



UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, NOVEMBER 19, 2010
10:00 AM

BOARD MEMBERS PRESENT: Chair Oakley, Vice Chair Sandbrook, Executive Vice President Brostrom, Vice President Duckett, Chief Investment Officer Berggren, Vice Chancellor Michaels, Interim Human Resources Director Hiemstra, Professor Starr (via telephone), Maintenance Worker Piper, CUCRA Chair Gade and CUCEA Chair Newbrun (via telephone).

STAFF PRESENT: Executive Director Baptista, Executive Director Scott, Principal Counsel Clark, Senior Counsel Potter, Interim Director Lange, Director Lewis, Director Olson, Director Saxton, Director Schlimgen, Manager Chen-Ok, Manager Ryan, Principal Analyst Semple, Principal Analyst West, Principal Analyst Whalen.

OTHERS PRESENT: CUCEA Chair Elect Duffus (via telephone), CUCEA/CUCRA Benefits Committee Chair Harris (via telephone), UCB Retiree Association Representative Sweet, CUCFA Representative Hays, CUCFA Representative Kiskis (via telephone), UCRS Actuary Angelo (The Segal Company).

The meeting officially opened at 10:07 a.m.

COMMENTS FROM THE CHAIR - I (PROTOCOLS FOR PUBLIC COMMENT): Chair Oakley began by stating that there would not be a closed session during the meeting as the agenda did not contain any confidential items. He then proceeded to delineate the ground rules for the meeting, stating that it would commence with a public comment period limited to 30 minutes after which comments from guests would not be permitted.

PUBLIC COMMENT PERIOD: CUCFA Representative Kiskis initiated the public comments by questioning why guests/observers only received the meeting agenda and not copies of the agenda items prior to the meeting. He also questioned why guests/observers needed permission to participate in Board meetings over the telephone and could only make comments during the 30-minute public comment period. He indicated that they should have the ability to raise questions, in person or over the telephone, at any time during the meeting. With respect to the development of a new web-based repository for Board materials as presented in Item D, CUCFA Representative Kiskis inquired whether the general public would have access.

COMMENTS FROM THE CHAIR - II (START OF BUSINESS MEETING): Concerning the distribution of Board meeting agendas and items, Chair Oakley indicated that Pension and Retirement Programs staff should make Board meeting agendas and items available to guests/observers electronically in the future, with the exception of confidential agenda items that are addressed by the Board in closed session. Chair Oakley noted, however, that staff should not be required to distribute physical copies of agendas and items for guests/observers. Since Representatives Kiskis' other questions related to Agenda Items C and D, Chair Oakley deferred the discussion until later in the meeting when these items would be addressed.

APPROVAL OF THE MINUTES: Chair Oakley called for approval of the minutes from the regular Board meeting of June 25, 2010 and the special Board meeting of October 21, 2010. The minutes of both meetings were approved.

ITEM A. REVIEW OF CORRESPONDENCE: Chair Oakley noted that, following the special Board meeting of October 21, 2010, he had sent a letter to President Yudof summarizing (1) the Academic Senate's University Committee on Faculty Welfare (UCFW) position on the recommendations made by the President's Task Force on Post-Employment Benefits, and (2) the opinions of the Board members as to whether the President should heed the UCFW's position, as suggested by one Board Member. Since he had previously distributed his letter to the Board and it had been posted on the Future of UC Retirement Benefits website, Chair Oakley did not summarize the contents of the letter. He noted that Board Member Piper had also sent a letter to the President, a copy of which had been provided to the Board Members earlier in November and again as part of the meeting agenda packet.

ITEM B. SUMMARY OF JOINT BENEFITS COMMITTEE REPORT TO CUCEA AND CUCRA OF OCTOBER 28, 2010 BY INVITED GUEST ADRIAN HARRIS, CHAIR OF THE JOINT BENEFITS COMMITTEE OF CUCEA AND CUCRA: Since a copy of the report had been provided to the Board as part of the agenda packet, CUCEA/CUCRA Representative Harris did not summarize the report but rather asked if anyone had questions. One Board Member questioned a proposal in the report that The Regents adopt a policy to ensure that no UC annuitant who retired with 30 years of full-time eligible retirement service receive a UCRP benefit below the poverty level. The Member questioned whether the amount of a UCRP benefit for such an annuitant could actually be below the poverty level. He also indicated that while he supports the current UCRP annual COLA provision and ad hoc COLAs as necessary to protect the purchasing power of UCRP benefits, he feels that guaranteeing a minimum UCRP benefit is too broad and unwarranted. Executive Director Scott indicated that the issue of minimum benefits had been discussed and it would be very unlikely that the UCRP benefit for an annuitant with that many years of UC service would fall below the poverty level. Consequently, it had been decided that such isolated cases were better identified and handled at each location with the assistance of the respective retiree associations. With regard to issue #9 in the report, which calls for the creation of a trust to pre-fund retire health, Executive Director Scott clarified that such a trust had already been developed and that the PEB Task Force report had included suggestions for pre-funding retiree health coverage, as feasible.

