



UCRS Advisory Board

MINUTES

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) ADVISORY BOARD MEETING

December 9, 2022

10:00 AM – 2:00 PM

BOARD MEMBERS PARTICIPATING: Chair Henning Bohn, Vice Chancellor – CFO Chuck Haines, Chief Investment Officer (CIO) Jagdeep Bachher, Vice President Cheryl Lloyd, Chief Operating Officer (COO) Rachael Nava, Professor Terrence Hendershott, Academic Personnel Policy Analyst Tiffany Wilson, Pharmacy Technician Ruth Zolayvar, CUCRA Chair John Meyer, and CUCEA Chair Jo Anne Boorkman.

BOARD MEMBERS ABSENT: None

UCOP STAFF PARTICIPATING: Associate Vice President David Alcocer, Senior Managing Director Satish Swamy, Managing Director Marco Merz, Principal Counsel Luis Blanco, Principal Counsel Robert Gaumer, Executive Director Bernadette Green, Director Ken Reicher, Interim Executive Director Hyun Swanson, Manager Janie Berry, Manager Aliya Dibrell, Manager Michelle Estes, Manager Doug Kanigher, Manager John Monroe, Manager Scott Sylva, Principal Analyst Ashley Eigenauer, Principal Analyst Melissa Rad, Principal Analyst Gloria Sit, Principal Analyst Rebecca Preza, Principal Analyst Aaron Locquiao, Accountant Vicky Lam, and Thought Leader Richard Townsend.

OTHERS PRESENT: Professor Emeritus Todd Wipke, Professor Emeritus and Joint Benefits Committee Chair Roger Anderson, Retiree Sue Abeles, Retiree and UPTE representative Paul Brooks, Retiree and CUCRA member Marianne Schnaubelt, UCI Benefits Manager Dorothy Ong, IUOE representative Mark Fragoso, AFSME representative Geoff Goodman, CUCRA representative Eric Hayes, Teamsters representative Mary Higgins, Teamsters representative Alex Vermie, Consultant Chas Moore (Chazey Partners), Actuary Eva Yum (Segal), and Actuary Emily Klare (Segal).

The meeting officially began at 10:01 a.m.

PUBLIC COMMENT PERIOD: Retiree and UPTE representative Paul Brooks requested to revisit the Pathway Income Fund's suitability for retirees, stating his concern that retirees may run out of money if they have a longer lifespan. Responding to the comment, Managing Director of Defined Contribution Products Marco Merz reminded Mr. Brooks that the glidepath reduces risk over time, so in isolation the Income Fund may appear conservative. He added that the glidepath is reviewed on an annual basis, specifically noting that this year there will be a 10% increase in equity exposure. UCSC Professor Todd Wipke requested to speak on behalf of survivors. He stated that survivors are not familiar with UC administration, have no access to UCRAYS, and although UCRP is legally bound to

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pay them they are not given the same level of attention as new retirees with the No Lapse in Pay program. He stated that in the two years he has been tracking the processing time of survivor benefits there had been no improvement and noted that there is a median processing time of four months. He concluded with stressing the urgency to speed up processing of survivor benefits. Chair Bohn noted that there would be an agenda item on survivor benefits processing later in the meeting and stated that the issue had a high level of importance to not only himself but other Board members. He thanked Professor Wipke for his attention to the issue and for his contribution to improving the processing of survivor benefits and offered for Professor Wipke to correspond with him directly on the issue.

APPROVAL OF THE MINUTES: Chair Bohn called for the approval of the minutes of the Board meetings of June 17, 2022. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Bohn began by announcing that Jo Mackness had resigned from the Board, but a replacement had not yet been assigned, and introduced incoming Board member and CUCEA Chair Jo Anne Boorkman.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer began by informing the Board that the state legislature and governor had approved the 2022-23 state budget. The budget included \$200 million in new permanent general funds for university operations which is a 5% increase over last year as well as \$160 million in new ongoing funds for specific State goals (enrollment growth, supporting students from disadvantaged backgrounds and funding specific campus programs). The budget also included \$800 million in one-time funds for specific programs or capital projects. In addition, five campuses are to receive additional support to fund student-housing projects. Separate from the budget act, the University and Governor reached a compact agreement which provides for a combination of a funding commitment from the state with a commitment by the University to advance shared goals (such as enrollment growth, student success, UC affordability). The compact agreement calls for an annual base budget increase of 5% through 2026-27. established multi-year compact to support both permanent fund increases and one-time fund allocations for UC. Lastly, the Regents approved the University budget plan for 2023-24, which addresses projected cost increases such as salary increases, UCRP employer contribution increase, and enrollment growth.

CHIEF INVESTMENT OFFICER – REPORT: Senior Managing Director Swamy began by providing the value of assets under management as of September 30, 2022, noting \$77.7 billion of assets were in UCRP. He added that assets in the pension plan were up to \$82 billion as of December 8, 2022. With respect to asset allocation, he indicated that UCRP was slightly underweight in public equities and fixed income. He noted that with the Federal Reserve's changes to the interest rates, the US economy could slow, but there might be an opportunity for a good return on investments in the fixed income market.

Managing Director Merz began by providing the Retirement Savings Program (RSP) asset value of \$28.7 billion as of September 30, 2022, noting a decrease of \$6.1 billion from September 30, 2021. He then provided a breakdown of asset value by fund class, noting that 40% of assets were in the UC Pathway Funds, 52% invested in the core lineup, and the remainder invested in the Brokerage Window. He noted that only one fund, the Savings Fund, had a positive return over the last year. Further addressing the question posed during the public comment period, Managing Director Merz

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stated that there will be an increase to riskiness in the glidepath of the target date funds, with an addition of a billion dollars of equities across the glidepath, which is to be spread over four quarters in the coming year.

