UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, FEBRUARY 24, 2012
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Ross Starr, Vice Chair Shane White, Vice President Dwaine Duckett, Chief Investment Officer (CIO) Marie Berggren, Vice Chancellor Meredith Michaels, CUCRA Chair Marian Gade, Associate Vice Chancellor Angela Hawkins, Assistant Researcher Catherine Brennan, Spectroscopist Paul Brooks.

BOARD MEMBERS ABSENT: Executive Vice President (EVP) Nathan Brostrom and CUCEA Chair Ernest Newbrun.

STAFF PRESENT: Principal Counsel Barbara Clark, Senior Counsel Ina Potter, Director Kris Lange, Director Joe Lewis, Director Ellen Lorenz, Director David Olson (via telephone), Director Gary Schlimgen, Associate Director Linda Ashcraft, Associate Director Tony DiGrazia, Business Controls Leader Anne St. George, Manager Bill Ryan, Manager Adam Chen-Ok, Coordinator Mike Haga, Specialist Ken Reicher, Principal Analyst Robert Semple, and Principal Analyst Hugh West.

OTHERS PRESENT: CUCEA Chair Elect Doug Morgan, CUCRA Chair Elect Lee Duffus, CUCRA/CUCEA Representative Adrian Harris (via telephone), UCB Retiree Association representative Antonia Sweet, CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, AFSCME #3299 representative Nathaniel Johnson, UPTE representative Wendi Felson, CNA representative Sue Fendley, CNA representative Hari Subramanian, CNA representative Randy Howell, Actuary Paul Angelo (The Segal Company).

The meeting officially began at 10:00 a.m.

COMMENTS FROM THE CHAIR: Chair Starr initiated the public comment period of the meeting, noting that four union representatives requested to make statements.

PUBLIC COMMENT PERIOD: UPTE representative Wendi Felson spoke against covering new UC Health employees with a defined contribution (DC Plan) instead of UCRP. She indicated that UCRP encourages employment longevity, which results in better trained employees, whereas a DC Plan results in more frequent turnover and thus poorer patient care. AFSCME representative Nate Johnson was also opposed to a DC Plan for UC Health employees, even if the choice between UCRP and a DC Plan was voluntary. He indicated that a DC Plan would be costly, harmful to lower wage workers and increase UCRP costs. Additionally, he reiterated that a DC Plan would encourage turnover and result in poor patient care. CNA representative and registered nurse Randy Howell, who was also against the proposed DC Plan, indicated that UCRP was a primary reason he chose to work at UC. He noted that he and many other medical center personnel accepted lower wages from

UC in exchange for better benefits, including a secure retirement. CNA representative Hari Subramanian indicated that CNA is against a DC Plan and wished to clarify that, with very few exceptions, UC nurses want UCRP.

APPROVAL OF THE MINUTES: Chair Starr called for approval of the minutes from the Board meeting of November 10, 2011. The minutes were approved by acclamation.

CHIEF INVESTMENT OFFICER – REPORT: CIO Berggren began her presentation with a review of the UCRP performance measurement and reporting document, which had been distributed to the Board members. She stressed that The Treasurer's Office has oversight responsibility for the management of investments, but manages UC's portfolios in compliance with policy set by the Regents' Committee on Investments. She reviewed the properties of valid benchmarks, performance methodologies and reporting. Regarding peer comparisons, she stressed that every institution's portfolios is unique, and different funds have their own asset allocations, risk tolerance and financial conditions (inflows and outflows). She then proceeded to the UCRP performance summary. Despite a volatile year, she indicated that UCRP had a return of 4.96% for the quarter ended December 31, 2011 and that all assets, except for private equity, were positive for the quarter. She noted that strong asset selection, particularly in fixed income and absolute returns, had added to UCRP's active returns and offset earlier losses in the calendar year.

EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS - BUDGET UPDATE: In EVP Brostrom's absence, the budget update was given by Associate Vice President (AVP) Debora Obley. She indicated that UC hopes to obtain a multi-year plan from the Governor in order to establish a long-term funding agreement from the state, but such an agreement seems to be contingent upon the passage of one of the various revenue initiatives (the one with the most votes taking precedence). She noted that the money allotted to UC for use in funding UCRP appears to be a one-time deal and the state has not committed to future UCRP contributions. However, she also indicated that the Legislative Analyst's Office has acknowledged that, while not legally binding, the state has some obligation for contributions to UCRP. She mentioned UC is reviewing some initiatives which involve the redistribution of money across the system, since some locations are better funded than others (although no location's base would be impacted). Finally, in response to a question about accountability measures, AVP Obley indicted that there are three areas in which the state wants UC to be more aggressive; (1) community college transfers, (2) 4-year graduation rates, and (3) faculty workloads.

ITEM A. UCRP – FUNDAMENTALS OF THE ANNUAL ACTUARIAL VALUATION PROCESS: For the sake of time**,** UCRS Actuary Paul Angelo of the Segal Company (Segal) indicated that he would only address highlights of his slide presentation and respond to questions posed by Board members. He began by addressing a question posed in advance of the meeting about UCRP's transition from being fully funded to having an unfunded liability over the span of relatively few years. He explained that, formerly, UCRP did not amortize its surplus but used it to pay the Plan's full Normal Cost every year. Since contributions were suspended for approximately 20 years and liabilities increased annually, coupled with the downturn in the market, the surplus was diminished. He explained that UCRP's Actuarial Accrued Liability increases with each year's Normal Cost and decreases as UCRP benefits are paid. While Normal Cost and benefits paid out are predictable and fairly equivalent amounts, UCRP's Unfunded Actuarial Accrued Liability (UAAL) increases when UCRP does not meet its expected rate of return of 7.5%, which is not predictable. In response to the Chair's question of whether one poor year of returns could dramatically impact UCRP, Actuary Angelo explained the asset "smoothing" process in which UCRP's UAAL and total funding policy rate are based on a smoothed asset value rather than the current market value of assets.

ITEM B. UCRP – THE GOVERNOR'S PENSION REFORM PROPOSALS – UPDATE: Vice President (VP) Duckett introduced the item by noting that UCRP was one of the first major public retirement systems in the state to review and approve benefit changes to address current and future costs, and that many of the changes made to UCRP are similar to the reforms proposed by the Governor. Principal Analyst West then described some of the updates to the Governor's pension proposals, which were recently described in a bill and a proposed amendment to the state constitution. He also noted that some of the Governor's reform provisions would only apply to employees hired on/after July 1, 2013 while others could apply to current employees. He referenced the attachment to the item which compares the Governor's pension reform provisions to current and future provisions of UCRP.

ITEM C. UCRP – POST-EMPLOYMENT BENEFITS – IMPLEMENTATION UPDATE: Manager Ryan, who leads the Post-Employment Benefits (PEB) implementation Team, began with a brief description of the PEB implementation process; the various workgroups formed to analyze implementation issues, the consultative process to date, and the outcomes. Referencing a handout distributed to the Board members, Specialist Reicher then proceeded to summarize the provisions of the new UCRP 2013 tier (2013 Tier) already approved by the Regents and the technical amendments necessary to implement and administer the 2013 Tier. Other than descriptive wording suggestions, Board members had no changes to the proposed technical implementation recommendations. Specialist Reicher indicated that the proposed recommendations would be submitted to the Regents for approval at an upcoming meeting.

ITEM D. UCRP - DISABILITY PROGRAM REVIEW: VP Duckett began by noting that disability benefits are being administered with some variation among the locations and he stressed the need for improvements and consistency on a system-wide basis. Director Schlimgen stated that the President's PEB Task Force had recommended a review of UC's long-term disability program and that the University Committee on Faculty Welfare and Chief Human Resources Officers (CHROs) further suggested the review should include all aspects of UC's disability benefits, including the voluntary supplemental plan paid for by employees. He noted that a group including subject matter experts from several locations had been convened and had already completed the first phase of the review; process mapping the interaction of UC's various disability benefits. The group is currently undertaking the second phase, benchmarking against industry standards and best practices, and hopes to provide recommendations for process improvements and potential benefits redesign during the consultative process early this year.

