UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, NOVEMBER 22, 2013
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Shane White, Vice Chair Meredith Michaels, co-acting Chief Investment Officer (CIO) Mel Stanton, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor (AVC) Angela Hawkins, Spectroscopist Paul Brooks, Professor Ross Starr (via telephone), CUCEA Chair W. Douglas Morgan.

BOARD MEMBERS ABSENT: Executive Vice President (EVP) Nathan Brostrom, CUCRA Chair Lee Duffus, Administrative Clinical Care Partner Monica Martinez.

STAFF PRESENT: Associate Vice President (AVP) Debora Obley, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Executive Director Gary Schlimgen, Director Kris Lange, Director Ellen Lorenz, Director David Olson, Associate Director Tony DiGrazia, Manager Kurt Steinhoff, Manager Richard Townsend, Coordinator Anne Wolf, Specialist Ken Reicher, Principal Analyst Ken Feer, Principal Analyst Steve Fong, Principal Analyst Mary Jenkins, Principal Analyst Robert Semple, Principal Analyst Hugh West.

OTHERS PRESENT: CUCEA Chair-Elect Roger Anderson, CUCRA Chair Elect Marianne Schnaubelt (via telephone), UCB Emeriti Association representative George Goldman, CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, AFSCME representative Claudia Preparata, Teamsters Local 2010 representative Anytra Henderson, Actuary Paul Angelo (The Segal Company), Actuary John Monroe (The Segal Company – via telephone).

The meeting officially began at 10:02 a.m.

PUBLIC COMMENT PERIOD: CUCRA representative Kiskis noted that increased retiree health costs have become a major financial concern for both employees and retirees and stated that recent retiree health program changes, such as the transition of many out-of-state Medicare retirees to a Medicare exchange platform, suggests that the current consultative process with respect to these benefits needs to be improved. He indicated that, unlike faculty, staff employees have little input in decisions regarding retiree health changes. Moreover, while faculty views are supposedly represented by Faculty Welfare's Task Force on the Future of UC Health Care Plans (UCFW-TF), he stated that the UCFW-TF does not consult broadly with all faculty and the group is heavily weighted with members invested in the UC medical centers, which has the appearance of a conflict of interest with respect to the new UC Care Plan. He suggested that the charge of the UCRS Advisory Board be changed to include retiree health benefits or that a parallel advisory board be developed to cover health benefits for all employee groups. UCB Emeriti representative Goldman stated that he believes there is a strong probability that many public defined benefit plans in the US will become insolvent within the next 20 years. He noted that political forces are aligning to impose changes to public sector pension benefits through legislation and legal challenges and he fears that UCRP could be subject to such potential changes. Board member Morgan introduced Roger Anderson, the CUCEA Chair-elect who would eventually succeed him as CUCEA Chair and member of the Board.

APPROVAL OF THE MINUTES: Chair White called for a vote of approval of the minutes from the Board meeting of June 21, 2013. The minutes were unanimously approved.

COMMENTS FROM THE CHAIR: Chair White began by welcoming and introducing new members of the Board. He stated that Monica Martinez, an Administrative Clinical Care Partner at the UCLA Medical Center, was a new staff representative replacing Catherine Brennan, who left UC employment in late summer. He also introduced Mel Stanton, who is the co-acting Chief Investment Officer (CIO) and co-ex-officio member of the Board along with Randy Wedding, following the retirement of former CIO Marie Berggren in July. Chair White then summarized the membership and role of the Board. He noted that the Board was advisory in nature and its members were not fiduciaries. Further, he stated that the Board could run afoul of state labor laws if it made recommendations or proposals, especially involving represented employees, since the University and the unions have the collective bargaining process by which to address matters like retirement benefits. He concluded by reminding guests/observers about Board procedures for making public comments, asking questions and addressing the Board.

EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS – BUDGET UPDATE: In EVP Brostrom's absence, the budget update was provided by AVP Obley. She indicated that the Governor's proposed multi-year funding plan provides UC with a 5% base budget adjustment for fiscal year (FY) 2014-15 equal to $146.2 million. However, she also noted that the Governor's proposed plan is contingent upon UC freezing tuition for several years. Additionally, she indicated that the Governor's proposal does not include any specific funding for the state's share of UCRP costs, despite the fact the state provides such specific pension funding for CSU and California community colleges. She stated that UC is asking for an additional $120.9 in state funding for FY 2014-15; $64.1 million for the state's share of UCRP costs, $21.8 million for a 1% increase in student enrollment growth and $35 million to reinvest in academic quality, such as reducing the student-faculty ratio, and reducing faculty and staff salary gaps. She stated that UC must contribute to UCRP but that funding for enrollment growth and reinvesting in academic quality were considered discretionary, high priority costs. She indicated that Governor Brown cautioned that UC should be more realistic and make do with the money allotted to it in his proposal. University representatives informed the governor that UC is doing all it can but needs more state funding.

