# UCRS Advisory Board

**MINUTES**
**UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)**
**ADVISORY BOARD MEETING**
**DECEMBER 1, 2017**
**10:30 AM – 2:00 PM**

**BOARD MEMBERS PRESENT:** Chair David Brownstone, Vice Chair Henning Bohn, Chief Investment Officer (CIO) Jagdeep Singh Bachher, Vice President (VP) Dwaine B. Duckett, Vice Chancellor Ronald Cortez, Associate Vice Chancellor David Odato (via telephone), Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, and CUCEA Chair Richard Attiyeh (via telephone).

**BOARD MEMBERS ABSENT:** Chief Operating Officer (COO) Rachael Nava, CUCRA Chair Marianne Schnaubelt.

**UCOP STAFF PRESENT:** Associate Chief Investment Officer (CIO) Arthur Guimaraes, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco, Director Marco Merz, Director Eduard van Gelderen, Director David Alcocer, Director Esther Cheung Hill, Director Ellen Lorenz, Associate Director Tony DiGrazia, Business Controls Leader Anne St. George, Manager Greg Ricks, Manager Hyun Swanson, Manager Ken Reicher, and Principal Analyst Robert Semple.

**OTHERS PRESENT:** CUCRA/CUCEA JBC Chair Roger Anderson, CUCRA Chair elect Joe Lewis, ANR Welfare and Benefits Committee Chair John Karlik, UCBEA Vice Chair Amy Joy, UCBEA representative Caroline Kane, UCRAB representative Antonia Sweet, CUCFA representative Susette Min, AFSCME representative Claudia Preparata, retiree Paul Brooks, retiree Marianne Smylie, and Actuary John Monroe (Segal Consulting – via telephone).

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

**PUBLIC COMMENT PERIOD**: CFA representative Susette Min asked about the potential financial impacts of the pending federal tax bill. CIO Bachher indicated that since the federal tax bill was still subject to change and approval, it was too early to determine the financial implications for UC. He indicated that he may have more information to share at the Board's meeting in February 2018. Chair Brownstone indicated that, in its present form, the federal tax bill could impact higher education, noting specifically that it could result in increased taxes for graduate students.

**APPROVAL OF THE MINUTES**: Chair Brownstone called for the approval of the minutes from the Board meeting of June 23, 2017. The minutes were approved by acclamation.

**COMMENTS FROM THE CHAIR:** Chair Brownstone began by thanking the Board for accommodating a meeting starting time of 10:30 am instead of 10:00 am. He then welcomed the Board's newest member, Ronald Cortez, the Vice Chancellor (VC) of Administrative & Business

Services at UCI. He noted that VC Cortez had joined UCI in February 2017. Prior to joining UCI, VC Cortez had served as Vice President of Administration & Finance and Chief Financial Officer at San Francisco State University and had also served as Associate Vice Chancellor of Administrative Services at UCSB.

**OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE:** Director Alcocer began by stating that the 2018-19 UC budget was presented as a discussion item to the Regents in September. He noted that while the long-term funding framework between UC and the Governor generally provides for a 4% base budget increase, the Governor has indicated that UC may receive a 3% base budget update for 2018-19 instead; roughly $30 million less than UC had anticipated. He described a number of cost increases that need to be addressed in the 2018-19 budget, including: a 1% increase in employer contributions to UCRP (from 14% to 15%), which also includes a 1% increase in the employer assessment on the Savings Choice Plan that is applied to UCRP's unfunded liability (i.e., from 6% to 7%); cost increases for both employee and retiree health benefit programs; enrollment growth of an additional 1,500-2,000 students; and additional funds earmarked for maintaining academic quality and standards. Additionally, he noted that $50 million in state funding provided for the 2017-18 budget was still conditioned upon UC meeting certain objectives, such as implementing specific pilot programs, improving transfer ratios, and implementing recommendations resulting from the state audit. As a result of budget/cost uncertainties, the final budget presentation was not presented to the Regents for approval last month.

Director Alcocer also noted that there had been some discussion about rescinding the 1% increase in employer contributions to UCRP, scheduled to become effective on July 1, 2018. As the Academic Senates representatives on the Board, both Chair Brownstone and Vice Chair Bohn indicated that faculty would not support such a decision. They indicated that the increase to a 15% employer UCRP contribution already represented a compromise, as a 16% employer contribution had been suggested. They also mentioned that borrowing from STIP might appear to be currently feasible in a low interest rate environment, but may not be suitable when interest rates rise.

