



# UCRS Advisory Board

**MINUTES**  
**UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)**  
**ADVISORY BOARD MEETING**  
**FRIDAY, JUNE 19, 2015**  
**10:00 AM – 2:00 PM**

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**BOARD MEMBERS PRESENT:** Chair Shane White, Vice Chair Meredith Michaels (via telephone), Chief Investment Officer (CIO) Jagdeep Singh Bachher, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor David Odatto (via telephone), Professor James Chalfant, Assistant Director Deborah McWilliams (via telephone), Administrative Clinical Care Partner Monica Martinez, CUCRA Chair Lee Duffus, and CUCEA Chair Roger Anderson.

**BOARD MEMBERS ABSENT:** Executive Vice President and Chief Operating Officer Rachael Nava

**UCOP STAFF PRESENT:** Associate CIO Arthur Guimaraes, Managing Director Samuel Kunz, Associate Vice President (AVP) Debora Obley (via telephone), Executive Director Ray Miskelley, Executive Director Gary Schlinggen, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Senior Investment Analyst Susie Ardeshir, Director Kris Lange, Director Ellen Lorenz, Associate Director Tony DiGrazia, Manager Ken Reicher, Manager Gregory Ricks, Principal Analyst Ken Feer, Principal Analyst Melissa Rad, Principal Analyst Robert Semple.

**OTHERS PRESENT:** LBNL Associate Director and Chief Operating Officer Glenn Kubiak, LBNL Chief Financial Officer Kim Williams, CUCRA/CUCEA Joint Benefits Committee Chair Dick Jensen, CUCRA/CUCEA Joint Benefits Committee representative Adrian Harris (via telephone), UCB Emeriti Association representative Amy Block Joy, UCB Emeriti Association representative George Goldman, UCB Retiree Association representative Marian Gade (via telephone), UCB Retiree Association representative Antonia Sweet, UCB Retiree Association representative Julia Walsh, CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, SETC representative David Rogers, AFSCME representative Claudia Preparata, Teamsters Local 2010 representative Mary Higgins, UPTE representative Mike Fehr, CNA representative Ben Elliott, CNA representative Maureen Dugan, CNA representative Randy Howell, UPTE representative Paul Brooks, Mercer Consultant Andrew Scheufele, Actuary John Monroe (Segal Consulting).

The meeting officially began at 10:05 a.m.

**PUBLIC COMMENT PERIOD:** UCB Emeriti Association representative George Goldman warned that public pension plans face a crisis within the next 15 years and that Governor Brown has indicated that the state has no responsibility for the University of California Retirement Plan (UCRP or Plan). Retiree and UPTE representative Paul Brooks questioned why UCRP continues to use an assumed rate of return of 7.5%, which is more than inflation and below projected stock market returns. CUCFA representative Kiskis stated that CUCFA does not support a reduction in UCRP benefits or the implementation of a defined contribution plan (dc plan) for new employees in exchange for a state

contribution which barely reduces UCRP's unfunded actuarial accrued liability (UAAL). Moreover, he noted that the budget language neither mentions funding for UCRP beyond fiscal year (FY) 2015-16 nor the requirement for a dc plan, which various UC constituencies vetted and rejected in 2009-10. AFSCME representative Claudia Preparata, CNA representative Maureen Dugan and Teamsters representative Mary Higgins all stated that their respective unions stand together in opposing a dc plan. They stated that a dc plan was never mentioned in the budget language and could threaten the financial stability of UCRP. They also stated that UCRP is better for recruitment and retention as it provides retirement security and is not subject to the vagaries of the stock market. Finally, they noted that information from Segal Consulting has shown that the cost of a dc plan is not much less than UCRP.

Chair White read a statement from UPTE representative Mike Fehr which also opposed the implementation of a dc plan. The statement indicated that the value of a dc plan is dubious since comparable employer contributions must be proposed to make the dc plan option competitive and UC must also continue to amortize the unfunded pension liability on behalf of dc plan employees. The public comments closed with comments from retiree Dr. Diane Driver who stated that climate change is the most pressing global issue. Similar to the actions UC took against Apartheid, she urged UC to divest from all fossil fuel investments.

