

# **University of California Health & Welfare Program**

(A program for University employees and retirees)

**Reports on Audits of Financial Statements as of and  
for the Year Ended June 30, 2008, Required  
Supplementary Information and Supplementary  
Combining Information**

# University of California Health & Welfare Program

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For the Year Ended June 30, 2008

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**Report of Independent Auditors**

To The Regents of  
University of California

In our opinion, the accompanying financial statements of the University of California Health and Welfare Benefits Department (the Department) and the Retiree Health Benefit Trust (UCHRBT), which collectively comprise the basic financial statements of the University of California Health & Welfare program (the Program) as listed in the table of contents, present fairly, in all material respects, the respective financial position of the business type and fiduciary activities of the Program at June 30, 2008, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

As discussed in Note 1, the financial statements present only that portion of the business type and fiduciary activities that are attributable to the transactions of the Program governed by the University of California's Group Insurance Regulations. They do not purport to, and do not, present fairly the financial position of the University of California at June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 and the Schedules of Employer Contributions and Funding Progress on page 27 are not a required part of the Program's financial statements as of and for the year then ended, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The accompanying combining information on pages 28 through 29 is presented for purpose of additional analysis and is not a required part of the basic financial statements. The accompanying combining information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

*PricewaterhouseCoopers LLP*

October 10, 2008  
San Francisco, California

# University of California Health & Welfare Program Management Discussion and Analysis (unaudited) June 30, 2008

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The objective of Management's Discussion and Analysis is to help readers of the financial statements better understand the financial position and operating activities of the University of California (the University) Health and Welfare programs (the Program) for active employees and eligible retirees and their families and survivors (retirees) for the year ended June 30, 2008. The administration of the Program is governed by the University's Group Insurance Regulations. The Human Resources and Benefits Financial Services Department (the Department) has been designated by the Regents as the Program's fiduciary. The Department's activity includes benefits for active employees, retirees who formerly worked at Lawrence Berkeley National Laboratory (LBNL), and through September 30, 2007, retirees who formerly worked at Lawrence Livermore National Laboratory (LLNL). Effective July 1, 2007, The Regents established the University of California Retiree Health Benefit Trust (UCRHBT). The UCRHBT is used to administer the health and welfare benefits for eligible retirees of the University and its affiliates, such as the Hastings College of the Law.

This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2008, 2009, etc.) in this discussion refer to the fiscal years ended June 30.

Effective January 1, 2007, the Program's year end changed for financial reporting purposes from a calendar year end to a fiscal year ending on June 30. In conjunction with the change in year end, the Program prepared financial statements for the period beginning January 1, 2007 through June 30, 2007 and, as a result, certain comparative information has been omitted from this discussion.

## **Financial Highlights**

### *University of California Health and Welfare Benefits Department*

- Unrestricted net assets decreased by \$65.8 million to \$158.7 million in 2008.
- Total operating revenues were \$1.18 billion in 2008 from contributions including:
  - University contributions of \$989.6 million;
  - Employee contributions of \$190.1 million; and,
  - Retiree contributions of \$2.6 million, attributable to retirees who formerly worked at LBNL and LLNL, which also includes \$1.0 million, attributable to retiree contributions for a welfare plan.
- Total operating expenses were \$1.20 billion in 2008 including:
  - Payments for insurance premiums and claims of \$1.19 billion; and,
  - Administrative expenses of \$4.5 million.
- The net operating loss was \$12.8 million.
- Investment income reported as non-operating revenue was \$8.1 million.
- Rebates from employer-related medical plan unrestricted net assets transferred to the University were \$41.1 million.
- A non-recurring transfer of unrestricted net assets to the UCRHBT totaling \$20.0 million providing for its initial liquidity.

# University of California Health & Welfare Program Management Discussion and Analysis (unaudited) June 30, 2008

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## *University of California Retiree Health Benefit Trust*

- Net assets held in trust were \$50.8 million in 2008.
- Total additions were \$243.8 million in 2008 including:
  - University contributions of \$226.2 million including the \$20.0 million non-recurring contribution from the Department's net assets to provide for initial liquidity;
  - Retiree contributions of \$16.9 million; and,
  - Investment income of \$0.7 million.
- Total deductions were \$193.0 million in 2008 including:
  - Insurance premiums and claims of \$191.2 million, net of insurance rebates of \$3.5 million; and,
  - Administrative expenses of \$1.8 million.
- The increase in net assets held in trust was \$50.8 million.

## **Overview of the Financial Statements**

The Program's financial statements communicate financial information through five primary statements and notes to the financial statements.

Three of the primary statements, the balance sheet, statement of revenues, expenses and changes in net assets and statement of cash flows present the financial position, changes in financial position and cash flows for the Department. The balance sheet provides information about assets and obligations at June 30, 2008. The statement of revenues, expenses and changes in net assets provides information regarding operations during 2008. The statement of cash flows report cash sources and uses for operations, noncapital financing and investing activities for 2008.

Two of the primary statements, the statement of fiduciary net assets and statement of changes in fiduciary net assets, present the financial position and operating activities of the UCRHBT.

In addition, required supplementary information (RSI) on the employer contributions and funding progress for the UCRHBT is presented following the notes to the financial statements. RSI is supporting information that the Governmental Accounting Standards Board (GASB) has concluded is essential for placing financial statements and notes to financial statements in an appropriate operational, economic, or historical context.

