UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
JUNE 21, 2019
10:00 AM – 2:00 PM

BOARD MEMBERS PARTICIPATING: Chair David Brownstone, Vice Chair Henning Bohn, Chief Investment Officer (CIO) Jagdeep Bachher, Chief Operating Officer (COO) Rachael Nava, Vice Chancellor Ronald Cortez, Interim AVC and CHRO Jo Mackness, Computer Resource Specialist Michael Fehr (via telephone), CUCEA Chair Caroline Kane, and CUCRA Chair Marianne Schnaubelt (via telephone).

BOARD MEMBERS ABSENT: Vice President (VP) Dwaine B. Duckett and Pharmacy Technician Naomi Nakamura.

UCOP STAFF PARTICIPATING: Chief Operating Officer Arthur Guimaraes, Managing Director Marco Merz, Associate Vice President David Alcocer, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Director Esther Cheung Hill, Director Ellen Lorenz, Director Ken Reicher, Associate Director Anthony DiGrazia, Manager Greg Ricks, Manager Hyun Swanson, Benefits Program Strategy Analyst Melissa Rad, and Principal Analyst Robert Semple.

OTHERS PRESENT: UCBEA representative Amy Block Joy, UCBRA representative Antonia Sweet, CUCFA representative Eric Hayes, AFSCME Local 3299 representative Claudia Preparata, Teamster Local 2010 representative Mary Higgins, retiree/UPTE representative Paul Brooks, and Actuary John Monroe (Segal Consulting).

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

PUBLIC COMMENT PERIOD: AFSCME Local 3299 representative Claudia Preparata announced that, following recent bargaining sessions, UC was dropping the requirement that UPTE and AFSCME covered newly hired/rehired employees eligible for UCRP also be offered the choice to elect to participate in the Savings Choice/DC Plan option in lieu of UCRP coverage. Ms. Preparata stated that the Savings Choice option was not a sufficient or appropriate retirement plan for lower-paid staff employees. (NOTE: UC’s contracts with UPTE and AFSCME have not yet been finalized).

APPROVAL OF THE MINUTES: Chair Brownstone called for the approval of the minutes from the Board meeting/video-conference of March 1, 2019. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: The Chair noted that the June Board meeting was the last meeting of the fiscal year and his last meeting as Chair of the Board, although he has one more year left on his Board term. He stated that it was his privilege serve as Board Chair. He also noted that the terms of Board member Henning Bohn, Michael Fehr and Naomi Nakamura end as of June 30th, so this was their last Board meeting. However, he noted that it was likely that the Academic Senate would reappoint Henning Bohn to another four-year term on the Board. On behalf of the Board, he thanked both Board members Fehr and Nakamura for their service to the Board, mentioning that Ms. Nakamura was unable to participate in the meeting.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer mentioned that the state legislature had approved the state budget on June 13th and it now proceeds to the Governor, who is expected to approve the revised budget. He indicated that UC should receive $248 million in new funding for fiscal year (FY) 2019-20, an increase of nearly 7% from FY 2018-19. The budget should cover UC's mandatory costs as well as some costs for maintenance needs and increases in student enrollment. He stated that UC is expected to receive $143 million for maintenance projects, which is more than the $100 million UC had requested. He also noted that an earlier version of the budget had provided UC with $50 million to apply towards student success/degree attainment, but not funding to cover higher rates of new student enrollment. However, he noted that the state legislature had redirected money originally allocated for student degree attainment to help cover increases in new student enrollments. He also noted that UC will still receive approximately $15 million in one-time funding for UC Extension outreach programs to help Californians with some college credits to complete a degree or obtain a professional certification. He closed by noting that UC will continue to work with the state in striving to develop a future, multi-year budget plan.

CHIEF INVESTMENT OFFICER – REPORT: Chief Investment Officer (CIO) Bachher began by noting that his office would not know UCRP's FY rate of return until the end of July. However, he indicated that UCRP's FY return would likely be below its investment return assumption of 7.25%, possibly as low as 2-3%. He noted that the negative returns for December 2018 had wiped out UCRP's FY gains to that point, but that returns for January 2019 were extremely good, offsetting much of the losses of the previous month. Since then, UCRP returns remained relatively flat, although the first few weeks of June 2019 had been positive. He attributed volatility and uncertainty in the market to geopolitical pressures, such as the U.S. trade war with China, the confusion surrounding the Brexit, ongoing troubles in Venezuela, etc. Turning to how UCRP is currently positioned, he indicated that roughly 50% of UCRP's portfolio was invested in public equities, approximately 21% in fixed income, about 21% in other investments (i.e., private equity, real estate, etc.) and just under 5% in cash. He stated that the most notable change in investment strategy was a move toward more passive investment with respect to public equities. Currently, 70% of UCRP's equities were invested passively and 30% actively managed. Within six months to a year, he would like to have 75% of public equities invested passively and only 25% actively managed. He concluded by noting that, with respect to global investing, the U.S. was still the "least worst place to be."

