The University of California Retirement System

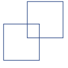
Retirement Plan

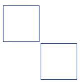
Year Ended June 30, 2005

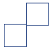
UCRS Plan Administration

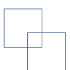
The University of California
It starts here

Annual Financial Report 2004-5



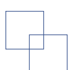






The University of California Retirement System

Retirement Plan



UCRS Plan Administration

Year Ended June 30, 2005

Summary Statement

This report contains information about the University of California Retirement Plan as of and for the fiscal year ended June 30, 2005, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2004–2005 fiscal year end are as follows:

Net assets	$41.9	billion
Net investment income	$4.0	billion
Benefit payments (excluding member withdrawals and lump sum cashouts)	$961.1	million
Plan administrative and other expenses	$21.3	million

Active Plan Membership

Senate Faculty and Non-Faculty Academics	22,756	members
Management/Senior Professional	8,504	members
Professional/Support Staff	93,382	members
Total	124,642	members
• Average annual salary –		
Senate Faculty	$98,058	
Non-Faculty Academics	$58,512	
Management/Senior Professional	$106,567	
Professional/Support Staff	$54,526	
• Average age –		
Senate Faculty	49	years
Non-Faculty Academics	42	years
Management/Senior Professional	49	years
Professional/Support Staff	43	years

Inactive Plan Membership/Other*

Inactive Plan Membership/Other*	47,123	members

Retiree Membership

Faculty	3,963	retirees
Management/Senior Professional	4,470	retirees
Professional/Support Staff	25,157	retirees
Total	33,590	retirees
• Average retirement age –		
Faculty	63	years
Management/Senior Professional	60	years
Professional/Support Staff	59	years
• Average service credit at retirement –		
Faculty	26	years
Management/Senior Professional	22	years
Professional/Support Staff	19	years
• Average annual UCRP income –		
Faculty	$57,720	
Management/Senior Professional	$41,586	
Professional/Support Staff	$21,244	
Survivor/Beneficiary	5,662	recipients
Disabled	2,225	recipients

** Includes terminated nonvested employees eligible for a refund of Plan accumulations or Capital Accumulation Provision balance.*

Plan Overview and Administration

The University of California Retirement Plan (UCRP or the Plan) is a key component of the comprehensive benefits package offered to employees of the University of California (the University) and its affiliate, Hastings College of the Law. The Plan is a governmental defined benefit pension plan intended to be 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 and four alternative payment options;
- disability benefits;
- death benefits;
- preretirement survivor benefits; and
- annual 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, 2005, active UCRP members included 124,642 employees at the University's 10 campuses, five medical centers, three Department of Energy laboratories, and Hastings College of the Law.

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 Associate Vice President (AVP), Human Resources and Benefits department. The Plan Administrator conducts policy research, implements changes to the Plan and the Plan regulations to preserve the Plan's qualification under the IRC, and provides member recordkeeping, accounting and reporting, and receipt and disbursement of Plan assets to eligible members.

Plan Progression

1904	Provided commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	Pension and Retiring Annuities System (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.
1990-91	Employer/employee UCRP contributions suspended.
1990-94	Offered a total of three early retirement incentive programs to UCRP members and one to UC members of CalPERS.
1992-94	Made a total of five Capital Accumulation Provision (CAP) allocations in behalf of eligible members.
2001-02	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.
2002-03	Made two additional Capital Accumulation Provision (CAP II) allocations in behalf of eligible members.

Changes in the Plan

The following Plan changes occurred during fiscal year 2004-2005. 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 Plan document.

Date	Change
July 2004	Changed the Plan's mortality assumptions for lump sum cashout factors and alternate payment options reduction factors to reflect longer life expectancy. Also added monthly factors for lump sum cashouts to grade smoothly between whole ages.
January 2005	Amended the Plan's domestic partner provisions to comply in full with the California Domestic Partner Rights and Responsibilities Act of 2003 (effective January 1, 2005). Provided domestic partners with benefits fully comparable to those for spouses by: • Recognizing same-sex domestic partnerships validly established in jurisdictions other than California; • Permitting assignment of Plan benefits to state-registered (former) domestic partners in connection with court-ordered dissolutions of state-registered domestic partnerships; • Extending eligibility for the postretirement survivor continuance to domestic partners of UCRP members who retired before July 1, 2002; and • Permitting UCRP members who retired before July 1, 2002, and who chose reduced retirement income in order to provide benefits to a surviving domestic partner, to elect a different monthly payment option.

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/ Other***	**Total****
2005	118,756	5,419	418	49	124,642	47,123	171,765
2004	117,100	6,165	399	53	123,717	39,874	163,591
2003	113,913	6,982	400	56	121,351	31,262	152,613
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

** Includes terminated nonvested employees eligible for a refund of Plan accumulations or Capital Accumulation Provision balance.*

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

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 plus normal cost or 150 percent of current liability plus normal cost

UCRP Funding Status

(in millions)

Plan Year Beginning July 1	(a) Actuarial Value of Assets in Excess of Actuarial Accrued Liability	(b) Market Value of Assets in Excess of Actuarial Accrued Liability
2005	$ 3,832.5	$ 2,582.4
2004	6,258.9	4,181.9
2003	8,474.5	2,372.0
2002	11,549.2	4,342.2
2001	13,103.3	11,418.7
2000	12,959.0	18,003.7
1999	9,929.8	15,942.3
1998	6,515.7	14,105.3
1997	3,593.9	9,871.8
1996	1,810.6	5,816.9

(a) The Actuarial Value of Assets (AVA) is determined using the Adjusted Market Value Method. The 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) Market Value of Assets is the June 30 net asset value.

Plan Benefits

The Plan paid approximately $1,051.5 million in retirement, disability, and pre-retirement survivor benefits to 41,477 members and their beneficiaries during fiscal year 2004-2005. 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*
2005	$984,816	$33,434	$33,254	$1,051,504
2004	877,696	31,900	30,731	940,327
2003	794,861	29,311	28,534	852,706
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

** 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
2005	33,590	2,225	1,774	5,662
2004	32,072	2,194	1,781	5,472
2003	30,655	2,129	1,603	5,083
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

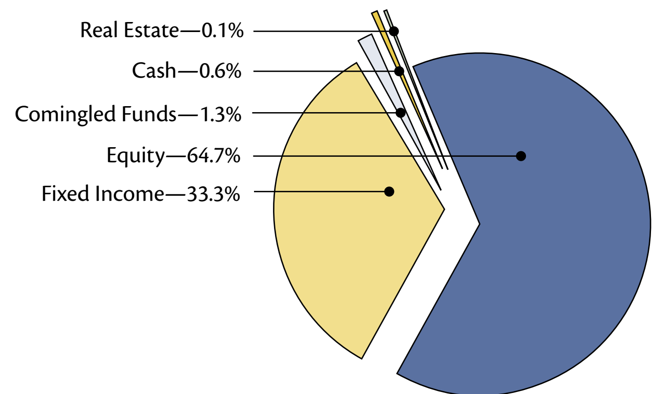
Investments

Investment Management

In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay benefit obligations, 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 Board of Regents is 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 investment fund of $42.4 billion in total investments, with $27.5 billion of the investment portfolio invested in domestic equity, foreign common stocks and private equity (including $607.5 million in venture capital and buyout funds). $14.1 billion is invested in fixed income securities, of which $12.2 billion is in high-quality government, corporate, foreign and mortgage-backed bonds, and commercial paper. The fund also includes allocations of $552.2 million commingled funds of emerging market stocks, $62.6 million in real estate, and $234.8 million in cash equivalents.

Proxy Voting Policy

The Treasurer's Office has instructed the Regents' custodian bank to vote all proxies on behalf of the Regents according to guidelines established by the Regents.