Lastly he reminded the Board that the RSP became fossil fuel free as of June 30, 2022 and stated that the second QLAC window had seen a purchase of \$8 million in deferred lifetime income annuities.

ITEM A – UCRP – Annual Actuarial Valuation Report as of July 1, 2022: Manager Monroe began by summarizing the highlights of the UCRP actuarial valuation report as of July 1, 2022. He noted that UCRP had a FY return of -10.6% on a market value of assets (MVA) and a 6.8% return on an actuarial value of assets (AVA) basis. He stated that due to five-year smoothing of investment gains/losses, the market value of assets is less than the actuarial value by \$4.4 billion. He also mentioned that UCRP's funded ratio (on an actuarial basis) increased from 83.1% to 83.5%, while the unfunded actuarial accrued liability (UAAL) increased from \$16.4 to \$17.0 billion. He noted that a transfer of \$700 million from the Short Term Investment Pool (STIP) is reflected in the valuation results, and \$500 million in STIP transfers are authorized for both 2022/23 and 2023/24.

Proceeding through slides provided to the Board, Consulting Actuary Yum summarized UCRP's current demographics, historical rates of return, and historical funded status. Manager Monroe discussed the final slides which showed projections of UCRP employer contributions and funded status for three illustrative scenarios. In response to a question from Board member Zolayvar, he indicated that unlimited scenarios could be modeled, and yearly valuations always reflect the actual investment return.

ITEM B – RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION

REPORT: Interim Executive Director Swanson summarized the highlights of the 2022 3rd quarter RSP report. She noted that RSP plans had almost 340,000 unique participants, 54% of active participants were making supplemental deferral contributions, and that 62% of career employees (50% for those who are age 40+) were on track to have at least 80% retirement income replacement from all UCRS sources. She noted that Fidelity met all performance standards for the quarter. With respect to communications and education, she stated that there were approximately 30,000 attendees at workshops, webinars and counseling interactions during the quarter. Interim Executive Director Swanson provided an update on the webinars offered, informing the Board that in addition to the standard offerings a cyber-security webinar was available in October.

With respect to the Retirement Choice Program election statistics, she mentioned that from the inception of the program through June 30, 2022, 63,000 participants were eligible to make a choice in primary retirement benefits. Of those eligible, 36% of eligible hires/rehires selected Pension Choice, 27% defaulted to Pension Choice, and 37% selected Savings Choice. Lastly, Interim Executive Director Swanson shared the enhancements made to the new hire Retirement Choice Program tool which include an update for second choice window modeling, a tutorial, as well as a change in the earnings assumptions. She also noted that TFIR launched a Choice Program tool on their website which allows for more assumptions than the standard tool on myuc retirement.com.

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In response to a request from Chair Bohn, Interim Executive Director Swanson agreed to follow-up with data on the number of participants who remain actively employed after making an election under the Retirement Choice Program.

Board member Zolayvar agreed to work with Interim Executive Director Swanson directly to fulfill her request that retirement readiness score include additional demographic data.

ITEM C – UCRS ANNUAL FINANCIAL REPORT AND RESULTS OF EXTERNAL AUDIT OF THE FINANCIAL STATEMENT FOR FISCAL YEAR 2021-22: Director of Benefit Plan Accounting Ken Reicher informed the Board that Price Waterhouse Coopers completed their audit and concluded that the UCRS financial statements are free of any material mistakes.

ITEM D – UCRP – LUMP SUM CASHOUT REPORT: In the interest of time, Chair Bohn requested the item be delivered at the next meeting and the Board agreed.

ITEM E – UCRS – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, ROOTS AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: Manager Dibrell provided a brief update of the UCRAYS, Roots and Redwood systems. With respect to UCRAYS, she noted that 80% of retirement profiles and 83% of retirement elections are submitted online, with the site seeing over 823,000 logins since its launch in April, 2021. She also noted that a mobile platform for UCRAYS is set to launch in 2023.

RASC Executive Director Green then reviewed slides provided to the Board, detailing the RASC's performance in processing retirement elections, call-center performance, and planned future changes to contact channels for members.

ITEM F – UCRP – RASC SERVICE ENHANCEMENT – SURVIVOR INTAKE: RASC Executive Director Green began by introducing Consultant Chaz Moore (Chazey Partners). Proceeding through slides provided to the Board, Consultant Moore summarized the steps taken by Chazey Partners to evaluate the current state of retirement counseling and survivor benefits processing services provided by the RASC and recommendations for improving the processes.

Executive Director Green thanked UCSC Emeritus Professor Todd Wipke for his efforts in developing and donating a new tool (BENET), which makes it easier for the RASC survivor team to keep the flow of information and forms moving smoothly and provides an additional channel to communicate with survivors and beneficiaries. She stated that the work necessary to ensure proper hosting and maintenance was now complete and ensured the Board that the BENET tool would be implemented.

In response to a question from Board member Meyer regarding the backlog of survivor benefit applications, Consultant Moore reviewed the proposed productivity improvements and staffing increases aimed at eliminating any outstanding application backlog.

Chair Bohn requested an update on the process improvements for survivor benefit processing at the next meeting.

The meeting adjourned at 1:57