UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING/VIDEO-TELECONFERENCE
DECEMBER 4, 2020
10:00 AM – 2:00 PM

BOARD MEMBERS PARTICIPATING: Chair Jo Mackness, Vice Chair Ronald Cortez, Chief Investment Officer (CIO) Jagdeep Bachher, Chief Operating Officer (COO) Rachael Nava, Interim Vice President Cheryl Lloyd, Professor Terrence Hendershott, Professor Henning Bohn, Academic Personnel Policy Analyst Tiffany Wilson, Pharmacy Technician Ruth Zolayvar, CUCRA Chair Marianne Schnaubelt, and CUCEA Chair Henry Powell.

UCOP STAFF PARTICIPATING: Associate Vice President David Alcocer, Chief Operating Officer Arthur Guimaraes, Managing Director Marco Merz, Director Susie Ardeshir, Executive Director Dianna Henderson, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Director Ken Reicher, Director Hyun Swanson, Manager Aliya Dibrell, Manager Alexandra Fuentes, Manager Veronica Garcia, Manager John Monroe, Manager Greg Ricks, Manager Scott Sylva, Manager Michael Waldman, Business Controls Leader Kendra Eaglin, Business Controls Leader Anne St. George, Business System Analyst Lisa Collins, Principal Analyst Ashley Eigenauer, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCEA/CUCRA Joint Benefit Committee Chair Roger Anderson, CUCRA Chair-elect John Meyer, UCBEA Representative Amy Block Joy, UAPD representative Glynnis Golden Ortiz, CUCFA representative Eric Hays, AFSCME representative Nischit Hedge, AFT representative David Schoorl, retiree and UPTE recording Secretary Susan Orlofsky, retiree and UPTE representative Paul Brooks, UCI Finance Manager Stephanie Tenney, UCLA HR Manager Kennedy Thomas, UCANR Advisors John Karlik, Ben Faber, Rebecca Ozeran, Deepa Srivastava, Project Manager Bernadette Green (Chazey Partners) and Actuary Emily Klare (Segal Consulting).

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

PUBLIC COMMENT PERIOD: Retiree and UPTE representative Paul Brooks questioned whether any future borrowing (e.g., from STIP, etc.) was planned for UCRP. He also noted that the Emerging Markets fund was still part of the Retirement Savings Program (RSP) portfolio, despite poor performance and higher fees.

APPROVAL OF THE MINUTES: Chair Mackness called for the approval of the minutes of the Board meetings of June 19, 2020. Board member Zolayvar requested that the minutes be revised to include a comment she had made at the June meeting applicable to item C, the RSP amendments related to the CARES Act. Specifically, she wanted the minutes to reflect her concern about providing loans from the Tax-Deferred 403(b) Plan to vulnerable, lower-paid workers that might impact their future financial security and UC should offer relief programs so workers don't have to take such loans. With the instruction to include member Zolayvar's comment, the minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Mackness announced that this would be the last meeting for Board member Marianne Schnaubelt, as her terms as CUCRA Chair and Board member end as of December 31, 2020. She noted that member Schnaubelt had been a member of the first freshman class at UC Irvine, had worked at UCI for 36 years and, following retirement, had been an active member of the UCI Retiree Association prior to becoming CUCRA Chair. On behalf of the Board, she thanked member Schnaubelt for so ably representing the retired staff members. She then announced that the new CUCRA Chair and UCRS Advisory Board member would be John Meyer, who formerly served as Vice Chancellor of Resource Management at UC Davis.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer announced that the budget situation does not appear to be as dire as previously anticipated. He noted that the stock market had rebounded from its precipitous decline and the state, which had previously predicted a $54 billion deficit, had received a $26 billion windfall from stronger than expected tax revenues. He said the windfall reduced the probability of a reduction in funding from the state, which had been a real concern. He noted that resident student enrollment for the fall is expected to be strong, but there will likely be a modest reduction in non-resident student enrollment numbers. He stressed that long-term state funding remains a concern, particularly the restoration of funding for graduate students and allocations for infrastructure, green energy, and other projects.

