UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
MONDAY, NOVEMBER 16, 2015
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Meredith Michaels, Vice Chair James Chalfant, Chief Operating Officer (COO) Rachael Nava, Chief Investment Officer (CIO) Jagdeep Singh Bachher, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor David Odato , Professor Henning Bohn, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCRA Chair Lee Duffus, and CUCEA Chair Roger Anderson.

UCOP STAFF PRESENT: Executive Vice President and CFO Nathan Brostrom, Associate CIO Arthur Guimaraes, Associate Vice President (AVP) Debora Obley, Senior Managing Director Scott Chan, Managing Director Sam Kunz, Executive Director Gary Schlimgen, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Director Esther Cheung Hill, Director Kris Lange, Director Ellen Lorenz, Director David Olson, Associate Director Tony DiGrazia, Manager Ken Reicher, Manager Richard Townsend and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA/CUCEA Joint Benefits Committee Chair Dick Jensen, UCB Emeriti Association representative Amy Block Joy, UCB Retiree Association representative Antonia Sweet, CUCFA representative Joe Kiskis, CUCFA representative Eric Hays, AFSCME representative Claudia Preparata, AFSCME representative Tim Thrush, Teamsters Local 2010 representative Mary Higgins, Teamsters Local 2010 representative Timothy Mathews, CNA representative Ben Elliott, UPTE representative Paul Brooks, Actuary Paul Angelo (Segal Consulting) and Actuary John Monroe (Segal Consulting).

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

PUBLIC COMMENT PERIOD: CUCFA representative Kiskis stated that for reasons of both cost and quality, a defined benefit plan (db plan) is superior to a defined contribution plan (dc plan) and that CUCFA is opposed to a full dc plan at UC. He also noted that a dc plan seems to be a priority for UC but not the Governor and that, despite repeated requests, nobody at UC could provide him with a copy of the budget “framework” agreement between Governor Brown and President Napolitano. In closing, he stated that the UC administration’s insistence on cutting retirement plan costs is based on political motivations, which are subject to frequent shifts, but retirement planning requires a steady, long-term perspective. AFSCME representative Tim Thrush stated that he felt it was important for members of the Board and the 2016 Retirement Options Task Force (Task Force) to hear opinions directly from front-line medical workers like him. With respect to arguments that a full dc plan is needed to recruit necessary part-time or short-term employees at UC Medical Centers, he indicated that such employees can pose a detriment to health care. He stated that people choose the UC Medical Centers for quality medical care provided by experienced staff and the only way to attract and retain qualified staff is with a db plan. AFSCME representative Claudia Preparata stated that staff employees have been denied the opportunity to provide input to the Task Force and said the option for a full dc plan appears to be a foregone conclusion, despite widespread opposition. While the Task Force is not scheduled to provide its recommendations to the President until mid-December 2015, she noted that a November 2015 Regents item specifically stated that new employees will have the option of a full dc plan in lieu of UCRP. CNA representative Ben Elliott stated that CNA was opposed to both a pensionable pay cap in a UCRP 2016 tier and an alternative full dc plan. He stated that the proposed retirement plan changes were politically motivated and represent an attack on nurses, many of which are women.

Naomi Nakamura, a Pharmacy Technician and new staff representative on the Board, noted that she started as a short-term employee at UCSF before becoming a career employee. She said it was the secure retirement provided by UCRP that helped her make the decision for a career with UCSF. Prior to becoming a pharmacy technician, she analyzed stocks for ten years and she feels that a dc plan, with its inherent risk, does not provide for a secure retirement and is not in the best interest of UC Health staff.

APPROVAL OF THE MINUTES: Chair Michaels called for approval of the minutes from the Board meeting of October 19, 2015. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Michaels began by asking the new Board members (Michael Fehr, Computer Resources Specialist and staff representative from UCLA; Naomi Nakamura, Pharmacy Technician and staff representative from UCSF; and Henning Bohn, Professor of Economics and Academic Senate representative from UCSB) to introduce themselves.

CHIEF INVSTMENT OFFICER – REPORT: CIO Bachher began by noting that the market was very volatile during the last quarter but that UCRP's performance must be viewed from a long-term perspective. He noted that the market is facing a period of slower growth and his office must therefore be conservative and retain cash to take advantage of limited investment opportunities. He thinks it will be difficult for UCRP to meet its 7.25% rate of for the near future, since neither stocks nor bonds are expected to provide significant returns and assets can't be tied up in real estate or hedge funds because UCRP needs liquidity to pay benefits. He noted that his Office will be reducing the percentage of equities in UCRP from 60% to 50% and that he has been consolidating the number of stock investments since he joined UC, reducing the number of stocks from 12,000 to 6,000 with the goal of further reducing the number to 2,500.

Associate CIO Guimaraes provided some Retirement Savings Program (RSP) statistics, noting that the RSP had slightly over $19 billion in assets, 70% of which was in the 403(b) plan. He then summarized some of the changes to the RSP over the past year.