**University of California Health & Welfare Program  
Management Discussion and Analysis (unaudited)  
June 30, 2008**

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A financial summary and analysis of the *University of California Health and Welfare Benefits Department* follows:

**Balance Sheet**

(Dollars in Thousands)

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$163,430	\$220,747
Receivables	29,480	7,959
Prepaid insurance premiums and other	-	12,554
<b>Total current assets</b>	<b>192,910</b>	<b>241,260</b>
<b>Liabilities</b>		
Contributions to UCRHBT	14,620	-
Insurance premiums and claims	18,012	16,718
Other current liabilities	1,581	31
<b>Total current liabilities</b>	<b>34,213</b>	<b>16,749</b>
<b>Unrestricted net assets</b>	<b>\$158,697</b>	<b>\$224,511</b>

Cash and cash equivalents decreased by \$57.3 million generally attributable to the following key factors:

- An operating loss of \$12.8 million,
- Rebates totaling \$41.1 million provided to the University, and
- A non-recurring \$20.0 million contribution to the UCRHBT, partially offset by
- Cash collected from the University totaling \$14.6 million that will be sent to the UCRHBT in July 2008.
- Cash paid by the University totaling \$1.8 million that will be received from the UCRHBT in July 2008.

Receivables increased by \$21.5 million resulting from insurance rebates due from carriers related to contracts for the 2007 calendar year.

Prepaid insurance premiums declined by \$12.5 million as a result of the timing of payments to carriers in 2008 compared to 2007.

Contributions to UCRHBT represent cash collected from the University that is owed to the UCRHBT. The UCRHBT was established in 2008. As a result, there was not a similar liability in 2007.

Unrestricted net assets were \$158.7 million in 2008, a decrease of \$65.8 million, or 29.3 percent, from \$224.5 million in 2007. The decrease was attributable to the \$12.8 million operating loss, \$8.1 million investment income, rebates of \$41.1 million provided to the University and a \$20.0 million non-recurring contribution to the UCRHBT.

**University of California Health & Welfare Program  
Management Discussion and Analysis (unaudited)  
June 30, 2008**

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Included in unrestricted net assets are certain rebates from insurance companies that originated from the portion of insurance premiums paid by the employee. These rebates totaled \$20.0 million and \$21.4 million at June 30, 2008 and 2007, respectively. Any rebates associated with the employee portion of the Program's cost will be utilized in the future to reduce the employee's portion of insurance premiums.

Also included in unrestricted net assets are funds held as insurance reserves by the carriers totaling \$25.4 million and \$7.9 million as of June 30, 2008 and 2007, respectively. These funds represent both University and employee-paid amounts as follows:

(Dollars in Thousands)

	2008	2007
University paid	\$25,400	\$ 7,877
Employee paid	-	82
<b>Total</b>	<b>\$25,400</b>	<b>\$ 7,959</b>

**Revenues, Expenses and Changes in Unrestricted Net Assets**

(Dollars in Thousands)

**Operating revenues**

University contributions, net	\$ 989,645
Employee contributions	190,073
Retiree contributions*	2,619
<b>Total operating revenues</b>	<b>1,182,337</b>

**Operating expenses**

Insurance premiums and payments, net	1,190,662
Administrative expenses	4,514
<b>Total operating expenses</b>	<b>1,195,176</b>
<b>Operating loss</b>	<b>(12,839)</b>

**Non-operating revenues (expenses)**

Investment income	8,084
Rebates provided to the University's campuses	(41,059)
Transfer of unrestricted net assets to the UCRHBT	(20,000)

**Decrease in unrestricted net assets** **\$ (65,814)**

\*Includes LBNL and LLNL retiree contributions

**University of California Health & Welfare Program  
Management Discussion and Analysis (unaudited)  
June 30, 2008**

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***Operating Revenues***

Operating revenues include University, active employee and retiree (LBNL and LLNL) contributions toward both purchased and self-insurance premiums. For 2008, total contributions amounted to \$1.18 billion as follows:

(Dollars in Thousands)

University and affiliate, net	\$ 989,645
Active employees	190,073
Retirees*	2,619
Total	\$1,182,337

\*Includes LBNL and LLNL retiree contributions

***Operating Expenses***

Operating expenses include payments for purchased insurance premiums and self-insurance claims for active employees and LBNL and LLNL retirees in addition to administrative expenses. For 2008, total expenses amounted to \$1.20 billion.

***Nonoperating Revenues (Expenses)***

Nonoperating revenues include investment income totaling \$8.1 million. Available cash is invested in the short-term investment pool (STIP) with and achieved an investment return of 4.8 percent in 2008.

Non-operating expenses include \$41.1 million in rebates from employer-related medical plan unrestricted net assets transferred to the University's ten campuses in order to supplement the increased cost of employer medical plan premiums in effect during 2007 and 2008. In addition, \$20.0 million in unrestricted net assets was transferred to the UCRHBT.

**Cash Flows**

(Dollars in Thousands)

Net cash used by operating activities:	\$ (9,112)
Net cash used by non-capital financing activities:	
Collections and transfers related to the campuses and medical center retiree health benefit, net	534
Collections and payments related to the administration of UCRHBT, net	4,236
Payments for rebates to University campuses	(41,059)
Payment to UCRHBT for initial liquidity	(20,000)
Net cash used by non-capital financing activities	(56,289)
Net cash provided by investing activities	8,084
Net decrease in cash and cash equivalents	(57,317)
Cash and cash equivalents, beginning of year	220,747
Cash and cash equivalents, end of year	\$163,430



# University of California Health & Welfare Program Management Discussion and Analysis (unaudited) June 30, 2008

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Cash and cash equivalents were \$163.4 million in 2008 compared to \$220.7 million in 2007, a decrease of \$57.3 million.

Cash flows from operations consist primarily of contributions from the University, active employees, retirees, and LBNL retirees, net of payments for insurance premiums and claims payments and administrative expenses. During 2008, net contributions of \$1.16 billion provided operating cash to support \$1.16 billion in insurance premiums and claims payments and other payments of \$4.1 million and \$3.0 million for administrative expenses.

