UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD AD HOC TELECONFERENCE
AUGUST 30, 2019
120:00 PM – 1:00 PM

BOARD MEMBERS PARTICIPATING: Vice Chair Jo Mackness, Chief Operating Officer (COO) Rachael Nava, Chief Investment Officer (CIO) Jagdeep Bachher, Professor David Brownstone, Professor Henning Bohn, Academic Personnel Policy Analyst Tiffany Wilson, Pharmacy Technician Ruth Zolayvar, and CUCEA Chair Caroline Kane .

BOARD MEMBERS ABSENT: Chair Ronald Cortez, Vice President (VP) Dwaine B. Duckett, and CUCRA Chair Marianne Schnaubelt

UCOP STAFF PARTICIPATING: Associate Vice President and acting Plan Administrator Cheryl Lloyd, Associate Vice President David Alcocer, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Associate Director Anthony DiGrazia, and Principal Analyst Robert Semple.

OTHERS PARTICIPATING: CUCRA Vice Chair Joe Lewis, Teamsters Local 2010 representative Mary Higgins, UAW representative Neil Sweeney, retiree/UPTE representative Paul Brooks, Manager Stephanie Tenney (UCI Vice Chancellor’s Office), Actuary Paul Angelo (Segal Consulting), and Actuary John Monroe (Segal Consulting).

The teleconference began at 12:03 p.m.

PUBLIC COMMENT PERIOD: Teamsters Local 2010 representative Mary Higgins noted that if the current UCRP member contribution rates were increased, they would exceed the rates of employee retirement contributions at CalPERS and CSU. She also noted that increasing UCRP employee contribution rates would decrease employee compensation, which would hurt lowest-paid employees the most and negatively impact UC’s recruitment and retention efforts. In closing, she stated that UCRP’s unfunded liability was not the fault of employees, but rather the fault of those who approved the UCRP contribution holiday (i.e., the period from 1990 to 2010 when UCRP contributions were not required).

COMMENTS FROM THE VICE CHAIR: Vice Chair Mackness informed the Board that Chair Cortez was unable to participate in the teleconference**.** She then proceeded to briefly introduce the Board’s two new members, Academic Personnel Policy Analyst Tiffany Wilson from the UCOP and Pharmacy Technician Ruth Zolayvar from the UCSDMC. She mentioned that the purpose of the teleconference was to discuss the revised agenda item being presented for approval to the Regents in September concerning the adoption of changes in UCRP actuarial assumptions and increasing UCRP contributions, including a potential increase in member contributions. Before handing things over to

Executive Director Schlimgen for discussion, she thanked the Academic Council, the UC-AFT Council and the Staff Advisors to the Regents for letters that they had shared with the Board about their concerns regarding a potential increase in UCRP member contributions.

SEPTEMEBR 2019 REGENTS ITEM – SUMMARY: Executive Director Schlimgen began by noting that the actuarial assumption changes and the recommended increase in the UCRP employer contribution rate, discussed at the June UCRS Advisory Board meeting and submitted to the Regents for approval last July, were temporarily deferred at the request the Regents' Finance and Capital Strategies Committee (Committee). He explained that the Committee members felt that the recommended .25% reduction in the UCRP' assumed investment return, from 7.25% to 7%, was insufficient and requested that a lower UCRP investment return assumption of 6.75% be presented to them in September. The Committee members also felt that improved life expectancy was a windfall for UCRP members. Noting that the Regents have a fiduciary duty to ensure that UCRP is sufficiently funded to pay promised benefits, the Committee advocated for cost-sharing of the increase in UCRP's Normal Cost between the University and UCRP members, and asked that recommendations for increasing UCRP member contributions rates also be presented in September.

Executive Director Schlimgen then summarized the revised actuarial assumptions and UCRP contribution increase recommendations that were being submitted to the Regents for approval in September. He noted that further reducing the UCRP's assumed investment return to 6.75% necessitated revising other previously recommended actuarial assumptions, such as lowering the assumed rate of inflation from 2.75% to 2.5% and increasing the (real) salary increase assumption from .5% to .75%. He also mentioned that these revised actuarial assumptions increase the Plan's actuarial accrued liability by $7.2 billion and Normal Cost by $434 million, or 3.1% of payroll. Consequently, the previously recommended increase in UCRP employer contribution is being revised, from 2% phased in over four years, to 3% phased in over six years (from 14% to 17%). In keeping with the Regents directive, it is also being recommended that, effective July 1 ,2020, UCRP member contribution rates increase annually by .25% over six years, for a total increase of 1.5%. This increase in the member rate represents half of the increase in the employer rate, which is consistent with the manner in which member contribution rates have been increased since UCRP contributions resumed in 2010. He noted that, per Internal Revenue Code provisions, the same increase in the member contribution rate for UCRP 2016 members would also have to be applied to the employee contribution rate of Savings Choice Program participants.

