UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, JUNE 20, 2014
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Shane White, Vice Chair Meredith Michaels, Executive Vice President (EVP) Nathan Brostrom, Chief Investment Officer (CIO) Jagdeep Singh Bachher, 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, and CUCEA Chair W. Douglas Morgan (via telephone).

STAFF PRESENT: Executive Director Gary Schlimgen, Senior Legal Counsel Ina Potter, Director Kris Lange, Director Ellen Lorenz, Director Bill Ryan, Associate Director Tony DiGrazia (via telephone), Financial Analyst Paul Teng, Coordinator Anne Wolf, Manager Ken Reicher, Manger Kurt Steinhoff, Principal Analyst Robert Semple.

OTHERS PRESENT: Agricultural & Resource Economics Professor (and TFIR Chair) James Chalfant , CUCRA Chair Elect Marianne Schnaubelt (via telephone), CUCRA/CUCEA representative Adrian Harris (via telephone)**,** UCB Retiree Association representative Marian Gade (via telephone), UC Hastings HR Executive Director Marie Hairston (via telephone), CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, AFSCME representative Claudia Preparata, Teamsters Local 2010 representative Mary Higgins, CUCSA representative Ken Feer (via telephone), Actuary John Monroe (The Segal Company).

The meeting officially began at 10:04 a.m.

PUBLIC COMMENT PERIOD: With respect to the various agenda items on borrowing for UCRP, CUCFA representative Kiskis reiterated his support for UC Administration to borrow funds to help pay down UCRP's unfunded actuarial accrued liability (UAAL). He also predicted that the new Governmental Accounting Standards Board (GASB) reporting standards, which tend to highlight a pension plan's UAAL more than in the past, will have public relations and/or political ramifications.

APPROVAL OF THE MINUTES: Chair White called for approval of the minutes from the Board meeting of February 28, 2014. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair White began by mentioning that this was the last meeting for four members of the Board; Academic Senate Representative Ross Starr and CUCEA Chair Doug Morgan are leaving due to the expiration of their terms and Staff representative Paul Brooks and Presidential appointee Angela Hawkins will be retiring (which makes them ineligible to continue serving on the Board). He acknowledged their dedicated service to the University, which totaled over 140 years, and specifically thanked them for their service on the Board. He also noted that the

President had reappointed Board member Meredith Michaels to another four-year presidential appointment to the Board, effective July 1, 2014, and thanked her for accepting the reappointment. He then announced the new members of the Board whose terms begin on July 1, 2014: Professor James Chalfant from UCD has been appointed by the Academic Senate to replace Ross Starr; Roger Anderson will be the new CUCEA Chair and ex-officio Board member replacing Doug Morgan; and Assistant Director Deborah McWilliams from UCI will be a new staff representative to replace Paul Brooks.

EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS – BUDGET UPDATE: At the request of the Chair, EVP Brostrom began by saying a few words about the new CIO, Jagdeep Sing Bachher. EVP Brostrom indicated that CIO Bachher is extremely qualified and that he is very enthusiastic about CIO Bachher's appointment. He indicated that he was especially pleased that CIO Bachher had already initiated discussions to better integrate the CIO's Office with the Finance and Business Divisions. Turning to the budget update, he indicated that the final state budget was in the process of being signed by Governor Brown and could be viewed as positive for UC, although UC didn't get the funds it requested. UC will receive a base budget increase of 5% ($142 million), which is what the Governor initially proposed last January and is consistent with his multi-year funding plan for the University. EVP Brostrom also noted that UC could potentially benefit from some one-time additional funding opportunities contained in the budget. For example, UC could get up to $50 million if property tax revenue exceeds expectations. Additionally, UC could potentially split up to $50 million with CSU and the community colleges for proposals to increase graduation rates, decrease time to a degree or improve transfers from community colleges. He noted that, as requested by the Governor, UC will not raise tuition for fiscal year (FY) 2014-2015, but will discuss a long-term tuition plan in the fall. In response to a question from the Chair, he noted the budget does not contain dedicated funding for UCRP whereas it does for the state's pension fund, which covers CSU employees.

