UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
MONDAY, OCTOBER 19, 2015
8:00 AM – 10:00 AM

BOARD MEMBERS PRESENT: Chair Meredith Michaels, Vice Chair James Chalfant, Chief Operating Officer (COO) Rachael Nava, Chief Investment Officer (CIO) Jagdeep Singh Bachher, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor David Odato (via telephone), Professor Henning Bohn, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr (via telephone), CUCRA Chair Lee Duffus, and CUCEA Chair Roger Anderson.

UCOP STAFF PRESENT: Associate CIO Arthur Guimaraes, Associate Vice President (AVP) Debora Obley, Executive Director Gary Schlimgen, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Senior Investment Analyst Susie Ardeshir, Associate Director Tony DiGrazia, Manager Ken Reicher, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA/CUCEA Joint Benefits Committee Chair Dick Jensen (via telephone), UCB Emeriti Association representative Amy Block Joy, UCB Emeriti Association representative George Goldman, UCB Retiree Association representative Marian Gade (via telephone), UCB Retiree Association representative Antonia Sweet, CUCFA representative Joe Kiskis, AFSCME representative Claudia Preparata, Teamsters Local 2010 representative Mary Higgins, Teamsters Local 2010 representative Timothy Mathews, UPTE representative Paul Brooks, Actuary John Monroe (Segal Consulting).

The meeting officially began at 10:05 a.m.

PUBLIC COMMENT PERIOD: CUCFA representative Kiskis stated that any discussion of 2016 retirement options must include UC values of access, affordability and quality, the latter of which must be a priority because, once lost, it is the hardest to re-establish. To the extent the discussion of retirement options focuses on cost savings, he stated it becomes a discussion of how much more UC is willing to cut quality, which has already been sacrificed for short term political considerations and a modest, one-time state contribution to UCRP which is far less than UC's recent ad hoc contributions (i.e., borrowing) and which does little to help UCRP achieve fully funded status. He stated that CUCFA believes that the quality of UC faculty and staff is dependent upon competitive remuneration with a pension (i.e., defined benefit) plan that provides the same benefit formula for all employees. CUCFA opposes a full, alternative defined contribution plan (dc plan) and treating faculty and staff differently with respect to retirement benefits. Teamsters' representative Higgins noted that the "quid pro quo" deal with the Governor did not necessitate the inclusion of any dc plan. AFSCME representative Preparata noted that a defined benefit plan like UCRP aids in both recruitment and retention of employees and that there are many long-term AFSCME represented employees working at the UC Health locations.

APPROVAL OF THE MINUTES: Chair Michaels called for approval of the minutes from the Board meeting of June 19, 2015. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Michaels noted that this interim meeting was being called by her and Vice Chair Chalfant to provide the Board with an update on the work of the 2016 Retirement Options Task Force (Task Force). She encouraged the Board to raise questions about the Task Force's work and its potential recommendations, but reminded the members that the Board can't offer proposals or make recommendations about UCRS matters. She also noted that there were three new members on the Board: Academic Senate representative Henning Bohn, who is an economist from UCSB; staff representative Michael Fehr, who is a Computer Resource Specialist and UPTE member from UCLA; and staff representative Naomi Nakamura, who is a Pharmacy Technician and AFSCME member from UCSF. Due to the short duration of the meeting, Chair Michaels said that the new Board members could formally introduce themselves and address the Board at the meeting of November 16, 2015.

CHIEF FINANCIAL OFFICER – BUDGET UPDATE (Occurred later in the meeting**):** The budget update was provided by AVP Debora Obley, who noted that the budget framework reached with the Governor provides for a stabilized budget base for UC. She indicated that there were still some challenges regarding the student enrollment provision contained in the budget, which will provide UC with an augmentation of $25 million if UC can enroll an additional 5000 students by the 2016-17 academic year. Noting that $25 million represents only half the cost needed to enroll an additional 5000 students, she stated that UC is hoping to devise an enrollment plan by November.

In response to a Board member's concern that the budget only stipulates $96 million in state funding for UCRP with no mention of the remaining $340 million, AVP Obley indicated that the Governor fully endorses the payment of the remaining state money for UCRP, provided that UC implements a new tier in UCRP with a lower pensionable pay cap (i.e., same as PEPRA) for employees hired on and after July 1, 2016.

