UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING/VIDEO-TELECONFERENCE
FEBRUARY 28, 2020
10:00 AM – 12:00 PM

BOARD MEMBERS PARTICIPATING: Chair Ronald Cortez, Vice Chair Jo Mackness, Chief Investment Officer (CIO) Jagdeep Bachher, Professor David Brownstone, Professor Henning Bohn, Academic Personnel Policy Analyst Tiffany Wilson, Pharmacy Technician Ruth Zolayvar, CUCRA Chair Marianne Schnaubelt, and CUCEA Chair Caroline Kane.

BOARD MEMBERS ABSENT: Chief Operating Officer (COO) Rachael Nava, and Vice President (VP) Dwaine B. Duckett.

UCOP STAFF PARTICIPATING: Interim Vice President Cheryl Lloyd, Associate Vice President David Alcocer, Chief Operating Officer Arthur Guimaraes, Managing Director Marco Merz, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Director Ellen Lorenz, Director Hyun Swanson, Manager John Monroe, and Principal Analyst Robert Semple.

OTHERS PRESENT: CNA representative Stephanie Short, Teamsters Local 2010 representative Melissa Munio, CUCFA representative Eric Hays, retiree/UPTE representative Paul Brooks, Academic Senate Principal Analyst Ken Feer, Manager Stephanie Tenney (UCI-Finance and Administration), and Consultant Emily Klare (Segal Consulting).

The meeting officially began at 10:03 a.m.

PUBLIC COMMENT PERIOD: (No public comments)

APPROVAL OF THE MINUTES: Chair Cortez called for the approval of the minutes of the Board meeting of November 22, 2019. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Cortez asked all presenters to be mindful of time since the meeting was scheduled to last only two hours. He then welcomed John Monroe, the new manager of the Actuarial Services Group at UCOP. He noted that John was previously an actuary and vice president for Segal Consulting. He concluded by asking Marco Merz, the Managing Director of Defined Contributions Products with the Office of the CIO, if he still wanted a letter from the Board regarding the potential of offering a qualified longevity annuity contract (QLAC) under the UC Retirement Savings Program (RSP). Director Merz indicated that such a letter was not necessary as the Office of the CIO is proceeding with the development a QLAC for the RSP and would be seeking Regental approval to amend the RSP at a future, undetermined date.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer stated that the Governor's proposed January budget provided for approximately $218 in new funding. He noted that the Governor's proposed budget included a 5% base budget increase and $25 million dedicated funding for the UC Riverside school of medicine. He mentioned that UC had requested more funding to help cover student enrollment growth, but indicated that there may be future opportunities to seek additional student enrollment funding. He also mentioned that a graduate student tuition increase is scheduled to be presented to the Regents in March 2020, along with a tuition increase for "new" undergraduate students. A tuition increase for current undergraduate is not being requested. Finally, he noted that UC is forming a proposal to ask the state for Proposition 2 monies to apply to UCRP's unfunded actuarial accrued liability (UAAL), as was done in the past. He indicated that it is UC's hope that such Proposition 2 monies, if received, could prevent or mitigate a potential increase in UCRP member contribution rates, which the Regents may revisit this coming July.

CHIEF INVESTMENT OFFICER – REPORT: Chief Investment Officer (CIO) Bachher began by addressing the recent downturn in the financial markets due to the coronavirus and its impact on UC's investments and investment strategy. He stated that the return for UCRP as of the December 31, 2019 was somewhat misleading and would not really be useful at this point. He noted that the S&P 500 index was currently down 15% and had a fiscal year to date (FYTD) return of negative 2%. However, he indicated that he is not currently selling equities, including fossil fuels which have been hit particularly hard. He mentioned that he was not too worried about how equities were currently performing at this point, as returns were still close to the historical average. He stated the he believed that investors are in panic mode and that the market is experiencing an overselling at the moment, although he does not yet think that such selling represents a recessionary event. As he has noted in previous meetings, he has been maintaining a significant amount of cash holdings and the recent downturn actually presents a good buying opportunity. He said that within the past week he had invested roughly $2.2 billion in the market, while still retaining roughly $6 billion in cash holdings (i.e. dry powder).

Turning to bonds, he noted that U.S. ten-year treasuries are currently providing only 1.17% interest. However, given that $14 trillion in global debt is providing negative returns, he stated that U.S. treasuries are still the safest bet even with such low returns. However, he mentioned that many countries may institute fiscal stimulus plans, possibly even the U.S., which may reduce investor anxiety and generate some improvement in the markets. In closing, he indicated that he has been participating in calls about the health care system and could similarly engage with the UC community if employees and retirees are concerned about the pandemic-related market turmoil.