In response to a question regarding the breakdown of FEMA on CARES act allocations and the use of endowment monies for pandemic-related assistance, he stated that the locations had received approximately $237 million as a result of the CARES act, a substantial proportion of which was dedicated to helping students. The medical centers received approximately $50 million as a result of the CARES Act. He noted that most endowments were very restricted, so their proceeds could not be used for pandemic-related assistance. He did not have figures related to FEMA allocations. In response to another question regarding further borrowing for UCRP, he indicated that he was not aware of any discussions on the topic.

The Chair initiated a brief discussion by asking the Board members for their thoughts on the merits of additional borrowing for UCRP. CIO Bachher noted that while interest rates are currently very low, debt capacity and credit ratings issues need to be considered. Professor Bohn noted that the Faculty Welfare's Task Force on Investment and Retirement (TFIR) had engaged in some brief discussions on the topic, but had not made a determination. The consensus was that, given the ongoing pandemic and current economic uncertainties, it would be prudent to wait until UC's budget situation is known before debating the issue.

CHIEF INVESTMENT OFFICER – REPORT: Director Merz stated that RSP assets totaled $28.6 billion as of the end of the 3rd quarter (i.e., September 30, 2020). Thus, despite an extremely volatile year, RSP assets were almost identical to where they were back in January 2020. He noted that most participants had held on to equities during the pandemic and benefitted from the market rebound. He attributed this outcome to a robust communication campaign, particularly the webinars on "staying the course" presented by CIO Bachher. He then summarized RSP actions taken over the past six years, which had resulted in a significant reduction of RSP management fees. Following a brief overview of the Pathway funds, he said that their performance had tracked closely with their respective benchmarks.

He highlighted the optional (but irrevocable) deferred income annuity option, known as a qualified longevity annuity contract (QLAC), that was approved by the Regents last July and would soon be available through the RSP Pathway funds. He stated that a QLAC addressed longevity risk and would be of interest to participants who wanted guaranteed income stream from the RSP. He noted that the purchase of a QLAC, limited to 25% of a participant's balance (up to $135,000), could be purchased beginning at age 62, with payments commencing at age 78 (although participants can request that payments begin at an earlier age). He concluded by noting that a QLAC communication campaign would be forthcoming.

Chief Investment Officer (CIO) Bachher noted that he would keep his comments brief, allowing for more questions. He indicated that current UCRP assets totaled nearly $80 billion, up from just over $70 billion as of the end of the second quarter. He attributed the increase primarily to the performance of equities over the last five months. Since the beginning of the third quarter, the UCRP portfolio had a positive return of about 12%, and its current funded status was 86% on a market value basis.

In response to questions about the stock market, he replied that there weren't many current alternatives to stocks, as bonds were returning less than .5%. He also indicated that stocks should benefit from the expected stimulus program and the rollout of COVID-19 vaccines. With respect to real estate investments, he noted that REITs were impacted by the pandemic earlier in the year, whereas private real estate was not. He concluded by expressing confidence that UCRP would weather the impact of the pandemic.

ITEM A. UCRP – ANNUAL ACTUARIAL VALUATION REPORT AS OF JULY 1, 2020: Actuarial Services Manager Monroe began by introducing Actuary Emily Klare from Segal and then proceeded to provide the valuation highlights. He indicated that, as of July 1, 2020, UCRP had a market value return of 1.7%, a market value of $70.9 billion, an actuarial return of 5.3%, and an actuarial value of $73.3 billion. He mentioned that the actuarial return was higher due to the 5-year smoothing of gains and losses. However, both returns were below UCRP's assumed 6.75% rate of return. He stated that UCRP's funded ratio was 79% (a decrease from 80% the previous July 1st) and its unfunded actuarial accrued liability (UAAL) was $19.8 billion (an increase from $17.6 billion the previous July 1st). He said both were impacted by returns that were lower than the assumed rate of return. However, he also noted that the valuation represents a snap-shot taken once per year (i.e., July 1) and that market returns have increased significantly since July 1, 2020.

