University of California

UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING/VIDEO-TELECONFERENCE
FEBRUARY 26, 2021
10:00 AM – 2:00 PM

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

BOARD MEMBERS ABSENT: Vice Chair Ron Cortez.

UCOP STAFF PARTICIPATING: Executive Vice President/CFO Nathan Brostrom, Associate Vice President David Alcocer, Chief Operating Officer Arthur Guimaraes, Managing Director Marco Merz, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Interim Director Bernadette Green, Director Hyun Swanson, Manager Aliya Dibrell, Manager Veronica Garcia, Manager John Monroe, Manager Scott Sylva, Principal Analyst Ashley Eigenauer, Principal Analyst Melissa Rad, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCEA/CUCRA Joint Benefit Committee Chair Roger Anderson, CUCRA Chair-elect Sue Abeles, CUCRA member Marianne Schnaubelt, CNA representative Ben Elliott, Teamsters representative Timothy Matthews, UAPD representative Glynnis Golden Ortiz, CUCFA representative Eric Hays, AFSCME representative Nischit Hedge, AFT representative David Schoorl, UPTE representative Jamie McDole, retiree and UPTE representative Paul Brooks, UCI Finance Manager Stephanie Tenney, and Actuary Emily Klare (Segal Consulting).

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

PUBLIC COMMENT PERIOD: Retiree and UPTE representative Paul Brooks requested an explanation for the significant difference between a UCRAYS Lump Sum Cashout (LSC) estimate and a lower, manually calculated LSC estimate that were recently received by an active member. He also noted that the member had contacted RASC for an explanation and calculation data for the two estimates but did not receive them. The Chair noted that the issue had been forwarded to Interim VP/Systemwide CHRO Lloyd who would address it as part of the Retirement Administration Service Center (RASC) update (i.e., item D) later in the meeting.

APPROVAL OF THE MINUTES: Chair Mackness called for the approval of the minutes of the Board meetings of December 4, 2020. As no issues were raised, the minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Mackness welcomed new CUCRA Chair John Meyer to his first meeting as an official Board member. She noted that he had formerly served as an Administrative Vice Chancellor at UC Davis and was active in the UCD Retiree Association, previously serving as its Chair. (*CUCRA Chair Meyer stated he was happy to be joining the Board.*) Chair Mackness then mentioned that EVP/CFO Brostrom would briefly join the meeting to address questions on the potential for additional borrowing to help address UCRP's unfunded liability.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer announced that the Governor had proposed a UC base budget increase of 3%. He reminded the Board that UC's budget had been subject to a pandemic-related reduction of $300 million. While the proposed base budget increase wouldn't fully replace the $300 million reduction, the Governor has indicated that UC could be allocated additional funds, including the potential for $250 million in one-time funding. AVP Alcocer attributed UC's potential base budget increase and additional temporary funding to the state's tax revenue windfall. However, he noted that the state's unemployment rate, while improved, was still high from a historical perspective. Thus, he cautioned that the state legislature, fearing future budget shortfalls, may not agree with the Governor's proposed budget. In response to a question on UC's short-term and long-term budget outlook, EVP/CFO Brostrom indicated that UC's short-term budget prospects appear encouraging. Since the state experienced a budget surplus rather than the expected deficit, he is hopeful that UC will receive sufficient funding for the next year or two. However, he conveyed that it is difficult to assess UC's long-term financial outlook based on allocations of temporary funding, rather than permanent funding.

EVP/CFO Brostrom proceeded to summarize the current financial status of UCRP and address Board questions on the potential for further borrowing to help reduce UCRP's unfunded liability. He noted that the UCRP portfolio had increased 22% since the beginning of the fiscal year (FY) and that UCRP's funded status was approximately 85% on a market value of assets (MVA) basis and 81% on an actuarial value of assets (AVA) basis. He reminded the Board that the Regents had approved a 3% increase to the UCRP employer contribution rate, which will increase incrementally by 0.5% each year until it reaches 17% of Covered Compensation by July 2025. Finally, he noted that temporary borrowing to address UCRP's unfunded liability had previously been approved and is currently in place through FY 2021/22. With respect to additional borrowing beyond the next FY, he indicated that he does not have a definitive answer at this time. In response to Board member questions regarding the merits of borrowing from internal versus external sources, he indicated that his preference would be for internal borrowing from the Short Term Investment Pool (STIP), since its interest rates would be lower and UC would have greater control over the repayment process. Board member Bohn noted that the STIP must maintain a sufficient balance to address UC's liquidity concerns, and thus there is a potential to borrow greater amounts from external sources to better address UCRP's unfunded liability. EVP/CFO Brostrom responded by indicating that a combination of internal and external borrowing could be considered. However, reiterating that UCRP's funded ratio had improved during the current FY, he said it would be prudent to address the issue of further borrowing at a future date.

