UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FEBRUARY 19, 2016
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Meredith Michaels, Vice Chair James Chalfant, Chief Operating Officer (COO) Rachael Nava, Vice President (VP) Dwaine Duckett, Professor Henning Bohn, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCRA Chair Lee Duffus, and CUCEA Chair Roger Anderson (via telephone).

BOARD MEMBERS ABSENT: Chief Investment Officer (CIO) Jagdeep Singh Bachher, Associate Vice Chancellor David Odato

UCOP STAFF PRESENT: Associate Vice President (AVP) Debora Obley, Associate Chief Investment Officer (CIO) Arthur Guimaraes, Senior Managing Director Scott Chan, Executive Director Gary Schlimgen, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Director Ellen Lorenz, Associate Director Tony DiGrazia, Manager Ken Reicher, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA/CUCEA Joint Benefits Committee Chair Dick Jensen, CUCEA representative Richard Attiyeh, UCB Emeriti Association representative Amy Block Joy, UCB Emeriti Association representative George Goldman, UCB Retiree Association representative Antonia Sweet, CUCFA representative Joe Kiskis, CUCFA representative Eric Hays, AFSCME representative Owen Li, Teamsters Local 2010 representative Mary Higgins, UPTE representative Paul Brooks, and Actuary John Monroe (Segal Consulting).

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

PUBLIC COMMENT PERIOD: CUCFA representative Kiskis stated that, as noted by the Academic Senate, the retirement options recommended by the Task Force won't result in significant savings and will hurt recruitment and retention. He indicated that CUCFA feels that the deal with the Governor, including the promised $436 million for UCRP, should be rejected. AFSCME representative Owen Li indicated that AFSCME is opposed to the Task Force recommendations, which he characterized as benefits cuts. He indicated that the recommendations are opposed by many employees, including many faculty members who feel that the concept of shared governance was ignored. Contrary to statements made by UC, he indicated that the proposed retirement options are opposed by doctors and other medical staff who feel that UCRP, in its current form, is a superior recruitment and retention tool. He noted that lower-paid worked retire with an average UCRP benefit of only $18,000 per year and that the proposed defined contribution plan (DC Plan) option would provide an even lower, more volatile annual retirement benefit.

APPROVAL OF THE MINUTES: Chair Michaels called for approval of the minutes from the Board meeting of February 4, 2016. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Michaels advised the Board that the Chair of the Academic Council had sent a letter to the President on February 12, 2016 concerning the Academic Senate's views with respect to the Task Force recommendations. She indicated that the letter was posted on the Academic Senate's webpage:
http://senate.universityofcalifornia.edu/reports/documents/DH_JN_ROTF_2-12-16.pdf

CHIEF FINANCIAL OFFICER – BUDGET UPDATE: AVP Obley noted that UC is focused on enrolling an additional 5,000 students for the 2016/17 year to comply with an agreement with the state. She stated that UC must demonstrate sufficient actions to enroll the additional students before it can receive the additional $25 million in state funds. She also noted that Kevin De Leon, President pro Tempore of the California Senate, wants UC to enroll more under- represented minorities and low-income students. She noted that UC's relationship with Sacramento was much better than in previous years and attributed the improved relationship, in part, to the budget agreement reached by President Napolitano and Governor Brown. In response to questions from several Board members, she indicated that rejecting the $436 million in state funds dedicated to reducing UCRP's unfunded actuarial accrued liability (UAAL) and not implementing a UCRP 2016 Tier with a PEPRA-related cap on covered compensation would break any trust established with the state and would make it harder for UC to secure state funding for UCRP and other purposes in the future.

CHIEF INVESTMENT OFFICER – REPORT: Scott Chan, Senior Managing Director of Public Equity began by noting that CIO Bachher's predictions of a more volatile market with lower returns appear to be coming true. He attributed the growing volatility to various factors, with events in China being the most notable. He indicated that the Chinese stock market crash and its poor transition from an export economy to a consumer driven economy were contributing factors to slow global growth and a decline in the market, especially with respect to prices for commodities such as oil. He noted that most equities, which had been elevated above historic averages, were beginning to drop in value as quantitative easing and low interest rates become less effective in driving growth. He stated that UCRP's 0.7% return for the 2015 calendar year exceed its benchmark, but is well below UCRP's 7.25% assumed rate of return. He said that expected low rates of return may result in a review of, and possible decrease to, UCRP's assumed rate of return, and would increase UCRP's UAAL. He noted that the CIO is taking a defensive investment approach for the foreseeable future; he will continue to build up cash and look for opportunities and ways to leverage UC's size while streamlining the number of UC equity investments and managers.

Associate CIO Guimaraes then provided a summary of work on the UC Retirement Savings Program (RSP). He stated that, over the past year, UC streamline the RSP fund menu and normalized the glide path in the UC Pathway funds by adding additional equities. Noting the recent emphasis placed on the value of a defined benefit plan such as UCRP, he indicated that the office of the CIO is working with Fidelity to potentially develop an annuity type product for the RSP that would provide participants with a steady stream of income upon retirement.

