UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
NOVEMBER 18, 2016
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Meredith Michaels, Vice Chair David Brownstone, Chief Operating Officer (COO) Rachael Nava, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor David Odato (via telephone), Professor Henning Bohn, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCRA Chair Lee Duffus, and CUCEA Chair Richard Attiyeh.

BOARD MEMBERS ABSENT: Chief Investment officer (CIO) Jagdeep Singh Bachher.

UCOP STAFF PRESENT: Associate Chief Investment Officer (CIO) Arthur Guimaraes, Director Marco Merz, Senior Investment Analyst Susie Ardeshir, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Luis Blanco, Executive Director Gary Schlimgen, Director David Alcocer, Director Kris Lange, Director Ellen Lorenz, Director David Olson, Manager Ken Reicher, Manager Ian Smith, Manager Richard Townsend, Principal Analyst Kendra Eaglin, Principal Analyst Robert Semple, and Principal Analyst Hugh West.

OTHERS PRESENT: CUCRA Chair elect Marianne Schnaubelt, CUCFA representative Eric Hays, AFSCME representative Claudia Preparata, SETC representative Andy Taff (via telephone), SETC representative Hector Fernandez, Actuary John Monroe (Segal Consulting), Actuary Paul Angelo (Segal Consulting, via telephone), Auditing Actuary Ken Kent (Cheiron, vial telephone) and Auditing Actuary Graham Schmidt (Cheiron, via telephone).

The meeting officially began at 10:01 a.m.

PUBLIC COMMENT PERIOD: (No initial public comments… but see comments appearing later in document after item H).

APPROVAL OF THE MINUTES: Chair Michaels called for approval of the minutes from the Board meeting of June 17, 2016. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Noting that it was his last meeting, Chair Michael thanked CUCRA Chair Duffus for his dedicated service to the Board and presented him with a letter and certificate of appreciation signed by the President. She then introduced the incoming CUCRA Chair and ex-officio Board member, Marianne Shnaubelt, who is an alumnus from UCI, where she also served as an Associate Registrar and a Director for the School of Information and Computer Science.

CHIEF INVESTMENT OFFICER – REPORT: The CIO report was provided by Sr. Investment Analyst Ardeshir and Associate CIO Guimaraes. Sr. Investment Analyst Ardeshir began by providing an overview of UCRP's investment performance, noting that for the fiscal year (FY) that ended on June 30, 2016, UCRP had a negative 2% return with assets totaling $54.1 billion, a loss of slightly over $1 billion from the previous year. However, she indicated that cash flow for UCRP was positive at the fiscal year end due to contributions and borrowing. She mentioned that a new UCRP asset allocation was recently approved by the Regents that is expected to provide a return of 7.2% over the long-term. She stated that the Office of the CIO had been building cash and will be looking for investment opportunities to implement the new asset allocation over the course of several years.

Associate CIO Guimaraes provided an overview of the Retirement Savings Program (RSP), which has almost $21 billion in assets making it one of the largest public defined contribution plans/program in the country. He stated that slightly over 25% of all RSP assets are invested in the target-date Pathway funds, which are also the default funds for participants who fail to make an investment selection. He also mentioned that 20% of RSP asset are invested in the Savings Plan, which was the default fund prior to the Pathway funds. He noted that the Office of the CIO has historically managed the Pathway funds but is potentially looking to find an outside firm to manage them to maximize both returns and efficiency. He also mentioned that the office of the CIO is reviewing whether the UC Global Fund (100% equity fund) and the UC Balanced Growth Fund (equity and fixed income fund similar to UCRP) should be rolled into the Pathway funds. A discussion ensued concerning the appropriateness of rolling these two funds into the Pathway funds and the importance of communicating the consolidation should it occur.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Director Alcocer began by noting that, in addition to a 4% base budget increase, UC assumes it will receive additional student funding if it successfully enrolls an extra 2,500 undergraduate students in the upcoming year. UC is also hoping for $35 million toward building maintenance and additional funding for graduate student enrollment, but Director Alcocer stated that Governor has expressed indifference for providing monies for graduate students. He concluded by noting that UC is considering implementing a modest tuition increase of 2.5% to 3%, which would represent the first tuition increase in six years. If implemented, the tuition increase would add an additional $75 million, a third of which would be dedicated to providing financial aid.