Historical Investment Performance

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

Annualized Rates of Return at June 30, 2005

(in thousands)

	1-year	5-year	10-year
UCRP Total Fund	**10.30%**	**2.73%**	**10.40%**
Policy Benchmark[1]	9.82%	2.77%	10.08%
Domestic Equity Portfolio	**8.11%**	**-2.36%**	**9.19%**
Policy Benchmark[2]	7.80%	-1.47%	10.44%
Fixed Income Portfolio	**11.35%**	**9.22%**	**9.65%**
Policy Benchmark[3]	11.49%	9.13%	7.98%
TIPS Portfolio	**9.38%**	**n/a**	**n/a**
Policy Benchmark[4]	9.34%	n/a	n/a
Foreign Equity Portfolio	**16.62%**	**-1.95%**	**2.58%**
Policy Benchmark[5]	16.47%	0.61%	0.80%
Private Equity Portfolio	**46.02%**	**-3.84%**	**28.24%**
Policy Benchmark[6]	12.19%	1.81%	13.03%

Current Policy Benchmarks

1 *The UCRP Total Fund Policy Benchmark consists of 58% (less the actual Private Equity weight from the prior month end) times the Russell 3000 Tobacco-Free Index, 7% Morgan Stanley Capital International All Country World Index (MSCI ACWI) ex U.S. Index, 5% Lehman Brothers Treasury Inflation Protected Securities (TIPS) Index, the actual Private Equity weight of the previous month end times the Russell 3000 TF Index +3% (lagged by 3 months) and 30% Citigroup Large Pension Fund Index, linked to 65% the S&P 500 Index and 35% the Lehman Brothers Long-Term Gov't/Corp Index.*

2 *The Domestic Equity Portfolio Policy Benchmark consists of the Russell 3000 TF Index linked to the S&P 500 Index.*

3 *The Fixed Income Portfolio Policy Benchmark consists of the Citigroup Large Pension Fund Index linked to the Lehman Brothers Long-Term Gov't/Corp Index.*

4 *The TIPS Portfolio Policy Benchmark consists of the Lehman Brothers TIPS Index.*

5 *The Foreign Equity Policy Benchmark consists of the MSCI ACWI ex-U.S. Index effective 7/2000. Benchmark used for prior periods i.e., for 5 and 10 year results is MSCI EMF Index.*

6 *The Private Equity Policy Benchmark consists of the Russell 3000 TF Index + 3% (lagged by three months) effective 7/2000. Benchmark used for prior periods i.e., for 5 and 10 years is S&P 500 Index + 5%.*

Equity Portfolio

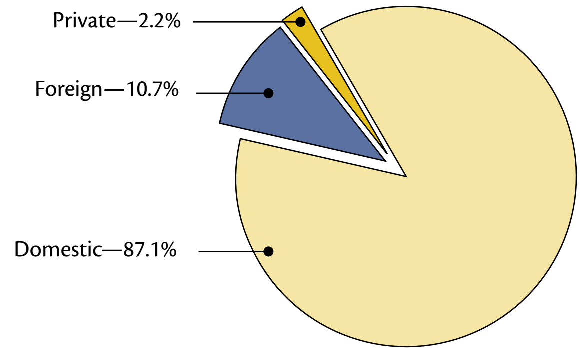
Quality and Diversification

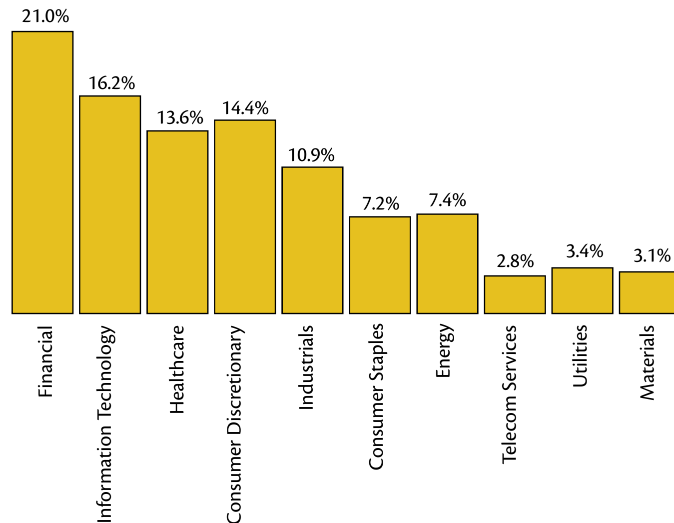
The equity portfolio is diversified among multiple strategic economic sectors as illustrated at right. The Equity Portfolio represents 64.7 percent (or $27.5 billion) of the total Fund and is diversified among domestic, non-U.S. and private equity securities.

The asset mix within the equity portfolio as of June 30, 2005, is 87.1 percent domestic equity, 10.7 percent non-U.S. equity, and 2.2 percent private equity.

The foreign equity sector ($2.9 billion) is invested primarily in an EAFE-based international index fund portfolio ($1.6 billion). The remainder of the sector ($1.3 billion) is managed by various independent international investment advisors.

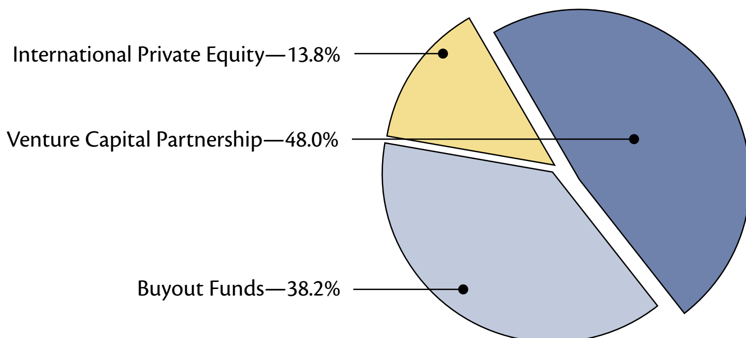
Equity Portfolio Asset Allocation





Domestic Portfolio Diversification by Economic Sector

The domestic equity sector ($23.9 billion) is invested primarily in the Russell 3000 Index Fund portfolio ($17.4 billion). The remainder of the sector ($6.5 billion) is managed by various independent investment advisors.

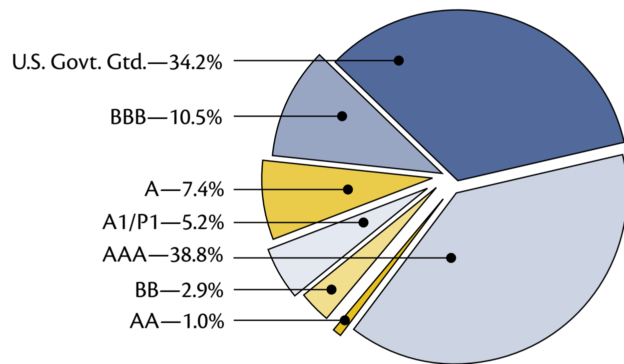


Private Equity Sector

The private equity sector ($607.5 million) is invested in venture capital partnerships, buyout funds and international private equity.

Fixed Income Portfolio

The fixed income portfolio accounts for 33.3 percent of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. The current yield of the fixed income portfolio as of June 30, 2005, was 4.4 percent, and the weighted average quality rating was AA.

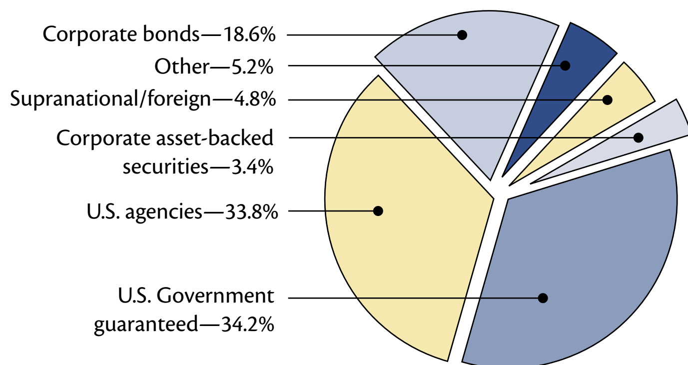


Quality*

Approximately 34.2 percent of the fixed income portfolio consists of U.S. government-guaranteed securities, and 39.9 percent of the portfolio consists of U.S. government agency and high quality corporate issues rated AAA or AA, the two highest rankings assigned by Standard and Poor's.

