responsibilities

The Board of Regents of the University of California (The Regents) is fiduciary of the Plan. Under law, the assets can only be used for the exclusive benefit of Plan members, retirees, and beneficiaries.

Requests for Information

This financial report is designed to provide The Regents, the UCRS Advisory Board, members, retirees, and others with a general overview of the Plan's financial posture and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

University of California
Office of the President–HR/Benefits Dept.
Financial Services and Plan Disbursements
300 Lakeside Drive, Suite 400
Oakland, CA 94612

PricewaterhouseCoopers LLP
Suite 1200
555 Capitol Mall
Sacramento CA 95814-4602
Telephone (916) 930 8100
Facsimile (916) 930 8450

Report of Independent Accountants

To The Regents of the University of California:

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 16 through 25) present fairly, in all material respects, the financial position of the University of California Retirement Plan (the Plan) at June 30, 2002 and 2001, and the changes in fiduciary 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.

As discussed in Note 1 to the financial statements, as of July 1, 2001, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

PricewaterhouseCoopers LLP

Sacramento, California
September 25, 2002

STATEMENTS OF FIDUCIARY NET ASSETS

($ in thousands)

June 30	2002	2001
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$17,646,709	$19,158,283
Foreign	3,276,537	3,434,778
Private	524,532	637,418
Fixed income securities:		
U.S. government	6,599,609	9,034,953
Other U.S. dollar denominated	5,867,777	4,289,912
Foreign	140,355	956,202
Short-Term Investment Pool	474,459	1,453,448
Total Investments	34,529,978	38,964,994
Investment of cash collateral	5,468,665	7,208,896
Receivables:		
Contributions	92,716	95,047
Interest and dividends	167,187	192,680
Securities sales and other	300,023	88,300
Total Receivables	559,926	376,027
Total Assets	**40,558,569**	**46,549,917**
Liabilities		
Payable for securities purchased	620,030	444,935
Member withdrawals, refunds, and other payables	30,599	32,381
Collateral held for securities lending	5,466,135	7,202,701
Total Liabilities	**6,116,764**	**7,680,017**
Net Assets Held in Trust for Pension Benefits*	**$34,441,805**	**$38,869,900**

**See Required Supplementary Schedule of Funding Progress.*

See Accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

($ in thousands)

Years Ended June 30	**2002**	**2001**
(Reductions) Additions		
Contributions:		
Employer	$ 118	$ 517
Members	2,954	4,405
Total Contributions	3,072	4,922
Investment (Loss) Income :		
Net depreciation in fair value of investments	(4,561,202)	(3,604,935)
Interest, dividends, and other investment income	1,068,996	1,275,670
Securities lending income	177,507	424,808
Less investment expenses	(153,800)	(405,549)
Total Investment Loss	(3,468,499)	(2,310,006)
Interest Income from Contributions Receivable	7,785	8,047
Total (Reductions) Additions	**(3,457,642)**	**(2,297,037)**
Deductions		
Benefit Payments:		
Retirement payments	604,352	550,049
Member withdrawals	26,460	23,881
Cost-of-living adjustments	125,763	107,056
Lump sum cashouts	134,025	149,757
Preretirement survivor payments	20,189	18,753
Disability payments	27,132	25,414
Death payments	6,286	5,847
Total Benefit Payments	944,207	880,757
Expenses:		
Plan administration	25,427	22,227
Other	819	997
Total Expenses	26,246	23,224
Total Deductions	**970,453**	**903,981**
Decrease in Net Assets Held in Trust for Pension Benefits	(4,428,095)	(3,201,018)
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	38,869,900	42,070,918
End of Year	$34,441,805	$38,869,900

See Accompanying Notes to Financial Statements.

NOTE 1—DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES

GENERAL INTRODUCTION—

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 all employees appointed to work at least 50% time for a year or more. Effective January 1, 2001, employees with with limited appointments, employees in contract positions, employees in "noncareer" positions at the Department of Energy laboratories, and certain academic employees may become eligible for UCRP membership after working 1,000 hours in a rolling, continuous 12-month period. Generally, five years of service are 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 percent 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 COLAs 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, 2002, there were 109,708 active members with Social Security, 7,614 active members without Social Security, 398 active Safety members, and 56 active Tier Two members.

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

From July 1, 1966, to June 30, 1971, the Plan 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.

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.