CHIEF FINANCIAL OFFICER – BUDGET UPDATE: The budget update was provided by AVP Debora Obley, who noted that the UC 2016/17 budget would be presented to the Regents later in the week. In addition to the 4% base budget increase, she summarized some highlights of the budget, such as a more aggressive enrollment plan. As reported at previous meetings, she noted that UC would get an additional $25 million in state funds if it enrolled an additional 5,000 students for the upcoming year without raising tuition (for resident students). In addition to the enrollment goal for 2016/17, the new budget calls for enrolling an additional 2,500 students for both 2017/18 and 2018/19, assuming the state will fund the additional enrollment costs. She said that some enrollment costs could be mitigated by phasing out financial aid for nonresident students over the course of a few years. She stated that the budget also included a 3% compensation increase and $50 million for building maintenance, which she hoped would be at least partially funded by the state.

In response to an issue raised during the public comment period, she noted that there was no official document describing the budget framework agreement between President Napolitano and the Governor. The substance of the agreement was spelled out in the May 2015 budget revise and in the applicable July 2015 Regents item (i.e., July 22, 2015 Regents item F3 entitled Update on Final 2015-16 Budget).

NOTE: The agenda items were presented out of order to accommodate the schedules of the item presenters.

ITEM D. UCRP – LUMP SUM CASHOUT REPORT: Manager Richard Townsend briefly summarized the annul Lump Sum Cashout (LSC) report, noting that there was a significant jump in the number of LSCs taken in the last year. He attributed the increase to a mass mailing in the past year which apprised inactive members of their UCRP benefit entitlements. He noted that many of the inactive members were over 60 years of age, so their UCRP benefit would not increase with time. Additionally, since inactive members are not eligible for retiree health benefits and their monthly UCRP benefit tends to be low, many inactive members opt for an LSC. He noted that 55% of participants who elect an LSC roll it over.

ITEM B. UCRP – BORROWING TO FUND UCRP'S ANNUAL REQUIRED CONTRIBUTION FOR THREE FISCAL YEARS: Executive Vice President Brostrom stated that an action item was being presented to the Regents later in the week to request authority to help fund UCRP's full annual required contribution (ARC) for three fiscal years by borrowing from the UC Short Term Investment Pool (STIP). He noted that similar borrowing in the past had improved UCRP's funded status by approximately 5%. He said the money borrowed from STIP would correspond with the additional Proposition 2 funds that the state will allocate to UCRP over the same three-year period and clarified that UCRP's full ARC would be achieved through the combination of regular employer and employee contributions, additional state monies and STIP financing. In response to questions, he indicated that he believes the Regents will grant the authority and if sufficient liquidity in the STIP becomes a concern then funds could be moved to the STIP from the Total Return Investment Pool (TRIP).

ITEM A. UCRS – ANNUAL ACTUARIAL VALUATION REPORTS AS OF JULY 1, 2015: Manager Reicher introduced the item and summarized some actions affecting UCRP that were approved by the Regents in September 2015. He noted that UCRP's funding policy was amended to make certain amortization periods conform to model practice. Based on a recent UCRP Experience Study, new actuarial assumptions were also adopted, including a reduction in UCRP's assumed rate of return from 7.5% to 7.25% and inflation from 3.5% to 3% along with increased mortality. Finally, he noted that modifications to the UC-Department of Energy contract were approved to allow for a separate calculation of the employer contribution rate for the LBNL segment of UCRP.

Actuary Monroe from Segal Consulting (Segal) then summarized the actuarial valuation of UCRP, noting that UCRP's market return for 2014/15 was approximately 4% and UCRP had a market value of $55.1 billion and an actuarial value of $53.8 billion as of July 1, 2015. He noted that due to five-year smoothing, UCRP's actuarial value return was 10.6% for the past fiscal year and UCRP still has about $1.3 billion in deferred gains to recognize. He stated that contributions along with the $700 million transferred from STIP to UCRP resulted in nearly full funding of UCRP's ARC for 2014/15 and UCRP's funded ratio increased from 80% to 82%. He concluded by noting that there was a slight increase in UCRP member growth but the average Member age and service credit total at retirement remained stable.

ITEM C. UCRS – UPDATE ON PROGRESS OF THE 2016 RETIREMENT OPTIONS TASK FORCE: Executive Director Schlimgen began by noting that a description of the Task Force's charge and membership had been provided to the Board in October. He mentioned some fundamentals that the Task Force had set, such as keeping the design of the UCRP 2016 tier the same as that of the UCRP 2013 tier, with the exception of the cap on pensionable pay. He also noted that contributions to the 2016 tier would be the same as those for the 2013 tier (i.e., 14% employer contribution and 7% employee contribution). He then summarized some of the issues that the Task Force had been deliberating, such as the percentage of the employer contribution to the supplemental dc plan and whether the plan should be available to all 2016 tier employees affected by the pay cap or only certain employees, such as faculty. With respect to the full dc plan, he noted that the Task Force had been analyzing the types of employees it might benefit, the amount of the employer contribution and the types of vesting schedules. He also noted that the Task Force was analyzing a revocability feature for the full dc plan and the associated legal issues.