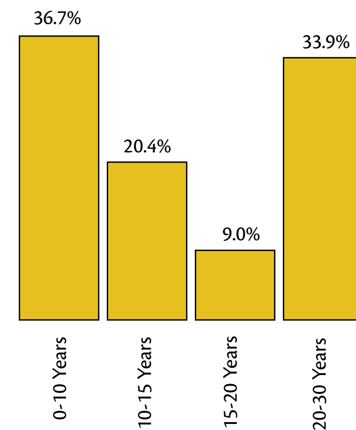
Diversification

Fixed income investments are well diversified among the sectors illustrated at right.



Maturity Structure

The weighted duration of the fixed income portfolio is approximately 7.1 years and the weighted average maturity is approximately 11.7 years.



* Credit Ratings

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: Upper medium investment grade. Strong capacity to pay principal and interest.
A1/P1: "A1" is the highest short-term rating category assigned by Standard & Poor's, while "P1" is the highest short-term rating category for Moody's Investor Service on commercial paper and bankers acceptances. Securities that have been assigned both an A1 and a P1 rating are considered to be of high credit quality.
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.

UCRP Management's Discussion & Analysis (Unaudited)

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 years ended June 30, 2005, with selected comparative information for the year ended June 30, 2004, and June 30, 2003. 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, 2005, are $41.9 billion, compared to $39.2 billion at June 30, 2004, and $35.3 billion at June 30, 2003. 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 increased by $2.7 billion or 6.8 percent in 2005, compared to an increase of $3.9 billion or 11.0 percent in 2004 and an increase of $885 million or 2.6 percent in 2003.
- The Plan's total investment rate of return was 10.3 percent in 2005, compared to 14.3 percent in 2004 and 5.6 percent in 2003.
- As of June 30, 2005, the date of the most recent actuarial valuation, the Plan's funded ratio was 110.3 percent, compared to 117.9 percent at June 30, 2004, and 125.7 percent at June 30, 2003. For June 30, 2005, this indicates that for every dollar of benefits due to the Plan's members, assets of $1.10 are available to cover benefit obligations as compared to $1.18 at June 30, 2004, and $1.26 at June 30, 2003.

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, 2005 and 2004. 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, 2005, amounted to $41.9 billion, an increase of $2.7 billion or 6.8 percent, compared to $39.2 billion at June 30, 2004, an increase of $5.0 billion or 11.0 percent from $35.3 billion at June 30, 2003.

Additions to the Plan's net assets held in trust for benefits include contributions and investment income. In 2005 total additions were $4.0 billion, compared to $5.0 billion in 2004 and $1.9 billion in 2003.

Member and employer contributions during 2005 amounted to $2.4 million, compared to $7.7 million in 2004 and $7.9 million in 2003, for service credit buybacks and other transfers.

The Plan recognized net investment income of $3.9 million during 2005, compared to net investment income of $5.0 million in 2004 and $1.9 million in 2003. The investment gains in 2005, 2004, and 2003 were due primarily to a recovery in the domestic and foreign equity markets.

Fiduciary Net Assets

(in thousands)

June 30	2005	2004	2003
Assets			
Receivables	$ 323,243	$ 399,409	$ 257,459
Investments (including Short-Term Investment Pool)	42,440,204	39,063,379	35,211,327
Investment of securities lending collateral	7,901,277	6,237,691	5,413,706
Total Assets	**50,664,724**	**45,700,479**	**40,882,492**
Liabilities			
Payable for securities purchased, member withdrawals, refunds and other payables	907,754	274,330	142,079
Collateral held for securities lending	7,899,470	6,238,489	5,413,601
Total Liabilities	**8,807,224**	**6,512,819**	**5,555,680**
Net Assets Held in Trust for Pension Benefits	**$41,857,500**	**$ 39,187,660**	**$35,326,812**

Changes in Fiduciary Net Assets

(in thousands)

Year Ended June 30	2005	2004	2003
Additions			
Employer contributions	$ 737	$ 5,150	$ 811
Member contributions	1,653	2,503	7,060
Investment Income	3,976,051	4,991,468	1,884,882
Other	6,865	7,196	7,502
Total Additions	**3,985,306**	**5,006,317**	**1,900,255**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	1,223,648	1,064,180	954,887
Member withdrawals	70,560	57,236	32,665
Administrative and other expenses	21,258	24,053	27,696
Total Deductions	**1,315,466**	**1,145,469**	**1,015,248**
Increase in Net Assets Held in Trust for Pension Benefits	**$ 2,669,840**	**$ 3,860,848**	**$ 885,007**

Investments

At June 30, 2005, the Plan held $27.5 billion in domestic equity, non-U.S. and private equity securities, compared to $26.0 billion at June 30, 2004, and $23.6 billion at June 30, 2003.

The domestic equity portfolio return was 8.1 percent in 2005, 20.4 percent in 2004, and 0.3 percent in 2003, compared to the Plan's domestic equity policy benchmark returns of 7.8 percent, 20.5 percent, and 0.7 percent, respectively.

The non-U.S. equity portfolio return was 16.6 percent in 2005, 32.4 percent in 2004, and (4.0) percent in 2003, compared to the Plan's non-U.S. equity policy benchmark returns of 16.5 percent, 32.0 percent, and (4.2) percent, respectively.

The private equity portfolio return was 46.0 percent in 2005, 18.4 percent in 2004, and (21.5) percent in 2003, compared to the Plan's private equity policy benchmark returns of 12.2 percent, 18.4 percent, and (22.3) percent, respectively.

At June 30, 2005, the Plan held $11.6 billion in U.S. government (excluding Treasury Inflation Protected Securities (TIPS)), other U.S. dollar-denominated and non-U.S. fixed income securities, compared to $10.4 billion at June 30, 2004, and $10.0 billion at June 30, 2003.

The fixed income portfolio (excluding TIPS) earned a total return of 11.4 percent in 2005, (0.8) percent in 2004, and 16.0 percent in 2003, compared to the Plan's fixed income policy benchmark returns of 11.5 percent, (0.8) percent, and 15.1 percent, respectively.

At June 30, 2005, the Plan held $2.5 billion in TIPS, compared to $2.5 billion at June 30, 2004, and $1.7 billion at June 30, 2003.

The TIPS portfolio earned a total return of 9.4 percent in 2005, 3.9 percent in 2004 and 15.7 percent in 2003, compared to the Plan's TIPS policy benchmark returns of 9.3 percent, 3.9 percent, and 15.4 percent, respectively.

At June 30, 2005, the Plan also held $62.6 million in real estate investments compared to none in 2004 and 2003. The real estate portfolio, held less than a year, earned a total return of 4.8 percent during the fourth quarter of the fiscal year ended June 30, 2005.

The Plan's total fund investment rate of return was 10.3 percent in 2005, 14.3 percent in 2004, and 5.6 percent in 2003, compared to the Plan's total fund policy benchmark returns of 9.8 percent, 14.1 percent, and 5.4 percent, respectively.

Funded Status

The Plan's actuarial value of assets was $41.1 billion at June 30, 2005, compared to $41.3 billion at June 30, 2004, and $41.4 billion at June 30, 2003. The actuarial accrued liability was $37.3 billion, compared to $35.0 billion at June 30, 2004, and $32.9 billion at June 30, 2003. The Plan's actuarial surplus was $3.8 billion at June 30, 2005, compared to $6.3 billion at June 30, 2004, and $8.5 billion at June 30, 2003. The funded percentage at June 30, 2005, was 110.3 percent, compared to 117.9 percent at June 30, 2004 and 125.7 percent at June 30, 2003.

An analysis of the funding progress and 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 a fiduciary of the Plan. Under law and the terms of the Plan, the assets can only be used for the exclusive benefit of Plan members, retirees, beneficiaries and administrative expenses.