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, 1994, and 2002. 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 percent for allocations made in 1992, 1993, and 1994. For allocations made in 2002, the interest credited monthly is equal to the actuarial investment rate of return assumption of the Plan, which equates to an annual percentage yield of 7.5 percent.

At June 30, 2002, Plan membership consisted of 36,165 retirees and beneficiaries currently receiving benefits, 19,402 terminated vested employees entitled to benefits but not yet receiving them, and 5,796 terminated non-vested employees entitled to a refund of their Plan accumulations. Of current employees, 64,031 are fully vested and 53,745 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 The Regents' funding policy (see Note 4) 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 in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and the accrual basis of accounting.

Valuation of Investments—

Investments are primarily 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 based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements, and securities distributions through June 30. The carrying amount of these financial instruments is a reasonable estimate of fair value. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

Accounting for Investments—

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference beween the proceeds from the sale and the average cost of the investment sold. 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 $25.4 million or 0.07 percent and $22.2 million or 0.06 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2002 and 2001.

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—

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34 provides a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements and required supplementary information.

The Plan adopted GASB Statement No. 34 on July 1, 2001, which required the Plan to present Management's Discussion and Analysis (MD&A) as required supplementary information preceding the basic financial statements as well as changes to the presentation of its basic financial statements. The statement of net assets, formerly referred to as the statements of plan net assets is now referred to as the statements of fiduciary net assets. The statement of changes in net assets, formerly referred to as the statements of changes in plan net assets is now referred to as the statements of changes in fiduciary net assets.

The adoption of GASB Statement No. 34 did not have an impact on the net assets of the Plan.

NOTE 2—INVESTMENTS

The Regents, as the governing Board, are responsible for the management of the Plan's investments and establish investment policy, which is carried out by the Treasurer.

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, 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. These mortgage-backed securities are used to diversify the portfolio and reduce market risk exposure.

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

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.

The investments that are owned and not lent, or owned and lent for securities collateral, are insured, registered, or held in the Plan's name by the custodial bank as an agent for the Plan. Investments of cash collateral are held by the 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, other investments, and investments owned and lent for cash collateral.

The total investment return, representing income plus net depreciation on investments, was (9.2) percent and (5.5) percent, respectively, for the years ended June 30, 2002, and 2001.

Net depreciation in the fair value of investments during the year ended June 30, 2002, was $4.561 billion. This amount includes all changes in fair value, including both realized and unrealized gains and losses that occurred during the 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.

During the year ended June 30, 2002, the Plan realized a net gain of $1.194 billion (on an average cost basis) from the sale of investments. The unrealized depreciation during the year on investments held at year end by the Plan was $5.755 billion.

The components of the net depreciation of investments are as follows:

Net (Depreciation) Appreciation in Fair Value of Investments

($ in thousands)

	2002	2001
Unrealized (Depreciation) Appreciation		
Equity and private equity securities*	$(5,629,676)	$(10,624,308)
Fixed income securities	(121,773)	109,838
Short-Term Investment Pool	(6,195)	29,592
Investment of cash collateral	2,531	1,597
Net Unrealized Depreciation	$(5,755,113)	$(10,483,281)
Realized Gains		
Sales of securities	$1,193,911	$6,878,346
Net Depreciation	$(4,561,202)	$ (3,604,935)

**Included in equity and private equity securities is $315.7 million and $1,175.8 million of net depreciation in estimated fair value of investments related to private equity securities for the years ended June 30, 2002, and 2001, respectively.*

NOTE 3—SECURITIES LENDING

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 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100 percent of the fair value of securities lent.

Securities loans immediately terminate upon notice by either the Plan or the borrower. Cash collateral received from the borrower, shown as "Collateral held for securities lending" in the financial statements, is invested by the lending agent, as an agent for the University, in a short-term investment fund in the name of the Plan, with guidelines approved by the Treasurer. These short-term investments are shown as investment of cash collateral in the financial statements. At June 30, 2002, and 2001, the securities in this pool had weighted average maturity of 172 and 142 days, respectively.