ITEM A. UCRS – ANNUAL ACTUARIAL VALUATION REPORTS FOR FISCAL YEAR 2015-2016: Actuary John Monroe from Segal Consulting (Segal) summarized the results of the actuarial valuation of UCRP for FY 2015-16. Although UCRP experienced a negative 2% return for the past FY, which is a negative 9.25% return from an actuarial perspective, he noted that UCRP's funded ratio actually increased from 82% to 83% due to the 5-years smoothing used in determining the Plan's actuarial value of assets (AVA), which he noted was the most common-smoothing practice. He also noted that UCRP was fully funded for the past FY based on both contributions and the transfer of $564 million from STIP to UCRP. He summarized the provisions of the new 2016 Retirement Choice Program and the limit on UCRP pensionable pay (i.e., the PEPRA limit) under the new 2016 Tier. However, he noted that since the new program was effective July 1, 2016, the new UCRP tier had no impact on the valuation results. Turning to Plan demographics, he stated that active membership in UCRP increased by 3.8% during the past FY, which was matched with a 4% increase in the number of retirees. He concluded with a review of projections of the Plan's funded status based on the "approved" contribution scenario versus the total funding policy. Under the former, UCRP would be approximately 82% funded by 2034: under the latter, UCRP would be approximately 99% funded by 2034.

ITEM B. UCRS – AUDIT ACTUARY REPORT FOR THE 2016 VALUATIONS OF UCRP AND THE PERS PLUS 5 PLAN: Manager Reicher reminded the Board that Segal, as the Regents Consulting Actuary, and the UCRP valuation process, are subject to periodic audit. He then briefly described the request for proposal process and the fact that Cheiron was hired to conduct the audit/replication of the valuations for UCRP and the PERS Plus 5 Plan for FY 2015-2016. Manager Reicher then introduced Ken Kent and Graham Schmidt, two actuaries from Cheiron that were participating in the meeting via telephone.

Mr. Kent clarified that Cheiron performed a replication of the valuations using the exact same data and UCRP provisions provided to and used by Segal. He said that results reached by Cheiron were extremely close to those derived by Segal and that Cheiron found no material issues or differences between its valuation processes compared with those of Segal. He noted that Cheiron opined that UCRP's 7.25% rate of return might be difficult to attain and that Cheiron recommends that funded status projections based on a lower rate or return be included in the Executive Summary of the UCRP annual actuarial valuation report.

ITEM C. UCRS – AUDITED ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2015-2016: Noting that most of the financial numbers for UCRP and the RSP had already been provided by the Office of the CIO and Segal in earlier items, he mentioned that a new audit firm, Price Waterhouse Cooper, was retained to audit the financial reports for the past FY. He also noted that there was a new GASB standard 72 disclosure provision that requires that investments be presented in a hierarchal level format.

ITEM D. UCRS – 2016 RETIREMENT CHOICE PROGRAM STATISTICS: Principal Analyst Eaglin summarized a few slides reflecting the primary retirement choices that have been made by new and rehired eligible employees hired since July 1, 2016. She clarified that the statistics were not all-inclusive as some new eligible hires were represented by unions that had yet to bargain the 2016 Retirement Choice Program. She indicated that as of November 8, 2016, approximately 3,800 new or rehired employees hired since July 1st were eligible to make a retirement choice. Of the 3,800, only 60% have made an election or were automatically defaulted to the Pension Choice after letting their 90-day window period elapse. The remaining 40% have not yet made a choice or been defaulted.

Of the 3,800, 26% have chosen the Savings Choice, 20% have chosen the Pension Choice, and 14% have been defaulted to the Pension Choice. She clarified that while it may appear that the Savings Choice is the preferred option, many of the new/rehired employees may just allow themselves to be defaulted to the Pension Choice rather than affirmatively selecting it. In conclusion, she noted that on average, most new/rehired employees made an election after 27 day from their hire date and that only 50% of them were subject to the PEPRA limit under the 2016 Tier, which means that half the 3,800 were rehired employees.

(**NOTE**: Item H was presented next at the request of the Chair)

ITEM H. RETIREMENT SAVINGS POGRAM – OPERATIONS AND EDUCATION REPORT: Director Lange noted that the assets and number of participants in the RSP have remained essentially the same as the previous quarter; approximately $21 billion in assets and 320,000 unique participants. She also mentioned that the participation rate in the voluntary 403(b) Plan remained the same at 52% with an average deferral of 9%. She indicated that Vendor Management has been primarily focused on monitoring the 2016 Retirement Choice program implementation over the last quarter. She said that there have been some data and operational issues with respect to the Retirement Choice Program, as expected, but she was confident that all issues would be resolved and addressed in a timely manner. She concluded by noting that Vendor Management was working closely with Fidelity to prepare the 2017 Retirement Review, which projects each UCRP member's readiness to retire based on both his/her UCRP pension and RSP assets. The report is distributed in February each year.