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 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 600
Oakland, CA 94612
website address: atyourservice.ucop.edu

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Three Embarcadero Center
San Francisco CA 94111-4004
Telephone (415) 498 5000
Facsimile (415) 498 7100

Report of Independent Auditors

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 34) present fairly, in all material respects, the financial position of the University of California Retirement Plan (the Plan) at June 30, 2005 and 2004, and the changes in fiduciary net assets for the years 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. Those standards 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, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 20, 2005
San Francisco, California

Statements of Fiduciary Net Assets

(in thousands)

June 30	2005	2004
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$23,925,664	$22,551,860
Foreign	2,945,658	2,867,859
Private	607,451	542,158
Fixed income securities:		
U.S. government	4,799,795	5,414,665
Other U.S. dollar-denominated	9,237,946	7,109,160
Foreign	74,037	77,294
Short-Term Investment Pool	234,848	117,041
Commingled funds	552,200	383,342
Real estate	62,605	-
Total Investments	42,440,204	39,063,379
Investment of cash collateral	7,901,277	6,237,691
Receivables:		
Contributions	80,427	84,709
Interest and dividends	124,314	146,570
Securities sales and other	118,502	168,130
Total Receivables	323,243	399,409
Total Assets	**50,664,724**	**45,700,479**
Liabilities		
Payable for securities purchased	781,247	170,459
Member withdrawals, refunds and other payables	126,507	103,871
Collateral held for securities lending	7,899,470	6,238,489
Total Liabilities	**8,807,224**	**6,512,819**
Net Assets Held in Trust for Pension Benefits*	**$41,857,500**	**$39,187,660**

**See Required Supplementary Schedule of Funding Progress.*

See accompanying Notes to Financial Statements.

Financial Statements

Statements of Changes in Fiduciary Net Assets

Years Ended June 30 *(in thousands)*	2005	2004
Additions (Reductions)		
Contributions:		
Employer	$ 737	$ 5,150
Members	1,653	2,503
Total Contributions	2,390	7,653
Investment Income:		
Net appreciation in fair value of investments	2,793,168	3,957,949
Interest, dividends, and other investment income	1,171,547	1,021,039
Securities lending income	163,975	70,877
Less investment expenses	(152,639)	(58,397)
Total Investment Income	3,976,051	4,991,468
Interest Income from Contributions Receivable	6,865	7,196
Total Additions	**$ 3,985,306**	**$ 5,006,317**
Deductions		
Benefit Payments:		
Retirement payments	823,891	729,138
Member withdrawals	70,560	57,236
Cost-of-living adjustments	160,925	148,558
Lump sum cashouts	172,144	123,853
Preretirement survivor payments	26,366	24,237
Disability payments	33,434	31,900
Death payments	6,888	6,494
Total Benefit Payments	1,294,208	1,121,416
Expenses:		
Plan administration	20,184	22,987
Other	1,074	1,066
Total Expenses	21,258	24,053
Total Deductions	**1,315,466**	**1,145,469**
Increase in Net Assets Held in Trust for Pension Benefits	**2,669,840**	**3,860,848**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	39,187,660	35,326,812
End of Year	**$41,857,500**	**$39,187,660**

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 post- and pre-retirement 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 percent time for a year or more.

Effective January 1, 2001, employees 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 under the basic formula of salary rate, age and years of service credit. 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. Annual 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 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 1990-1991), 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, 2005, Plan membership consisted of 118,756 active members with Social Security, 5,419 active members without Social Security, 418 active safety members and 49 active Tier Two members.

Members' contributions are recorded separately and accrue interest, the rate determined by the Regents from time to time. Currently member contributions 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 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 made, 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, 2002 and 2003. 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 and 2003, the interest credited monthly is equal to the actuarial investment rate of return assumption of the Plan, which equates to an annual percentage yield (APY) of 7.5 percent. The APY applied to the 2002 and 2003 allocation will vary according to changes in the investment rate of return assumption.

At June 30, 2005, Plan membership consisted of 41,477 retirees, beneficiaries, and disabled members currently receiving benefits, 22,671 terminated vested employees entitled to benefits but not yet receiving them, and 24,452 terminated non-vested employees entitled to a refund of their Plan accumulations and/or CAP balance. Of current active employees, 71,367 are fully vested and 53,275 are non-vested active employees covered by the Plan.

Employer contributions are made to the Plan in behalf of

all members subject to the full funding policy. The rate of employer contributions is established annually pursuant to the Regents' funding policy (see Note 4 on page 32) 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.

GASB Statement No. 40, Deposit and Investment Risk Disclosures, was adopted during the year ended June 30, 2005, and retroactively applied as of July 1, 2003. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The implementation of Statement No. 40 had no effect on the Plan's net assets or changes in net assets for the years ended June 30, 2005 and 2004.

Valuation of Investments

Investments for the Plan are primarily recorded at fair value. Generally, securities, including derivative investments, 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 bid 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 considered to be 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 be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported 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. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

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.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plan's Statement of Changes in Fiduciary Net Assets.

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 $20.2 million or 0.05 percent and $23.0 million or 0.06 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2005 and 2004.

Income Tax Status

In a letter to the University dated January 9, 1997, the Internal Revenue Service confirmed its determination that the form of the Plan met the requirements for qualification under IRC §401(a). Since then, the Plan has been amended to comply with subsequent tax acts and state laws that were not taken into account in the determination and to make certain design changes recommended by the President of the University and approved by the Regents. Tax counsel for the Plan is not aware of any existing circumstances related to such amendments that indicate a failure to comply with the relevant requirements of the IRC in any material respect. A request for a determination that the form of the Plan, as amended through 2000, is currently pending before the Internal Revenue Service. The University has been informed that further action is unlikely until the uncertainties regarding cash balance formulas are resolved. To the best of tax counsel's knowledge, the Plan has been administered in accordance with its terms and the applicable provisions of the IRC and related regulations thereunder, in all material respects.

Comparative Information

As described below, certain revisions in classification have been made in the June 30, 2004, financial statements. The effect on prior period financial statements was not material. However, management elected to make the revisions to the 2004 presentation to conform to the 2005 presentation. These revisions in classification to the Plans' financial statements had no effect on previously reported total assets, liabilities and net fiduciary assets held in trust for pension benefits, or increase in the fiduciary assets held in trust for pension benefits.

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.

Note 2—Investments

The Regents, as the governing Board, is responsible for the oversight of the Plan's investments and establishes investment policy, which is carried out by the Treasurer. These investments are blended with the Short Term Investment Pool (STIP) and the Plan's investment pool managed by the Treasurer, or are separately invested.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. The available cash in the Plan awaiting investment or for administrative expenses is also invested in the STIP.

Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years

Investments authorized by the Regents for the Plan's investment pool and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios may include both domestic and foreign common and preferred stocks, actively managed and passive (index) strategies, along with a modest exposure to private equities.

Private equities include venture capital partnerships, buy-outs and international funds. The University's investment portfolios may include certain foreign currency denominated equity securities.

The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Derivative contracts are authorized for portfolio rebalancing in accordance with the Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for the Plan.