COO and Board member Nava, who is the chair of the Task Force, noted that the Task Force's report and recommendations would be submitted to the President in mid-December and would be shared with the Academic Senate in mid-January. She also clarified that the Task Force was still debating whether to recommend the option of a full dc plan, which would have to be reviewed and recommended by the President for final approval by the Regents. Thus, contrary to the public comments expressed earlier in the meeting, she said that a full dc plan option is not a foregone conclusion.

Board and Task Force member Odato indicated that more attention should be focused on the "total remuneration" of new employees as opposed to just the future value of their retirement benefits. He indicated that the Task Force had analyzed a recent total remuneration study for UC faculty but did not have similar data for staff employees. Board and Task Force member Chalfant noted that retirement benefits provided by UCRP's 2013 tier were about average when compared to the retirement benefits provided by UC's comparator institutions. He further stated that neither the UCRP 2016 tier with a supplemental dc plan nor a full dc plan would provide the same level of retirement benefits as provided by the UCRP 2013 tier unless UC made a very significant contribution to both dc plans. He stated that the Task Force report should clearly indicate that 2016 retirement options for new employees could not be designed to provide both savings for UC and retirement benefits equivalent to those of the 2013 tier. Finally, he noted that many employees seemed concerned that a full dc plan option would jeopardize the funded status of UCRP. He mentioned that this issue was addressed in the FAQ section of the Task Force's website (http://ucal.us/2016retbens) and stated that the Task Force members all agreed that locations should be required to pay down UCRP's unfunded liability regardless of whether new employees elect the UCRP 2016 tier or the full dc plan.

The discussion ended with a general consensus that if an optional full dc plan was approved by the Regents, the UCRP 2016 tier would be the better default plan for new employees who fail to make a positive retirement plan election.

ITEM E. UCRS – REQUEST FOR PROPOSAL FOR ACTUARIAL CONSULTING AND AUDIT SERVICES – UPDATE: Manager Reicher provided an update on the request for proposal for both UCRS actuarial consulting and auditing services, which he had described to the Board last June. He noted that six bids were received to provide actuarial auditing services and two bids were received to provide actuarial consulting services. The bids were reviewed by an internal evaluation and selection committee which subsequently recommended firms to the President for approval. Segal Consulting was recommended to and approved by the President to provide actuarial consulting services under a three-year contract beginning January 1, 2016, with three subsequent one-year renewal options. Cheiron, a full-service actuarial and financial consultancy, was recommended to and approved by the President to provide actuarial auditing services under a contract from January 1, 2016 through June 30, 2019.

ITEM F UCRS – AUDITED ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2014-2015: Director David Olson noted that hard copies of the report were still at printing but he could provide a hard copy for anyone interested within a week or so. He noted that most of the financial numbers with respect to UCRP and the RSP had already been discussed during the CIO's presentation and the agenda item on the annual actuarial valuation. He concluded by noting that KPMG did not report any problems with its audit of the UCRS financial report.

ITEM G. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Director Kris Lange began by stating that there was a new format for the report but that information was for the second quarter ending in June, as the third quarter results were not yet compiled. Noting that Associate CIO Guimaraes had already covered most of the RSP financials, she summarized some non-financial highlights. She indicated that Fidelity had met all of its performance standards for the second quarter and that a "lost participant" performance standard with Fidelity was being established. She also noted that following a recent email campaign to roughly 9,300 lost participants, 31% of them had updated their address with Fidelity. She mentioned that the fund menu consolidation project had been completed, which affected roughly 50,000 participants, and resulted in transfers of close to $3.5 billion in assets. She stated that 16% of participants with assets in funds being eliminated chose to take action while the remaining 84% defaulted to an age-appropriate Pathway Fund. She concluded with a synopsis of retirement readiness scores, noting that 48% of employees aged 50-59 are on track to have 80% income replacement from UCRP and the RSP.

ITEM H. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Lorenz stated that the Retirement Administration Service Center (RASC) focused on enhancing quality during the year, with an emphasis on training both within RASC and at locations. As an example, RASC created a two-hour video on preparing for retirement and has been conducting two UC-hosted webinars and two on-site presentations every month. RASC is also developing a curriculum focused on cross-training and career enrichment so that RASC personnel are more versatile and can assist with different job functions as needs arise. She closed with a brief summary of Customer Service and Fulfillment Operations statistics contained in the "RASC Quick Facts" document that was attached to the item.

(AD HOC UPDATE) – PENSION ADMINISTRATION SYSTEM – PROJECT OVERVIEW: Director Cheung Hill from HR-Benefits Information Systems noted that as part of ongoing systems modernization efforts, HR and ITS are updating the current pension administration system. She stated that the current pension administration system is antiquated and would be difficult and costly, if not impossible, to update and fully integrate with the new UCPath payroll system. It was also noted that with the addition of multiple tiers in UCRP, benefit calculations and recordkeeping will become increasingly more complex and a new pension administration system will enhance retirement processing for benefits administration and improve the retirement experience for members. Consequently, without a new pension administration system, UC's ability to deliver accurate and timely benefits information could be jeopardized. Following internal evaluations, site visits with peer retirement systems, and issuance of multiple RFPs, UC has selected a vendor (Sagitec Solutions) for a new pension recordkeeping system and has begun the system design and construction.

The meeting adjourned at 1:26