ITEM E. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Director Lange provided highlight of the report, noting a recent transition of several non-CORE option funds to Fidelity's institutional class, which provides lower management fees for institutions with significant investment holdings. She noted that participants with existing monies in the funds transitioned will be notified in late March or early April 2012 and do not need to take any action. She also noted that Fidelity had processed over 15,000 year-end minimum required distributions (MRDs). Several Board members and guests commented that Fidelity needs to be more flexible with respect to state tax withholding on MRDs. Director Lange then provided an overview of Fidelity's financial education and communications efforts, noting that over 20,000 UC participants attended financial education classes in 2011 and 9,000 participated in online webinars. She concluded by noting that UC recently received a Pension & Investment Eddy award. In response to a question from the Chair, she noted that the Fidelity "brokerage link" is not specifically designed for UC and individual stocks and bonds were not available as investments under the UC Retirement Savings Program.

ITEM F. RETIREMENT SAVINGS PROGRAM – FINANCIAL EDUCATION PROGRAM – UPDATE: Manager Ryan noted that Director Lange had already covered much of the financial education update as part of her Vendor Relations Management Report. He reminded the Board that www.ucfocusonyourfuture.com website has been expanded and that the interactive "Retirement Review" previously discussed with the Board will launch at the end of February 2012.

ITEM G. RETIREMENT ADMINISTRATION SERVICE CENTER ANNUAL REPORT: Director Lewis noted that the new Retirement Administration Service Center (RASC) annual Report incorporates and replaces two previous reports provided to the Board; the Plan Administrator's Annual Report and the annual Lump Sum Cashout (LSC) Report. Prior to reviewing the new RASC Annual Report, Director Ellen Lorenz highlighted three RASC accomplishments; (1) implementation of the new Customer Relations Management Tool, (2) redesign of the retirement operation process, and (3) partnering with UCD on disaster recovery processes. Director Olson then proceeded to briefly summarize some general UCRS statistics contained in the RASC Annual Report, followed by Business Controls Leader St. George who briefly summarized the annual LSC statistics.

ITEM H. PROPOSED DEFINED CONTRIBUTION PLAN CONTRIBUTIONS ON ADDITIONAL NEGOTIATED SALARY EARNED BY FACULTY – UPDATE: Principal Analyst Semple summarized two proposals advanced by the Office of Academic Affairs to implement employer and employee DC Plan contributions on additional negotiated pay earned by certain faculty; draft proposals were described to the Board last November. He noted that, for non-Health Sciences ladder-rank faculty, the proposed DC Plan contributions were part of a broader recommendation to implement a new negotiated salary program (NSP), as described in a suggested new section (668) to the Academic Personnel Manual (APM). The proposed DC Plan contributions for Health Sciences faculty were intended to apply on their existing additional negotiated salary, known as "Y" pay, but were not specifically referenced in any suggested revisions to the APM. Following system-wide review of the proposed NSP/APM 668, the Academic Council concluded that it could not support its adoption. In light of the reaction to the proposed NSP/APM 668 and additional comments from the Council of Vice Chancellors of Administration (COVCA), Principal Analyst Semple noted that the Office of Academic Affairs has put the proposed DC Plan contributions for Health Sciences faculty on hold pending further review and consultation.

ITEM I. PROPOSED DEFINED CONTRIBUTION PLAN OPTION FOR UC HEALTH NEW HIRES – FEASIBILTY STUDY: Director Schlimgen outlined key elements of the study and indicated that the draft feasibility study should be released by the end of March 2012. The proposed DC Plan would only apply to policy-covered (i.e., non-represented) staff new hires (no academic appointees), and such new hires would have a choice to participate in a DC Plan rather than the 2013 Tier. Board members then discussed their views on issues of offering a DC Plan choice at UC, with some indicating that offering a choice only to a certain group could be difficult or divisive and may encourage other groups to try to opt out of UCRP, while another board member indicated she did not think it would be a wedge issue. It was noted as a concern that offering a DC Plan choice would reduce potential funding for UCRP, particularly through the loss of employer contributions otherwise made on behalf of short-term employees who wouldn't vest in UCRP. Other members noted that such short-term employees were more prevalent in the UC Health area and would not benefit from UCRP, whereas they would from a DC Plan. They indicated that the a DC Plan, which was specifically requested by UC Health, was necessary for recruiting highly skilled employees in a field which tends to have more short-term, transitory workers.