Director Merz characterized the investment statistics for the UC Retirement Savings Program (RSP) as little changed from a year ago. He stated that the RSP had just shy of $25 billion in assets and 323,000 participants. He indicated that most of the assets were invested in the UC 403(b) Plan, which remains the biggest 403(b) Plan in the country, and that that the Pathway funds remain the most popular investment funds. Finally, he reminded the Board that, within the coming months, the 2015 Pathway Fund would be incorporated into the Pathway Income fund and the new Pathway 2065 Fund would be launched.

ITEM A. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2019 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Program Strategy Analyst Rad stated that the UCRP Annuitant COLA for July 1, 2019, which is based on the average increase in the Consumer Price Index (CPI) for all urban consumers in the San Francisco and Los Angeles metropolitan areas from February 1, 2018 to February 1, 2019, will be 2.00% for all UCRP retirees eligible for a COLA. She noted that the COLA for UC-PERS Plus 5 retirees would also be 2%. She concluded by noting that, as of July 1, 2019, the purchasing power for all UCRP annuitants remains above 75% and is higher for those with more recent retirement/benefit dates. She indicated that the purchasing power for UC-PERS Plus 5 retirees is approximately 88%. The Chair noted that the annuitant COLA was a very valuable benefit enhancement which is not widely known. He indicated the availability of such a COLA could impact a retiree's overall investment strategy and stressed that Fidelity should mention the annuitant COLA in its retirement presentations and counseling.

ITEM B. UCRP – PRELIMINARY RESULTS OF EXPERIENCE STUDY: Actuary John Monroe from Segal Consulting summarized the highlights of the most recent UCRP Actuarial Experience Study covering the period from July 1, 2014 through June 30, 2018. He stated that the study is conducted every 3-5 years and its purpose is to review UCRP's economic and demographic assumptions based on recent experience and future expectations to determine if the assumptions remain appropriate. With respect to economic assumptions, he indicated that Segal is recommending a slight reduction in UCRP's salary increase assumption, a reduction in UCRP's inflation assumption from 3% to 2.75%, and a reduction in UCRP's rate of return assumption from 7.25% to 7% (the rate of return used by CalPERS and CalSTRS). Turning to demographic assumptions, he indicated that Segal recommends that UCRP use generational, benefit-weighted mortality tables better suited to the increasing life expectancies of employees and annuitants. He indicated that recommendations with respect to rates of termination, disability and retirement were relatively minor. He then summarized the potential cost impacts to UCRP if Segal's recommendations were approved by the Regents in July. He stated that UCRP's Normal Cost would increase from 17.9% to 19.7% of payroll, an addition of roughly $262 million. He indicated that UCRP's actuarial accrued liability would increase by 6%, or $4.1 billion, reducing UCRP's funded ratio from 85% to 80%. He also noted that UCRP's actuarially determined Total Funding Policy Rate would increase from 26.33% to 30.95% of payroll.

ITEM C. UCRP – PROPOSED SCHEDULE OF INCREASES TO EMPLOYER CONTRIBUTION RATES BEGINNING PLAN YEAR 2020-2021: Director Reicher summarized a proposal, that would be submitted to the Regents for approval in July, to gradually increase the UCRP employer contribution rate from 14% to 16% by July 2023. Referencing a handout distributed to the Board, he noted that the Regents had previously authorized additional borrowing for UCRP which allowed UCRP contributions to be at or near the policy level since FY 2010. Additionally, he noted that further borrowing for UCRP would occur over the next three fiscal years; $482 million in FY 2019, $600 million in FY 2020 and $700 million in FY 2021. However, if recommendations based on the recent UCRP Experience Study were approved, which would increase UCRP's liability and annual cost, then UCRP contributions at the current rate would fall below the policy rate, which would also increase if the Experience Study recommendations were approved. As shown in the handout, he stated that if UCRP continued to meet its assumptions and the UCRP employer contribution remained at 14%, UCRP's funded ratio would gradually decrease to approximately 77% over the next three decades. Additionally, he noted that continued borrowing from the Short Term Investment Pool (STIP) could result in a liquidity issue. On the other hand, if the UCRP employer contribution rate were raised to 16%, as recommended, UCRP's funded ratio would increase to nearly 90% over the next three decades (assuming all assumptions were met). He also noted that, as part of the recommendation, it is assumed that the UCRP employer contribution rate to UCRP's unfunded liability on behalf of Savings Choice participants will also increase by the same schedule.

ITEM D. UCRP – REDWOOD RETIREMENT ADMNISTRATION RECORDKEEPNG SYSTEM – UPDATE: Acknowledging recent complaints of delays in processing retirement applications and long waiting times when calling RASC, Executive Director Schlimgen framed the discussion of these issues in relation to the new Redwood retirement recordkeeping system. He noted 50% of annual retirements occur on July 1st, and retiring members generally apply for retirement three months in advance of their intended retirement date**.** This means that all the retirement applications for a July 1, 2019 retirement date needed to be processed through the new Redwood system, which just went live in March 2019. He indicated that RASC personnel received comprehensive training on the new Redwood system but were faced with some unexpected Redwood system problems that delayed retirement processing and inquiry response times. He stressed that steps have been taken to help speed up retirement processing, such as having staff work overtime and on weekends.