ITEM C. UCRS ADVISORY BOARD - DEVELOPMENT OF PROCEDURES AND/OR PROTOCOLS FOR PARTICIPATION OF GUESTS AND OBSERVERS AT UCRS

ADVISORY BOARD MEETINGS: Chair Oakley noted that the purpose of these proposed Board Handbook amendments was to aid Board members, especially the Board Chair and Vice Chair, in fulfilling their duties more efficiently. He clarified that the proposed amendments were a work in progress and asked Vice Chair Sandbrook, who drafted them, to provide a brief overview. In response to the concerns of CUCFA Representative Kiskis, Vice Chair Sandbrook explained that he proposed an amendment designed to require “observers” to attend meetings in person because it was often difficult to distinguish between Board members’ and observers’ comments over the telephone. He also explained that the purpose of restricting observers’ comments to a defined, 30-minute public comment period was to facilitate the flow of Board meetings and to prevent undue discussion or debate on any particular item. He noted that he had developed all the proposed amendments, both those relating to guests and observers as well as other Board procedural matters, after discussion with the current and past Board Chairs.

Reiterating that the amendments were a work in progress, Chair Oakley indicated that he would like a sub-committee of Board members to modify the amendments for Board review and approval at the February 2011 Board meeting. In addition to Chair Oakley and Vice Chair Sandbrook, Board Members Gade, Duckett, and Piper volunteered to be part of the sub-committee. As a closing comment, Counsel Clark suggested that it might be easier to make or revise amendments to the Board Handbook as appendices.

ITEM D. UCRS ADVISORY BOARD - DEVELOPMENT OF A WEB-BASED REPOSITORY FOR UCRS ADVISORY BOARD MATERIALS TO REPLACE

EXCHANGE: Principal Analyst Semple advised the Board that Exchange, the password protected intranet site on which Board meeting agendas and items used to be posted, was no longer being maintained. In lieu of Exchange, UCOP is in the process of switching to a new, web-based information sharing tool called SharePoint. Principal Analyst Semple indicated that he was currently in discussion with a programmer from IS&S to develop a SharePoint sub-site as a repository for UCRSAB materials. In response to questions concerning access to the new Board SharePoint site, he noted that, similar to Exchange, SharePoint is a password protected site and access has to be authorized. Varying levels of access could be granted. He indicated that he hoped to have the basic SharePoint sub-site developed by the February 2011 Board meeting, where further details regarding access and content should be discussed.

ITEM E. CHIEF INVESTMENT OFFICER REPORT (PERFORMANCE THROUGH SEPTEMBER 30, 2010):

Chief Investment Officer (CIO) and Board Member Berggren noted that the quarter ended September 30, 2010 was the strongest performing third quarter in a decade. It was unusual in that both risk assets (e.g., equities) and bonds performed well. She attributed the strong performance during the third quarter to hopes of economic growth in the form of quantitative easing (i.e., federal increasing of the money supply). She stated that almost all UC funds performed well, and it appeared that risk assets were returning to favor. Emerging markets had the best performance, with a third quarter return of 19.4%. She noted, however, that relative returns were impacted by UCRP’s overweight position in private equity, which had a flat performance. Consequently, UCRP’s performance for the third quarter, while very strong at 9.23%, was 16 basis points below its

benchmark. Although UCRP's performance was above its benchmark on a one-, three-, five-, and ten-year basis, she also noted that the ten-year return on a balanced stock/bond portfolio had not been so low since the 1973-74 recession.

In response to concerns regarding money management, CIO Berggren clarified that all money is managed internally and UC determines investment asset allocation. Once UC determines the proportion of funds that should be invested in an asset class, UC may appoint an outside manager to select individual funds within the specified asset class. She also clarified that outside managers are constantly evaluated. In response to a question concerning the appropriateness of UCRP's assumed rate of return (i.e., 7.5%), CIO Berggren indicated that she would bring a chart to the February 2011 Board meeting illustrating the return for UCRP over a 20-year period. Based on another request, she indicated that she would also bring information about UC's Total Return Investment Pool (TRIP) to the next meeting.