The Department performs certain collection and payment activities on behalf of the UCRHBT. Since the Department is acting in an agency capacity for the UCRHBT, these transactions are not included in the Department's statement of changes in revenues, expenses and other changes in net assets, although they are reported as noncapital financing activities in the statement of cash flows. Timing differences result when the cash flows do not occur in the same year.

The Department collects the University's contribution toward retiree health benefits for retirees who formerly worked at a campus or medical center, along with the retiree's contribution, and transfers the funds to the UCRHBT. During 2008, the Department collected \$228.5 million from the University and from retirees and transferred \$227.9 million to the UCRHBT. The difference will be transferred by the University to the UCRHBT in July 2009.

The Department also acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers for certain retirees. During 2008, the Department paid \$205.1 million to health care insurers for this retiree population and received reimbursements of \$209.4 million from the UCRHBT. The difference represents the timing of claim payments to be made by the Department in July 2009.

Other noncapital financing payments include \$41.1 million in rebates to the University's campuses and \$20.0 million to the UCRHBT for initial liquidity.

Cash flow from investing activities result from investment income earned on cash balances.

A financial summary and analysis of the *University of California Retiree Health Benefit Trust* follows:

## Statement of Fiduciary Net Assets

(Dollars in Thousands)

### Assets

Investments at fair value	\$ 19,773
Receivables	18,170
Prepaid insurance premiums and other	15,466
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Total assets	53,409
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Total liabilities	2,605
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<b>Net assets held in trust</b>	<b>\$50,804</b>

**University of California Health & Welfare Program  
Management Discussion and Analysis (unaudited)  
June 30, 2008**

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The UCRHBT's cash is invested in money market fund. Receivables include contributions due from the Department of \$14.7 million and insurance rebates from carriers of \$3.5 million. Prepaid insurance premiums result from the timing associated with July 2008 coverage paid at the end of June 2008.

Net assets were \$50.8 million at the end of 2008, the first year of activity after the UCRHBT became established on July 1, 2007. UCRHBT funds held as insurance reserves by the carriers included in net assets in 2008 were \$3.5 million.

**Statement of Changes in Fiduciary Net Assets**

(Dollars in Thousands)

**Additions**

Contributions	\$243,144
Investment income, net	691
<b>Total additions</b>	<b>\$243,835</b>

**Deductions**

Benefit payments	191,192
Administrative expenses	1,839
<b>Total deductions</b>	<b>193,031</b>
Increase in net assets held in trust	50,804

**Net Assets Held in Trust**

Beginning of year	-
<b>End of year</b>	<b>\$ 50,804</b>

**Additions**

Contributions include University (including affiliate contributions from the Hastings College of the Law of \$585 thousand) and retiree contributions toward both purchased and self-insurance premiums. For 2008, total contributions amounted to \$243.1 million.

(Dollars in Thousands)

	<b>2008</b>
University and affiliate	\$226,192
Retirees (Campuses and Medical Centers)	16,952
<b>Total</b>	<b>\$ 243,144</b>

**Deductions**

Expenses include payments for purchased insurance premiums and self-insurance claims and administrative expenses. Insurance premiums and claims costs were \$191.2 million and administrative expenses for administrative activities provided by the University were \$1.8 million.

# University of California Health & Welfare Benefits Department

## Balance Sheet

### As of June 30, 2008

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#### Required Supplementary Information

The actuarial accrued liability for retiree health benefits as of July 1, 2007, the date of the latest actuarial valuation, is \$12.6 billion. Included in this actuarial accrued liability is \$459.8 million related to LBNL. The DOE is financially responsible for LBNL's actuarial accrued liability.

#### Requests for Information

This financial report is designed to provide a general overview of the University's Health and Welfare Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to University of California, HR/Benefits Department, Attention: Director of Financial Services, P.O. Box 24570, Oakland, CA 94623-1570.

(Dollars in Thousands)

#### Assets

Cash and cash equivalents	\$163,430
Receivables:	
Contributions from University of California and affiliate	2,270
Reimbursement from UCRHBT	1,810
Insurance reserves held by insurance carriers	25,400
<b>Total current assets</b>	<b>\$192,910</b>

#### Liabilities and Unrestricted Net Assets

Accounts payable	\$ 1,581
Contributions to UCRHBT	14,620
Insurance premiums	11,239
Estimated self-insurance claims	6,773
<b>Total current liabilities</b>	<b>34,213</b>
<b>Unrestricted net assets</b>	<b>158,697</b>
<b>Total liabilities and unrestricted net assets</b>	<b>\$192,910</b>

The accompanying notes are an integral part of these financial statements.

**University of California Health & Welfare Benefits Department**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2008**

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(Dollars in Thousands)

**Operating revenues**

University of California contributions	\$ 989,645
Employee contributions	190,073
Retiree contributions	2,619
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Total operating revenues	1,182,337

**Operating expenses**

Insurance premiums and payments, net	1,190,662
Administrative expenses	4,514
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Total operating expenses	1,195,176

Operating loss	(12,839)
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**Non-operating revenue (expense)**

Investment income	8,084
Rebates provided to the University's campuses	(41,059)
Transfer of unrestricted net assets to the UCRHBT	(20,000)
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Decrease in unrestricted net assets	(65,814)
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**Unrestricted net assets**

Beginning of year:

Held by University of California	216,552
Held by insurance carriers (University of California funds)	7,877
Held by insurance carriers (Employee funds)	82
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Unrestricted net assets, beginning of year	224,511
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End of year:

Held by University of California	133,297
Held by insurance carriers (University of California funds)	25,400
Held by insurance carriers (Employee funds)	-
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Unrestricted net assets, end of year	\$ 158,697
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The accompanying notes are an integral part of these financial statements.

