




MEMORANDUM

Senior Vice President
Administration

To: Faculty and Staff
From: Todd R. Dickey 
Date: March 23, 2007
Subject: New USC Retirement Savings Program

On behalf of President Sample, I am pleased to announce two significant changes to the university's retirement program — both of which are the result of feedback we received from you. First, effective July 1, 2007, the university is opening the Faculty and Exempt Staff Retirement Plan to non-exempt staff. There will be one retirement plan for faculty and staff. Second, all participants will be able to choose their level of contribution. We remain committed to supporting the highest level of university and employee matching contributions (10% USC and 5% employee) and providing you with as many options as possible to maximize your workplace savings opportunities, but the new plan also will allow you to participate at lower contribution rates if, for whatever reason, you choose to do so. No other features of the defined contribution plan are changing.

In the next few weeks, all eligible employees will receive a special edition of *Benefits News* describing the changes and enrollment process in more detail, but I've included some highlights in this memo.

What you will need to do

If you are a current participant in the Faculty and Exempt Staff Retirement Plan, you don't need to do anything if you wish to continue participating at the current 10% USC match and 5% employee contribution level. In the next few weeks, you will receive information about what you would need to do should you wish to reduce your contribution level.

If you are a current participant in the Non-Exempt Staff Retirement Plan, the benefits you have accrued under that plan are protected and secure and will be paid out to you at retirement under the terms of the current plan. Between April 16 and June 22, you will receive information on how to enroll in the new USC Retirement Savings Program to begin your participation when the new program becomes effective on July 1, 2007.

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If you are represented by a collective bargaining unit, either Local 11 in Hospitality Services or Local 30 in the Libraries, we are still in the process of discussing these changes with your union representatives. Until those discussions are concluded, you will continue participation in the Non-Exempt Staff Retirement Plan and will not be converted to participation in the new program.

You asked. We listened.

Prior to 1983, all university employees were eligible, but not required, to participate in a single defined contribution plan. Because many non-exempt staff chose not to participate, and the university was concerned about their ability to afford to retire, USC introduced the defined benefit Non-Exempt Staff Retirement Plan. Although the plan assured some level of retirement income for non-exempt staff, it did not provide the features or choices non-exempt staff wanted. For example, the plan required a five-year vesting period, limited the types of compensation that would be used to calculate the benefit, prescribed a preset pension payment rather than provided the opportunity to realize gains from participant-selected investments, restricted death benefits to spouses only, and did not allow portability of the benefit at termination. Non-exempt staff were not happy with their plan, believing that the features of the Faculty and Exempt Staff Retirement Plan were more advantageous. Over the years, non-exempt staff have asked to be included in the defined contribution plan and have sometimes gone to extraordinary lengths to try to qualify. In the 2005 benefits survey, the satisfaction level of participants in the Faculty and Exempt Staff Retirement Plan was nearly nine times higher than that of staff in the Non-Exempt Staff Retirement Plan. In that same survey, faculty and exempt staff, while valuing their plan, expressed a desire for increased flexibility in the amount of contributions. In another survey, in August 2006, 92 percent of the non-exempt staff who responded wanted to switch to the Faculty and Exempt Staff Retirement Plan.

We heard you. We have committed ourselves to making changes that would improve your satisfaction with the university's retirement program. In January 2006, we formed the USC Retirement Plan Review Task Force to conduct a comprehensive review of USC's retirement programs, with the goal of increasing employee satisfaction. Members of the task force included representatives from the university's Benefits Advisory Committee, Academic Senate, Staff Assembly, Emeriti Center, Provost's Office and university departments involved in various aspects of administering the plans, including Retirement Plan Administration, Benefits Administration, HSC Personnel Services, Office of the Treasurer, Office of Budget and Planning, and the Comptroller's Office.

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The task force recommended that the university consider establishing one defined contribution retirement plan rather than maintaining two separate retirement plans for different classifications of employees. That recommendation prompted the changes being announced today.