Proceeding through slides provided to the Board, Actuary Klare summarized UCRP's current demographics, historical rates of return, historical funded status, and Normal Cost. Manager Monroe discussed the final slides which showed projections of UCRP employer contributions and funded status. In response to a question, he indicated that roughly 35% of newly hired and rehired eligible employees elect the Savings Choice option in lieu of Pension Choice/UCRP (*refer to item F for more on this question from Board member Zolayvar*).

ITEM B. UCRS – AUDITED ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2109-20: Director Reicher indicated that there was no need for a formal presentation of the report, as most of the information was addressed in other agenda items. He said he would be happy to respond to questions (*there were none*).

ITEM C. UCRS – AMENDMENTS TO UCRP AND THE DC PLAN TO ACCOMADTE WORKFORCE ACTIONS RELATED TO COVID-19: Due to budgetary challenges related to the pandemic, Manager Sylva noted that workforce actions may become necessary. While the President wants to provide locations with flexibility to address their budgetary issues, he also wants to shield retirement benefits from the impact of workforce actions. To accomplish this, Manager Sylva informed the Board that recommendations were submitted to, and approved by, the Regents on November 19, 2020, to amend UCRP and the Defined Contribution Plan (DC Plan). Specifically, UCRP was amended to preserve the rate of service credit accrual, through June 30, 2022, for Active Members subject to COVID-19 related furloughs or curtailments approved by UCOP. Additionally, UCRP and the DC Plan were amended to provide that a temporary layoff would not constitute a break in service, through June 30, 2022, provided the temporary layoff did not exceed a period of 12 consecutive months. He explained that, currently, UCRP and the DC Plan provide that any temporary layoff exceeding 4 months constitutes a break in service, and that employees returning to work following a break in service could be subject to a prospective UCRP tier change. He noted that the amendments approved by the Regents in November did not address the preservation of Active Members' highest average plan compensation (HAPC) or Final Salary.

Interim Vice President (IVP) Cheryl Lloyd stated that recommended UCRP amendments to preserve Active Members' HAPC and Final Salary from the impact of approved COVID-19 related workforce actions were scheduled to be presented to the Regents on December 15, 2020, and would likely be approved. Manager Sylva stated that he would discuss the Regents decision at the Board's meeting of February 26, 2021.

Professor Bohn noted that pandemic workforce actions could potentially result in decreased UCRP contributions without a corresponding reduction in UCRP benefits. Although the costs of preserving UCRP benefits from the impact of such workforce actions may not be too significant, he indicated that it sets a dangerous precedent. While he supports actions that the preserve retirement benefits, he feels that that UCRP funding for such actions should always be established and secured.

ITEM D. UCRS – SECOND CHOICE OPPORTUNITY FOR SAVINGS CHOICE PARTICIPANTS TO SWITCH TO UCRP/PENSION CHOICE: As background, Manager Sylva explained that the Retirement Choice program approved by the Regents in 2016 included an option for those who elected Savings Choice to prospectively switch to UCRP/Pension Choice, subject to Internal Revenue Service (IRS) approval. The Regents indicated that the irrevocable election to switch plans should be made available five years after a Savings Choice participant's date of hire or, for faculty and lectures, one year after they obtain tenure or security of employment, respectively, if longer than five years. He mentioned that IRS approval of the Retirement Choice program had been received and that the Retirement Policy unit had consulted with TFIR, Academic Personnel, UCPath, BIS and other groups concerning the design and implementation of the "Second Choice" program. He then proceeded to summarize the Second Choice program, as further described in an attachment sent to the Board.

He indicated that a second choice election window would be opening on January 1, 2021, for the first group of participants who had elected Savings Choice in 2016, (i.e., 5 years ago). In late December 2020, they would be sent an informative letter along with a form that could be submitted to RASC if they wished to switch to UCRP/Pension Choice. He explained that the window period would be open for five years, allowing both faculty and staff up to ten years after hire to switch to UCRP/Pension Choice, by which time faculty and lecturers would have obtained tenure or security of employment, respectively. He also explained that while faculty and staff can make an election to switch at any time within the 5-year window, the switch to UCRP/Pension Choice would become effective the July 1st following the date of an election (subject to a May 31st deadline) to avoid complications with regard to IRS compensation limits and other IRS provisions.