**University of California Health & Welfare Benefits Department**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2008**

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(Dollars in Thousands)

**Cash flows from operating activities**

University, employee and retiree contributions	\$ 1,155,913
Insurance premiums and payments	(1,157,946)
Administrative expenses paid	(2,965)
Other payments	(4,114)
<b>Net cash used by operating activities</b>	<b>\$ (9,112)</b>

**Cash flows from noncapital financing activities**

Collection and transfers related to campus and medical center retiree health benefits:	
Receipt of contributions from the University	211,521
Receipt of contributions from UCRP beneficiaries	16,952
Transfer of contributions to UCRHBT	(227,939)
Collection and payments related to administration of UCRHBT:	
Receipts from UCRHBT	209,363
Payment of retiree health benefit payments on behalf of UCRHBT	(205,127)
Payment to UCRHBT for initial liquidity	(20,000)
Payments for rebates provided to University campuses	(41,059)
<b>Net cash used by noncapital financing activities</b>	<b>(56,289)</b>

**Cash flows from investing activities**

Investment income	8,084
Net decrease in cash and cash equivalents	(57,317)
Cash and cash equivalents, beginning of year	220,747
Cash and cash equivalents, end of year	\$ 163,430

**Reconciliation of operating income to net cash used by operating activities**

Operating loss	\$ (12,839)
Effect of changes in assets and liabilities	
Reimbursements from UCRHBT	(7,040)
Insurance reserves held by insurance carriers	(17,441)
Prepaid insurance premiums	12,554
Due from other plans	(1,810)
Accounts payable	1,550
Insurance premiums	289
Estimated self-insurance claims and claims payable	1,005
Due to UCRHBT	14,620
<b>Net cash used by operating activities</b>	<b>\$ (9,112)</b>

The accompanying notes are an integral part of these financial statements.

**University of California Retiree Health Benefit Trust**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended June 30, 2008**

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(Dollars in Thousands)

**Assets**

Investments at fair value:	
Money market fund	\$19,773
Receivables:	
Contributions from University of California and affiliate	14,671
Insurance reserves held by insurance carriers	3,499
Total receivables	18,170
Prepaid insurance premiums and other	15,466
Total assets	53,409
<b>Liabilities</b>	
Payable to University of California	1,810
Insurance premiums	795
Total liabilities	2,605
Net assets held in trust	\$50,804

The accompanying notes are an integral part of these financial statements.

(Dollars in Thousands)

**Additions**

Contributions	\$ 243,144
Investment income	691
Total additions	243,835

**Deductions**

Insurance premiums and payments, net	191,192
Administrative expenses	1,839
Total deductions	193,031
Net increase in net assets held in trust	50,804

**Net assets held in trust**

Beginning of year	-
End of year	\$ 50,804

The accompanying notes are an integral part of these financial statements.

# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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#### 1. Description of Program

##### General

These financial statements report the financial position and operating activities of the University of California (the University) Health and Welfare programs (the Program) for active employees and eligible retirees and their families and survivors (retirees) of the University of California and its affiliated entity, The Hastings College of the Law (Hastings), for the year ended June 30, 2008. The administration of the Program is governed by the University's Group Insurance Regulations. The Human Resources and Benefits Financial Services Department (the Department) is the Program's administrator and the UCRHBT's fiduciary. The Department's activity includes benefits for active employees, retirees who formerly worked at Lawrence Berkeley National Laboratory (LBNL), and through September 30, 2007, retirees who formerly worked at Lawrence Livermore National Laboratory (LLNL). Effective July 1, 2007, The Board of Regents of the University of California (the Regents) established the University of California Retiree Health Benefit Trust (UCRHBT or Trust). The UCRHBT is used to administer the health and welfare benefits for eligible retirees of the University of California and its affiliate Hastings. The Regents has the authority to establish or amend the Program.

The Program's financial statements represent only the activities of the Department and the UCRHBT that are governed by the University's Group Insurance Regulations. While the Department has other responsibilities, those activities are not governed by the University's Group Insurance Regulations and are not included in this report. The accounts of the Department are included in the University's basic financial statements. The UCRHBT is reported separately in the University's financial statements as a fiduciary fund. The University represents the primary entity and has ultimate oversight responsibility for both the Department and the UCRHBT. The retiree benefits provided by the Program and any liabilities related to the future funding requirements for the retiree benefits are reported by the University, with the exception of those related to Hastings that is not included in the University's financial reporting entity.

The accounts of the Department include the activities associated with active employees at campuses, medical centers and Hastings. In addition, since the University operates and manages Lawrence Berkeley National Laboratory (LBNL) and, through September 30, 2007, Lawrence Livermore National Laboratory (LLNL) under contracts directly with the United States Department of Energy (DOE), employees and retirees associated with these locations also participate in the Program. Accordingly, the Department's activity also includes active employees and retirees who formerly worked at LBNL and, through September 30, 2007, active employees and retirees who formerly worked at LLNL. The DOE is financially responsible for substantially all of the current and future costs incurred at any of the national laboratories, including active and retiree health benefit costs.

UCRHBT allows certain University locations and affiliates—primarily campuses and medical centers—that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of UCRHBT and has the authority to amend or terminate the Trust. The DOE laboratories do not participate in the UCRHBT, therefore the DOE has no interest in the Trust's assets.

**University of California Health & Welfare Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2008**

Employee and retiree participation in the Program consisted of the following at July 1, 2007, the date of the latest actuarial valuation:

	Campuses and Medical Centers	LBNL	Hastings	Total Health & Welfare Program*
Active employees	109,983	2,586	228	112,797
Retirees currently receiving benefits	31,247	1,685	78	33,010
<b>Total participants</b>	<b>141,230</b>	<b>4,271</b>	<b>306</b>	<b>145,807</b>

\*Excludes LLNL employees and retirees who participated in the Program on July 1, 2007, although their participation terminated on September 30, 2007.

