UC HR/BENEFITS

UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, FEBRUARY 28, 2014
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Shane White, Executive Vice President (EVP) Nathan Brostrom, co-acting Chief Investment Officer (CIO) Randy Wedding, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor (AVC) Angela Hawkins, Spectroscopist Paul Brooks, Professor Ross Starr (via telephone), Administrative Clinical Care Partner Monica Martinez, CUCRA Chair Lee Duffus, CUCEA Chair W. Douglas Morgan.

BOARD MEMBERS ABSENT: Vice Chair Meredith Michaels.

STAFF PRESENT: Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Executive Director Gary Schlimgen, Director Kris Lange, Director Ellen Lorenz, Director Bill Ryan, Associate Director Linda Aschcraft, Coordinator Anne Wolf, Manager Ken Reicher, Manager Hyun Swanson, Principal Analyst Robert Semple, Principal Analyst Hugh West.

OTHERS PRESENT: CUCEA Chair-Elect Roger Anderson, CUCRA Chair Elect Marianne Schnaubelt (via telephone), CUCRA/CUCEA representative Adrian Harris (via telephone)**,** UCB Emeriti Association representative Amy Block Joy, UCB Retiree Association representative Antonia Sweet, CUCSA Chair Ken Feer**,** CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, AFSCME representative Claudia Preparata, UC-AFT representative Michelle Squitieri, UC Hastings HR Executive Director Marie Hairston, Actuary Paul Angelo (The Segal Company), Actuary John Monroe (The Segal Company – via telephone).

The meeting officially began at 10:00 a.m.

PUBLIC COMMENT PERIOD: With respect to agenda item E, CUCRA representative Kiskis noted that capping the UCRP employer contribution at 14% is below UCRP's annual required contribution (ARC) and would still leave UCRP with a significant unfunded actuarial accrued liability (UAAL) in thirty years. He stressed that a higher UCRP employer contribution is needed. With respect to agenda item D and the modifications to the 2013 Tier that certain unions have negotiated, he inquired if similar options would become available for negotiation with non-represented employees covered by the 2013Tier. CUCSA Chair Feer stated that achieving full funding for UCRP is viewed by CUCSA as both logically desirable and psychologically beneficial and, as it did in 2010, CUCSA continues to support full funding for UCRP.

APPROVAL OF THE MINUTES: Chair White called for approval of the minutes from the Board meeting of November 22, 2013. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair White introduced member and staff representative Monica Martinez, who replaced former Board member Catherine Brennan who left UC employment late last summer. Ms. Martinez apologized for being unable to attend the November meeting as there was a death in the family. She indicated that she was excited to be a Board member and learn more about UCRS while also sharing the perspectives and retirement concerns of UC staff employees. Chair White then briefly introduced co-acting Chief Investment Officer (CIO) Randy Wedding and asked him to proceed with the CIO report, noting that Executive Vice President (EVP) Brostrom was with the President and would be attending the Board meeting later to present the budget update.

CHIEF INVESTMENT OFFICER – REPORT: By way of introduction, Co-acting CIO Wedding began by noting that he was primarily responsible for overseeing the long and short term fixed income investment portfolios. Prior to proceeding to the CIO report, he briefly announced that the new CIO, Jagdeep Singh Bachher, would start on April 1, 2014. He stated that CIO Bachher has broad investment experience, dealing with assets for both private and public pension funds and is specifically noted for his familiarity in dealing with alternative assets, such as private equities, real estate, etc. Turning to the two investment performance summaries that he distributed, he stated that the market ended the year with strong returns in U.S. equities while U.S. core fixed income declined, primarily due to quantitative easing. The U.S. equity holdings in UCRP had a calendar year return of over 34%. He stated that UCRP greatly benefitted from its asset allocation, since it was overweight in U.S. equities and underweight in fixed income, resulting in UCRP's calendar year return of 15%, which beat its benchmark by 131 basis points (1.3%).

In response to questions on UCRP asset allocation and benchmarks, he noted that the CIO's office has the discretion to allocate assets within a class (either underweighting or overweighting them) within 5% of the amount set by the Regents. With respect to benchmarks, he indicated that each of UCRP's asset classes had its own respective benchmark, based on a recognized, broadly based benchmark for the respective assets class. He then took a number of questions and concluded by noting that diversification of assets is the key to the long-term success of UCRP.