ITEM A. UCRS – 2016 RETIREMENT OPTIONS – DISCUSSION: Noting that the Task Force recommendations had previously been discussed by the Board earlier in the month, Chair Michaels indicated that the discussion would focus on any new developments as well as the process going forward. Board member and COO Nava indicated that the period for commenting on the Task Force recommendations was now closed. She also indicated that the President received many comments in addition to those from the Academic Senate and that she is still contemplating her recommendations. She said that the Regents item containing the President's recommendations would be posted to the Regents website on March 14th and would be presented to the Regents for approval on March 23rd.

ITEM B. UCRP – UCSF BENIOFF CHILDREN'S HOSPITAL OAKLAND (BCHO) – PROPOSAL FOR RECIPROCAL VESTING CREDIT FOR BCHO DEFINED CONTRIBUTION PLAN PARTICIPANTS: Manager Ken Reicher provided a brief summary of the affiliation between UCSF and BCHO, which occurred on January 1, 2014. He stated that the goal of the affiliation was to achieve scale to care for pediatric patients throughout northern California and to attract and retain talented faculty to provide care, conduct research and teach students and trainees. He also noted that BCHO currently continues to operate as a private hospital (with a Board appointed by the Regents) which maintains a defined benefit plan (db plan) for longer-service employees and a defined contribution plan (dc plan) for employees hired after 2011. He stated that, to date, only a few BCHO employees, all of whom were in the BCHO db plan, have transitioned to UCSF. As previously approved by the Regents, their BCHO db plan service is recognized for vesting purpose in UCRP. It is anticipated that more BCHO employees will transition to UCSF as operations are consolidated. Since some of these employees may be covered under the BCHO dc plan, it has been suggested that their BCHO dc plan service be recognized for vesting in UCRP. Segal Consulting has estimated that if all employees in the BCHO dc plan (approximately 200) transitioned to UC, the financial impact on UCRP would be minimal. If the Regents approve the concept of a stand-alone DC Plan as an alternative to UCRP, it is assumed that BCHO employees transitioning to UCSF on or after July 1, 2016 would be offered the choice of participating in either UCRP or the stand-alone DC Plan.

ITEM C. RETIREMENT SAVINGS PRPGRAM – OPERATIONS AND EDUCATION REPORT: Director Kris Lange began by noting the new title and format for the Retirement Savings Program (RSP) report. She also stated that she would be presenting the RSP third quarter statistics, as the fourth quarter RSP statistics were not yet available. She noted that the RSP has over $19 billion in assets and 310,000 unique participants. The 403(b) plan, which holds roughly 70% of total RSP assets, has a 50% participation rate among active employees, who contribute about 9.7% of pay, on average, on a monthly basis. Due to mandatory Safe Harbor contributions for part-time employees, the DC Plan has the largest number of participants. She also indicated that almost 11,000 employees took part in on-site financial education events in the third quarter, while Fidelity reported over 2.5 million hits to the NetBenefits portal and nearly 90,000 RSP-related telephone calls during the same period. However, Fidelity missed its speed to answer call performance standard for the third quarter by four seconds. Besides the mailing to over 10,000 participants with address discrepancies, much of the RSP work during the third quarter was focused on finalizing payroll and Fidelity interfaces for the November 30, 2015 go live date for UCPath at UCOP. Additionally, a lot of pre-planning discussions with Fidelity were initiated in anticipation of operational changes resulting from the 2016 Retirement Options Task Force recommendations with respect to DC Plan contributions. She concluded by noting that the "Focus on Your Future" portal was being redesigned and would be completed by late February or early March 2016.

ITEM D. RETIREMENT SAVINGS PROGRAM – SUGGESTED AMENDMENT TO THE DEFINED CONTRIBUTION PLAN PRETAX ACCOUNT TO ALLOW DISTRIBUTIONS FOR ACTIVE PARTICIPANTS BEGINNING AT AGE 70 1/2: Principal Analyst Mary Jenkins noted that, unlike the 403(b) and 457(b) plans, the DC Plan Pretax Account does not allow for any in-service distributions. She noted that it is likely in the near future that in-service distributions in the DC Plan Pretax Account will be allowed once a member has attained age 70 1/2, which is similar to a provision in the 457(b) Plan.

ITEM E. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Ellen Lorenz briefly summarized the RASC Quick Facts, beginning with an Open Enrollment (OE) update. She noted that RASC had 8,000 telephone calls during the OE period, which was 8% lower than during last year's OE period. However, she noted that there was an increase in retirement-related calls from Inactive Members, probably as a result of mail campaign reminding them of their UCRP benefits. With respect to general customer care statistics, she indicated that the number of telephone calls and correspondence to RASC was basically the same as the previous year and that the RASC service and customer satisfaction goals remained above the established target of 80%. She then summarized the presentations and location-specific webinars that RASC conducted over the past 6-7 months and noted that 94% of participants who provided feedback were either satisfied or very satisfied with them. The final minutes of her item were devoted to going through handouts explaining the retirement and Medicare enrollment processes.

The meeting adjourned at 12:15 p.m.