**CHIEF INVESTMENT OFFICER – REPORT:** (This item was actually presented after agenda item A) – Associate CIO Guimaraes introduced Eduard van Gelderen, a new Sr. Managing Director who joined the Office of the CIO in July 2017. Prior to that, he worked as CEO for APG in Amsterdam, which manages approximately $500 billion in pension assets, most notably for Dutch government employees and retirees.

Director van Gelderen provided the performance summary for UCRP, noting that its assets were slightly over $64 billion as of September 30, 2017. He attributed most of UCRP's $2.4 billion in third quarter market gains to the performance of public equities, which comprise approximately 55% of UCRP investment holdings. With respect to asset allocation, he indicated that UCRP was currently overweight in public equities and cash and underweight in fixed income/other investments. He noted there wasn't an immediate need for substantial fixed income investments, as contributions to UCRP are currently equivalent to benefit payments. However, for purposes of mitigating risk, he is looking to establish a more balanced UCRP portfolio by slightly reducing public equity holdings, which he does not believe can continue to provide the robust returns they achieved in 2017.

Director Merz provided the overview of the Retirement Savings Program (RSP), noting that it had over $23 billion in assets as of the end of the third quarter and contained the largest 403(b) plan and the second largest public defined contribution plan in the U.S. He briefly summarized the three-tier investment structure of the RSP; the target-date Pathways funds (containing $7 billion in assets), the CORE Funds comprised of various bond and stock funds (containing $14.6 billion in assets) and the Brokerage Link option (containing $1.5 billion in assets). He also summarized the changes to the RSP menu that occurred in October, which were previously reported to the Board. He mentioned that UC's robust communication campaign with respect to these fund menu changes was recognized by the Project Management Institute (PMI) and the changes have helped reduce fees by $6 million annually. He closed by noting that exchange traded funds (ETFs), which track market indexes and generally have lower fees than mutual funds, have become more prevalent and popular over the past few years. He stated that ETFs should be available to UC participants through the Brokerage Link in 2018.

CIO Bachher concluded the CIO report by noting that while 2017 investment returns were very good, UCRP's average return over both a ten and twenty-year period were below its assumed rate of return of 7.25%. He noted, however, that UCRP had a funded ratio of 85% at fiscal year-end and that he was a bit more optimistic going into 2018 than he had been previously. Summarizing global areas with respect for potential investment, he noted that India presented an interesting investment opportunity as it is fairly stable and its economy should double in size within the next five to seven years. However, he concluded that the U.S. was still the best place for investment.

**ITEM A. UCRP – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM – UPDATE:** Director Cheung Hill reminded the Board that she updated them on this project last June. As background, she noted that the current, COBOL based retirement recordkeeping system is 35 years old and was not designed to handle the complexity of functions now required of it. She indicated that Redwood System will better accommodate UC's multiple tier pension system and eliminate a lot of manual work, enabling personnel to process and issue retirement and survivor benefits more quickly, thereby enhancing the member experience with the Retirement Administration Service Center (RASC). Although the multi-year project has changed in scope to accommodate the new Retirement Choice Program and new cyber-security provisions, key designs have been completed and the project is on track to go live in February 2019. She also noted that a number of surveys/focus groups were conducted with employees and retirees to grasp the current and emerging use of technology for retirement-related activities by the UC community. The results show that the UC community increasingly uses smartphones or computers to communicate and transmit documents and relies less on a landline telephone or the U.S. mail.

**ITEM B. UCRS – ANNUAL ACTUARIAL VALUATION REPORTS FOR FISCAL YEAR 2016-2017:** Actuary Monroe of Segal Consulting (Segal) summarized the results of the actuarial valuation of UCRP for Fiscal Year (FY) 2016-17. He noted that UCRP had a FY return of 14.5% on a market value of assets (MVA) basis, representing an increase of $8 billion from the previous year. On an actuarial value of assets (AVA) basis, UCRP had a return of 8%, which he explained was due to the five-year smoothing of gains and losses. He mentioned that UCRP's funded ratio increased from 83% to 85%, while its unfunded actuarial accrued liability (UAAL) decreased by approximately $1 billion and the total funding policy contribution amount decreased by 1% to 27% (which is roughly $3 billion annually). He mentioned that UCRP received $171 million from the state, representing the final installment of Proposition 2 funds dedicated to UCRP's UAAL, as well as $481 million in transfers (borrowed) from the STIP. These monies, along with employer and employee contributions, resulted in full funding in line with policy for FY 2016-17. He highlighted some of the UCRP changes over the past FY, most notably the 2016 Tier with a lower limit on pensionable pay tied to the limit established under the California Public Employees' Pension Reform Act (PEPRA). He concluded by summarizing projections of UCRP's future funded status based on various funding scenarios.