The following description of the Program provides only general information. Participants should refer to the Summary Plan Descriptions or the plan agreements for complete descriptions of applicable health and welfare benefit plan provisions.

**Benefits and Eligibility**

For active employees, eligibility for the University’s health and welfare benefits is based on the appointment level of the employee. For retirees, eligibility for retiree health benefits, primarily medical and dental coverage, requires membership in the University of California Retirement Plan (UCRP). As a result, the Program does not have inactive vested participants.

Active employees eligible for benefits are covered by one of three benefits packages known as Full, Mid-level, and Core, as follows:

- Eligibility for Full benefits extends to an employee who is a member of the UC-sponsored retirement plan (UCRP) and the California Public Employees' Retirement System (CalPERS) and appointed to work at least 50 percent time for a year or more or who worked 1,000 hours in a continuous 12-month period (or 750 hours for non-Senate Instructional Unit);
- Eligibility for Mid-level benefits extends to an employee who is appointed to work 100 percent time for at least three months or, the appointment is at least 50 percent time for a year but the employee is not a member of a UC-sponsored retirement plan; or,
- Eligibility for Core benefits is extended to an employee who is appointed to work at least 43.75 percent time. The employee must maintain an average paid time of at least 17 ½ hours per week in order to remain eligible for benefits.

All eligible employees may enroll eligible family members in certain University–sponsored plans. The employee may only enroll one eligible adult family member: a legal spouse, an adult dependent relative or a same-sex domestic partner. Other eligible family members may include a natural or adopted child; a stepchild or grandchild; a same-sex domestic partner’s child or grandchild; or a legal ward.

The Program includes self-insured and purchased fully-insured plans for health insurance (medical, dental, and vision), disability and life insurance, supplemental disability, supplemental life insurance, and other insurance as follows:



# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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#### *Medical Plans*

California-based employees are generally eligible to participate in a point-of-service plan (POS), a preferred provider organization (PPO) plan, in one of several health maintenance organizations (HMOs), or a fee-for-service plan. Nevada-based employees are generally eligible to participate in an Exclusive Provider Option (EPO) or HMO plan. All of these plans provide a variety of different levels or tiers of health care coverage and medical services. Certain California locations are also eligible to participate in a consumer model plan.

#### *Dental Plans*

For dental care, eligible California employees can choose from one of two plans which provide preventive, basic, prosthetic, and orthodontic dental benefits. Employees outside of California receive coverage under one national plan.

#### *Vision Plan*

The University offers the Vision Services Plan, a PPO organization, which covers a variety of vision care services including eye exams, corrective lenses, and frames, and contact lenses.

#### *Disability Plans*

The Short-Term Disability plan paid for by the University provides basic short-term benefits for non-work related disabilities. The plan pays 55 percent of eligible earnings for up to six months (\$800 monthly maximum), after a waiting period.

The Supplemental Disability Plan provides extended coverage for work and non-work-related disabilities. The plan supplements Short-Term Disability and combined with all other sources of disability or retirement income, pays up to 70 percent of eligible earnings, up to \$10,000 a month. There is a choice of waiting periods.

#### *Life Insurance Plans*

The University provides group term life insurance coverage. The Basic Life Insurance Plan provides employees eligible for full benefits with life insurance equal to annual base salary, up to a maximum of \$50,000. Coverage is adjusted if appointment is less than 100 percent time.

The Business Travel Accident Plan provides up to \$100,000 of coverage when an employee travels on official University business.

#### *Life Insurance, and Other Insurance Plans*

Employees may also purchase additional disability, employee and dependent life insurance coverage, and they have the option to enroll in a legal expense insurance plan and an accidental death and dismemberment plan at their own expense.

The Basic Life Plan provides \$50,000 of University paid life insurance equal to an employee's annual salary up to \$50,000. Benefits are paid to the beneficiaries of employee if employee dies while employed or on approved leave without pay or temporary layoff.

A Core Life Plan provides \$5,000 of University paid life insurance. Benefits are paid to the beneficiaries of employee if employee dies while employed or on approved leave without pay or temporary layoff.

Supplemental Term Life Insurance may be purchased at group rates. Coverage is up to four times annual salary (subject to certain maximums) up to an absolute maximum of \$1,000,000. Benefits are paid to the beneficiaries of employee if employee dies while enrolled.

# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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The University offers two dependent life insurance plans to employees who are eligible for full and mid-level benefits. The Basic Dependent Life plan covers spouse or domestic partner and/or eligible children for \$5,000 each. The Expanded Dependent Life Plan provides coverage for eligible dependents. The amount available for legal spouses and domestic partners is up to 50 percent of the amount of the employee's Supplemental Life amount, up to a maximum of \$200,000. An amount of \$10,000 is available for each eligible child.

The Accidental Death & Dismemberment Plan offers three levels of coverage (1) self-only, (2) family plan, and (3) modified family plan providing from \$10,000 up to \$500,000 of coverage for employees and/or eligible family members.

The employee-paid Legal Plan provides members with access to preventive, domestic, consumer, and defensive legal services.

#### **Termination**

Although the University has not expressed any intent to do so, the benefits of all employees, retirees, and UCRHBT beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums and University contributions at any time. Health and welfare benefits are subject to legislative appropriation and are not accrued or vested benefit entitlements. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provides for continued coverage for a certain period of time at applicable monthly COBRA rates if an employee or the employee's eligible family member loses eligibility for University-sponsored medical, dental, or vision coverage because of termination of employment, death, divorce, legal separation, annulment, termination of a same-sex domestic partnership, or if a the family member ceases to be an eligible dependent.