ITEM F. EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS - BUDGET

UPDATE/STATE OF CALIFORNIA: Executive Vice President (EVP) and Board Member Brostrom indicated that UC received an additional \$370 million from the state in the 2010-2011 budget and that UC was the only component of state government that did not receive a cut. However, he noted that the budget did not appear stable and there already appeared to be a \$6 billion budget shortfall. Despite concern about UC's position in next year's budget, EVP Brostrom indicated that UC would be aggressively seeking an additional \$600 million in funding, \$182 million of which would be allotted to retirement and retiree health contributions. He indicated that it was imperative to get the state to recognize its obligation to UCRP.

With respect to funding UCRP, one Board Member stressed the importance of borrowing from STIP and categorizing the borrowed STIP monies as employer UCRP contributions in order to obtain applicable matching contributions from federal grants. The Member also emphasized the Academic Council position that employee contributions to UCRP (under the existing formula) should not exceed 7%. EVP Brostrom agreed that borrowing from STIP to help fund UCRP was critical, as the interest repayment would be less than if general obligation bonds were issued. He stressed, however, that annual evaluations would be necessary to ensure that STIP had sufficient funds to meet UC's liquidity needs. EVP Brostrom questioned why current UCRP member contributions should not exceed 7% when future UCRP members (i.e., those hired on/after 7/1/2013) will have to make 7% contributions to UCRP and will receive lesser UCRP benefits.

Finally, one member asked if the new propositions passed in November would help the state's budget process. EVP Brostrom indicated that he thought they would actually make the budget process more difficult. While a simple majority may be needed to pass a budget, a supermajority would still be required to increase revenues and certain funding mechanisms, such as borrowing from transportation funds, were now closed.

ITEM G. RETIREMENT SAVINGS PROGRAM - VENDOR MANAGER'S REPORT:

Manager Ryan began his presentation by noting that Fidelity Investments met its recordkeeping performance expectations for the third quarter. He noted that while plan contributions were up in the third quarter, it was due to seasonal summer employees who make 7.5% Safe Harbor

contributions to the UC Defined Contribution Plan) in lieu of social security contributions. Approximately 4% of plan participants had stopped contributing to the Retirement Savings Program (RSP) between the second and third quarters. He indicated that loan activity appeared to have leveled off and customer satisfaction survey scores show that participants are generally happy with Fidelity's service. With respect to communication and education activities, he noted that Fidelity counselors had increased financial workshops by 15.9% for the year and attendance for these workshops had increased by 15.3%. In response to questions, Manager Ryan noted that the increased workshops did not increase costs to UC and that at least one of the Fidelity counselors spoke Spanish.

Executive Director Baptista noted that a recent communication was issued about the opportunity for employees to leave RSP money with UC upon separation to take advantage of UC's low administrative fees. The communication was in response to a recent study which showed that many employees took distribution upon separation, even if they had sufficient balances to leave the funds with UC. In closing, one Board member cited a UCFW concern that Fidelity not push its products over the UC CORE Funds. Another member commented that historical net asset value (NAV) information on the UC CORE Funds available through Fidelity was poor and asked that the Office of the Treasurer review this issue.

ITEM H. PRESENTATION OF UCRS AUDITED FINANCIAL REPORTS FOR FY 2009-2010: Director Olson began by noting that the audited annual reports had been presented to The Regents two days earlier (November 17, 2010). He stated that the layout for the reports was the same as in past years, but the reports included additional disclosure information as a result of Governmental Accounting Standards Board (GASB) Statement 53 concerning derivative investment exposure. As of June 30, 2010, the market value of UCRP assets totaled \$34.6 billion and benefits paid during the previous fiscal year were approximately \$2 billion, an increase of 8%. The administrative expenses for UCRP remained flat. With respect to the retirement Savings Program (RSP), he noted that contributions remained fairly flat from the previous year but assets were up due to improving market returns. In response to a question from one member regarding UCRP's unfunded liability in relation to The Regents funding policy for UCRP, Director Olson indicated that goal was to eliminate the unfunded liability and return UCRP to a fully funded status within 30 years.