A discussion ensued regarding UCRP's unfunded actuarial accrued liability (UAAL) and the merits of further borrowing. Chair White suggested that loaning money from the Total Return Investment Pool (TRIP) to UCRP would be a better use of funds, helping to reduce UCRP's UAAL and saving locations money in the long-term. Another member also indicated that borrowing money for UCRP garners additional matching funds, two dollars for one, from contracts and grants. A member countered that additional borrowing for UCRP is not the best use of funds as locations are in desperate need of operating funds and that, due to federal sequestration budget cuts, UC locations are getting less revenue from contracts and grants.

CHIEF INVESTMENT OFFICER – REPORT: Acting co-CIO Stanton stated that UCRP had a return of 5.4% for the 3rd quarter and one-year return of 12.3%, beating its benchmarks by .3% for the quarter and 1.2% for the year. He attributed the gains to asset allocation and manager selection, and noted that being overweight in equities and real estate proved especially beneficial. In response to a question, he noted that the Office of the CIO has the latitude to adjust asset holdings within 5% of the policy level and that all asset classes in UCRP, whether underweight or overweight, were well within this range. He mentioned that the Regents' Committee on Investments had recently approved a revised Investment Policy Statement for the Retirement Savings Program, which had not been updated for several years. The revised statement is posted on the Office of the Chief Investment Officer's website. He then noted that the Office of the CIO is reviewing a potential change to make the UC Pathway funds slightly less conservative by adding additional equities and that any change would most likely take place around July or August next year. In response to another question, he noted that the Office of the CIO does not currently monitor withdrawal rates of retirees invested in the Pathway funds. Executive Director Schlimgen indicated that he would try to obtain such information for the next meeting.

ITEM A. UCRS – ANNUAL ACTUARIAL VALUATION REPORTS: UCRS Actuary Angelo of the Segal Company began by describing the format of the annual valuations. He stated that UCRP had a market value return of 11.7% for FY 2012-2013 but only a 4.5% actuarial value return for the same period due to the 5-year smoothing process. The market value of assets in UCRP exceeds its actuarial value of assets by $1.77 billion. He noted that UCRP contributions are still below policy level, which resulted in a contribution loss of $1.75 billion for FY 2012-13. He attributed some of the contribution loss to the fact that the Department of Energy (DOE) did not fully pay the required contribution amount in time for the retained Los Alamos and Livermore segments, which it must repay to UCRP with interest. He confirmed that UCRP's UAAL grows with interest at the 7.5% assumed rate of return and will continue to increase until contributions are equal to UCRP's modified annual required contribution (modified ARC). In response to another question, he indicated that UCRP's actuarial assumptions and demographic data will be reviewed during the next UCRP experience study scheduled for 2015. UCRP experience studies are generally performed every 3 to 5 years. In closing, he stated that the PERS Plus 5 Plan's funded ratio is 157%. He noted that the PERS Plus 5 Plan is a closed trust available only to certain existing retirees and their beneficiaries, so the population in the plan is decreasing over time.

ITEM B. UCRS: AUDITED ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2012-2013: Referencing the report that had been distributed to each member, Director Olson summarized some statistics for UCRP, noting that Actuary Angelo had already covered UCRP in presenting the annual valuation report. He noted that contributions to UCRP for FY 2012-2013 were $1.2 billion, which was approximately 43% less than the contributions for FY 2011-2012. (The reduction in UCRP contributions was because there was no borrowing for UCRP in FY 2012-2013.) Chair White stated that UCRP contributions of $1.2 billion were below the annual required contribution (ARC) of $2.2 billion for FY 2012-2013. Turning to the Retirement Savings Program (RSP), Director Olson noted that the RSP had $17.8 billion in accumulations as of June 30, 2013, which was approximately 7% more than the previous year.

ITEM C. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Director Lange provided a summary of the report highlights**.** She began by noting that

Fidelity did not meet two performance measures for the third quarter (average time to answer telephone calls and call abandonment percentage) due to a one-day telephone switch problem. All other performance guarantees for the quarter were met. She then stated that as of September 30, 2013 the RSP had $18.33 billion in assets and 301,282 unique participants with a balance. The average participation rate for the voluntary 403(b) Tax Deferred Plan (403(b) Plan) was 49% and the average deferral rate was 10.4% of income. She noted that 403(b) loans were rising. In response to concerns expressed by members, she indicated that Vendor Relations Management (VRM) would be monitoring the rising trends in 403(b) loans and may initiate some training with respect to the long-term impact that such loans have on savings. She mentioned that VRM had just completed a campaign to solicit beneficiary designations from roughly 200,000 participants and another campaign aimed at members aged 35-45 who were not enrolled in the RSP, which increased their participation in the RSP by 1.4% and improved their overall retirement readiness score by 5%. Finally, she noted that the default setting for RSP statements would be electronic/on-line instead of paper beginning in 2014.