ITEM A. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Director Kris Lange began by noting that Fidelity continues to struggle with its stated performance standard of answering calls within 30 seconds. She stated that this is the only performance standard that Fidelity had missed for the past quarter and that she has been assured that this problem will be addressed. She then summarized the quarterly highlights from the report, noting that the UC Retirement Savings Program (RSP) has almost 300,000 unique participants with a balance and that RSP assets totaled $19 billion. The average participation rate in the 403(b) plan is just shy of 50% and the average deferral rate is 10.3% of salary. She stated that the designation of beneficiary solicitation campaign was completed last October, resulting on over 10,000 beneficiary updates. She also mentioned that, effective with the 2013 4th quarter RSP statements, the "default" delivery method would be on-line. She noted, however, that members could still request a paper statement. In response to questions from the Board, she indicated that she would find out how long on-line statements would be archived and if they could be altered. Finally, she mentioned that her unit was partnering with the Retirement Administration Service Center (RASC) to help in the retirement counseling of employees. The purpose of the partnership is to remind employees to consider both UCRP and RSP benefits in the retirement decision-making process. Members seeking retirement counseling who have a RSP balance are also encouraged to speak with counselors at Fidelity.

ITEM B. RETIREMENT SAVINGS PROGRAM – FUND MENU MANAGEMENT – UPDATE: As requested by the Board at the meeting in November, Director Kris Lange provided the results of the RSP fund menu consolidation program that was completed last June. She stated that 37% of the 43,000 members with assets in non-CORE/non-institutionalized funds chose to redirect such assets prior to the June 2013 deadline, which exceeded expectations. She also noted that approximately 3,700 new brokerage link accounts were opened, whereas there were under 500 brokerage accounts previously. She closed by stating that there were few complaints arising from the RSP fund consolidation program. Director Bill Ryan from the Office of the Treasurer then provided an overview of phase 3 of the fund menu management project, the goal of which is to control fees and further simplify the RSP fund menu to aid in UC's oversight responsibilities and to alleviate participant confusion. He indicated that studies have shown that too many fund choices can prevent participants from making appropriate savings decisions. Referencing a handout that he distributed, he noted that both CalPERS and CalSTRS had implemented similar fund menu reductions in the past year. As an example of a further RSP fund menu reduction, he noted that ICC fund would be merged with the Savings Fund in June 2014.

EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS – BUDGET UPDATE: EVP Brostrom began by noting that while UC is projected to receive a base budget adjustment of 5%, there is no separate funding specified for UCRP, enrollment growth or capital funding in the governor's proposed budget. He further noted that the Governor does not want UC to raise tuition for the next few years. While UC does not plan on raising tuition for the 2014-2015 year, he stated that freezing tuition for the next several years is unrealistic. Since the Legislative Analyst's Office predicts the state will have a surplus of a few billion dollars, UC feels that there are a lot of ways the state can help UC, even if it is just a one-time infusion of cash.

In response to questions about why the state provides specific funding to CalPERS and Cal STRS but not to UCRP, EVP Brostrom indicated that the state is facing a "wall of debt" with respect to public pensions and the state seems to feel that UCRP is better situated than CalPERS and CalSTRS. He reminded the Board about the debt restructuring deal that UC negotiated with the state, which provides UC with an additional $100 million a year over the next ten years, all of which goes to UCRP. A brief discussion ensued about the possibility of obtaining a one-time infusion of money from the state and holding it in an escrow account to be used to cover the cost of increasing the UCRP employer contribution rate on state-funded salaries. In response to a question on the effectiveness of UC's advocacy efforts with the state, he stated that continued advocacy on behalf of UC is crucial, and cited the passage of Proposition 30 as an example of UC's successful advocacy efforts.

ITEM C. RETIREMENT SAVINGS PROGRAM – UC PATHWAY FUNDS – GLIDE PATH ADJUSTMENTS: As briefly mentioned at the meeting in November, Director Ryan explained that the glide path of the UC Pathway funds had just recently been changed to make them slightly less conservative by increasing each Pathway fund's equity holdings by approximately 20%. In response to a question regarding an underlying model for allocating equities and predicting returns for Pathway Funds, Director Ryan noted that it was based on the retirement needs of the typical UCRP member who retires at age 60 with 20 years of service and receives a 50% income replacement ratio from UCRP. Since the recommended income replacement ratio is at least 80%, he indicated that the assets in the Pathway funds are allocated to produce approximately 30% of the typical UCRP member's income replacement. He noted that the infusion of more equities in the Pathway funds was based on this paradigm.