Director Lorenz proceeded to describe the July retirement season and problems in a bit more detail. She indicated that RASC had processed 1,600 retirement applications for a July 1, 2019 retirement date, but still had approximately 700 more pending processing. However, unlike the old retirement system which only had monthly check-write functionality, the new Redwood system has weekly check-write functionality that should enable RASC to send out overdue retirement payments more quickly. She also noted that RASC telephone response times were improving. A month ago, RASC was only able to answer 10% of all incoming calls within 90 seconds and the average wait time was almost 30 minutes. As of last week, RASC was able to answer approximately 30% of calls within 90 seconds and the average wait time was down to 8 minutes. In conclusion, she noted that she generally hires additional temporary staff in early fall to help with Open Enrollment issues. However, this year she will be hiring more temporary staff than usual, and a bit earlier than usual, to help RASC with both retirement processing and Open enrollment issues.

Director Cheung Hill also acknowledged that there were some unexpected issues with the new Redwood system, which members within her unit and RASC, along with personnel from Linea and Sagitec, were trying to fix as quickly as possible. She mentioned that with every new system adjustment or procedure, RASC personnel had to be trained, or re-trained, which caused further delays. Additionally, she mentioned that while Redwood does have weekly check-write functionality, some problems can only be fixed and/or verified on a monthly cycle, which also causes delays. She then proceeded to describe the roll-out of two new portals, ROOTS and UCRAYS. She stated that ROOTS was an internal portal that would enable benefits personnel at the locations to view enough member data to help them address most members' retirement-related questions. She indicated that UCOP would soon be rolling out training on the ROOTS portal, which was schedule to launch the last week of July 2019. She then described UCRAYS, the replacement of AYSO, as a retirement portal accessible by members, subject to multi-factor authentication. She indicated that UCRAYS is scheduled to be launched in September.

ITEM E. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: Manager Swanson summarized the highlights of the report. She noted that 53% of active participants were making voluntary contributions to the RSP, with an average contribution of 10% of salary, and that 61% of career employees were on track to have at least 80% retirement income replacement from all UCRS sources. She noted that Fidelity had met all of its performance standards and had recently initiated an email campaign to correct addresses for suspected "lost participants." Fidelity sent out approximately 15,000 emails and 42% of recipients responded to either confirm or update their addresses. With respect to communications and education, she stated that Fidelity engaged in approximately 16,000 workshop and counseling interactions during the first quarter of 2019, including retirement presentations at eight locations and nearly 5,000 one-on-one counseling sessions. In response to the Chair's earlier comment regarding the annuitant COLA, she stated that she would advise Fidelity to mention it in future presentations and counseling and indicated that she may add information about the annuitant COLA in the revised myucretirement.com site. She concluded her presentation with an overview of retirement choice statistics, noting that the trend between participation in Pension Choice versus Savings Choice remained fairly consistent, with 63% of new hires/rehires participating in Pension Choice and 37% participating in Savings Choice. On a positive note, she indicated that more new hires and rehires were actively selecting Pension Choice (36%) versus defaulting to Pension Choice (27%); meaning that fewer employees were losing out on up to three months of UCRP service credit by defaulting. The Chair asked if some locations had higher Pension Choice default rates than others and asked if retirement choice statistics could be broken down by location. Executive Director Schlimgen indicated that such a breakdown could be done in the future.

ITEM F. UCRS ADVISORY BOARD – 2019 ELECTION OF STAFF MEMBERS– UPDATE: Principal Analyst Semple summarized the process to elect two staff members to the Board to replace outgoing members Michael Fehr and Naomi Nakamura. Following the nomination period, which lasted from March 22nd to May 1st, three candidates vied for the two open staff positions. He mentioned that the actual election was conducted by Election-America, an outside vendor that specializes in public sector elections. Approximately 7,100 eligible voters cast ballots via the internet or by mail during the voting period, which began on May 20th and ended on June 17th. He said that the winners were Ruth Zolayvar, a pharmacy technician and AFSCME member from UCSD, and Tiffany Wilson, a system-wide Academic HR analyst at UCOP. He concluded by noting that the candidates had been advised of the election results, which would be posted to the Board's pages on UCnet the following week.

UCRS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2019-20: Principal Analyst Semple noted that Ronald Cortez had been nominated to serve as Chair and Jo Mackness had been nominated to serve as Vice Chair. These were the only nominations received. Chair Brownstone called for a voice vote and Ronald Cortez and Jo Mackness were elected to serve as Chair and Vice Chair, respectively, for FY 2019-20.

UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL YEAR 2019-20: Principal Analyst Semple announced the proposed meeting dates for the next fiscal year, as delineated in the Board item. He indicated that if no scheduling conflicts were reported within the next month or so, he would consider the proposed dates as acceptable and have them posted on the Board's main page on UCnet.

The meeting adjourned at 12:03