Securities lending transactions at June 30, 2002, and 2001 are as follows:

	($ in thousands)	
Securities Lent	**2002**	**2001**
For cash collateral:		
Equity securities:		
Domestic	$ 432,380	$ 496,708
International	366,098	411,862
Fixed income securities:		
U.S. government	4,464,881	5,715,111
Other U.S. dollar denominated	73,767	47,897
Foreign		342,383
Lent for Cash Collateral	**5,337,126**	**7,013,961**
For securities collateral:		
Equity securities:		
Domestic	19	17,794
Foreign		6,113
Fixed income securities:		
U.S. government	325,992	417,942
Foreign		36,136
Lent for Securities Collateral	326,011	477,985
Total Securities Lent	**$5,663,137**	**$7,491,946**
Collateral Received		
Total collateral received	$5,800,880	$7,711,495
Investment of Cash Collateral		
Total investment of cash collateral	$5,468,665	$7,208,896

Securities on loan for cash collateral are not required to be categorized. At June 30, 2002, 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 Plan receives interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to provide a fee and rebate to the borrower.

Note 4—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 utilized 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, 2002, and 2001. As of June 30, 2002, and 2001, the difference between the net assets held in trust for pension benefits presented in the *Statements of Fiduciary Net Assets* and the net assets allocated to fund the actuarial accrued liability (shown on page 28) was as follows:

($ in millions)

	2002	2001
Net Assets Held in Trust for Pension Benefits	$34,441.8	$38,869.9
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	7,207.0	1,684.6
Net assets allocated to fund the actuarial accrued liability	$41,648.8	$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, 2002, and 2001, was as follows:

($ in millions)	2002	2001
Actuarial value of assets in excess of actuarial accrued liability without VERIPs	$12,537.1	$14,111.6
Less unfunded actuarial liability of the VERIPs:		
Plus 5 (fiscal year 1991-1992)	189.1	195.6
Take 5 (fiscal year 1992-1993)	128.4	131.2
VERIP III (fiscal year 1993-1994)	670.4	681.5
Actuarial value of assets in excess of actuarial accrued liability with VERIPs - entry age normal cost basis	$11,549.2	$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 2001-2002.*

At June 30, 2002, and 2001, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately $734.6 million and $754.0 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 the 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, 2002, and 2001.

Note 5—Contributions Receivable

Contributions receivable includes $ 91.0 million and $94.5 million at June 30, 2002, and 2001, respectively, related to agreements with the State of California (the State) and the University in behalf of the Plan. In 1984, the State agreed to pay the University for contributions due to the Plan of $66.5 million in 30 annual installments of approximately $5.9 million, including interest at 8 percent, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay the University for contributions due to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

Note 6—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)
6/30/02	$41,648.8	$30,099.6	$11,549.2	138.4%	$7,226.5	159.8%
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

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.

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 **As of June 30, 2002, and 2001**	**2002**	**2001**
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent open	Level percent open
Remaining amortization period	13.25 Years	18.19 Years
Asset valuation method	5-Year smoothed market	5-Year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases*	4.5-6.5%	4.5-6.5%
Cost-of-living adjustments	2.00%	2.00%

**Includes inflation assumption at 4% for fiscal year 2001-2002.*

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 actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $30,099.6 million and $27,451.2 million at June 30, 2002, and 2001, respectively. 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)

	2002	**2001**
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$11,049.3	$10,276.2
Current employees:		
Accumulated employee contributions, including allocated investment earnings	734.6	754.0
Employer-financed vested	17,135.2	15,487.1
Employer-financed nonvested	1,180.5	933.9
Total actuarial accrued liability – entry age normal cost basis	30,099.6	27,451.2
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	41,648.8	40,554.5
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	$11,549.2	$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
2002	$2,954	$118	$2,294,398	$2,297,470
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

Expenses by Type

($ in thousands)

Year Ended June 30	Benefits**	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2002	$917,747	$26,246	$26,460	$970,453
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

* *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.*

The objective of Management's Discussion and Analysis is to help readers of the University of California PERS Voluntary Early Retirement Incentive Program (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets of the Plan at June 30, 2002, are $72.8 million. The net assets are available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries.
- The net assets of the Plan decreased by $11.9 million, or 14.0 percent from the prior fiscal year.
- The Plan's total investment rate of return of (9.2) percent in fiscal 2002 compared to (5.5) percent in fiscal 2001.
- As of June 30, 2002, the date of the most recent actuarial valuation, the Plan's funded ratio was 143 percent compared to 206 percent as of June 30, 2001. For June 30, 2002, this indicates that for every dollar of benefits due to the Plan's members, assets of $1.43 are available to cover benefit obligations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements, which are comprised of the following:

- *Statements of Fiduciary Net Assets*
- *Statements of Changes in Fiduciary Net Assets*
- *Notes to Financial Statements*
- *Required Supplementary Information* and *Note to Required Supplementary Information*
- *Other Supplementary Information*

The *Statements of Fiduciary Net Assets* presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables, and other assets and liabilities.