**ITEM C. UCRP – LUMP SUM CASHOUT REPORT:** Manager Ricks provided a summary of the annual lump sum cashout (LSC) statistics, noting that the LSC take rate had slightly decreased from the past year and was more consistent with the long-term rate of approximately 20%. He also noted that the LSC form of distribution remained fairly consistent, with roughly 28% of participants requesting a direct payment while the remaining 72% either requested a full rollover or a combination of rollover and direct payment. He closed by noting that approximately 70% of participants who requested an LSC were not eligible for UC retiree health coverage.

**ITEMS D. UCRS – AUDITED ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2016-2017:** Executive Director Schlimgen noted that the single report covers UCRP/PERS Plus 5 as well as the RSP, whereas in years past it was divided into two reports. He refrained from providing UCRP or RSP statistics, as they had been previously covered in the CIO report and the agenda item on the UCRP/PERS Plus 5 actuarial valuations. He noted, however, that the report provides a good summary of UCRP and the RSP, inclusive of the Retirement Choice Program implemented on July 1, 2016.

**ITEM E. UCRS – RETIREMENT CHOICE PROGRAM STATISTICS – UPDATE:** Manager Swanson began by providing a brief description of the Retirement Choice Program and the difference in pensionable pay under the UCRP 2013 tier (i.e., 2017 IRS limit of $270,000) and the UCRP 2016 Tier (i.e., 2017 PEPRA limit of $118,775 for employees coordinated with Social Security).She indicated that approximately 10,000 employees have been eligible for retirement choice since the program implementation date of July 1, 2016. Of these, 43% were rehired former employees not subject to the PEPRA limit under the UCRP 2016 tier. She noted that 32% of employees actively elected Pension Choice, 36% actively selected Savings Choice and 32% did not make an election within their 90-day window period, thus irrevocably defaulting to Pension Choice. While she noted that some unions have yet to bargain the Retirement Choice Program, she stated that 72% of newly hired or rehired represented employees who were eligible for retirement choice were in Pension Choice due to either active election or default. Board member Duckett and Actuary Monroe noted that, while the Savings Choice elections are initially higher than the assumption used in the annual actuarial valuation for UCRP, higher Savings Choice elections do not impact the viability of UCRP as there is an employer assessment for each Savings Choice participant that is allocated to UCRP's unfunded liability.

Manager Swanson concluded by noting that efforts continue to be made, via enhanced communications and verbal counseling, to convey the consequences of not making a retirement choice as soon as possible upon hire. Chair Brownstone encouraged enhanced and personalized communications for new and rehired employees, possibly highlighting the contributions and/or service credit they could lose by failing to make a retirement choice right away.

**ITEM F. RETIREMENT SAVINGS POGRAM – OPERATIONS AND EDUCATION REPORT:** Manager Swanson began by summarizing the report highlights, noting that Fidelity had met all of its performance measures for the third quarter. She stated that UCPath and Fidelity personnel have been working closely to refine payroll transmission and testing in preparation for the UCPath pilot implementation at UCR, UCM and ASUCLA. She summarized communications and education efforts, most notably the communication of the RSP fund changes that occurred in October. She also stated that UC Vendor Management and Fidelity have been engaging with locations to tailor presentations to their respective populations and are making efforts to address employees' broader financial needs, as opposed to just fund changes. The Chair congratulated Manager Swanson on the RSP fund consolidation communication campaign and the preparing for retirement presentations, one of which he attended at UCI.

**ITEM G. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE:** Director Lorenz summarized the RASC FY 2016-17 statistics for the Board. She noted that telephone inquiries and correspondence had increased by 7% over the previous year, which she attributed primarily to the transition of UCLA retirement counseling duties to RASC and the difficulties with a health & welfare vendor transition earlier in the year. She mentioned that 84% of retirement elections were completed within 45 days, a 1% improvement from the previous year. In closing, she noted that 89% of customers reported being satisfied or more than satisfied with their experience with RASC, a 3% improvement from the previous year.

The meeting adjourned at 1:59 p.m.