Director Merz began by noting that he and his team have been monitoring the RSP to determine if participants were engaging in excessive selling or trading as a result of the pandemic. He was happy to report that, so far, UC participants have remained fairly calm and there had not been significant selling or trading in the RSP. He also mentioned that Director Swanson and others were working on communications to help guide participants during this period of market uncertainty. With respect to performance, he stated that the RSP had shed about $1 billion during the recent market downturn. He noted that the Emerging Markets Fund had underperformed for a while and that he was considering replacing the Emerging Markets Fund external manager. He also indicated that internally managed fixed income struggled recently, but its longer-term performance had been consistent with its benchmark. He stated that the UC Pathway funds had been performing well, and attributed some of their success to their design, which was to ease investor uncertainty, focus on diversification, and utilize a strategic glide path to mitigate risk. While he stated that the Pathway funds help mitigate certain risks, he noted that longevity risk (i.e., the risk that participants will outlive their savings), remained a concern for participants in all the RSP funds.

To address longevity risk in the RSP, Director Merz mentioned that the Office of the CIO was proceeding with plans to implement a voluntary qualified longevity annuity contract (QLAC), which would offer RSP participants the means to secure a stable stream of income. He stated that implementing a QLAC for the RSP would require Regental approval to amend the RSP plan documents, but that a voluntary QLAC was endorsed by the University Committee on Faculty Welfare (UCFW), and it sub-committee, the Task Force on Investment and Retirement (TFIR). He envisioned that RSP participants would have the option to purchase a QLAC at age 62 with deferred monthly payments beginning at age 78. Although he was not quite sure when the QLAC would be submitted to the Regents for approval, he suspected that the QLAC would be offered around mid-2021 if approved by the Regents. He closed by stating that the success of the QLAC would depend upon a rigorous communication plan and that outside marketing firms would be hired to help with appropriate messaging.

ITEM A UCRP – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: Interim VP Lloyd began by stating that when she met with the Board in November 2019, she and others were in the midst of a comprehensive assessment of the Redwood system implementation. On the recommendation of systemwide IT, UC has retained Chazey Partners (Chazey), experts in such systems implementations, to analyze Redwood operational issues, root out the cause of problems, and recommend solutions. One of Chazey's initial recommendations was to relocate the Redwood project ownership to improve focus on member service and experience. Following a discussion with leadership, ownership of the Redwood project has been moved from Business Information Systems (BIS) to Systemwide IT and RASC, but Chazey will assume day-today project management. The project software designer, Sagitec, will continue to help with technical issues and fixes, and RASC and BIS will help to redesign key business processes. Interim VP Lloyd stressed that retirees continue to get paid, but conceded that key parts of the Redwood system's functionality need to be rebuilt, especially concerning survivor and disability payments. She also noted that the UCRAYS portal has been implemented, but its full functionality won't be running until the Redwood system is stabilized.

Director Lorenz then provided an overview of RASC daily operations and statistics. She noted that response times were mediocre during the month of January, as many inquiries related to Open Enrollment (OE) and tax forms/questions inundated RASC. However, she indicated that the response times for the month of February were better, with service levels almost approaching those prior to the Redwood system implementation. She also noted that a secure messaging system has been added to the UCRAYS portal, which has cut down on calls, and thus waiting times. She noted that the terms for the additional temporary staff initially hired to assist with OE had been extended, and many had secured permanent positions. Since OE is over, some of them had been shifted to other areas to help process benefit payments for the upcoming July retirement influx. She also noted that next month the

UCRAYS portal would be enhanced to allow members to upload documents, which would save RASC personnel time. Additionally, both UCRAYS and ROOTS would be enhanced with a retirement status tracker in April, which should reduce some inquiries from members and location benefits personnel. In response to some final questions, she indicated that she will be travelling to UCR to discuss a potential pilot program for local retirement counseling, similar to the Health Care Facilitator Program. She also noted that she could provide the Board with more frequent (between meetings) service level updates, if desired.