The *Statements of Changes in Fiduciary Net Assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2002, and 2001. It reflects investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits are also presented.

The *Notes to Financial Statements* provides additional information that is essential to a full understanding of the data provided in the financial statements.

The *Required Supplementary Information* consists of two schedules and a related note concerning the funded status of the Plan. The *Note to Required Supplementary Information* provides additional trend information as of the valuation date. This information includes actuarial cost method, amortization method, remaining amortization period, asset valuation period, and actuarial assumptions.

The *Other Supplementary Information* consists of two schedules concerning the actuarial accrued liability of the Plan and the revenues by source and expenses by type for the past 10 years of the Plan.

Financial Analysis

The Plan provides retirement benefits to UC-PERS members who elected early retirement under the provisions of the Plan. Plan benefits are funded by employer contributions and by investment income. The Plan's net assets held in trust for benefits as of June 30, 2002, amounted to $72.8 million, a decrease of $11.9 million (14.0 percent) from $84.6 million as of June 30, 2001.

Additions to the Plan's net assets held in trust for benefits include any investment income. There were no employer contributions during the 2002 fiscal year. The Plan recognized a net investment loss of $7.3 million for the 2002 fiscal year, compared with a net investment loss of $5.5 million for the 2001 fiscal year. The investment loss was due primarily to a continued downturn in the domestic and foreign equity markets during the 2001-2002 fiscal year.

Retirement benefit payments were the only deductions from the Plan's net assets held in trust for benefits. For the 2002 fiscal year, deductions amounted to $4.6 million, compared to $4.6 million in fiscal 2001.

Fiduciary Net Assets

($ in thousands)

	2002	2001	Total Percentage Change
Assests			
Investments	$72,756	$84,630	(14.0)%
Net Assets Held in Trust for Pension Benefits	**$72,756**	**$84,630**	**(14.0)%**

Changes in Fiduciary Net Assets

($ in thousands)

	2002	2001	Total Percentage Change
Reductions			
Investment loss	$ (7,324)	$ (5,471)	33.9%
Total Reductions	**$ (7,324)**	**$ (5,471)**	**33.9%**
Deductions			
Retirement payments and other expenses	$ 4,550	$ 4,581	(0.7)%
Total Deductions	**$ 4,550**	**$ 4,581**	**(0.7)%**
Decrease in Net Assets Held in Trust for Pension Benefits	**$(11,874)**	**$(10,052)**	**18.1%**

Investments

The assets of the Plan are combined for investment purposes with the assets of the University of California Retirement Plan (UCRP).

Funded Status

The Plan's actuarial value of assets available for benefits was $72.8 million as of June 30, 2002, a decrease of $11.9 million (14.0 percent) from the 2001 fiscal year. The actuarial accrued liability was $51.0 million, an increase of $10.0 million (24.3 percent), from the 2001 fiscal year. The Plan's total surplus was $21.7 million—a decrease of $21.9 million (50.1 percent) from the 2001 fiscal year.

The increase in the actuarial accrued liability was due primarily to a one-time cost-of-living adjustment equal to 25 percent of retirement income.

Fiduciary Responsibilities

The Board of Regents of the University of California (The Regents) is fiduciary of the Plan. Under law, the assets can only be used for the exclusive benefit of Plan retirees and beneficiaries.

Requests for Information

This financial report is designed to provide The Regents, the UCRS Advisory Board, retirees and others with a general overview of the Plan's financial posture. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

University of California
Office of the President-HR/Benefits Department∆
Financial Services and Plan Disbursements
300 Lakeside Drive, Suite 400
Oakland, CA 94612

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Suite 1200
555 Capitol Mall
Sacramento CA 95814-4602
Telephone (916) 930 8100
Facsimile (916) 930 8450

Report of Independent Accountants

To The Regents of the University of California:

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 33 through 35) 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, 2002 and 2001, and the changes in fiduciary 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.