In response to questions, he clarified that those electing to switch would remain as Savings Choice participants until the effective date of the switch, and would retain all Savings Choice contributions made to their DC Plan. He also clarified that, similar to CalPERS service under reciprocity, service as a Savings Choice participant would count for UCRP vesting purposes, but would not count as UCRP service credit used in determining the amount of a pension benefit. Finally, he noted that UCRP service credit could not be purchased for time spent as a Savings Choice participant.

ITEM E. UCRS – CUCRA/CUCEA RECOMMENDATIONS FOR THE RETIREMENT CHOICE PROGRAM – DISCUSSION: Director Swanson explained that she had received a letter from the CUCRA/CUCEA Joint Benefits Committee (JBC) with bulleted comments, questions and suggestions regarding the Retirement Choice Program that the JBC felt should be discussed with the Board (the bulleted points were listed in item E for the Board's reference). Director Swanson proceeded to address these comments, questions and suggestions.

As to why new hires/rehires at some locations make more affirmative retirement selections, and the suggestion that UC ask all new hires/rehires the reasons for their selections, Director Swanson indicated that she is developing a survey from which she which she hopes to obtain such information. She noted, however, that surveys are limited with respect to the degree of personal information that can be requested. Concerning comments about the retirement choice modeler, she indicated that the modeler is intentionally designed to provide a substantial amount of information from a limited amount of user input. If the modeler requires, or allows, too much user input, the complexity may result in less frequent use and/or more questionable results. She will inquire, however, if the modeler can be updated to provide results in present dollars in addition to future dollars. Regarding a modeler tailored for faculty in the Health Sciences Compensation Plan (HSCP), she noted that the modeler can only use an employee's Covered Compensation, as that is the only compensation on which UCRP or Savings Choice benefits are based. A significant proportion of HSCP pay is not considered Covered Compensation. Concerning the questions about employee use of retirement information, tools and services, and how long they remain with UC, she indicated that UC has such data and provides much of it in various reports (e.g., the Operations and Education report presented at every Board meeting). As to the comment that reporting should include retirement choice by title code, she indicated that such information would be very difficult and time consuming to compile, and questioned its practicality as many employees change positions (and thus have different title codes) over the course of their careers. Finally, with respect to the comment that Savings Choice participants should be allowed to switch to UCRP/Pension Choice, she noted that such an option would become available beginning this coming January, as previously explained in agenda item C.

ITEM F. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: Director Swanson provided the highlights of the third quarter report. She indicated that the percentage of RSP participants making voluntary contributions had increased to 55% and that 80% of career employees (69% age 40+) were on track to replace 80% of pay in retirement from UC sources. She mentioned that Fidelity had missed two performance standards (average speed to answer and call abandonment rate) due to unusually high call volume. She also mentioned that, following a recent request for proposal conducted by Mercer Consulting, Fidelity's contract had been renewed. Lower recordkeeping fees were negotiated with savings passed on to participants (annual participant fees lowered from $35 to $32). She noted that communication engagement had increased 41% over the previous year, and messaging concerning the increase in suspicious solicitations will be added. With respect to Retirement Choice statistics, she mentioned that 38% of eligible hires/rehires selected Savings Choice, 35% selected Pension Choice, and 27% defaulted to Pension Choice. In response to a question from Board Member Zolayvar, she indicated that she has retirement choice election numbers by salary band but not percentages by salary band, though percentages could probably be extrapolated. She said she would email the information to Board member Zolayvar.