## **2. Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of the Department and the UCRHBT have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board issued before November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

#### **Cash and Cash Equivalents**

All University operating entities invest surplus cash balances in a short-term investment pool (STIP) managed by the Treasurer of The Regents. The Regents are responsible for managing the University's investments and establishing investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of the Department's cash is deposited into the STIP. All Department deposits into STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominantly held to maturity) are not recorded by each operating entity but are absorbed by the University, as the manager of the pool. The average maturity of STIP is 684 days.

# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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Cash and cash equivalents authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 and the average maturity is 40 days.

Additional information on cash and investments can be obtained from the 2007-2008 annual report of the University.

#### **Self-Insurance Claim Liabilities**

Self-insurance claims include both reported claims and current estimates of the ultimate costs of future claims (including future claims adjustment expenses) that have been incurred but have not yet been reported (IBNR) as of June 30. IBNR claims estimates are based on many variables including individual cases for reported losses, estimates of unreported losses using historical and statistical information and other factors. The IBNR claims liability is calculated by an independent health and welfare plan actuary, using a variety of actuarial and statistical techniques, adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

The University's self-insured plans are subject to various claims and aggregate coverage limits. The University does not purchase excess liability coverage from an independent insurer. IBNR claims liabilities are recorded in the Department's financial statements when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

#### **Net Assets**

The Department's unrestricted net assets held at the University are included in the University's net assets and are maintained for the exclusive benefit of the participants in the Program. Included in the Department's net assets are rebates received from the portion of insurance premiums paid by the employee. These rebates associated with the employee portion of the Program's cost totaling \$20.0 million at June 30, 2008 will be utilized in the future to reduce the employee's portion of insurance premiums.

The UCRHBT's assets are legally segregated from the University and are for the exclusive purpose of providing post-employment benefits to participants and beneficiaries, primarily campuses and medical centers, pursuant to the University's Program, and defraying the reasonable expenses associated with providing such benefits.

#### **Revenues and Expenses**

The Department's operating revenues consist of contributions from the University, employees and retirees, specifically:

##### *Active employees:*

- Active employees working at campuses and medical centers;
- Active employees working at LBNL;
- Active employees who worked at LLNL through September 30, 2007;

##### *Retirees who formerly worked at certain DOE laboratories:*

- Retirees who formerly worked at LBNL; and,
- Through September 30, 2007, retirees who formerly worked at LLNL.

# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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The University's contributions attributable to LBNL and LLNL are reimbursed by the DOE, although the DOE's reimbursement is not included in the Department's activities.

Operating expenses include purchased insurance premiums and self-insurance claims for the employee and retiree group, and administrative expenses.

Non-operating revenue and expense includes investment income, net unrealized appreciation or depreciation in the fair value of investments and rebates from unrestricted net assets provided to the University's campuses.

In addition, the Department:

- Collects contributions from the University for campus and medical center retirees;
- Collects contributions from campus and medical center retirees; and,
- Transfers these amounts to the UCRHBT.

The Department performs these transactions in an agency capacity and reports the activity noncapital financing activities in its statement of cash flows.

The Department also acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers and administrators amounts currently for retirees who previously worked at a campus, medical center, or University affiliate. These transactions are also reported as noncapital financing activities in the Department's statement of cash flows.

The UCRHBT reports funds from the Department as contributions, in addition to contributions received from the University's affiliate. The UCRHBT reports its obligations under the Program as insurance premiums and payments, or administrative expenses.

#### **Insurance Rebates**

The University may receive rebates from insurance companies under the terms of the contracts with the providers. Rebates are allocated to the Department and the UCRHBT and are recognized and recorded as a reduction to insurance premiums and payments when the University determines the amount is realizable. Insurance rebates for the year ended June 30, 2008 were \$25.4 million and \$3.5 million for the Department and the UCRHBT, respectively.

#### **Administrative Expenses**

Administrative costs include direct costs of the Program and other administrative expenses incurred by the University to administer the Program.

#### **Tax Exemption**

The UCRHBT sponsored by the University of California is qualified under various Internal Revenue Code (IRC) sections and state statutes, which set forth coverage, definitions, and funding rules. Accordingly, net investment income on such UCRHBT assets is exempt from income taxes.

# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations, claims incurred but not reported, eligibility credits, claims payable, and amounts included in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

#### Comparative Information

Effective January 1, 2007, the Program's year end changed for financial reporting purposes from a calendar year end to a fiscal year ending on June 30. In conjunction with the change in year end, the Program prepared financial statements for the period beginning January 1, 2007 through June 30, 2007 and, as a result, comparative information for the prior year is not available.

### 3. Contribution Policy

The contribution requirements of the University are established and may be amended by the University. Generally, employees and retirees contribute the difference between the insurance carriers' total premium rate and the University's employer contribution. Employees do not make any explicit contributions toward retiree health benefits.

University, employee and retiree contributions of premiums made under purchased plan arrangements are determined by applying the provider contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics, and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability.

Contribution requirements for employees are based on a four salary band structure as follows: \$40,000 or less; \$40,000–\$80,000; \$80,001–\$120,000; \$120,001 or higher. For the other health and welfare plans, the University and employee contributions vary depending on the contribution requirements of the plans.

In 2008, the University's allocation of approximately \$6,700 per employee covered the full cost for approximately 18 percent of the covered population. The remaining 82 percent of the covered population have coverage under a medical plan that requires cost-sharing.