The composition of investments, by investment type, at June 30, 2005 and 2004 is as follows:

Composition of Investments

(in thousands)

June 30	2005	2004
Investment Type		
Equity securities:		
Domestic:	$ 23,925,664	$22,551,860
Foreign	2,945,658	2,867,859
Equity securities:	26,871,322	25,419,719
Fixed income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	380,446	2,052,109
U.S. Treasury strips	1,853,637	648,742
U.S. TIPS	2,481,757	2,498,014
U.S. government-backed securities	14,580	14,449
U.S. government-backed asset-backed securities	69,375	201,351
U.S.government guaranteed:	4,799,795	5,414,665
Other U.S. dollar-denominated		
Corporate bonds	2,607,305	2,306,421
Commercial paper	729,628	-
U.S. agencies	2,084,580	1,174,245
U.S. agencies asset-backed securities	2,659,855	2,748,414
Corporate asset-backed securities	472,760	238,445
Supranational/foreign	676,900	622,439
Other	6,918	19,196
Other U.S. dollar-denominated:	9,237,946	7,109,160
Foreign currency denominated:		
Government/sovereign	-	77,294
Corporate	74,037	-
Foreign currency denominated:	74,037	77,294
Commingled funds:		
Non-U.S. equity funds	552,200	383,342
Money market funds	234,848	117,041
Commingled funds:	787,046	500,383
Private equity:	607,451	542,158
Real Estate:	62,605	-
Total Investments	**$42,440,204**	**$39,063,379**

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

Net Appreciation (Depreciation) in Fair Value of Investments

(in thousands)

	2005	2004
Unrealized Appreciation (Depreciation)		
Equity and private equity securities*	$ 1,381,122	$ 488,902
Fixed income securities	504,600	(918,917)
Commingled funds	87,478	79,562
Investment of cash collateral	2,604	(902)
Real Estate	1,967	-
Net Unrealized Appreciation (Depreciation)	1,977,771	(351,355)
Realized Gains		
Sales of securities	815,397	4,309,304
Net Appreciation	$ 2,793,168	$ 3,957,949

** Includes $29.1 million and $1.8 million of net depreciation in estimated fair value of investments related to private equity securities for the years ended June 30, 2005 and 2004, respectively.*

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance in the rating agency's opinion that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for STIP, the 2-year Treasury note, does not contain credit risk). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better, and commercial paper must be rated at least A-1 or P-1.

The Plan recognizes that credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmark chosen for the fixed income portion of the pool. That fixed income benchmark, the Citigroup Large Pension Fund Index (LPF) is comprised of approximately 30 percent high grade corporate bonds and 30 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 40 percent are government-issued bonds. Credit risk in the Plan is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

The credit risk profile for fixed income securities at June 30, 2005 and 2004 is as follows:

	($ in thousands)	
June 30	**2005**	**2004**
Investment Type		
Fixed income securities:		
U.S. government guaranteed	$4,799,795	$5,414,665
Other U.S. dollar-denominated:		
AAA	5,454,331	4,402,018
AA	135,533	140,606
A	1,038,978	733,939
BBB	1,475,506	1,582,725
BB	403,970	192,224
B	-	18,410
A1/P1	729,628	-
Not rated		
Foreign currency denominated:		
A	67,779	58,899
BB	6,258	13,641
Not rated	-	4,754
Commingled funds/Money market: Not rated	234,848	117,041

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. The Plan's securities are registered in the Plan's name by the custodial bank as an agent for the Plan. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The U.S. equity portion of the Plan investment fund may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the Plan considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, portfolio guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class in the aggregate will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters.

The non-U.S. equity portion of the Plan investment fund may also be managed either passively or actively in a manner similar to U.S. equity. Investment guidelines addressing concentration of credit risk related to the fixed and variable income portion of the Plan investment fund include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP.

Investments in issuers that represent 5 percent or more of total investments at June 30, 2005 and 2004 are as follows:

($ in thousands)

Issuer	2005	2004
Federal National Mortgage Association	$3,218,611	$2,977,884

Interest Rate Risk

Interest rate risk is the risk that the value of fixed and variable income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration. Portfolio guidelines for the fixed and variable income portion of the Plan limit weighted average effective duration to plus or minus 20 percent of the effective duration of the benchmark (LPF). This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective duration for fixed and variable income securities at June 30, 2005 and 2004 are as follows:

(in years)

June 30	2005	2004
Investment Type		
Fixed income securities:		
U.S. government guaranteed		
U.S. Treasury bills, notes and bonds	4.6	8.3
U.S. Treasury strips	14.0	10.4
U.S. TIPS	4.4	8.1
U.S. government-backed securities	6.9	7.1
U.S. government-backed asset-backed securities	2.8	3.9
Other U.S. dollar-denominated:		
Corporate bonds	9.3	8.6
U.S. agencies	4.0	6.2
U.S. agencies asset-backed securities	2.3	3.5
Corporate asset-backed securities	1.7	3.5
Certificates of deposit/time deposits	-	-
Supranational/foreign	8.5	6.6
Other	14.8	14.8
Foreign currency denominated:		
Corporate	13.1	11.9
Commingled funds/Money market funds	n/a	n/a

The Plan considers the effective duration for mortgage loans, insurance contracts and money market funds to be zero. The money market funds have a constant $1.00 share value due to the short-term, liquid nature of the underlying securities. Investments may also include various mortgage pass-through securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. Although the effective durations of the securities may be low, they are considered to be highly sensitive to changes in interest rates.

At June 30, 2005 and 2004, the fair value of such investments are as follows:

($ in thousands)	2005	2004
Mortgage pass-through securities	$3,107,701	$2,592,915
Collateralized mortgage obligations	94,289	155,499
Callable bonds	800,595	698,129
Total	$4,002,585	$3,446,543

Mortgage Pass-Through Securities

These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMO's, the relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2005 and 2004, the effective durations are as follows:

(in years)	2005	2004
Mortgage pass-through securities	1.8	3.4
Collateralized mortgage obligations	3.5	4.4
Callable bonds	4.2	5.3

Foreign Currency Risk

The Plan's strategic asset allocation policy includes an allocation to non-U.S. equities. These equity investments are not hedged; therefore foreign currency risk is an essential part of the investment strategy. Portfolio guidelines for fixed income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2005 and 2004, the U.S. dollar balances organized by currency denominations and investment type are as follows:

($ in thousands)

	2005	2004
Equity securities:		
Euro	$1,237,544	$ 883,441
British Pound	352,541	666,371
Japanese Yen	252,606	652,190
Swiss Franc	118,064	192,678
Canadian Dollar	39,831	170,801
Australian Dollar	131,326	132,148
Swedish Krona	128,364	64,993
Hong Kong Dollar	55,538	42,648
Singapore Dollar	386,803	21,348
Danish Krone	116,765	21,137
Norwegian Krone	71,177	14,333
New Zealand Dollar	41,082	5,771
South African Rand	7,529	-
Other	6,488	-
Subtotal	2,945,658	2,867,859
Fixed income securities:		
Canadian Dollar	-	77,294
Australian Dollar	74,037	-
Subtotal	74,037	77,294
Commingled Funds:		
Various currency denominations		
Non-U.S. equity funds	552,200	383,342
Total exposure to foreign currency risk	$3,571,895	$3,328,495

Futures, Options and Swaps

The Plan may include futures, options and swap contracts in its investment portfolios.

The Plan enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract the Plan is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Plan agrees to receive from or pay to the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. All of these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statements of revenues, expenses and changes in fiduciary net assets. Therefore there is no fair value of these contracts at the end of the year included in the statements of fiduciary net assets. The underlying notional values of these contracts for the Plan were $362.8 million for long contracts at June 30, 2005, $20.0 million for short contracts at June 30, 2005, and $296.6 million for long contracts at June 30, 2004.

An option contract gives the Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the premium). The maximum loss to the Plan is limited to the premium originally paid for covered options. The premiums paid for the purchase of these options are included in the statement of fiduciary net assets as an investment and subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any option contracts at June 30, 2005 or 2004.

An interest rate swap is a contractual agreement entered into between the Plan and a counterparty under which each agrees to exchange periodic fixed or variable interest payments for an agreed period of time based upon a notional amount of principal, or value of the underlying contract. The fair value of the swaps is included in the statements of fiduciary net assets as an investment, with unrealized gains and losses included in the statements of revenues, expenses and changes in fiduciary net assets.

The Plan did not hold any interest rate swap contracts at June 30, 2005 or 2004.

The Plan could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the Plan may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on and subject to the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The Plan seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Treasurer.