ITEM G. UCRP – LUMP SUM CASHOUT REPORT: Manager Greg Ricks summarized the FY 2019/20 lump sum cashout (LSC) report for the Board. He began by stating that the LSC was available to vested, retirement-aged UCRP 1976 tier and modified 2013 tier members, as well as their former spouses entitled to UCRP benefits as a result of qualified domestic relations orders. He also stated that the LSC is actuarially equivalent to a member's expected lifetime basic monthly retirement income, including assumed cost-of-living adjustments. Turning to LSC statistics, he indicated that the LSC take rate for FY 2019/20 remained at 19%, but the actual number of LSC elections had decreased by 30% from the previous year (monthly retirements decreased by 29%). He noted that the total dollar amount of all FY 2019/20 LSC payments decreased by 25%, and the average dollar amount of each LSC payment decreased by 6%, from FY2018/19. He mentioned that 45% of the members who elected an LSC in FY 2019/20 would not have been eligible for retiree health coverage had they opted for UCRP monthly retirement income. In closing, he mentioned that 54% of the FY LSC recipients elected an internal (UC) or external rollover, while 30% elected a direct payment and 16% elected a combination of rollover and direct payment.

ITEM H. UCRS - REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, ROOTS AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: Manager Dibrell provided a brief update of the UCRAYS, Roots and Redwood systems. She noted that UCRAYS was not inundated with Open Enrollment changes this year, as there weren't significant changes to the health and welfare plans. However, she indicated that UCRAYS gets steady use for retirement estimates and retirement tracking inquiries. She briefly mentioned that ROOTS (the location retirement information portal) will be receiving some updates. Finally, she mentioned that roughly 3,500 retirements were processed in Redwood for the calendar year and she is working closely with Scott Sylva on Redwood functionality for the Second Choice program.

Interim Vice President Lloyd then discussed the RASC problems and the actions she has taken, and will be taking, to improve RASC service and operations. She mentioned that she recently met with CUCRA and CUCEA, as well as a retired retirement center director and a retired UC Health Care Facilitator to better understand the RASC service issues from a retiree perspective. She also noted that she would be meeting with some faculty members regarding RASC issues in the coming week. She apologized for the RASC problems and the poor service that retirees have received. She explained that the problems with the Redwood system implementation significantly affected the work/operations of RASC and the problems were magnified by the shelter at home orders.

With respect to action she has taken to address the Redwood and other systems issues, she reminded the Board that she had contracted with business consulting firm Chazey Partners to determine what had gone wrong with the Redwood implementation and RASC operations. Chazey Partners determined that there were some significant Redwood programming problems, which she has contracted with another business consulting firm to help address. Chazey Partners also indicated that while Redwood represents an entirely new system that requires a new organizational model, RASC is still operating under the old working paradigm. A new organizational working model must be developed to fully leverage the new retirement recordkeeping system and streamline processes. She indicated that she has retained Chazey Partners to help with this goal, in addition to seeking out expert benefit personnel at the locations to help users with applying for retirement and survivor benefits and coordinating the process with RASC. She also announced that Ellen Lorenz, the Director of RASC, will be retiring shortly and she introduced Bernadette Green, a project manager with Chazey Partners, who will be temporarily assuming Ellen’s duties while also aiding in the roll-out out of a new operational model/process for RASC.

In response to a question regarding timelines from Chair Mackness, Interim VP Lloyd indicated that the new operating model for RASC should start to be rolled out in January 2021, and a thorough review and revamp of survivor benefit processing will be a priority. While she can’t guarantee that issues will be resolved overnight, she hoped that with system improvements and a new RASC organizational model in place, the coming July retirement season should run more efficiently. In response to a question from Board member Zolayvar concerning RASC’s retention of inexperienced temporary employees, she indicated that some former TOPS and contract employees had been retained as career employees, but she assured that they will continue to receive training with respect to benefits as well as operational procedures. She indicated that the new operational model will rely far less on the employment of temporary workers.

CUCEA Chair Powell indicated that while he still has concerns regarding the issues with RASC and the retirement systems, he appreciates the actions that Interim VP Lloyd has taken, and will continue to take, to resolve them. He was pleased to hear that location benefit experts will be asked to assist faculty and staff with the benefit application process and to help coordinate and facilitate payments. He stated that many local benefits staff members are extremely knowledgeable and are familiar with the campus employees and retirees who, in turn, are often familiar and more comfortable with them.

The meeting adjourned at 1:54