As discussed in Note 1 to the financial statements, as of July 1, 2001, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

PricewaterhouseCoopers LLP

Sacramento, California
September 25, 2002

STATEMENTS OF FIDUCIARY NET ASSETS

($ in thousands)

June 30	2002	2001
Assets at fair value	$72,756	$84,630
Net Assets Held in Trust for Pension Benefits	**$72,756**	**$84,630**

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

($ in thousands)

Years Ended June 30	2002	2001
Additions		
Investment loss	$ (7,324)	$ (5,471)
Deductions		
Retirement payments	4,550	4,581
Decrease in Net Assets Held in Trust for Pension Benefits	(11,874)	(10,052)
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	84,630	94,682
End of Year	**$72,756**	**$84,630**

See Notes to Financial Statements.

NOTE 1—DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES

GENERAL INTRODUCTION–

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.

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. 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 in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and 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 primarily 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 based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements, and securities distributions through June 30. The carrying amount of these financial instruments is a reasonable estimate of fair value. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

ACCOUNTING FOR INVESTMENTS–

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the 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–

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34 provides a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements and required supplementary information.

The Plan adopted GASB Statement No. 34 on July 1, 2001, which required the Plan to present Management's Discussion and Analysis (MD&A) as required supplementary information preceding the basic financial statements as well as changes to the presentation of its basic financial statements. The statement of net assets, formerly referred to as the statements of plan net assets is now referred to as the statements of fiduciary net assets. The statement of changes in net assets, formerly referred to as the statements of changes in plan net assets is now referred to as the statements of changes in fiduciary net assets.

The adoption of GASB Statement No. 34 did not have an impact on the net assets of the Plan.

Note 2–Investments

The Plan's investments of $72.8 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 income (loss) plus appreciation (depreciation) on investments, was (9.2) percent and (5.5) percent, respectively, for the years ended June 30, 2002, and 2001.

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, 2002, and 2001, 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 or terminated 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)
6/30/02	$72,756	$51,021**	$21,735	142.6%
6/30/01	84,630	41,032**	43,598	206.3
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

** Reported at fair value.*
*** Includes present value of administrative expenses equal to 1 percent of actuarial accrued liability.*

Because 100 percent 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
2002	$0	100%
2001	0	100
2000	0	100
1999	0	100
1998	0	100
1997	0	100

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 **As of June 30, 2002, and 2001**	**2002**	**2001**
Actuarial cost method	Unit Credit	Unit Credit
Amortization method	N/A	N/A
Remaining amortization period	N/A	N/A
Asset valuation method	Fair Value	Fair Value
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases	N/A	N/A
Cost-of-living adjustments**	None	None

* *Includes inflation assumption at 4% for fiscal year 2001-2002.*
** *A one-time cost-of-living adjustment equal to 25 percent of retirement income is effective July 1, 2002.*

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 $21.7 million at June 30, 2002, and $43.6 million at June 30, 2001, as follows:

Actuarial Accrued Liability

($ in millions)

	2002	2001
Retirees and beneficiaries currently receiving benefits*	$51.0	$41.0
Total actuarial accrued liability - unit credit basis	51.0	41.0
Net assets allocated to fund the actuarial accrued liability, at fair value	72.7	84.6
Actuarial value of assets in excess of the actuarial accrued liability - unit credit basis	$21.7	$43.6

** Includes present value of administrative expenses equal to 1 percent of actuarial accrued liability.*

UCRS Advisory Board

Member	Location	Term
Stephen Barclay (Chair)	UC San Francisco	July 2000 – June 2004
Patrick G. Clelland	Lawrence Livermore National Lab	October 2001-June 2005
Jacqueline Edwards	UC San Diego	June 2002 – June 2006
Anne C. Fink	UC Irvine	April 2001–June 2004
Daniel J.B. Mitchell	UC Los Angeles	July 2000– 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

None of the UCRS Board members received any compensation from the Plan for services rendered during fiscal year 2001–2002.

UCRS Investment Management

Treasurer	David H. Russ

Plan Administration

Plan Administrator	Richard C. Atkinson
Senior Vice President	Joseph P. Mullinix
UCRS Internal Counsel	Dorothy E. Dana
Plan Policy and Administrative Operations	Human Resources and Benefits Department
Associate Vice President	Judith W. Boyette
Deputy and Executive Director	Judy F. Ackerhalt
Executive Director—Policy and Program Design	Michele E. French
Executive Director—Client Relations	Kay Miller
Director—Financial Services and Plan Disbursements	David L. Olson
Director—Communications and Training	Barbara J. Facey
Director—Information Systems Support	Michael C. Baptista
Director—Health and Welfare Administration	Lily C. Pang
Plan Actuary	Towers Perrin
Plan Auditor	PricewaterhouseCoopers LLP