ITEM B. UCRP – ACADEMIC COUNCIL'S RECOMMENDATION TO BORROW TO FUND UCRP: As an Academic Senate representative to the Board, Chair White summarized the recent recommendations by the Academic Council on borrowing to fund UCRP to help address its UAAL. He began by stating that the Academic Senate is gratified that UCRP contributions went from zero to 22% in the space of five years and that the President has chosen to pursue borrowing from STIP and/or external financing to help fund UCRP. However, he indicated that the recommendation put forth by the Academic Council calls for more aggressive employer contributions and borrowing than UCOP administration plans on bringing to the Regents in July. He indicated that the Academic Council reiterates it support for the Regents funding proposal made in 2010, which requires that UCRP employer contributions ramp up to 18% by FY 2018-19 and, thereafter, be maintained at a level equal to UCRP's full annual required contribution (ARC). Further, the Academic Council is concerned that UCOP administration has suggested that employer contributions to UCRP will be capped at 14%. He noted that a UCRP employer contribution capped at 14% would not eliminate UCRP's UAAL but would actually cause it to increase and would require higher contributions over a longer period of time if UCRP is to reach fully funded status. Recognizing that a UCRP employer contribution of 18% is opposed by the locations due to the impact on their operating budgets, the Academic Council recommends borrowing over the next 2 years. The Academic Council suggests that UC should borrow $1.7 billion, the amount required to fund UCRP's ARC over the next two years, and repay the loan in ten years by adding a 2% surcharge on the UCRP employer contribution rate, effectively raising the employer contribution to 16% of Covered Compensation. The Academic Council's recommendation, and supporting letters from the University Committee on Faculty Welfare and the University Committee on Planning and Budget, can be viewed from the following link. http://senate.universityofcalifornia.edu/reports/BJ2NB_UCRPFunding.pdf

ITEM C. UCRP – PROPOSAL TO FUND UCRP MODIFIED ANNUAL REQUIRED CONTRIBUTION WITH CONTRIBUTION FROM SHORT TERM INVESTMENT POOL: EVP Brostrom provided a summary of UCOP administration's proposal to borrow to help fund UCRP, which will be presented to the Regents for approval in July 2014. Under the administration's proposal, the President would authorize a $700 million contribution to UCRP in FY 2014-2015 via a transfer from UC's Short-Term Investment Pool (STIP). This contribution will fund the FY 2013-2014 difference between UCRP contributions and UCRP's modified ARC, which is UCRP's Normal Cost plus the interest on its unfunded liability. Assuming a 0.7% annual growth in UCRP's active member population and a continuing UCRP employer contribution rate of 14%, the proposed $700 million contribution is projected to improve UCRP's funded status to 95% by July 1, 2042, whereas it is projected to be at 87% by that date in the absence of the $700 million contribution and assumed active member growth. The $700 million loan from STIP would be paid back through a payroll assessment. If the FY 2014-15 loan from STIP is approved, EVP Brostrom noted that additional loans for UCRP in future years might be considered. Chair White noted that, unlike the Academic Council's recommendation, the additional $700 million loan would not bring UCRP to fully funded status by 2042. Vice Chair Michaels and member Hawkins indicated that locations could not sustain the Academic Council's recommended 16% UCRP employer contribution rate for the next ten years and they felt the administration's proposal represented a good compromise, with which several other members agreed.

CHIEF INVSTMENT OFFICER – REPORT: At the request of the Chair, CIO Bachher began by presenting a brief summary of his background and goals. He noted that he previously worked for both John Hancock Investments and Alberta Investment Management Corporation (AIMCo) and he has personal management experience with most types of investments with the exception of fixed equity. He said that his position with AIMCo had parallels with his position at UC in that he served as AIMCo's chief investment officer and was responsible for investing on behalf of public pension funds and endowments. With respect to UCRP, he noted that his goal was to beat benchmarks while simultaneously helping to address UCRP's UAAL. Transitioning to a broad overview of the market, he stated that the DOW is now over 17,000, but he questions the resilience of equities and whether UC should continue to overweight them. Many factors, from weather to geopolitical events, can have a dramatic impact on equity returns. Consequently, he feels that personnel in his office need to be risk managers as well as asset managers. With volatility at an all-time low, he noted that it is currently difficult to find attractive bargains and he anticipated that 2015 would be a hard year for investing. Stating that public equities generated the most money, he introduced Paul Teng, a financial analyst in the CIO's office who is responsible for managing approximately $33 billion in UC equity investments. Analyst Teng stated that domestic and developed global equities performed well during the last fiscal year (up 22% through May 2014), while emerging market equities did not perform as well. He stated that UCRP's returns were aided by being overweight in equities, which outperformed their benchmarks over the past year. Reiterating the remarks by the CIO, he stated that, going forward, investing will require managing risks as much as trying to obtain good returns.