ITEM E. UCRP– FUNDING STATUS PROJECTIONS BASED ON DIFFERENT EMPLOYER CONTRIBUTION RATES: (*At the request of the Chair, this item was moved up on the agenda.*) As background to help frame this item, the Chair noted that the Faculty Welfare's Task Force on Investment and Retirement (TFIR) was concerned that employer funding for UCRP was not proceeding quickly enough, thereby allowing UCRP's UAAL to increase. He noted that the Regents funding policy for UCRP is to fully fund its annual required contribution (ARC). Further, he noted that following the culmination of the post-employment benefits (PEB) review in 2010, the Regents approved recommendations for the University to make UCRP contributions equal to its modified ARC (i.e., UCRP's Normal Cost plus the interest on its UAAL) from fiscal year (FY) 2011 through FY 2018, after which the University's contributions to UCRP would increase to its full ARC. He stated that the University's contributions are still short of UCRP's modified ARC. Referencing the attached UCRP funding status projections produced by the Segal actuaries, he indicated that one set of projections had been specifically requested by TFIR to illustrate the elimination or reduction in UCRP's UAAL over 30 years if the University were to contribute at the rate of UCRP's full ARC or modified ARC.

Actuary Angelo then proceeded to summarize the funding status projections. The Chair asked Actuary Angelo to confirm that UCRP's UAAL could be decreased by $12 billion by 2042 if UC contributed at UCRP's full ARC for just the next two years, even if UC capped its contributions at 14% for the remainder of the 30-year period. Noting the time-value of money theory, Actuary Angelo confirmed this would be the case. However, he indicated that contributing the full ARC for the next two years would cost UC an additional $1.7 billion. EVP Brostrom noted that the projections were based on the conservative assumption that UCRP' active member population would remain constant, even though UCRP's active member population has been growing. He stated that if an annual UCRP member growth rate of 1% was assumed along with a capped UCRP employer contribution rate of 14% over the next 30 years, UCRP's funded ratio would increase from 87% to 92% and its UAAL would decrease from $20 billion to $12 billion by 2042. In response to a question, actuary Angelo explained that standard actuarial practice is to assume no member growth.

In response to the Chair's request for additional comments, AVC Hawkins indicated that additional borrowing and/or raising UCRP employer contributions over the next few years would be financially devastating to locations, resulting in layoffs, limited service and additional deferred maintenance. Executive Director Schlimgen also noted that UCOP administration had recently consulted with location financial officers concerning further borrowing for UCRP and found that they were against additional borrowing at this time. In closing, the Chair stated that UCRP employee contributions for existing members have increased and the 2013 Tier has been implemented, resulting in lesser benefits for new UCRP members. He feels that while UCRP members have complied with the recommendations resulting from the PEB recommendations, the University has fallen short. After a brief discussion about what the Board might do to address this issue, including having the Chair draft a letter to President Napolitano expressing the diverse opinions of the entire Board, it was proposed, without objection, that the Board might address these issues in informative correspondence to President Napolitano, a draft to be presented to the Board for review and approval at the June meeting.

ITEM D. UCRP – MODIFICATIONS TO THE 2013 TIER FOR CERTAIN REPRESENTED EMPLOYEES: Manager Reicher began by noting that the PEB changes adopted by the Regents, including the 2013 Tier, were subject to collective bargaining for represented employees. In late 2013, nurses represented by the California Nurses Association (CNA) and three units (i.e., HX, RX and TX) comprised of employees represented by the University Professional and Technical Employees (UPTE) came to an agreement on a modified 2013 Tier for their members who had been hired in UCRP-eligible positions since July 1, 2013. He stated that the modified 2013 Tier for these represented members, which was approved under Regental interim authority to facilitate a bargaining agreement, encompassed two concessions; (1) the retirement ages and age factors are the same as those applicable to 1976 Tier members and (2) the Lump Sum Cashout (LSC) option is available as a distribution option. In order to keep these changes cost neutral to UCRP, all CNA and UPTE UCRP members, whether covered by the modified 2013 Tier or the 1976 Tier, agreed to pay a higher UCRP contribution rate, which will increase to 9% effective July 1, 2014.

