UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, JUNE 29, 2012
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Vice Chair Shane White, Vice President Dwaine Duckett, Chief Investment Officer (CIO) Marie Berggren, CUCRA Chair Marian Gade (via telephone), CUCEA Chair Ernest Newbrun, Associate Vice Chancellor Angela Hawkins, Assistant Researcher Catherine Brennan, Spectroscopist Paul Brooks.

BOARD MEMBERS ABSENT: Chair Ross Starr, Executive Vice President Nathan Brostrom and Vice Chancellor Meredith Michaels.

STAFF PRESENT: Associate Vice President Debora Obley, Principal Counsel Barbara Clark, Director Robert Pettit, Director Gary Schlimgen, Associate Director Linda Ashcraft, Associate Director Tony DiGrazia, Manager Adam Chen-Ok (via telephone), Manager Jake Hurley, Manager Bill Ryan, Coordinator Anne Wolf, Consultant Kurt Steinhoff, Specialist Ken Reicher, Principal Analyst Mary Jenkins, Principal Analyst Robert Semple, and Principal Analyst Hugh West.

OTHERS PRESENT: CUCRA Chair Elect Lee Duffus, CUCRA/CUCEA Representative Adrian Harris (via telephone), UCB Retiree Association representative Antonia Sweet, UCB Emeriti Association representative George Goldman, CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, AFSCME representative Lauren Lee, CUE representative Anytra Henderson, CUE representative Mary Higgins, Actuary John Monroe (The Segal Company).

The meeting officially began at 10:03 a.m.

PUBLIC COMMENT PERIOD: CUCFA representative Joe Kiskis had comments on agenda items B, C and D. On agenda item B, he questioned the term "draft" on the attachment Comprehensive Review of Disability Benefits. On agenda item C, he asked for clarification on the employer contribution to the proposed Defined Contribution Plan (DC Plan) for new UC Health staff employees. He also questioned the ability to apply employer DC Plan contributions to outside funding sources and wanted more information on the potential impact to UCRP. Finally, on agenda item D, he suggested modeling UCRP contribution rates using a UCRP assumed rate of return of less than 7.5%. UCB Emeriti representative George Goldman indicated that there is a report entitled "The Funding of State and Local Pensions" issued by the Center for State and Local Government Excellence and requested that the web link be distributed to the Board members.
http://slge.org/wp-content/uploads/2012/05/12-002_CSLGE_Issue_Brief-2.pdf

He also asked if there is a contingency plan for UCRP in case of another market downturn. (*NOTE: the public comment period was re-opened at the end of the meeting and CUE representative Mary Higgins made comments – see end of minutes.)*

COMMENTS FROM THE CHAIR: (*Vice Chair Shane White presided over the meeting in Chair Starr's absence.*) Vice Chair White stated that President Yudof had recently sent a letter to the Regents summarizing the budget situation and believes the money in the Governor's budget allotted for UCRP should cover the scheduled July 1, 2012, increase in employer contributions, from 7% to 10%, for employees covered by state funding. He noted that if the tax initiative scheduled for a vote in November 2012 does not pass, UC would face a substantial mid-year cut and will continue to experience budgetary uncertainties until the state commits to a long-term funding plan. He also noted that the Governmental Accounting Standards Board (GASB) recently issued new, more rigorous standards for reporting public pension liabilities and expenses. He closed with a comment that media reports do not accurately portray UCRP and stated that UC needs to be more aggressive in responding to such misrepresentations. He applauded Provost Pitts's recent response to such a media report, but noted that it was not given the same media exposure as reports critical of UCRP. He suggested that the Board consider a future agenda item on communications and media reporting with respect to UCRP.

APPROVAL OF THE MINUTES: Vice Chair White called for approval of the minutes from the Board meeting of February 24, 2012. The Vice Chair pointed out a typo and asked that a phrase in the Budget Update be clarified. The minutes were approved by acclamation.

CHIEF INVESTMENT OFFICER – REPORT: For the quarter ending March 30, 2012, CIO Berggren noted that the market began the quarter on an especially strong note and all the portfolios had positive returns for the quarter, exceeding their respective benchmarks and reversing the trend of the previous two quarters. She indicated that the third quarter return for UCRP was 7.8%, exceeding its benchmark by 43 basis points. UCRP was slightly overweight in equities, which had strong gains, and slightly underweight in fixed income, which had good but modest growth. Asset allocation and securities selection had also contributed to UCRP's return, adding 14 basis points and 28 basis points, respectively. She also noted that UCRP's portfolio had been diversified over the last five years to reduce volatility and that longer-tem (3-5 year) returns had shown improvement. She concluded by noting that UCRP had a 20-year return of 9.35% and had exceeded it its benchmark 75% of the time over the last 20 fiscal-year period.

EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS – BUDGET UPDATE: *(NOTE: the Budget Update was actually given following agenda item B).* In EVP Brostrom's absence, the budget update was provided by Associate Vice President (AVP) Debora Obley. She indicated that the $90 million originally earmarked for UCRP, which had been subsequently reduced to $52 million, was restored back to $90 million in the May 2012 budget revision. However, the budget language specifically designating the $90 million for UCRP had been removed, although she was certain UC would apply it for UCRP. She also noted that the budget included $5.2 million for retiree health costs. She stated that UC is not currently planning to increase tuition this coming Fall Quarter, based on a promised $125 million buyout from the state to prevent a tuition increase. However, she acknowledged that the buyout is contingent on the passage of the Governor's tax initiative in November. If the tax initiative fails, UC would lose the $125 million buyout and experience an additional $250 million budget cut, which would most likely lead to a 20.3% tuition increase beginning January 2013.

ITEM A. UCRP – POST-EMPLOYMENT BENEFITS – IMPLEMENTATION UPDATE: Manager Ryan stated that the discovery and consultation phase (Phase I) to implement the Post Employment Benefits (PEB) recommendations approved by the Regents in December 2010 was completed. Over the past nine months, eleven workgroups had identified potential technical PEB implementation issues and recommended solutions, which were vetted with several groups, including the University Committee on Faculty Welfare (UCFW), its Task Force on Investment and Retirement (TFIR), and the UCRSAB. The PEB project was now in the implementation phase (Phase II). After summarizing existing PEB-related communication pieces, Coordinator Anne Wolf noted that more comprehensive communication on the 2013 Tier will be issued in January 2013 and that a new UCRP summary plan description and other benefits publications will need to be created and/or updated. Vice Chair White again recommended that a future meeting agenda include an item on communications for UCRP and the PEB changes, and the way UC should respond to erroneous media reports about UCRP.

ITEM B. UCRP – DISABILITY PROGRAM REVIEW: Director Schlimgen stated that the President's PEB Task Force had recommended the disability review to consider whether long-term disability benefits should be provided through the 2013 Tier and that the UCFW had asked that the review be expanded to cover the entire UC disability program. He described the disability mapping process and organizational comparisons, followed by a brief synopsis of UC's disability benefits. He noted that the maximum short-term disability benefit provided by UC was $800 per month, which is well below comparators. He mentioned that UC's supplemental disability program, which is voluntary and entirely paid for by eligible employees on an after-tax basis, exceeds industry standards. He discussed potential options to improve disability benefits outside of UCRP for new hires, noting that comparator data showed it is unusual to offer a long-term disability benefit through a defined benefit plan and to limit payment of benefits to only vested plan members. However, he stated that UCRP long-term disability benefits would not be changed for existing, active UCRP members. In closing, Director Schlimgen indicated that alternatives for providing disability benefits will be evaluated and priced, and will go through the consultative process. Alternatives are subject to collective bargaining for represented employees.

ITEM C. PROPOSED DEFINED CONTRIBUTION PLAN OPTION FOR UC HEALTH POLICY-COVERED NEW STAFF HIRES – FEASIBILITY STUDY – UPDATE: Director Schlimgen reiterated that this feasibility study was recommend by the President's PEB Task Force, at the request of UC Health, based on potential recruiting concerns. He then read the President's letter to Chancellors and the Academic Senate Chair in which the President specified that participation in the proposed DC Plan would be voluntary and limited to new, non-represented UC Health staff employees. He summarized the feasibility study, noting that it was primarily intended for employees who planned to work less than five years at UC, such as those working on capital campaigns or IT (electronic medical records) and that the majority of comparator institutions offered a DC Plan. He described the service-based matching plan design, indicating that employer contributions would increase, up to set levels, based on an employee's years of service. He noted that the proposed employer contribution was lower than some comparators' plans, but also noted that UC Health would be assessed an expense to help offset UCRP's unfunded liability. He summarized some of the potential difficulties for implementing the proposed DC Plan, including the staggered implementation of the UC Path centralized payroll system.

Vice Chair Shane White then highlighted the results of TFIR's analysis of the feasibility study: Modeling of the DC Plan's impact on UCRP was based on a limited number of employees – no modeling was provided to show implications if the program were expanded to other employee groups • adverse selection was not taken into account • the cost of modifying payroll systems was not quantified • implications for movement in/out of UC Health positions was not addressed • equity and morale issues among similar employee groups were not addressed • modeling of the effects on workforce behavior was absent • purported recruitment and retention issues were not supported by data in the study • there was no proof that UCRP impedes recruitment • potential recruiting issues could be addressed by salary adjustments • DC Plan benefits are not comparable to UCRP benefits • A July 1, 2013 implementation date is not realistic.

A discussion among the Board members ensued. Some members agreed with the TFIR finding that the proposed DC plan benefits were inferior to those provided by the 2013 Tier and that different options should be evaluated and priced. One member noted that the removal of the inactive cost-of-living allowance (COLA) and lump sum cashout option from the 2013 Tier might encourage UC Health policy-covered new staff employees to opt for a DC Plan (if available) over the 2013 Tier. Others members reiterated that the proposed DC Plan was intended for short term employees who wouldn't generally vest in UCRP. They indicated that short term employees in the DC Plan would receive more upon termination, getting both their own contributions and UC matching contributions, as opposed to just their own contributions if they were in the 2013 Tier. After a discussion on the potential impact to UCRP, Actuary John Monroe responded that the draft feasibility study showed, for the sample population identified, there would be no impact on UCRP's funded status or liability as long as the additional assessment was paid. In closing, most of the members agreed that a July 1, 2013 implementation date was unrealistic.