CHIEF INVESTMENT OFFICER – REPORT: Indicating that Director Merz would commence the report with a review of the Retirement Savings Program (RSP), CIO Bachher first mentioned that RSP participants had roughly $4 billion invested in the Savings Fund, which was currently only earning .5% annual interest. With the caveat that he was not providing financial advice, he mentioned that RSP participants invested primarily in the Savings Fund might want to consider other RSP fund options.

Addressing CIO Bachher's comment, Director Merz indicated that his staff was identifying RSP participants with significant assets in the Savings Fund and intends to contact them regarding alternative RSP fund options. He then mentioned that the RSP had over $31 billion in assets and fund expenses and fees averaged only 4 basis points. He stated that UC was able achieve low expenses and fees by negotiating aggressively and increasing passive fund management. To help address longevity risk, he reminded the Board that an optional qualified longevity annuity contract (QLAC) would be available in the UC Pathway funds in the coming months. Beginning at age 62, participants could use up to 25% of their account balance to purchase a QLAC, which would provide a secure stream of payments commencing at age 78. He anticipates minimal initial interest in QLACs, since current RSP participants at or near age 62 are likely receiving, or eligible for, a pension from UCRP. However, he expects that interest in a QLAC will grow over time, especially among those who chose to participate in Savings Choice rather than UCRP. Turning to fund performance, he noted that equity funds performed very well over the past year while the performance of the Pathway Funds tracked closely with their benchmarks for the 4th quarter, but a bit lower for the year. In closing, he mentioned that a new option for fossil fuel free investment, the UC Global Equity ex Fossil Fuel Fund, would be launched on March 31, 2021.

CIO Bachher reiterated that UCRP's current market value of assets was approximately $85 billion, up from $82 billion as of December 31, 2021. He stated that UCRP's strong returns were due to the roughly 30% FY returns in public equities, and the fact that UCRP's equity allocation was currently overweight at 62%. While he lauded the returns for public equities, especially during a worldwide pandemic, he cautioned that their returns on a long-term basis are expected to be around 6%. He noted that UCRP's long-term asset allocation goal is; 53% public equities, 17% fixed income, and 30% illiquid investments (e.g., private equity, real estate, etc.). With respect to UCRP's returns for the near future, CIO Bachher indicated that he remains positive despite the fact that unemployment remains high. He based this optimism on (1) the increased US vaccination rate and potential to control COVID-19 in the US, (2) the increase in US residents' savings and their willingness to spend as the economy opens up, and (3) the expectation that another federal stimulus package will be passed. Finally, in response to a question on the risk of inflation, he noted that he will be monitoring for an increase in the inflation rate but expects that it will not exceed 2% within the next twelve months.

ITEM A. UCRP – ADDITIONAL AMENDMENTS TO UCRP TO ACCOMMODATE WORKFORCE ACTIONS RELATED TO COVID-19: As mentioned at the last Board meeting, Retirement Policy Manager Sylva stated that the Regents had authorized an amendment to UCRP in November to the preserve service credit accrual, through June 30, 2022, for active members impacted by approved COVID-19- related workforce actions. At that time, the Regents also authorized COVID-19 - related amendments to UCRP and the Defined Contribution Plan 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 then proceeded to inform the Board that the Regents had authorized additional COVID-19-related UCRP amendments in mid-December to preserve the

Highest Average Plan Compensation (HAPC) and Final Salary for members who retire, become eligible for UCRP Disability Income, or pass away prior to retiring with survivors eligible for Preretirement Survivor Income. He explained, however, that the preservation of HAPC and Final Salary was only applicable during a specific window period to be defined by the President. He stated that the President had yet to define the window period, but that it likely would extend a few years beyond the end of approved COVID-19-related workforce actions.