ITEM D. UCRP – PROPOSED PENSION REFORM ACT OF 2014: Principal Analyst West provided an overview of the proposed Pension Reform Act of 2014, a ballot initiative to amend the state constitution which is being sponsored by Chuck Reed, the mayor of San Jose, along with four other mayors in California. This constitutional amendment would allow state government employers with pensions and retiree health benefit plans that are substantially underfunded to declare a fiscal emergency and modify benefits on a prospective basis for current employees (i.e. benefits attributable to future service). The amendment would also require an employer whose pension or retiree health plan was less than 80% funded to prepare a stabilization plan to achieve 100% funding within 15 years, which would have to be published annually for public review and input until its plan is fully funded. In response to a request from the LAO concerning the impact of the amendment, UC has indicated that reducing the period for UCRP to reach fully funded status from 30 to 15 years would require substantial contribution increases. Attaining full funding status for UC's retiree health benefits program would require even higher contribution increases and/or benefit cuts, since UC retiree health benefits are currently funded on a pay-as-you-go basis. Principal Analyst West noted that UC does not believe that the Pension Reform Act of 2014 is needed to ensure fiscal stability for UC's post-employment benefits due to the measures that UC has already adopted with respect to these benefits. In closing, he noted that after the Attorney General's office prepares the official ballot initiative title and summary, the act's sponsor must obtain approximately 800,000 signatures to have it placed on the election ballot, which could occur by next November.

ITEM E. UCRP – CHILDRENS HOSPITAL & RESEARCH CENTER OAKLAND – RECIPROCAL VESTING CREDIT: As a follow-up to his presentation to the Board in June, Specialist Reicher noted that in September 2013 the Regents approved an amendment to UCRP to provide reciprocal vesting credit to Children's Hospital & Research Center Oakland (CHO) employees who transition to UCSF. He noted that a former CHRO employee's CHO Retirement Plan service would only be recognized for vesting purposes under UCRP if the former CHO employee transitions employment to UCSF on or after the closing date of the Affiliation Agreement, which is expected to be ratified by February 2014 (contingent upon CHO meeting all terms and conditions). Under the Agreement, the Regents, through UCSF, will be the sole corporate member of CHO. If the agreement is ratified, all CHO employees would eventually transition to UCSF and would be in the 2013 Tier if UCRP-eligible.

ITEM F. UCRP – LUMP SUM CASHOUT REPORT: Manager Townsend briefly summarized the annual lump sum (LSC) cashout statistics. He stated that there were 1,028 LSC elections in FY 2012/13, an increase of 30% over the previous year, but he added that LSC elections were unusually low during FY 2011-2012. He indicated that the 2012/13 LSC take rate of 22.6% was in line with past annual LSC election rates and that retirement elections had also increased in FY 2012-2013. He also noted that roughly 63% of participants requested a full rollover of their LSC payment and another 16% of participants requested a partial rollover. Approximately 73% of participants who took an LSC were not eligible for UC-sponsored retiree health coverage.

ITEM G. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Lorenz provided an overview of the Retirement Administration Service Center (RASC) statistics and achievements over the past year. She stated that despite telephone calls and correspondence increasing by 13% during FY 2012/13, the RASC met its service level requirements for the year and that members were very satisfied with the service they received. Over 50% of the calls pertained to questions or issues regarding UCRP. She also noted that additional locations have requested the RASC to take over their retirement counseling duties and that the RASC now performs this function for every location except UCLA, UCLAMC and UCSD. Referencing some achievements, she noted that recent efforts by the RASC to encourage direct deposit of UCRP benefit payments have reduced the issuance of paper benefit checks by 44%. The Chair noted that member satisfaction with RASC was the primary reason that the Academic Senate did not endorse outsourcing the services that RASC performs when the issue came up for consideration a few years ago.

ITEM H. UC AT YOUR SERVICE WEBSITE – UPDATE: Coordinator Wolf presented a demonstration of the UCNet website, one of three new UC websites being developed. She stated that UCNet is intended to supplement and eventually replace the UC At Your Service website. She noted that the current At Your Service website has a lot of valuable information but that it is difficult to find, as the site has outdated search capabilities. She indicated that testing on the more robust UCNet website is underway and it is expected to be launched in February 2014.