Note 3—Securities Lending

The Plan participates in a securities lending program as a means to augment income. Securities are lent to selected brokerage firms for which collateral received exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the Plan or the borrower. 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 of the collateral falls to less than 100 percent of the fair value of securities lent. Cash collateral received from the borrower is invested by the lending agent, as an agent for the University on behalf of the Plan, in a short-term investment pool in the name of the University, with guidelines approved by the University. These short-term investments are shown as investment of cash collateral in the statements of fiduciary net assets. At June 30, 2005 and 2004, the securities in this pool had a weighted average expected maturity of 30 and 41 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statements of fiduciary net assets. Securities collateral received from the borrower is held in an investment pool by the University's custodial bank.

At June 30, 2005, the Plan had no exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The Plan is fully indemnified by its custodial bank against any losses incurred as a result of borrower default. See page 29 for Securities Lending Transactions at June 30, 2005 and 2004.

Securities lending transactions at June 30, 2005, and 2004 are as follows: *(in thousands)*

Securities Lent	**2005**	**2004**
For cash collateral:		
Equity securities:		
Domestic	$ 1,539,332	$ 332,460
International	537,223	622,799
Fixed income securities:		
U.S. government	4,279,268	4,292,291
Other U.S. dollar-denominated	1,369,357	891,563
Lent for Cash Collateral	**7,725,180**	**6,139,113**
For securities collateral:		
Equity securities:		
Domestic	58,995	6,040
International	12,436	7,885
Fixed income securities:		
U.S. government	396,530	297,169
Other U.S.dollar-denominated	158,372	39,550
Lent for Securities Collateral	**626,333**	**350,644**
Total Securities Lent	**8,351,513**	**6,489,757**
Collateral Received		
Cash	7,899,470	6,238,489
Securities	645,656	354,689
Total collateral received	**8,545,126**	**6,593,178**
Investment of Cash Collateral		
Fixed income securities:		
Other U.S.dollar-denominated:		
Corporate bonds	1,564,090	1,113,632
Commercial paper	466,399	1,021,687
Repurchase agreements	1,399,183	379,830
U.S. agencies	-	380,635
Corporate asset-backed securities	1,132,524	1,028,424
Certificates of deposit/time deposits	2,803,314	1,903,500
Supranational/foreign	531,267	332,026
Commingled funds/money market funds	-	71,157
Other assets, net	4,500	6,800
Total investment of cash collateral	**$7,901,277**	**$6,237,691**

The Plan earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The Plan receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2005 and 2004 are as follows:

Securities Lending Income

	2005	2004
Securities lending income	$163,976	$70,877
Securities lending fees and rebates	(152,639)	(58,397)
Securities lending investment income, net	$11,337	$12,480

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent. The Plan investment policies and other information related to each of these risks are summarized below.

Credit Risk

The Plan's investment policies for the investment of cash collateral maintained in a separately managed collateral pool restricts the credit rating of issuers to no less than A-1 or P-1 for short term securities and no less than A2/A for long term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2005 and 2004 is as follows:

Credit Risk

(in thousands)

	2005	2004
Investment type-		
Fixed income securities:		
Other U.S. dollar-denominated:		
AAA	$1,223,060	$1,679,329
AA	1,420,983	750,186
A	624,190	128,825
A1/P1	4,628,544	3,035,241
Not rated	-	566,151
Commingled/Money market funds:	-	71,158
Other assets, net: Not rated	4,500	6,800

Custodial Credit Risk

Cash collateral received for securities lent is invested in a pool by the Plan's custodian. The Plan securities related to the investment of cash collateral are registered in the Plan's name by the custodial bank as agent for the Plan. Securities collateral received for securities lent are held in an investment pool by the Plan's custodial bank. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pool restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value.

Interest Rate Risk

The nature of individual securities in the collateral pool allows for the use of weighted average maturity as an effective risk management measure. The Plan's investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pool requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years; corporate debt obligations must be less than two years; and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that are considered to be highly sensitive to changes in interest rates.

At June 30, 2005 and 2004, the weighted average maturity expressed in days outstanding for asset-backed securities was 34 days and 20 days, respectively; 46 days and 56 days for variable-rate investments, respectively.

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2005 and 2004 is as follows:

	(in days)	
Investment type	**2005**	**2004**
Fixed income securities:-		
Other U.S. dollar-denominated:		
Corporate bonds	50	46
Commercial paper	23	26
Repurchase agreements	1	-
U.S. agencies	-	136
Corporate asset-backed securities	35	23
Certificates of deposit/time deposits	37	38
Supranational/foreign	26	76
Commingled/Money market funds:	-	1

At June 30, 2005 and 2004, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

Investment type	*(in thousands)*	
	2005	**2004**
Other asset-backed securities	$1,159,633	$1,028,423
Variable rate investments	2,007,677	1,149,282

Foreign Currency Risk

The Plan's investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in a separate collateral pool restricts investments to U.S. dollar-denominated securities. Therefore, there is no foreign currency risk.

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, 2005, and 2004.

As of June 30, 2005 and 2004, 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 38) was as follows:

(in millions)

	2005	**2004**
Net Assets Held in Trust for Pension Benefits	$41,857.5	$39,187.7
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	(772.6)	2,105.4
Net assets allocated to fund the actuarial accrued liability	$41,084.9	$41,293.1

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.

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 2004-2005.*

At June 30, 2005 and 2004, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately $631.8 million and $667.1 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.

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, 2005 and 2004.

Note 5—Contributions Receivable

Contributions receivable includes $78.8 million and $83.2 million at June 30, 2005 and 2004, respectively, related to agreements with the State of California (the State) and the University on 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 reserves 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. The benefits of the Plan are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency established under Title IV of the Employee Retirement Income Security Act of 1974.

Note 7—Contingency

The current University contract to manage the Los Alamos National Laboratory for the National Nuclear Security Administration of the United States Department of Energy is scheduled to expire on May 31, 2006. The federal government is currently conducting a competition for a successor contractor. The United States Department of Energy anticipates that a decision will be made by December 1, 2005, and that the new contract will become effective June 1, 2006.

The Regents voted at their May 26, 2005, meeting to participate in the competition as part of a joint venture in the form of a limited liability company. If the University's team is awarded the successor contract, the separate corporate entity is expected to be reported as a joint venture using the equity method in the University's financial statements. Plan assets and liabilities attributable to certain transferring employees who do not elect to become inactive or retire under the Plan are expected to be transferred to a successor pension plan at a future date.

The amount of Plan assets and liabilities expected to be transferred to a successor pension plan is unknown. It is dependent on future elections to be made by the 5,920 vested, active members currently working at the laboratory.

Required Supplementary Information

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets, 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 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	(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)
2005	$41,084.9	$37,252.4	$3,832.5	110.3%	$8,149.6	47.0%
2004	41,293.1	35,034.2	6,258.9	117.9%	7,835.2	79.9%
2003	41,429.3	32,954.8	8,474.5	125.7%	7,733.8	109.6%
2002	41,648.8	30,099.6	11,549.2	138.4%	7,226.5	159.8%
2001	40,554.5	27,451.2	13,103.3	147.7%	6,539.2	200.4%
2000	37,026.2	24,067.2	12,959.0	153.8%	5,903.2	219.5%

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 valuations is as follows:

Additional Trend Information

Valuation Date As of June 30	**2005**	**2004**
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent open	Level percent open
Remaining amortization period	3.22 Years	5.92 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 years 2005 and 2004.*

Note: The projected salary increase assumption will be 2.0 percent lower for the period July 1, 2004, through June 30, 2007.