In response to a question from Chair White about recent calls for divesting from fossil fuel investments, the CIO indicated that he had just attended his first meeting on the topic. UC's current exposure to fossil fuels was roughly $4-5 billion and the cost of selling such investments would be approximately $100-400 million. He indicated the need to develop policies on responsible investing, ways to implement them, and the priority of divesting from particular investments such as fossil fuels. Member Starr stated that UCRP and the endowments are not intended to promote good works, but rather good returns, and that UC could use other funds for philanthropic purposes. In closing, CIO Bachher stated that a note from the Board regarding its thoughts on fossil fuels would be helpful to him.

ITEM A. UCNET WEBSITE – UPDATE: Coordinator Wolf provided a live demonstration of the UCnet website, launched on February 6, 2014, which incorporates all of the information from the former At Your Service website plus a lot more. She stated that UCnet had 1.1 million visits in its first three months, with the most popular sites being "Compensation & Benefits" and "Tools & Services." She then proceeded to show where to find the Board's materials, such as meeting dates and agenda items, on the UCnet website.

ITEM D. UCRS ADVISORY BOARD – DRAFT LETTER ON RESOLVING THE DEFICIT IN THE UCRP TRUST FUND: Noting that a draft of the Board's letter to the President had been distributed to the Board members in advance of the meeting, Chair White suggested two additional revisions; (1) a summary of the progress with respect to UCRP contributions over the last five years and (2) a reference that the Board does not make recommendations. He noted that the Board's letter contained much of the same information concerning UCRP's current and projected funded status that was in the Academic Council's letter, which was discussed earlier in the meeting. Following a brief discussion on wording changes with the Board members and legal counsel Ina Potter, the Board approved by acclamation that the revised letter should be forwarded to the President. The Board's letter to the president can be viewed from the following link:
http://ucnet.universityofcalifornia.edu/compensation-and-benefits/retirement-benefits/ucrsab/docs/20140620-letter.pdf

ITEM E. NEW GASB ACCOUNTING STANDARDS FOR PUBLIC SECTOR PENSION PLANS AND SPONSORING EMPLOYERS: John Monroe from the Segal Company indicated that, in 2012, GASB published new accounting and financial reporting standards for public pension plans and employers which became effective this fiscal year. The new GASB statements establish standards for measuring and recognizing liabilities for accounting purposes, including the actuarial cost method, the discount rate and the amortization period. He indicated that Segal's Public Sector letter, which was distributed to the Board in advance of the meeting and was posted with the agenda items on the UCnet website, provides a more detailed analysis of the new GASB standards. He noted that the most significant change resulting from the new standards was that UCRP's net pension liability (NPL), which is similar to its UAAL, must be reported on its balance sheet. Up until now, reporting for UCRP only showed the difference between its ARC and actual contributions for any given year. It was noted that this development could potentially cause some public relations issues.

ITEM F. UCRP – MODIFICATIONS ARISING FROM REMAINING COLLECTIVE BARGAINING AGREEMENTS: – UPDATE: As a follow-up to an item presented to the Board in February describing modifications to the UCRP 2013 Tier for employees represented by CNA and

UPTE, Manager Ken Reicher provided an overview of the 2013 Tier modifications that were recently approved for employees represented by the American Federations of State, County and Municipal Employees (AFSCME). The modifications to the 2013 Tier for AFSCME employees, which were approved under Regental interim authority, are the same as those approved for eligible CNA and UPTE employees: (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 modifications cost neutral to UCRP, all eligible AFSCME 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 2014.

ITEM G. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Director Kris Lange began by noting that, with $19.28 billion in assets and 292,000 unique participants, the UC Retirement Savings Program (RSP) is the second largest in the nation. The Tax-Deferred 403(b) Plan has a participation rate of approximately 50% with an average deferral rate of just over 10%. She noted that the transition to on-line statements had been implemented, resulting in savings of $35-$40 thousand per quarter. Participants could still request paper statements. Turning to the annual retirement review, which was sent out to all UCRP members in February, she indicated roughly 60% of members are on track to replace 80% of their income from UCRP and the RSP based on a retirement age of 65. In response to a question, she indicated that the retirement readiness score does not include Social Security or other non-UC benefits, but that participants could use the tool to add such benefits. While it was noted that the average retirement readiness at UC was better than most institutions, she stated that Vendor Management wants to see improvement in the retirement readiness score for the remaining 40% of UCRP members. To achieve that goal, she stated that Vendor Management would be focusing on a four-step plan; (1) emphasize the importance of the UC retirement readiness score, (2) coordinate with the Retirement Administration Service Center (RASC) to incorporate one-on-one guidance in the retirement process, (3) focus on RSP participation among early and mid-career employees, and (4) expand needs-based communication, especially for those age 50 and above.