ITEM B. UCRS – SECOND CHOICE OPPORTUNITY FOR SAVINGS CHOICE PARTICIPANTS TO SWITCH TO UCRP/PENSION CHOICE: Noting that Manager Sylva had presented an item on the Second Choice program at the last Board meeting, Retirement Policy Analyst Eigenauer provided a brief overview of the program along with an update of its milestones and communication/education campaign. As background, she stated that active Savings Choice participants have a five-year window period, beginning the fifth calendar year following their Savings Choice election, in which to switch to Pension Choice. To avoid potential conflicts with the Internal Revenue Code, the effective date of a switch would only occur on July 1st, provided the member submitted an election form by the preceding May 31st deadline. She also noted that Savings Choice service would be recognized for UCRP vesting purposes, as specified in a March 2016 Regents item.

Turning to recent developments, she noted that the initial second choice window opened on January 1, 2021, for the first eligible cohort (approximately 500 individuals) who made their Savings Choice election in 2016, and that 21 elections had already been received. In addition to providing an election form and information to eligible participants by email and US mail, she stated that the election form and other program guides were made accessible on UCnet. She also noted that trained Fidelity representatives were available for eligible participants who desired assistance with the decision to switch to Pension Choice. She concluded by noting that upcoming program webinars would be conducted and a reminder notice would be sent to all remaining eligible participants in late April.

ITEM C. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2021 AND MEASUREMENT OF ANNUITANT PURCHASING POWER – PREVIEW: Referencing an attachment distributed to the Board, Actuarial Services Manager Monroe began by explaining that UC provides an annuitant benefit COLA each July 1st for annuitants who received a monthly UCRP benefit for a full year, as well as an inactive COLA that is applied to the HAPC of inactive UCRP 1976 Tier members. He stated that the purpose of a COLA is to help UCRP annuitants (and inactive 1976 Tier members) retain purchasing power that is eroded over time by inflation. He also noted that UC uses an annual compound COLA, in which the COLA is applied to both the original monthly UCRP benefit and the increase in the benefit from previous COLAs (also applied to the HAPC of inactive 1976 Tier members). Analyst Rad then explained UC's baseline COLA formula and how it is tied to the annual increase in the Consumer Price Index (CPI) for the Los Angeles and San Francisco metropolitan areas. She noted, however, that the annuitant benefit COLA amount is also impacted by the cumulative increase in the CPI since a UCRP a member retired. She explained the concepts of the COLA Bank and Inflation Bank and how they can be used to increase an annuitant's baseline COLA amount. Manager Monroe concluded by stating that the CPI figure, and thus the UC annual COLA amount, would not be known until mid-March. However, due to low inflation over the last 12 months, he indicated that UC's baseline COLA could be lower this year than in preceding years.

(*Note: The presenters of Item D had some other meeting commitments at this juncture of the meeting, so the Chair proceeded to Item E. Item D is presented as the last item of the meeting.)*

ITEM E. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: RSP Director Swanson noted that the Operations and Education Report contained statistics as of the end of the 2020 3rd quarter, as the 2020 4th quarter report statistics were not yet available. As she had presented the 2020 3rd quarter report statistics at the last Board meeting, she proceeded to an update on current RSP projects. She indicated that the QLAC communication strategy and initial QLAC mailing to RSP participants age 59 and over (i.e., phase 1) was recently completed. She indicated that implementing the QLAC election site and offering QLACs for purchase (phase 2) should be available in mid-May. She noted the development of UC workshops in a virtual format is growing and that Fidelity's virtual engagement had increased by 25% during the pandemic. Although she did not have the official 2020 4th quarter figures, she indicated that the Retirement Choice statistics remained roughly the same; 35% of new hires and rehires elected Savings Choice, 38% elected Pension Choice and 27% defaulted to Pension Choice.

In response to a question from Board member Zolayvar, Director Swanson indicated that the retirement readiness scores were differentiated by age groups and she pointed member Zolayvar to the applicable slides in the report. Board member Zolayvar then asked whether retirement readiness scores were differentiated by salary levels, noting it was less likely that lower-paid employees could afford to make voluntary contributions to the RSP. Director Swanson indicated that she would conduct some research to see if such information was available. She mentioned, however, that the retirement readiness scores are an estimated percentage of an employee's final years of salary replaced in retirement, irrespective of the level of salary. Thus, long-term UCRP members retiring at age 65 should have a fairly high salary replacement ratio even if they did not contribute to the RSP.