ITEM I. REGENTS ITEM F-3 - ANNUAL ACTUARIAL VALUATION REPORTS FOR UCRS: Paul Angelo of the Segal Company, The Regents' Actuary, provided an overview of the actuarial valuation reports for UCRP and the PERS Plus 5 Plan that he had provided to The Regents two days earlier (November 17, 2010). He reminded the Board that UCRP has an assumed earnings rate of 7.5%. Consequently, UCRP's positive return for the year of 13.3% represents a gain of only 5.8%. He discussed UCRP's funded ratio in relation to 5-year smoothing, in which UCRP's gains or losses are realized over a 5-year period. He noted that, despite a positive return on assets for the past fiscal year, UCRP's funded ratio on an actuarial value of assets basis had decreased from 95% to 87%, as losses from previous years were incorporated via the smoothing process. In response to a question, he noted that UCRP's Normal Cost changes as a result of assumption-changes and/or demographic changes (such as people living longer), but not as a result of retiree benefit payments. He also clarified that retiree payments do not affect UCRP's unfunded liability, as each dollar of

payment releases a dollar of liability. EVP Brostrom stated that plans with a higher Normal Cost tend to be more volatile, as market swings tend to have more of an impact. In closing, Actuary Angelo also noted that The Regents had approved a change in September 2010 which extended the amortization period of UCRP's unfunded liability from 15 to 30 years.

ITEM J. REGENTS ITEM J-3 - UNIVERSITY OF CALIFORNIA POST-EMPLOYMENT RECOMMENDATIONS FOR DECEMBER 13, 2010 SPECIAL MEETING OF THE UC BOARD OF REGENTS: Director Schlimgen provided an overview of the post-employment benefits (PEB) recommendations that were presented to The Regents for discussion the previous day (November 18, 2010). Prior to presenting the slides that were shown to The Regents, he noted that recommendations for both an ad hoc and annual COLA for UC-PERS Plus 5 Plan participants were included as part of Regents item J-3. He also mentioned that both Academic Council Chair Simmons and Staff Advisor to The Regents Martinez were at The Regents meeting and were very complimentary of the President's efforts to engage various constituencies in the PEB decision-making process.

While proceeding through the slides, Director Schlimgen noted that the President endorsed a new tier in UCRP for eligible employees hired on/after July 1, 2013, with an earliest permissible retirement age of 55 and a maximum retirement factor of 2.5% age 65. The total Normal Cost of the new tier is 15.1% of covered payroll with the University contribution at 8.1% of covered pay and the member contribution at 7% of covered pay. He also described the proposed new retiree health graduated eligibility rules based on both age and service and stated that an employee could still receive the full University contribution at age 65 with at least 20 years of UCRP service credit. In response to a Board member's question, he clarified that UC will reduce the maximum UC contribution for retiree health to a floor of 70% over time, but that UC's contribution would be reviewed and determined on an annual basis.

ITEM K. DISCUSSION WHETHER THE UCRS ADVISORY BOARD MAY DISCUSS ISSUES RELATED TO RETIREE HEALTH ISSUES: Chair Oakley invited consideration of whether the Board could or should receive briefings and discuss issues related to retiree health as part of its responsibilities, as described in the UCRSAB Handbook, specifically item (d): "*review the benefit structure of the UCRS plans and develop concepts for benefit changes...*" While he recognized Director Schlimgen's concern that retiree health would not fall under the purview of a retirement plan board and that the retiree health program is not part of UCRS, Chair Oakley noted that retiree health was a significant PEB issue and asked the Board Members for their opinions. One Board Member remarked that eligibility for retiree health is based on UCRP service, so there was a connection. After a brief discussion, Chair Oakley suggested that the Board stay informed about overall budget implications of retiree health issues and of the actuarial valuation results, but not specific program, policy or design issues.

ITEM L. PRELIMINARY DISCUSSION OF POSSIBLE EFFECTS OF NEW DEPARTMENT OF LABOR REGULATIONS ON UCRS PLANS: Chair Oakley noted that the article from the law firm of Ice Miller LLP regarding new Department of Labor (DOL) retirement plan fee disclosure requirements was distributed for informational purposes only. As it appears the new DOL requirements are directed at ERISA plans, he indicated that they would not

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apply to UCRS. Counsel Clark confirmed that the DOL requirements do not apply to governmental plans such as the UC Retirement Savings Plans. However, the new requirements could have an indirect effect on governmental plans by establishing a more stringent definition of best practice. It was suggested that the issue of retirement plan fee disclosure be addressed again at a future meeting.

The meeting adjourned at 1:58