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 $ 37.2 billion and $35.0 billion at June 30, 2005 and 2004, 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)

	2005	2004
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$14,836.2	$13,810.1
Current employees:		
Accumulated employee contributions, including allocated investment earnings	631.8	667.1
Employer-financed vested	21,020.9	19,195.7
Employer-financed nonvested	763.5	1,361.3
Total actuarial accrued liability – entry age normal cost basis	37,252.4	35,034.2
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	41,084.9	41,293.1
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	$ 3,832.5	$ 6,258.9

Other Supplementary Information

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
2005	$ 1,653	$ 737	$2,005,145	$2,007,535
2004	2,503	5,150	5,350,019	5,357,672
2003	7,060	811	2,981,128	2,988,999
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

Expenses by Type

($ in thousands)

Year Ended June 30	Benefits**	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2005	$1,223,648	$21,258	$ 70,560	$1,315,466
2004	1,064,180	24,053	57,236	1,145,469
2003	954,887	27,696	32,665	1,015,248
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

*This includes investment income, net realized gains or losses 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.

Management's Discussion & Analysis (Unaudited)

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, 2005, with selected comparative information for the years ended June 30, 2004 and 2003. 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, 2005, are $77.8 million, compared to $75.7 million at June 30, 2004, and $71.5 million at June 30, 2003. The net assets are available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries.
- The net assets of the Plan increased by $2.0 million or 2.7 percent, compared to an increase of $4.3 million or 6.0 percent in 2004, and a decrease of $1.3 million or (1.8) percent in 2003.
- The Plan's total investment rate of return was 10.3 percent in 2005, compared to 14.3 percent in 2004 and 5.6 percent in 2003.
- As of June 30, 2005, the date of the most recent actuarial valuation, the Plan's funded ratio was 169.8 percent, compared to 159.5 percent at June 30, 2004, and 144.9 percent at June 30, 2003. For June 30, 2005, this indicates that for every dollar of benefits due to the Plan's members, assets of $1.70 are available to cover benefit obligations, compared to $1.60 at June 30, 2004, and $1.45 at June 30, 2003.

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, 2004, and 2005. 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 a schedule concerning the actuarial accrued liability 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 at June 30, 2005, amounted to $77.8 million, compared to $75.7 million at June 30, 2004, and $71.5 million at June 30, 2003.

Additions to the Plan's net assets held in trust for benefits include investment income or loss. There were no employer contributions during the 2004-2005 fiscal years. The Plan recognized a net investment income of $7.5 million in 2005, compared to $9.9 million in 2004 and $4.3 million in 2003. The investment gains in 2005, 2004, and 2003 were due primarily to a recovery in the domestic and foreign equity markets and decline in interest rates. Retirement benefit payments and other expenses were the only deductions from the Plan's net assets held in trust for benefits. For 2005, deductions amounted to $5.5 million, compared to $5.6 million in 2004 and $5.6 million in fiscal 2003.

Fiduciary Net Assets

(in thousands)

June 30	2005	2004	2003
Assets At Fair Value	$77,773	$75,739	$71,451
Net Assets Held in Trust for Pension Benefits	**$77,773**	**$75,739**	**$ 71,451**

Changes in Fiduciary Net Assets

(in thousands)

Years Ended June 30	2005	2004	2003
Additions			
Investment income	$ 7,525	$9,861	$ 4,314
Total Additions	**7,525**	**9,861**	**4,314**
Deductions			
Retirement payments and other expenses	5,491	5,573	5,619
Total Deductions	**5,491**	**5,573**	**5,619**
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 2,034**	**$4,288**	**$(1,305)**

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 $77.8 million, compared to $75.7 million at June 30, 2004, and $71.5 million at June 30, 2003. The actuarial accrued liability was $45.8 million compared to $47.5 million at June 30, 2004, and $49.3 million at June 30, 2003. The Plan's total surplus was $32.0 million, compared to $28.2 million at June 30, 2004, and $22.1 million at June 30, 2003.

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

website address: atyourservice.ucop.edu

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Three Embarcadero Center
San Francisco CA 94111-4004
Telephone (415) 498 5000
Facsimile (415) 498 7100

Report of Independent Auditors

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 42 through 50) 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, 2005 and 2004, and the changes in fiduciary net assets for the years 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. Those standards 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, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 20, 2005
San Francisco, California

Financial Statements

Statements of Fiduciary Net Assets

(in thousands)

June 30	2005	2004
Assets at Fair Value	$ 78,225	$ 76,201
Liabilities	452	$462
Net Assets Held in Trust for Pension Benefits	**$ 77,773**	**$ 75,739**

Statements of Changes in Fiduciary Net Assets

(in thousands)

Years Ended June 30	2005	2004
Additions		
Investment Income	$ 7,525	$ 9,861
Deductions		
Retirement Payments	5,482	5,561
Administrative Expenses	9	12
Total Deductions	5,491	5,573
Increase in Net Assets Held in Trust for Pension Benefits	**2,034**	**4,288**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	75,739	71,451
End of Year	**$77,773**	**$75,739**

See accompanying Notes to *Financial Statements.*

Notes To Financial Statements

Years Ended June 30, 2005, and 2004

Note 1—Description of the Plan and Significant Accounting Policies

General Introduction

The University of California Voluntary Early Retirement Incentive Program (the PERS Plus 5 Plan or 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, and 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 the Plan.

The cost of contributions made to the Plan is borne entirely by the University. Over the five-year period ended June 30, 1996, the University and Department of Energy 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 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.

GASB Statement No. 40, Deposit and Investment Risk Disclosures, was adopted during the year ended June 30, 2005 and retroactively applied as of July 1, 2003. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The implementation of Statement No. 40 had no effect on the Plan's net assets or changes in net assets for the years ended June 30, 2005 and 2004.

Valuation of Investments

The assets of the Plan are combined for investment purposes with the assets of the 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 for the Plan are primarily recorded at fair value. Generally, securities, including derivative investments, 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 bid 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 considered to be 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 be used had a ready market for such investments existed.

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.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plan's Statement of Changes in Fiduciary Net Assets.

Administrative Expenses

Reasonable administrative expenses are assessed to the Plan through an annual account servicing charge.

Income Tax Status

The form of the Plan is intended to qualify under IRC §401(a) and the regulations thereunder, and the Plan's trust is intended to be exempt from taxation under IRC §501(a). Tax counsel for the Plan is not aware of any circumstances that indicate a material failure to comply with such requirements. To the best of tax counsel's knowledge, the Plan has been administered in accordance with its terms and the applicable provisions of the Code and the regulations thereunder, in all material respects.

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.

Note 2–Investments

The Plan's investments of $77.8 million are included within the UCRP investment pool, but are accounted for separately. These monies are invested by the Treasurer of the Regents.

The Regents, as the Governing Board, is responsible for the oversight of the Plan's investments and establishes investment policy, which is carried out by the Treasurer.

The available cash in the Plan's investment pool awaiting investment or for administrative expenses is also invested in the STIP. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years.

The total investment return, representing income plus net appreciation on investments, was 10.3 percent and 14.3 percent, respectively, for the years ended June 30, 2005, and 2004.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance in the rating agency's opinion that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for STIP, the 2-year Treasury note, does not contain credit risk). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better, and commercial paper must be rated at least A-1 or P-1.

The Plan recognizes that credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmark chosen for the fixed income portion of the pool. That fixed income benchmark, the Citigroup Large Pension Fund Index (LPF) is comprised of approximately 30 percent high grade corporate bonds and 30 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 40 percent are government-issued bonds. Credit risk in the Plan is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the

market value of fixed income may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. The Plan's securities are registered in the Plan's name by the custodial bank as an agent for the Plan. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The U.S. equity portion of the Plan investment fund may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the Plan considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, portfolio guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class in the aggregate will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters.