ITEM B. UCRP – IMPACT OF NEW ACTUARIAL ASSUMPTIONS ON FUTURE BENEFITS: Manager Monroe began by noting that the actuarial changes approved by the Regents last September do not impact current retirees. He reminded the Board that the two most significant actuarial changes approved last year were the reduction in the UCRP's investment return assumption (from 7.25% to 6.75%) and a modification to the mortality assumption that reflects the fact that members and beneficiaries are living longer. He noted that whenever the UCRP's mortality assumptions, or the investment return assumption (aka discount rate) changes, corresponding changes occur to the factors used in the calculation of Lump Sum Cashouts (LSCs) and monthly retirement benefit (contingent annuitant) options. Thus, for LSCs issued on/after July 1, 2020, the factors used in calculating LSCs will increase between 8% and 9%, resulting in higher LSC benefit payments. The monthly retirement options factor will increase between .5% to 3%, depending upon the age of both the retiring member and the contingent annuitant, as well as the option chosen. Consequently, monthly retirement benefit payments with an option selected for retirements beginning July 1, 2020 and later should also increase slightly. He noted that the new LSC and monthly benefit option factors should be loaded into UCRAYS for running benefit estimates by April 1, 2020. He also noted that information concerning the new factors, especially the increase in LSCs beginning July, 1, 2020, would soon be made available on UCnet. In closing, he noted that the actuarial changes could potentially change the cost of a service credit purchase to a slight degree, and that the interest payable on some Capital Accumulation Provision (CAP) accounts decreased to 6.75% effective January 1, 2020 (i.e. those CAP accounts with interest tied to the UCRP's investment return assumption).

ITEM C. UCRS – FURTHER CONSOLIDATED APPROPRIATIONS ACT, 2020 – IMPLICATIONS FOR UC: Principal Analyst Semple began by noting that the Further Consolidated Appropriations Act, which was signed into law on December 19, 2019, and became effective on January 1, 2020, contained two separate Acts; the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) and the Bipartisan American Miners Act of 2019.

He stated that the Secure Act contained two mandatory provisions related to the minimum required distribution (MRD) process. The first mandatory provision changed the required beginning (RBD) date for those who turn 70 ½ on/after January 1, 2020, meaning their birthdate is on or after July 1, 1949. The new RBD for these participants is the April 1st following the later of (1) the calendar year in which the participant turns age 72, or (2) the calendar year in which the participant separates from UC employment. The second mandatory, MRD-related provision would ensure that certain designated, non-spouse beneficiaries receive their required distributions within a 10-year period rather than over their life expectancies. This provision would not apply to designated, non-spouse beneficiaries who are disabled or chronically ill, minor children, or those who are not more than 10 years younger than the deceased participant.

He stated that the Bipartisan American Miners Act of 2019, provided a voluntary provision which would allow for in-service distributions from a governmental 457(b) plan at age 59.5. He mentioned that UC already allowed in service-distributions from the 403(b) plan at 59.5, and that UC could also implement in-service distributions from the DC Plan at 59.5 but had not done so. Noting that IRS provisions now allow in service distributions at 59 ½ across all three of the RSP plans, he stated that the UCOP Retirement Policy Unit wanted the Board's feedback on whether such in-service distributions should be added to the 457(b) Plan and DC Plan, adding that Regental approval would be required to amend the respective plan documents accordingly. The Board members indicated that they thought it was a good idea to align the in-service distribution rules across all three RSP plans.

ITEM D. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: In the interest of time, Director Swanson briefly summarized the operational highlights of the fourth quarter report. She stated that Fidelity had met all of its performance standards for the quarter. She also noted that 50% of active participants made voluntary contributions to the RSP, which was down by approximately 1% from the previous quarter. However, she noted that the average contribution slightly increased (i.e., by about .3%). She indicated that overall, 65% of career employees, and 58% of career employees age 40 or over, were on track to receive at least 80% retirement replacement income from all UCRS sources. With respect to communications and education, she advised that there were over 16,500 financial education interactions during the last quarter and that both on-site seminars and webinars were well attended. She concluded with a brief update on Retirement Choice Program statistics, noting that new Savings Choice elections were slightly down while new Pension Choice elections slightly increased (defaults to Pension Choice were about the same).

ITEM E. UCRS ADVISORY BOARD – PHYSICAL OR VIDEO/TELECONFERENCE MEETING FOR FEBRUARY 2021 – DISCUSSION: Principal Analyst Semple noted that the Chair had requested that the Board briefly discuss whether the meeting in February 2021 should be conducted in-person or via video/teleconference, as he felt such a decision should not be made solely by the Chair. While the Board agreed that physical meetings should be held in November and June, the members were in agreement that the February Board meeting, which generally has fewer agenda items, could continue to be conducted via video/teleconference.

The meeting adjourned at 12:05