Principal Analyst Semple described a change in the UCRP break in service provisions, also approved under Regental interim authority in late 2013, that applied to about 85 non-Senate instructional faculty (NSF) members in the IX unit. He explained that these NSF were mostly Lecturers who had worked at least six years for UC and had continuing appointments. These NSF generally work for a partial year and are covered by the UCRP 1976 Tier. Based on their assignment schedules, they are often off pay status for more than four months per year, which is not technically a separation from service but is a break in service under UCRP terms. With the implementation of the 2013 Tier effective July 1, 2013, these NSF would have incurred a break in service after four months off pay status and come back under the 2013 Tier unless a revision to UCRP break in service provisions was approved for them. Thus, for purposes of continuing membership in the 1976 Tier, these NSF will not be deemed to have incurred a break in service provided they return to their continuing appointment within one year and one day of their last day on pay status.

ITEM F. UCRP – PUBLIC EMPLOYEE PENSION AND RETIREE HEALTHCARE BENEFITS INITIATIVE CONSTITUTIONAL AMENDMENT – UPDATE: Principal Analyst West provided an update on this pension reform initiative, formerly referred to as the Pension Reform Act of 2014, which he had previously summarized at the November meeting. He reiterated the two main provisions of the initiative: (1) allow government employers whose pension and/or retiree health plan is substantially underfunded or who declare a fiscal emergency to modify benefits prospectively for current employees, and (2) require an employer with a pension and/or retiree health plan which is less than 80% funded to prepare a stabilization plan to achieve 100% funded status within 15 years. He noted that although UC has made no public statement on the initiative, UC does not feel that it is needed to ensure the fiscal stability of UC's post-employment benefits. He indicated that the initiative's sponsor, Mayor Reed of San Jose, has taken exception to the State Attorney General's summary of the initiative, claiming that it misleading and heavy-handed. At the same time, opponents of the initiative have also taken exception to the summary, claiming it does not properly emphasize the risks it poses to the retirement security of public employees. Since Mayor Reed has filed a lawsuit to get the summary changed, the signature gathering effort is on hold and the earliest the initiative is likely to able to be qualified for submission to voters is 2016.

ITEM G. PENSION ISSUES RELATED TO THE UCSF AFFILIATION WITH THE CHILDREN'S HOSPITAL & RESEARCH CENTER OAKLAND – UPDATE: Manager Reicher began by noting that he had briefed the Board on UCSF's potential affiliation with the Children's Hospital & Research Center Oakland (CHRO) last November. On January 1, 2014, an agreement was reached where CHRO will remain a separate entity to preserve its status as a recipient of Medicaid reimbursements with the Regents, through UCSF, as the sole corporate member of the CHRO board of directors. He noted that four CHRO executives had transitioned and are now UCSF employees covered by the UCRP 2013 Tier and it is expected that, over time, additional CHRO employees will become UCSF employees as well.

ITEM H. RETIREMENT ADMINISTRATION SERVICE CENTER – ANNUAL REVIEW: Director Ellen Lorenz began by responding to a Board member's question from a prior meeting, noting that the retirement estimator on At Your Service on-line will be updated to project the conversion of sick leave to service credit upon retirement. Turning to statistics, she noted that the RASC Customer Service Unit answered 30% more calls and responded to 38% more correspondence in 2013 than in 2012. Roughly 52% of those contacting Customer Service were retirees. She then stated that the RASC Retirement Operations Unit handled roughly 3,500 retirement elections in 2013, which was 10% more than in 2012, and roughly 1000 LSC election in 2013, which was 30% more than in 2012. However, it was noted that the "take rate" of monthly retirement income elections versus LSCs in 2013 was similar to take rates in previous years (i.e., 80% monthly retirement income elections vs. 20% LSC elections). Based on the most recent satisfaction survey, 84% of members who contacted RASC were satisfied with the service they received. In response to a question, she indicated that RASC does not ask members the reasons why they are electing an LSC, but does inquire if the members are aware of the impact of taking an LSC, such as the potential loss of retiree health coverage and survivor income. VP Duckett noted that it is not appropriate for RASC to inquire about the reasons an LSC is being elected or to offer advice on whether it is a good or bad idea. He also commended Director Lorenz and all the members of RASC for achieving high customer satisfaction results for the past year in which retirement inquiries and elections had increased.

ITEM I. UCnet Website – UPDATE: *(deferred to June 2014 meeting)*

The meeting adjourned at 2:05