ITEM H. RETIREMENT SAVINGS PROGRAM – CHANGE TO DEFAULT INVESTMENT FUND(S): Director Bill Ryan noted that UC is still considering a change to the RSP default fund, from the UC Savings Fund to an appropriate UC Pathway Fund based on a member's age. He noted that the UC Savings Fund does not constitute a qualified default investment alternative (QDIA) to meet a participant's long-term retirement savings needs. He stated that the default fund primarily impacts Safe Harbor members who are required to participate in the Defined Contribution Plan (DC Plan) but fail to make a fund selection. While most Safe Harbor participants stay with the University an average of only three years, their DC Plan balances are left at Fidelity for eight years or more. Most participants who voluntarily elect to participate in the 403(b) or 457(b) plans make a fund selection for their contributions and would therefore not be impacted by a change to the default fund. The change would apply to new contributions only.

ITEM I. RETIREMENT SAVINGS PROGRAM – MINIMUM REQUIRED DISTRIBUTIONS – PROCESS AND OPTIONS: Referencing a chart from last year that had been update and distributed to the Board, Director Kris Lange noted that the minimum required distribution (MRD) process and options were essentially unchanged from the previous year. The only notable differences from the previous year were the final dates by which participants could call to establish systematic withdrawal payments and customize their MRDs and the final MRD issuance date. She noted that if participants fail to call Fidelity by December 15, 2014 and provide instructions, their MRDs will be subject to the default process in which their distribution will be taken proportionately from all of their funds and standard tax withholding will be applied.

ITEM J. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2014 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Manager Reicher noted that the UCRP annuitant COLA for July 1, 2014, which is based on average increase in the Consumer Price Index (CPI) for all urban consumers in the San Francisco and Los Angeles metropolitan areas from February 2013 to February 2014, ranged from 1.5% to 2%, depending upon a retiree's date of retirement and applicable COLA or inflation bank. Based on their retirement date, all UC-PERS Plus 5 members will receive a 2% COLA. He also noted that, as of July 1, 2014, the purchasing power of all UCRP annuitants is above 79% of the purchasing power they had as of the date of their retirement. The purchasing power of UC-PERS Plus 5 annuitants is 90.86% as of July 1, 2014.

ITEM K. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Ellen Lorenz began by noting that UC employees and retirees remain very satisfied with the service they receive from the RASC. Referencing the RASC "Quick Facts" sheet that had been provided to the Board, she presented a brief review of the May 2014 RASC statistics and achievements, including the telephone calls and correspondence handled by the Customer Service Unit as well as the retirement and disability elections and other actions performed by the Retirement Operations Unit. Although not listed on the fact sheet, she indicated that RASC had received 1,500 retirement elections for a July 1, 2014 retirement date, 200 of which were from faculty. She indicated that, so far, this is below the 2,200 retirements that occurred on July 1, 2013.

ITEM L. UCRS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2014-2015: Principal Analyst Semple noted that current Chair Shane White had been nominated as Chair and current Vice Chair Meredith Michaels and incoming member Professor James Chalfant had been nominated as Vice Chair for FY 2014-2015. The election was conducted using paper ballots that were counted by Analyst Semple, who serves as staff to the Board, along with Board member Lee Duffus. Shane White was re-elected as Chair and Meredith Michaels was re-elected as Vice Chair.

ITEM M. UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL YEAR 2014-2015: Principal Analyst Semple indicated that each proposed meeting date was scheduled to fall on a Friday, in accordance with the Board's preference for Friday meetings. He indicated that if he did not receive any objections to the proposed dates from the current members within the next few weeks, meeting rooms would be reserved for these dates and the meeting schedule would be posted to the Board's applicable page on the UCnet website. Chair White requested that analyst Semple check to make sure that none of the proposed meeting dates conflict with the Faculty Welfare's Task Force on Investment and Retirement (TFIR) meeting dates.

The meeting adjourned at 2:05