ITEM A. UCRS – UPDATE ON PROGRESS OF 2016 RETIREMENT OPTIONS TASK FORCE: COO Nava stated that President Napolitano had appointed her to lead the 2016 Retirement Options Task Force (Task Force) and that three other Board members were also Task Force members: Professor James Chalfant, Associate Vice Chancellor David Odato and Computer Resource Specialist and Union Coalition representative Michael Fehr.

Executive Director Schlimgen provided some background on the state funding for UCRP, indicating that the $436 million from the state came from Proposition 2 monies which could only be used to pay down UCRP's UAAL and it was the first state money earmarked for UCRP since 1990. He then summarized the slide deck distributed to the Board which described the Task Force's composition, charge, guiding principles, parameters for recommendations and timeline. He clarified that the lower UCRP 2016 tier Covered Compensation Limit (CCL) would only apply to UCRP-eligible employees initially hired on or after July 1, 2016, as any rehired UCRP members would have a higher "grandfathered" CCL covered compensation limit. This provision for rehired UCRP members is similar to that applicable to "classic" rehired CalPERS members who are not subject to the PEPRA CCL. He closed by stating that much of the Task Force work to date has been focused on the supplemental dc plan and that potential options for a full, dc plan alternative to UCRP were beginning to be explored. COO Nava noted that all recommendations being discussed by the Task Force include provisions for paying down UCRP's UAAL.

Chair Michaels asked other Board members, especially those on the Task Force, to summarize their thoughts and concerns. The Academic Senate representatives on the Board mentioned that benefits provided by the 2013 tier for faculty are currently at market, not above. Consequently, the Academic Senate is striving to show the Task Force that cutting the cost of retirement benefits for new faculty will invariably come with a corresponding loss in the value of their benefits and total remuneration. For new faculty and staff hired on and after July 1, 2016 with pay above the PEPRA-related CCL, modelling has shown that the benefits from the 2016 tier with a supplemental dc plan are generally lower than those from the 2013 tier. Moreover, they noted that retirement savings would not be realized for many years but it was likely that UC would have to immediately increase salary offers in order to recruit quality faculty and staff. They stressed that more focus should be placed on income replacement at retirement than on retirement contribution amounts. They also felt that the risks of a full dc plan, including investment return volatility and the prospect of dc plan participants outliving their savings, were being underemphasized. They questioned whether a full dc plan should be recommended and/or whether it could be offered only to medical center employees.

Other Board members noted that the structure of UCRP, particularly the 5-year vesting requirement, did not appropriately serve segments of the UC employee population, especially at the medical centers. They noted that many current employees are short-term contract hires, such as information technology (IT) personnel, who would receive nothing from UCRP and would prefer the benefits and portability provided by a dc plan. They also stated that UC employee turnover at all locations will increase dramatically in the future since employees of the millennial generation tend switch jobs much more frequently, often staying at each job for less than two years. They feel that retirement options must be designed with the needs and preferences of UC's future work force in mind.

Board and Task Force member Fehr stated that specific information regarding the amount of money allocated to the supplemental and full dc plan was needed. He also questioned if the issue of an appropriate retirement plan for short-term and contract employees could be mitigated by providing them with higher salaries.

CHIEF INVSTMENT OFFICER – REPORT: Due to time constraints**,** CIO Bachher provided a general overview of returns for the UC Retirement Savings Program (RSP) and UCRP rather than proceeding through the detailed performance summary slides which had been distributed to the Board members. He indicated that he has been consulting with other investment professionals to determine the best fund choices and best practices for the RSP going forward. He stressed that UC employees need to save more, as the UC RSP savings rate was 10% to 20% lower than at other institutions. He indicated that auto-enrollment (i.e., where employees must opt-out of saving) has shown to improve savings rates. Additional financial education for UC employees is also important. Turning to UCRP, he indicated that returns as of the end of the fiscal year were good given the volatility of the market (net return of 4.5%). He indicated that volatility, especially in the equity market, will continue. While real estate and hedge funds have the potential for providing returns closer to UCRP's assumed rate of return (7.25%), they are not liquid. For the immediate future, his office plans on taking a conservative stance and managing risks.

The meeting adjourned at 10:00