Contribution requirements for retirees are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees formerly employed by the University prior to 1990 are eligible for the University's maximum contribution. Retirees formerly employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service. In addition to the explicit benefits provided to retirees, there is an "implicit subsidy." The gross premiums for retirees that are not currently eligible for Medicare benefits (including both retirees under age 65 and those who are ineligible for Medicare) are the same for employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for employees by the University are subsidizing

**University of California Health & Welfare Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2008**

the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with University retiree health cost during 2008 for retirees who formerly worked at the campuses and medical centers was \$43.1 million, although this cost is not included in the UCRHBT's activities. The implicit subsidy associated with retiree health costs during 2008 for the retirees who formerly worked at the DOE laboratories was \$2.4 million, and this cost is included in the Department's activities.

**4. Self-Insurance Claim Liabilities**

Changes in self-insurance claims liabilities for year ended June 30, 2008 are as follows (in thousands of dollars):

	<b>2008</b>
Liability at beginning of year	\$ 5,768
Claims incurred and changes in estimates	37,432
Claim payments	(36,427)
Liability at end of year	\$ 6,773

Campus and medical center retirees may participate in self-insurance plans offered under the Program, although the UCRHBT is responsible for the costs. The Department retains the self-insurance liability for all plans in the Program. As a result, the UCRHBT does not have any self-insurance claim liabilities on its statement of fiduciary net assets.

**5. Insurance Reserves Held By Carriers**

Under the terms of the contracts with certain insurance carriers, some plans in the Program may be required to deposit cash with the carriers for the payment of claims. In addition, certain rebates from insurance companies may not have been received by the University. Included in net assets are funds held by insurance carriers totaling \$28.9 million as of June 30, 2008. These funds represent both University and employee-paid amounts as follows (dollars in thousands):

	<b>Department</b>	<b>UCRHBT</b>
Prudential Insurance Company of America–Life		
Blue Cross of California	\$23,712	\$3,387
PacifiCare	900	-
Other carriers	788	112
Total	\$25,400	\$3,499

The reserve balance changes each year as a result of premiums paid, claims incurred, fees, investment results and rebate activity.

**6. Funded Status and Funding Progress—Retiree Health Benefits**

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and healthcare cost trends. The projection of benefits does not explicitly incorporate the potential effects on the contribution rate of the results of collective bargaining discussions. Actuarially determined amounts

**University of California Health & Welfare Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2008**

are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funded status of the UCRHBT as of July 1, 2007 was as follows (in thousands of dollars):

	<b>Campuses and Medical Centers</b>	<b>LBNL</b>	<b>Hastings</b>	<b>Total</b>
Actuarial accrued liability	\$ 12,074,689	\$ 459,779	\$ 29,668	\$ 12,564,136
Actuarial value of assets	–	–	–	–
<b>Unfunded actuarial accrued liability</b>	<b>\$(12,074,689)</b>	<b>\$(459,779)</b>	<b>\$(29,668)</b>	<b>\$(12,564,136)</b>
Funded ratio	–	–	–	–
Covered payroll	\$ 6,720,789	\$ 192,678	\$ 17,305	\$ 6,930,772
Unfunded actuarial accrued liability as a percentage of covered payroll	(179.7%)	(238.6%)	(171.4%)	(181.3%)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**7. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based upon the Trust as understood by the University and its members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and the retirees to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial assumptions used in the valuation were:

- Assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits;
- Healthcare cost trend rate of up to 12.0 percent initially, depending on the type of plan, reduced by decrements to an ultimate rate of 5.0 percent after nine years;
- Projected inflation at 3.0 percent;
- Amortization of the initial unfunded actuarial accrued liability over 30 years as a flat dollar amount on a closed basis;
- Amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;

# University of California Health & Welfare Benefits Program

## Notes to Financial Statements

### June 30, 2008

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- Amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- Future life expectancy based upon recent group mortality experience; and
- Assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

#### **8. Termination of the LLNL Contract**

Effective September 30, 2007, the University's contract with the DOE to operate and manage the LLNL terminated. Contributions and benefit payments associated with the LLNL employees and retirees were \$26.2 million and \$26.2 million, respectively, for the three-month period ending September 30, 2007. All future retiree benefit obligations become the responsibility successor contractor.

#### **9. Contingencies**

Substantial amounts are received and expended by the University under federal and state grants and contracts that include charges for certain employees' health and welfare benefits provided under the Program, and are subject to audit by cognizant governmental agencies. These amounts relate to research, student aid, hospital operations and other programs. University management believes that any liability arising from audits of these grants and contracts is the responsibility of the University. The Department may reimburse the University for any liability the University could be assessed.

In addition from time to time the University is involved in litigation that may affect the Program. Management does not believe the outcome of such litigation will have a material effect on the Program's financial position, change in net assets or cash flows.

#### **10. Related Party Transactions**

Certain administrative functions are performed by employees of the University. No such employee receives compensation from the UCRHBT. In 2008, the Department reimbursed the University \$1.8 million for certain administrative functions.



**University of California Health & Welfare Benefits Program  
Required Supplementary Information  
June 30, 2008**

The schedule of employer contributions for the retiree health portion of the Program is presented below.

(Dollars in Thousands)

	<b>Campuses and Medical Centers</b>	<b>LBNL</b>	<b>Hastings</b>	<b>Total</b>
Annual Required Contribution	\$1,355,362	\$44,426	\$3,165	\$1,402,953
Annual Contributions:				
University contributions to				
UCRHBT	(225,066)			(225,066)
LBNL contributions to Department		(10,548)		(10,548)
Hastings contributions to UCRHBT			(585)	(585)
Implicit subsidy	(43,036)	(2,384)	(130)	(45,550)
Total Contributions	\$(268,102)	\$(12,932)	\$(715)	\$(291,341)
Percentage Contributed	19.8%	29.1%	22.6%	20.8%

The schedule of funding progress for the retiree health portion of the Program is presented below.