Based on the fact that 35% of new hires and rehires elected Savings Choice but only 500 Savings Choice participants were currently eligible to switch to Pension Choice, Board member Meyer asked if there was frequent turnover of Savings Choice members. Analyst Eigenauer clarified that the inception date of the Retirement Choice program was July 1, 2016. Thus, the first cohort of individuals eligible to switch to Pension Choice represented only those who were hired/rehired and elected Savings Choice between July 1, 2016 and December 31, 2016.

ITEM F. RETIREMENT SAVINGS PROGRAM – ADDITION OF ROTH ACCOUNTS – DISCUSSION UPDATE: Director Swanson began by noting that the presentation on Roth accounts provided last June was attached for the Board's reference, along with an addendum to address issues raised by the Board. She referenced a previously presented slide which showed that a participant's net plan distribution would the same whether the original contribution was made on a pretax basis or an after-tax basis, provided the employee remained subject to the same marginal tax rate over time. She noted that some Board members had indicated that long-term faculty members would likely be in a higher tax bracket by the time they started taking RSP distributions, and would therefore benefit from a Roth account. To address the Board's concern, she referenced a new slide which showed a sample assistant professor whose marginal tax rate did increase by the time of retirement, and acknowledged that the sample professor could conceivably benefit from a Roth account. However, she also mentioned that, early in his career, the sample professor could possibly afford to contribute a bit more on a pretax basis and would benefit from those additional contributions compounding over time. Concluding, she said that she does not feel that Roth accounts would benefits enough employees to justify the costs, effort and added complexity to the RSP.

Board member Bohn opined that the current tax rates are temporary and, given the amount of government debt, will almost certainly increase in the future. He noted that the Faculty Welfare's Task

Force on Investment and Retirement (TFIR), of which he is a member, feels that tax rates will increase and therefore sees the value of Roth accounts in the RSP. Additionally, TFIR questions the complexity and ongoing viability of the current alternative to adding Roth accounts to the RSP; making after-tax contributions to the DC Plan After-Tax Account and transferring those contributions to a Roth IRA.

ITEM E. UCRS - REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, ROOTS AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: Interim VP and Systemwide CHRO Lloyd began by addressing the concern raised by retiree and UPTE representative Paul Brooks regarding the disparity in LSC estimates recently received by a UCRP member. She apologized and explained that a technical error had occurred in UCRAYS in December which resulted in the generation of incorrect (high) benefit estimates. She said the error was quickly recognized and UCRAYS was shut down for a week to fix the technical glitch. She stated that UCRP members who received incorrect estimates were notified and new estimates were produced for them. Board member Zolayvar asked how UC can guarantee that UCRAYS correctly reflects UCRP members' data to provide accurate estimates. Interim VP/CHRO Lloyd replied that the error was not due to incorrect member data, but rather a technical glitch in the UCRAYS calculation methodology. Retiree Brooks then stated that the affected member had requested an explanation of the discrepancy and the calculation details of the LSC estimates but had not received them. Interim VP Lloyd apologized and said that RASC Interim Director Green's contact information would be provided to Mr. Brooks to forward to the member, who could then contact Interim Director Green directly for such information. Interim VP/CHRO Lloyd concluded by stating that she strives to be open and transparent and desires to improve communication, especially with retirees. She stated that RASC service metrics are not yet optimal, but have improved. As an example, she mentioned that the Customer Care call response times had improved to 12 minutes and issue escalation has dramatically decreased.

Interim RASC Director Green then provided an update on the RASC reorganization plan. She referenced her interaction with campus human resources personnel and the retiree associations for the recruitment of some new RASC management positions; Client Center Manager, Call Center Manager, and Disbursements Manager. HR Business Information Systems Manager Dibrell then provided an update on UCRAYS and the Redwood retirement system. She noted that programming and testing on UCRAYS and Redwood is ongoing and that she strives to address technical glitches as quickly as possible. She mentioned that retirees would soon be able to complete the entire retirement election process on-line through UCRAYS.

The Board members acknowledged the progress made by RASC but stated that further improvement is necessary, especially with respect to the processing of the survivor benefits. Board members mentioned that the survivor payment process could be expedited by incorporating some of the required survivor information and documentation as part of the retirement process (e.g. marriage certificates, children's birth certificates, etc.). Additionally, Board members Powell and Meyer suggested that involving local HR and benefits personnel could be beneficial, as many retirees are familiar and comfortable with them. The Chair asked Interim Director Green to provide an update on campus support and involvement along with RASC service metrics at the Board's next meeting.

The meeting adjourned at 1:40