Freezing the old Non-Exempt Staff Retirement Plan

In order to allow non-exempt employees to participate in the defined contribution plan, the old Non-Exempt Retirement Plan will be frozen on June 30, 2007. All benefits accrued under the old plan will be fully protected and insured under the federal Pension Benefit Guaranty Corporation and will be paid to you at retirement. If you leave USC before reaching retirement age, your benefit will be paid as a lifetime annuity beginning as early as age 55. Depending on the present value of the benefit, you may elect to receive a lump-sum payment or roll the benefits over to another retirement plan. Nothing has changed about the way benefits under the old plan will be paid.

Enrolling in the new program

Current participants in the Faculty and Exempt Staff Retirement Plan do not need to re-enroll. Non-exempt employees joining the new program will receive additional information in the next few weeks about what they will need to do. You will automatically be enrolled at the highest contribution level (10% USC match and 5% employee contribution) unless you choose a lower contribution level. You will need to identify a beneficiary (e.g., spouse, domestic partner, child, other relative, friend, trust, etc.). You will need to choose from among several companies to manage your retirement savings and direct how your funds are invested. Between April 16 and June 22, you will have the opportunity to attend information sessions and meet with our retirement vendors. Staff in your Benefits Office will assist you with completing the paperwork. Remember, your contributions will vest immediately. If you leave the university, the funds can remain with the vendor you choose, but the funds also will be portable, which means if you change employers, the funds could be rolled over to your new employer's plan or into another individual retirement savings instrument (e.g., an IRA).

Increased flexibility

USC is committed to providing all employees with a 10% university match toward their 5% contribution, and automatically will enroll participants at the highest level unless instructed by the employee to do otherwise. You will have the option of choosing a lower participation rate and a correspondingly lower university contribution. For instance, USC will contribute 9% if you contribute 4%; 8% if you contribute 3%; 7% if you contribute 2%; or 6% if you contribute 1%. Even if you decide to contribute nothing to the retirement plan, the university will contribute 5%.

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Changes to the Supplemental Plan limits

In order to provide additional flexibility and choice, the new USC Retirement Savings Program is becoming a voluntary contribution plan — with no mandated employee participation. This change also affects the calculation of the total amount of retirement savings you can set aside on a pre-tax basis according to IRS rules. All voluntary contributions, including the 5% employee matched contribution and any additional contributions to the Supplemental Retirement Account, must be counted toward the IRS annual allowable maximum of \$15,500, or \$20,500 for employees over the age of 50.

If you will be affected by this change, your Benefits Office will contact you individually to help you adjust your Supplemental Plan contribution level to stay within the IRS limit and to discuss other after-tax retirement savings opportunities. Many employees will not be affected by this change because they are not near the maximum allowable annual contribution. However, if your annual eligible income is \$225,000 or more, this change affects you the most, and you will have the opportunity to participate in an Insured Security Options Plan (ISOP), a special type of insurance policy to allow you to supplement your retirement savings in a tax-advantaged way.

When and how you will get more details

In the next few weeks, all employees who are eligible to participate in the new USC Retirement Savings Program will receive a special edition of *Benefit News* outlining the overall changes in the university's retirement program and detailing how the changes affect you. Numerous question-and-answer sessions will be offered in early April, and all non-exempt staff will receive an enrollment kit in mid-April. Again, faculty and exempt staff do not need to do anything to retain their current 10% USC match and 5% employee contribution. Forms for changing your contribution level will be available beginning in mid-April. Special retirement enrollment fairs and general-information meetings will be held in April, May and June. Additional information and all forms will be available on the Benefits Web site, www.usc.edu/benefits. Please be on the lookout for communications from your Benefits Office. In the meantime, if you have any questions, please call your Benefits Office at (213) 740-6027 for the University Park campus or (323) 442-1010 for the Health Sciences campus.

We are excited to be able to offer this new, single Retirement Savings Program for our faculty and staff, and to provide you with the choice, flexibility and features you told us you wanted.