The non-U.S. equity portion of the Plan investment fund may also be managed either passively or actively in a manner similar to U.S. equity. Investment guidelines addressing concentration of credit risk related to the fixed and variable income portion of the Plan investment fund include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed and variable income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration. Portfolio guidelines for the fixed and variable income portion of the Plan limit weighted average effective duration to plus or minus 20 percent of the effective duration of the benchmark (LPF). This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective durations for fixed income securities at June 30, 2005 and 2004 are as follows:

	(in years)	
June 30	**2005**	**2004**
Investment Type		
Fixed income securities:		
U.S. government guaranteed		
U.S. Treasury bills, notes and bonds	4.6	8.3
U.S. Treasury strips	14.0	10.4
U.S. TIPS	4.4	8.1
U.S. government-backed securities	6.9	7.1
U.S. government-backed asset-backed securities	2.8	3.9
Other U.S. dollar-denominated:		
Corporate bonds	9.3	8.6
U.S. agencies	4.0	6.2
U.S. agencies asset-backed securities	2.3	3.5
Corporate asset-backed securities	1.7	3.5
Certificates of deposit/time deposits	-	-
Supranational/foreign	8.5	6.6
Other	14.8	14.8
Foreign currency denominated:		
Corporate	13.1	11.9
Commingled funds/Money market funds	2.1	1.4

The Plan considers the effective duration for mortgage loans, insurance contracts and money market funds to be zero. The money market funds have a constant $1.00 share value due to the short-term, liquid nature of the underlying securities. Investments may also include various mortgage pass-through securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. Although the effective durations of the securities may be low, they are considered to be highly sensitive to changes in interest rates.

Mortgage Pass-Through Securities

These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMO's, the relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2005 and 2004, the effective durations are as follows:

	(in years)	
	2005	**2004**
Mortgage pass-through securities	1.8	3.4
Collateralized mortgage obligations	3.5	4.4
Callable bonds	4.2	5.3

Foreign Currency Risk

The Plan's strategic asset allocation policy includes an allocation to non-U.S. equities. These equity investments are not hedged; therefore foreign currency risk is an essential part of the investment strategy. Portfolio guidelines for fixed income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

Futures, Options and Swaps

The Plan may include futures, options and swap contracts in its investment portfolios.

The Plan enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract the Plan is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Plan agrees to receive from or pay to the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. All of these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net assets. Therefore there is no fair value of these contracts at the end of the year included in the statement of net assets.

An option contract gives the Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the

premium). The maximum loss to the Plan is limited to the premium originally paid for covered options. The premiums paid for the purchase of these options are included in the statement of fiduciary net assets as an investment and subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any option contracts at June 30, 2005 or 2004.

An interest rate swap is a contractual agreement entered into between the Plan and a counterparty under which each agrees to exchange periodic fixed or variable interest payments for an agreed period of time based upon a notional amount of principal, or value of the underlying contract. The fair value of the swaps is included in the statement of net assets as an investment, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. The Plan did not hold any interest rate swap contracts at June 30, 2005 or 2004.

The Plan could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the Plan may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on and subject to the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The Plan seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Treasurer.

Note 3—Securities Lending

The Plan participates in a securities lending program as a means to augment income. Securities are lent to selected brokerage firms for which collateral received exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the Plan or the borrower. 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 of the collateral falls to less than 100 percent of the fair value of securities lent. Cash collateral received from the borrower is invested by the lending agent, as an agent for the University on behalf of the Plan, in a short-term investment pool in the name of the University, with guidelines approved by the University. These short-term investments are shown as investment of cash collateral in the statement of net assets. At June 30, 2005 and 2004, the securities in this pool had a weighted average expected maturity of 30 and 41 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in an investment pool by the University's custodial bank.

At June 30, 2005, the Plan had no exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The Plan is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

The Plan earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The Plan receives the net investment income.

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent. The Plan investment policies and other information related to each of these risks are summarized below.

Credit Risk

The Plan's investment policies for the investment of cash collateral maintained in a separately managed collateral pool restricts the credit rating of issuers to no less than A-1 or P-1 for short term securities and no less than A2/A for long term securities. Asset-backed securities must have a rating of AAA.

Custodial Credit Risk

Cash collateral received for securities lent is invested in a pool by the Plan's custodian. The Plan securities related to the investment of cash collateral are registered in the Plan's name by the custodial bank as agent for the Plan. Securities collateral received for securities lent are held in an investment pool by the Plan's custodial bank. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pool restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value.

Interest Rate Risk

The nature of individual securities in the collateral pool allows for the use of weighted average maturity as an effective risk management measure. The Plan's investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pool requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years; corporate debt obligations must be less than two years; and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that are considered to be highly sensitive to changes in interest rates.

At June 30, 2005 and 2004, the weighted average maturity expressed in days outstanding for asset-backed securities was 34 days and 20 days, respectively; 46 days and 56 days for variable-rate investments, respectively.

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2005 and 2004 is as follows:

	(in days)	
Investment type	**2005**	**2004**
Fixed income securities:-		
Other U.S. dollar-denominated:		
Corporate bonds	50	46
Commercial paper	23	26
Repurchase agreements	1	-
U.S. agencies	-	136
Corporate asset-backed securities	35	23
Certificates of deposit/time deposits	37	38
Supranational/foreign	26	76
Commingled/Money market funds:	-	1

Foreign Currency Risk

The Plan's investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in a separate collateral pool restricts investments to U.S. dollar-denominated securities. Therefore, there is no foreign currency risk.

Note 4–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 Department of Energy laboratories in behalf of Plan members at rates that provide for sufficient assets to be available when benefits are due. As of June 30, 2005 and 2004, 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 retired members and their beneficiaries.

Note 5–Plan Termination

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend or terminate the Plan at any time provided that any such action shall not lessen the accrued benefits of any participants. 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. The benefits of the Plan are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency, as established under Title IV of the Employee Retirement Income Security Act of 1974.

Required Supplementary Information

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets, 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 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*	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)
6/30/05	$77,773	$45,804**	$31,969	169.8%
6/30/04	75,739	47,482**	28,257	159.5%
6/30/03	71,451	49,319**	22,132	144.9%
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%

** 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 Schedule of Employer Contributions

Since 1998, 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 valuations is as follows:

Additional Trend Information

Valuation Date **As of June 30**	**2005**	**2004**
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 2004-2005.*

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 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 $32.0 million at June 30, 2005, and $28.2 million at June 30, 200, as follows:

Actuarial Accrued Liability

	(in millions)	
	2005	**2004**
Retirees and beneficiaries currently receiving benefits*	$45.8	$47.5
Total actuarial accrued liability – unit credit basis	45.8	47.5
Net assets allocated to fund the actuarial accrued liability, at fair value	77.8	75.7
Actuarial value of assets in excess of the actuarial accrued liability – unit credit basis	$32.0	$28.2

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

UCRS Advisory Board

Member	Location	Term
Robert M. Anderson	UC Berkeley	July 2002 – June 2006
Stephen Barclay	UC San Francisco	July 2000 – June 2007
Patrick G. Clelland (Chair)	Lawrence Livermore National Lab	October 2001 – June 2005
Jacqueline Edwards	UC San Diego	June 2002 – June 2006
Anne C. Paden	UC Irvine	April 2001 – June 2007
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 2007
Bruce A. Wolk	UC Davis	July 2004– June 2008

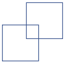
None of the UCRS Board members received any compensation from the Plans for services rendered during fiscal year 2004–2005.

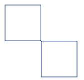
UCRS Investment Management

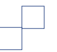
Treasurer	David H. Russ

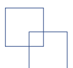
Plan Administration

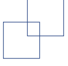
Plan Administrator—University President	Robert C. Dynes
Senior Vice President	Joseph P. Mullinix
UCRS Internal Counsel	Barbara A. Clark
Plan Policy and Administrative Operations	Human Resources and Benefits Department
Associate Vice President	Judith W. Boyette
Deputy and Executive Director	Judy F. Ackerhalt
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—Information Systems Support	Michael C. Baptista
Associate Director—Communications	Andy Evangelista
Plan Actuary	The Segal Company
Independent Plan Auditor	PricewaterhouseCoopers LLP

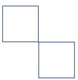


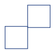


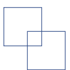


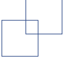


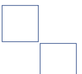


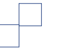


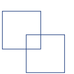












University of California
Human Resources and Benefits
P.O. Box 24570
Oakland, CA 94623-1570
website: atyourservice.ucop.edu

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