ITEM D. UCRP – MODELING OF VARIOUS MAXIMUM EMPLOYER CONTRIBUTION RATES – EFFECT ON FULL FUNDING POLICY: Director Schlimgen discussed the recent letter distributed to locations about budgeting for the long-term employer contributions to UCRP. He noted that the letter projects employer contributions rising to 18% (not including the added assessment for borrowing). Since some locations have indicated that such a high employer contribution could drastically impact their budgets, he noted that alternative modeling with lower maximum employer contribution rates (as low as 14%) has been reviewed. The modeling assumes a UCRP rate of return of 7.5% and that contributions from UCRP members not in the 2013 Tier will increase to 8%. The issue of external borrowing, or borrowing from STIP, and transferring the money to UCRP was raised. It was noted that it might be more economically sound to borrow from STIP or external sources at low interest levels to help offset UCRP's unfunded liability, which grows at 7.5% annually, instead of significantly reducing employer contributions. It was also noted that campus efficiencies alone can't ameliorate location budget problems if employer contributions rise to 18% and that layoffs may be the only remedy for financially strapped locations.

ITEM E. UCRS – COST-OF-LIVING ADJUSTMENT FOR JULY 2012 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Specialist Reicher noted that the annuitant COLA for July 1, 2012, 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 2011 to February 2012, ranged from 2% to 2.55%, depending upon a retiree's date of retirement and applicable

COLA or inflation bank. He also noted that, as of July 1, 2012, the purchasing power of all UCRP annuitants remained above 79% of the purchasing power they had as of the date of their retirement. The purchasing power of UC-PERS Plus 5 annuitants was 90.17% as of July 1, 2012.

ITEM F. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Manager Ryan stated that Fidelity met its performance expectations for the past quarter and had successfully converted 49 Fidelity funds and 8 Calvert funds to institutional class funds, thereby lowering expense ratios for participating employees. He noted that participation in the voluntary retirement plans had increased over the past year (2%) and reminded the Board that the ICC Fund was closed to new contributions and transfers effective June 29, 2012.

ITEM G. RETIREMENT SAVINGS PROGRAM – FINANCIAL EDUCATION PROGRAM – UPDATE: Manager Ryan briefly summarized the retirement "readiness score" provided through the personalized retirement feature available on the UC Focus on Your Future website. He indicated that 40% of UC employees have a projected retirement readiness score at age 60 that is equal to 80% of their UCRP highest average plan compensation (HAPC). He noted that the 80% level is just a benchmark, which employees can adjust. He mentioned that daily visits to the UC Focus on Your Future website have increased over the past year, from 500-600 visits per day to over 1,000 visits per day. Vice Chair White noted that TFIR feels the educational products are not tailored to UC employees and are not very sophisticated. Manger Ryan indicated that some recent adjustments have been made, and future adjustments will be made, to help address these issues.

ITEM H. RETIREMENT SAVINGS PROGRAM – FUND MENU MANAGEMENT: Director Schlimgen began by reviewing a time-line on the evolution of RSP participation and investment options. He then noted that the RSP currently has $16.6 billion in assets invested in 215 funds. The majority of assets are invested in the 26 CORE funds; the remaining funds have assets of approximately $2.2 billion (about 13% of invested assets). He stated that, for a variety of reasons, there are too many funds and that fund menu management options are being evaluated. Too many funds can be confusing to participants; simpler menus can be easier to understand and use. One option under consideration is that non-CORE and non-institutional funds would be available only through the brokerage link option. Counsel Clark noted that a reorganization of the RSP fund menu is a sound fiduciary move. Chair White asked that this subject be brought back to the Board when there is a more definitive plan and timeline.

ITEM I. UCRS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2012-2013: Analyst Semple indicated that current Board Chair Starr and current Vice Chair White had both been nominated for second terms in their respective positions for Fiscal Year 2012-2013. No other nominations had been submitted. The election was conducted and they were elected.

ITEM J. UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL YEAR 2012-2013: Analyst Semple noted that each proposed meeting date was scheduled to fall on a Friday, in accordance with the Board' preference for Friday meetings. Since no objections were raised, he indicated that meeting rooms would be reserved for these dates and that the meeting schedule would be posted on the applicable Board page on the At Your Service website.

PUBLIC COMMENT PERIOD – EXTENDED: CUE representative Mary Higgins urged UC not to reduce fund offerings in the Retirement Savings Program (RSP). She noted that part-time UC employees are not covered by any disability program and urged UC to address this issue, suggesting that part-time employees be allowed to participate in the state disability program as one possible solution.