He stated that raising UCRP member contribution rates was not the outcome envisioned by the UCOP administration. He also noted that UCOP administration would normally take more time to conduct a thorough analysis concerning the impact of such increases on UC' retention and recruitment efforts and members' take home pay, especially as many workforce segments have a salary gap to market. Since member contribution increases are subject to collective bargaining for represented employees, he also indicated that there would be fairness and equity issues with increasing UCRP member contribution rates on policy-covered faculty and staff long before most represented groups.

Referencing graphs distributed to the Board prior to the call, he noted that even with an increase in both UCRP employer and member contributions, the Plan's projected future gap in funding has grown substantially and that additional Proposition 2 monies or the resumption of state employer contributions will be needed to sustain the Plan. He then asked Associate Vice President (AVP) Alcocer to comment on UCRP contribution costs and the likelihood of receiving state funding.

AVP Alcocer indicated that every half percent increase in the UCRP employer contribution represents a cost of $60 million per year for the University. He noted that UC has experienced difficulty in getting the state to increase UC's overall budget by 3%, so getting significant additional monies for just UCRP contributions would be even more difficult.

BOARD MEMBER COMMENTS:

Board member Bachher stated that current financial markets are choppy and a recession in the U.S. is inevitable. He feels that a 7% investment return assumption is a bit high and he does not feel that economic indicators and assumptions warrant taking a risk on a 7% investment return assumption.

Board member Bohn indicated that he agreed with Executive Director Schlimgen that a decision to increase UCRP member contribution rates would not usually be made without a thorough analysis of the potential impact on employees and the University. He also stated that he felt the Plan's Actuary (Segal Consulting) prudently evaluates the condition of UCRP based on a long-term outlook, and had made a reasonable recommendation for decreasing the Plan's assumed investment return by .25% (i.e., to 7%). While acknowledging that the projected increases in the Plan's unfunded liability and normal cost need to be addressed, he noted that these projected increases were made worse with a recommendation of a 6.75% assumed investment return and he does not feel that increasing member contribution rates is an appropriate funding solution. He indicated that for every 1% increase in member contributions, UC will need to eventually increase member salaries by 1.2%. Thus, he indicated that it would be more practical to increase the UCRP employer contribution to 4.5% rather than to increase member contribution rates by 1.5%.

Board member Brownstone stated that he agreed with the remarks made by Board member Bohn, especially that increasing UCRP member contribution rate was not an appropriate solution for addressing UCRP's projected cost increases. He noted that a member contribution increase would hurt UC's ability to recruit and retain faculty and staff. He also noted that a significant, permanent increase in the member contribution rate without further consultation would be unwise, especially since future economic returns are unpredictable and UCRP's financial condition could improve. He stated that the Regents could approve actuarial assumption changes in September but delay any decision on member contribution increases until further analysis was conducted. He commented that the Regents appear to be disregarding the thoughts and recommendations of the Academic Senate and staff advisory groups. He concluded by noting that the Regents have made mistakes in the past and cited, as an example, their approval of the UCRP contribution holiday, despite the Academic Senate's recommendation against it.

Board member Nava stated, in response to questions, that the Regents set expectations as to what they want to see presented at meetings. She said that the Regents had made it very clear that they wanted several options for increasing UCRP member contribution rates presented to them in November and that UCOP administration had to comply.

Board member Ruth Zolayvar stated that she does not support an increase in UCRP member contribution rates and agrees that increasing the UCRP employer contribution rate by an additional 1.5% is more sensible. She said an increase in the member contribution rates would be equivalent to a wage decrease for all members, and that the impact would be most severe on lowest-paid members. She also questioned why the Regents felt it necessary to reduce the Plan's assumed investment return to 6.75% when both CalPERS and CalSTRS maintain an assumed investment return of 7%.

Board member Tiffany Wilson also stated that she did not support an increase in the UCRP member contribution rates. She said that while she knows the Regents have a responsibility to ensure that UCRP is adequately funded, they would not be fulfilling their responsibility for due diligence by acting too quickly with respect to UCRP member contribution rates. She stated that the Regents should not make a decision without more analysis and discussion of the potential impact such an increase could have on UCRP members and the University.

The meeting closed with a consensus of the Board members agreeing that (1) the UCRP member contribution rate(s) should not be increased at this time, for the reasons stated in the Academic Council's letter to the President (dated of August 8, 2019), (2) the Regents should not make a decision on increasing the UCRP member contribution rate without further analysis and discussion concerning the impact to UCRP members and the University, and (3) the Board should send a letter concerning their thoughts on this matter to the president.

The call ended at 12:55 p.m.