(Dollars in Thousands)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>(Deficit)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>(Deficit)/ Covered Payroll</b>	<b>Implicit Subsidy Included in Actuarial Accrued Liability</b>
University of California Health and Welfare Program							
July 1, 2007	None	\$12,564,136	\$(12,564,136)	–	\$6,930,772	(181.3%)	\$1,871,711
Campuses and Medical Centers							
July 1, 2007	None	12,074,689	(12,074,689)	–	6,720,789	(179.7%)	1,792,229
LBNL							
July 1, 2007	None	459,779	(459,779)	–	192,678	(238.6%)	74,918
Hastings							
July 1, 2007	None	29,668	(29,668)	–	17,305	(171.4%)	4,564

The University's annual required contribution and actuarial accrued liability for campus and medical center retiree health benefits expense is actuarially determined. Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to the UCRHBT and reduce the unfunded actuarial accrued liability.

The annual required contribution and actuarial accrued liability for LBNL is actuarially determined independently from the University's campuses and medical centers. The Department directly pays health care insurers and administrators amounts currently due under the Program for retirees who previously worked at LBNL, and is reimbursed by the DOE. These contributions, in the form of direct payments, also reduce the unfunded actuarial accrued liability.

**University of California Health & Welfare Benefits Program**  
**Supplemental Combining Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2008**

(Dollars in Thousands)

	Health & Welfare Department						UCRHBT				Health and Welfare Program
	Active Employees			LBNL/LLNL Retirees			Retirees				
	Excluding Implicit Subsidy	Implicit Subsidy	Total Active Employees	Excluding Implicit Subsidy	Implicit Subsidy	Sub-Total	Excluding Implicit Subsidy	Implicit Subsidy	Sub-Total	Total Retirees	
<b>Operating revenues</b>											
University of California contributions	\$ 968,643		\$ 968,643	\$ 19,014		\$19,014	\$ 225,607		\$225,607	\$ 244,621	\$ 1,213,264
Hastings contributions	1,988		1,988				585		585	585	2,573
Employee contributions	190,073		190,073								190,073
Retiree contributions	936		936	1,683		1,683	16,952		16,952	18,635	19,571
Total operating revenues	1,161,640		1,161,640	20,697		20,697	243,144		243,144	263,841	1,425,481
<b>Operating expenses</b>											
Insurance premiums and payments, net	1,169,965		1,169,965	20,697		20,697	191,192		191,192	211,889	1,381,854
Implicit subsidy		(45,550)	(45,550)		2,384	2,384		43,166	43,166	45,550	
Administrative expenses	4,284		4,284	230		230	1,839		1,839	2,069	6,353
Total operating expenses	1,174,249	(45,550)	1,128,699	20,927	2,384	23,311	193,031	43,166	236,197	259,508	1,388,207
Operating gain (loss)	(12,609)	45,550	32,941	(230)	(2,384)	(2,614)	50,113	(43,166)	6,947	4,333	37,274
<b>Nonoperating revenue</b>											
Investment income	8,084		8,084				691		691	691	8,775
<b>Other changes in net assets</b>											
Transfer of unrestricted net assets for retiree expenses	(230)		(230)	230		230				230	
Rebates provided to the University's campuses	(41,059)		(41,059)								(41,059)
Transfer of unrestricted net assets to the UCRHBT	(20,000)		(20,000)								(20,000)
Implicit subsidy		(45,550)	(45,550)		2,384	2,384		43,166	43,166	45,550	
<b>Increase (decrease) in net assets</b>	<b>\$ (65,814)</b>		<b>\$ (65,814)</b>				<b>\$ 50,804</b>		<b>\$50,804</b>	<b>\$ 50,804</b>	<b>\$ (15,010)</b>

# University of California Health & Welfare Benefits Program

## Notes to Supplemental Combining Information

### June 30, 2008

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#### Retiree Health Contributions

Retiree health benefit assessment rates are currently developed based upon estimates designed to provide sufficient contributions such that retiree health benefit costs are funded on a pay-as-you-go basis. Retiree health benefit assessments are charged to all University campuses and affiliates to provide for the University's contribution toward retiree health benefits costs. The assessment per \$100 of covered payroll was \$2.86 for the period July 1, 2007 to June 30, 2008. The assessments generated University contributions toward medical and dental benefits for retirees, their families, and survivors of \$216.2 million for the year ended June 30, 2008. In addition, in order to provide the UCRHBT with initial liquidity, the Department transferred \$20.0 million of unrestricted net asset to the UCRHBT. The DOE laboratories are charged based on actual costs of health insurance.

Retiree health benefit assessment rates are currently developed based upon estimates designed to provide sufficient contributions such that retiree health benefit costs are funded on a pay-as-you-go basis. To the extent the assessments that generate employer contributions toward retiree health benefits are less than the retiree health benefit costs and an allocation of administrative expenses, unrestricted net assets are used to supplement employer contributions. Unrestricted net assets used to supplement employer contributions to provide for retiree medical and dental benefits and administrative expenses totaled \$20.2 million for the year ended June 30, 2008. The transfer of unrestricted net assets is eliminated in the presentation of the combined Department's activities. The implicit subsidy associated with retiree health costs during 2008 was \$45.6 million. The implicit subsidy for the retirees who formerly worked at the DOE laboratories that are included in the Department's activities was \$2.4 million. The implicit subsidy for retirees who formerly worked at a campus or medical center or Hastings was \$43.1 million and \$130 thousand, respectively, and is included in the UCRHBT's activities. These implicit subsidies are shown as a reduction of employee health benefit costs and an increase in retiree health benefit costs. The corresponding offset is shown as a transfer in other changes in net assets.