UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD TELECONFERENCE
MARCH 17, 2016
2:00 PM – 3:00 PM

BOARD MEMBERS PARTICIPATING: Chair Meredith Michaels, Vice Chair James Chalfant, Chief Operating Officer (COO) Rachael Nava, Vice President (VP) Dwaine Duckett, Professor Henning Bohn, Associate Vice Chancellor David Odato, Computer Resource Specialist Michael Fehr, and CUCEA Chair Roger Anderson.

BOARD MEMBERS ABSENT: Chief Investment Officer (CIO) Jagdeep Singh Bachher, Pharmacy Technician Naomi Nakamura, CUCRA Chair Lee Duffus

UCOP STAFF PARTICIPATING: Associate Chief Investment Officer (IO) Arthur Guimaraes, Executive Director Gary Schlimgen, Senior Legal Counsel Ina Potter, Director Ellen Lorenz, Associate Director Tony DiGrazia, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA/CUCEA Joint Benefits Committee Chair Dick Jensen, UCB Emeriti Association representative Amy Block Joy, CUCFA representative Joe Kiskis, AFSCME representative Claudia Preparata, CNA representative Ben Elliott, UC Davis Fire 4920 representative Kyle Dubs, Teamsters Local 2010 representative Timothy Mathews ,UPTE representative Paul Brooks, Actuary Paul Angelo (Segal Consulting), and Actuary John Monroe (Segal Consulting).

The teleconference officially began at 2:04 p.m.

PUBLIC COMMENT PERIOD: CNA representative Ben Elliott indicated that CNA is opposed to both of the retirement options recommended by the President, which he said were politically motivated. He stated that the recommendations will disproportionately affect working women and families and will hurt UC. CUCFA representative Kiskis stated that the President's retirement recommendations were not beneficial for new employees, especially staff. He stated that both options, especially the stand-alone DC Plan, inappropriately transfer retirement planning and investment and longevity risk to employees.

AFSCME representative Claudia Preparata indicated that AFSCME is opposed to both of the President's retirement recommendations. She indicated that the President disregarded the work and recommendations of the Task Force that she created and that her own recommendations will benefit new highly paid employees more than lower paid employees. She also stated that Segal's destabilization analysis indicating that a new DC Plan won't impact UCRP's unfunded liability or ability to pay benefits was unsubstantiated and thus virtually meaningless. Teamster Local 2010 representative Tim Mathews indicated that the Teamster's also opposed the President's recommendations and agreed with AFSCME that Segal's destabilization analysis is unsubstantiated.

He also indicated that the President's claim that a failure to implement a new UCRP tier with a PEPRA cap will unwind the entire budget deal with the Governor was disingenuous and that the cap and trade arrangement with the state on tuition was never part of the retirement deal.

ITEM A. UCRS – DISCUSSION OF THE REGENTS ITEM –RECOMMENDATION FOR NEW UNIVERSITY OF CALIFORNIA RETIREMENT PROGRAM: Chair Michaels indicated that following a brief summary of the President's recommendations she would open the discussion to questions and comments from the Board.

Executive Director Schlimgen proceeded to summarize the President's recommendations, noting both the similarities and differences with respect to the recommendations made by the 2016 Retirement Options Task Force (Task Force). He specifically pointed out the different benefits for new faculty who elect the 2016 Tier with Supplemental DC Plan versus new staff members who elect the same benefit plan. He indicated that all faculty will receive an employer contribution of 5% to the Supplemental DC Plan on all eligible pay up to the IRC limit whereas new staff will only receive a 3% employer contribution to the Supplemental DC Plan on eligible pay above the PEPRA-related cap up to the IRC limit. He also explained that difference in retirement benefits for employees who were in UCRP or were Safe Harbor employees (i.e., part-time employees not eligible for UCRP) prior to July 1, 2016 who incurred a break in service and were rehired into an eligible position on/after July 1, 2016. While such employees would have the option to elect either the retirement options, they would not be subject to the PERA-related cap, and would thus be ineligible for the Supplemental DC Plan, if they elected option #1 (the 2016 Tier with DC Supplemental, as applicable). Their UCRP 2016 Tier benefit would be calculated on covered compensation up to the IRC limit.

He closed by noting that option #2 (stand-alone DC Plan) was similar to the Task Force recommendation, except that the UC contribution would be 8% of eligible pay as opposed to the 10% recommended by the Task Force. He noted, however, that UC would contribute 6% of eligible pay (up to the IRC limit) towards UCRP's unfunded liability under option #2, whereas the Task Force recommended a UC contribution of only 4% of eligible pay.

<u>Board member comments</u>

<u>Board member Odato</u> expressed disappointment that the President's recommendations provide better retirement benefits for new faculty than for new staff, although he acknowledged the preeminent role of faculty and that UC must compete for them in a global market. He indicated that the majority of the Task Force members, of which he was one, preferred to provide the same retirement benefits to both groups. He is worried that the President's proposal sacrifices the retirement benefits of new staff to secure new faculty.

<u>Board member Bohn</u> expressed disappointment with an 8% UC contribution to Option #2 (DC Plan), which he feels doesn't provide for an adequate retirement benefit. He noted that the Task Force had recommended a 10% UC contribution for employees who elect option #2. He feels that the lower UC contribution is driven by capping the maximum UC contribution at 14% of eligible pay, which he feels is an arbitrary decision.

Board member Fehr indicated that option #1 favors faculty members, who have a higher Normal Cost under option #1. He fears that most faculty new hires will choose option #1 over Option #2, thereby potentially raising the Normal Cost of UCRP for all current members.

Board member Anderson also voiced dissatisfaction with the 8% UC contribution for employees who elect option #2 (DC Plan). He feels that an 8% employer contribution does not provide an adequate retirement benefit, especially since the employee bears the investment and longevity risk. He indicated that a 1% lower than expected rate of return on investments under option #2 could dramatically lower an employee's DC Plan balance and reduce their income replacement at retirement by approximately 20%.

Board member Chalfant agreed with the other Board member comments. He feels that staff got shorted with respect to option #1 in favor of faculty. Even if the University feels it must offer a better benefit to attract and retain faculty under option #1, he did not feel that the benefit for staff should be so dramatically different. He also agrees that the UC contribution of 8% of eligible pay under option #2 would not provide for an adequate retirement benefit. He stated that UC administration's rationale for implementing a lower employer contribution under option #2 because the employer contribution towards UCRP's unfunded liability will be higher is not candid. He stated that if UC was truly concerned about paying down UCRP's unfunded liability, then UC would make a contribution towards UCRP's unfunded liability on all eligible pay (up to the IRC limit) under option #1 rather than on eligible pay only up to the PEPRA limit. He closed by noting that the lower UC benefits for staff under option #1 and the lower UC contribution for all employees under option #2 is merely driven by UC's desire to save money.

ITEM B. UCRS – IMPACT OF DC CHOICE PLAN ON UCRP'S UNFUNDED ACTUARIAL ACCRUED LIABILITY AND NORMAL COST: Consulting Actuary John Monroe (Segal) provided highlights of the analysis. He stated that as long as UC contributed 6% of eligible pay up to the IRC limit on behalf of all employees who elected option #2 (DC Plan) then their choice of option #2 would not have minimal impact on UCRP's funded status and ability to pay benefits. Further, he stated that with the dedicated employer contribution towards UCRP unfunded liability under both of the 2016 Retirement options, UCRP's unfunded liability amount and funded ratios improve over a thirty-year period as compared with the status quo under the 2013 Tier (i.e., without the state money dedicated to UCRP's unfunded liability).