PUBLIC COMMENT: At the request of Vice President and Board member Duckett, SETC representative Hector Fernandez introduced himself and briefly explained the SETC (State Employee Trade Council) for the Board. He noted that SETC represents skilled craft workers at UCI, UCSB and UCM. He indicated that he was attending the meeting to learn a little about the Board and UCRS for the sake of SETC and did not have any specific comments pertaining to UC retirement benefits. With respect to the budget update, he did indicate that funding for building maintenance was badly needed, as building maintenance at many UC locations is being deferred due to budgetary constraints.

ITEM E. UCRP – LUMP SUM CASHOUT REPORT: Manger Townsend began by noting that the number of Lump Sum Cashout (LSC) elections for FY 2015-16 decreased by 23% from the previous FY but that the average LSC amount had increased by almost 12%. He stated, however, that the number of LSC elections for the past year was more consistent with the long-term trend and that the increase in LSC elections in FY 2014-15was due to a mailing to inactive UCRP members reminding them of their benefit entitlements. Since inactive members are not eligible for UC-sponsored retiree health and welfare coverage, he stated that many opt for an LSC, especially those with fewer years of UCRP service credit whose monthly retirement income benefit would be small. Referencing a chart on page #4 of the item, he indicated that 75% of LSC recipients (both active and inactive) are not eligible for UC-sponsored retiree health and welfare coverage.

ITEM F. UCRP – DOMESTIC PARTNER ELIGIBILITY FOR SURVIVOR BENEFITS: Principal Analyst West noted that, under current procedures, a member must submit documentation to establish a domestic partner twice; once to make the domestic partner eligible for active UC-sponsored health and welfare coverage and separately to show that he/she has a domestic partner who may be eligible for UCRP survivor benefits. He indicated that the dual submission process has caused confusion and frustration among many employees. Consequently, he stated that henceforth the dual submission of domestic partnership documentation will be eliminated. The member will still be required to submit documentation to establish a domestic partnership in order to provide UC-sponsored health and welfare coverage for the domestic partner. Any documentation that the member submits to Secova, the outside vendor with whom UC contracts to substantiate and maintain the domestic partnership documentation for purposes of UC-sponsored health and welfare coverage, will also be used for establishing the domestic partnership for UCRP purposes.

ITEM G. RETIREMENT SAVINGS POGRAM – PROSPECTIVE REDIRECTION OF SUMMER SALARY BENEFIT CONTRIBUTIONS TO THE TAX-DEFERRED 403(B) PLAN:

Principal Analyst Semple briefly explained the Summer Salary Benefit (SSB) and that SSB contributions had previously been directed to the Defined Contribution Plan (DC Plan). He noted that, effective November 1, 2016, prospective SSB contributions will be directed to the 403(b) Plan but SSB contributions made prior to November 1st (and earning on those contributions) would remain in the DC Plan.

He indicated that the change was necessary to keep the 2016 Retirement Choice Program compliant with tax code requirements and to ensure that the full amount of contributions can be made for and by academic appointees who earn SSB contributions and participate in the 2016 Retirement Program. He noted that investment options under the 403(b) Plan were identical to those in the DC Plan and the change would not reduce the limit on an academic appointee's "voluntary" contributions to the 403(b). He concluded by noting that the Academic Personnel manual had been updated to reflect the change and that an explanation letter signed by Vice President Duckett and Vice Provost Carlson would be mailed on November 22, 2016 to faculty who previously earned SSB contributions or who may be eligible for future SSB contributions.

ITEM I. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Lorenz summarized the Retirement Administration Service Center (RASC) service metrics for the Board. She noted that RASC Customer Care met or exceeded all of its call and correspondence goals for the FY, despite a busy Open Enrollment period during which calls increased 35% from the previous year. She noted that 86% of customers indicated that were satisfied or more than satisfied with their Customer Care experience, exceeding the goal of 80%. She also noted that the Fulfillment Operations Unit, which processes UCRP elections and benefit payments, exceeded its time processing goals for FY 2015-16.

She noted that RASC currently performed 70% of system-wide active retirement counseling and documentation preparation and will be doing more starting in December 2016, when RASC takes over such processes for the UCLA Medical Center. She also noted that RASC provided 18 onsite, in-person presentations to campuses and medical centers over the last FY with a satisfaction rate of 96%. She mentioned that RASC recently engaged the International Customer Management Institute (ICMI) to assist RASC with strengthening its culture of service and optimizing efficiencies. She projects an 18 month engagement with ICMI. She concluded by noting that UC has initiated a UCRP benefits eligibility audit to a target audience of approximately 2,200 older retirees residing outside of California and outside the U.S.

The meeting adjourned at 12:20 p.m.