**APPROVAL OF THE MINUTES:** Chair White called for approval of the minutes from the Board meeting of February 27, 2015. The minutes were approved by acclamation.

**COMMENTS FROM THE CHAIR:** Chair White announced that his term on the Board expires at the end of June. He indicated that the new Academic Senate representative on the Board is Henning Bohn, an economist from UCSB who has a thorough understanding of pension and benefit issues and a long history of Academic Senate service as UCSB Division Chair and a member of the UC Committee on Planning and Budget. Professor Bohn's four-year term on the Board begins on July 1, 2015. Chair White also announced that the terms of the Board's two staff representatives, Monica Martinez and Deborah McWilliams, were expiring as of June 30, 2015. On behalf of the Board, he thanked Monica and Deborah for their service to the Board and the UC community.

**CHIEF FINANCIAL OFFICER – BUDGET UPDATE:** In EVP Brostrom's absence, the budget update was provided by AVP Debora Obley, who noted that the budget should be signed on Monday, June 22, 2015. She said that the revised budget is in line with the agreement between Governor Brown and President Napolitano and provides UC with a multi-year funding provision, including a 4% base budget increase for the next four years. The budget also includes \$25 million for deferred maintenance.

She clarified that the budget does not reflect all the funding UC requested from the state or all the conditions accepted by UC as part of the agreement between the Governor and the President, but it supports the "framework" of the agreement, which provides UC with \$436 million of Proposition 2 funds over the next three years to pay down UCRP's UAAL, beginning with \$96 million for FY 2015-2016. In exchange, she noted that UC has agreed to offer employees hired on/after July 1, 2016 the choice between a new UCRP tier which caps compensation used in calculating retirement benefits to the limit imposed by the California Public Employees' Pension Reform Act (PEPRA,) or a dc plan in lieu of UCRP. The new UCRP tier would contain a supplemental dc plan for some employees, which she indicated that Governor Brown considered acceptable. Additionally, she indicated that UC has agreed to keep tuition flat for the next two years and develop pathways to increase transfers from

community colleges, reduce time to degree to three years, and foster data initiatives to help identify at risk students and improve learning techniques (predictive analytics).

The Chair distributed a letter from Board member Roger Anderson which contained a list of specific questions related to the new UCRP tier and dc plan, for which he requested responses prior to the Board meeting in November. In closing, AVP Obley indicated that the state is sending a message that it thinks UC is too inefficient and expensive and must reduce costs.

**CHIEF INVESTMENT OFFICER – REPORT:** CIO Bachher began by stressing that a secure retirement for UC employees is based on the combination of UCRP, RSP and Social Security benefits. Turning to UCRP, he stated that as of the end of the first quarter, UCRP had nearly \$55 billion in assets and a YTD return of 7.8%. The return was primarily driven by stocks, which comprise 55% of UCRP’s investments. However, he cautioned that we are entering a low-return environment and he doubts that UCRP will return 7.5% for the calendar year, a forecast that was recently echoed by CalPERS. He indicated that in a low-return environment, his office will focus more on costs and fees as well as active management to maximize returns as much as possible.

Reporting on the UC Retirement Savings Program (RSP), Associate CIO Guimaraes noted that it had over \$20 billion in assets as of the end of the first quarter, nearly doubling in size over a period of five years. He noted that the Savings Fund contained the most assets and he expressed concern that many RSP participants were only invested in the Savings Fund. As an example, he noted that over the past five years, the average return on the Savings Fund was around 1% whereas a balanced portfolio would have produced a return of around 9%. He feels that UC should take advantage of additional opportunities to educate RSP participants.

CIO Bachher finished the report with a brief update on sustainable investing. Noting that information was contained in the handout distributed to members, he indicated that his office was in the planning stages of drafting a set of “sustainable investing beliefs.” His office is engaging with stakeholders, collaborating across networks and developing an investment strategy to incorporate environmental, social and governance (ESG) factors.

**ITEM A. UCRS – AGREEMENT WITH THE GOVERNOR FOR FUNDING TO ADDRESS UCRP’S UNFUNDED LIABILITY:** Executive Director Schlimgen stated that AVP Obley had already summarized the agreement between the Governor and the President, including the proposed retirement plan changes for employees hired/rehired on or after July 1, 2016. He clarified that the agreement with the Governor involves only the new UCRP pension tier (i.e., 2016 tier) with the PEPPA cap on covered compensation; and that UC announced that choice will be offered between the new UCRP tier and a dc plan with an employer contribution. Given the deadline to receive state funding, he indicated that a task force comprised of faculty and staff will be formed in the summer to conduct analysis and provide plan designs, which will be socialized with key stakeholders in early 2016, followed by a proposal presented to the Regents for review and approval in the spring of 2016. As with the pension reforms UC has already enacted, the design of the new hire options will be informed and guided by input from various members of the UC community, including the Regents, the UCRS Advisory Board, faculty, staff and other stakeholders.

In response to a question of whether the work group would include a represented employee or delegate, VP Duckett noted that doing so could involve complications under the Higher Education

Employer-Employee Relations Act (HEERA). He noted that all proposed retirement plan changes are subject to collective bargaining for represented employees.

**ITEM B. UCRP – PRELIMINARY RESULTS OF EXPERIENCE STUDY:** Actuary Monroe of Segal Consulting briefly summarized the preliminary results of the UCRP Experience Study (Study), which compares UCRP's expected experience to its actual experience to help determine if Plan-related assumptions are accurate. He noted that the presentation of the Study results to the Regents is being deferred until September 2015. Concerning demographic results, he noted that there was a decrease in mortality rates and a recommendation would be made to switch to a more recent (2014) mortality table. He also indicated that there were decreasing rates of disability and terminations in the 1976 tier and that 1976 tier staff members were retiring later than expected. Concerning economic assumptions, he stated that a recommendation will be made to reduce the inflation rate from 3.5% to 3%. He also noted that a recommendation may be made to reduce UCRP's rate of return dependent, in part, upon potential UCRP asset allocation changes that the CIO may be making. It was noted that a reduction in UCRP's rate of return would be dramatized in the press and that UC should have a communication plan ready.

**ITEM C. UCRP – PROPOSAL TO MODIFY THE EMPLOYER CONTRIBUTION RATE FOR THE LAWRENCE BERKELEY NATIONAL LABORATORY SEGMENT OF UCRP:** Glenn Kubiak, Associate Director and Chief Operating Officer of LBNL, and Ray Miskelley, Executive Director in the UCOP Office of National Laboratories, co-presented the item. Executive Director Miskelley began with a brief overview of LBNL, noting that it is a member of the national laboratory system which is administered by UC under a contract with the US Department of Energy (DOE). LBNL has an annual budget of roughly \$800 million and the UC Regents have a fiduciary obligation to assure that federal funds supporting LBNL are spent appropriately.

Associate Director Kubiak stated that the DOE is scrutinizing benefits costs at all national laboratories and LBNL's benefits costs are higher than most. He explained that LBNL needs to remain financially competitive with other laboratories and wants to address its UCRP costs before the DOE takes severe action. He noted that the LBNL segment of UCRP, which is comprised largely of federal funds, has been separately tracked from the campus and medical segment of UCRP since 1991 and has a much higher funded ratio due to LBNL's slower work force growth (i.e., 10% at LBNL vs. 58% at campuses/medical centers since 1991) and the fact that LBNL did not participate in some retirement programs (e.g., certain CAP allocations and VERIPs). He then summarized the proposal to reduce LBNL's employer contribution to UCRP: for any year in which the funded ratio of the LBNL UCRP segment exceeds that of the campus/medical center UCRP segment, the LBNL UCRP employer contribution would be the lesser of (1) 2% less than the campus/medical center employer contribution rate, or (2) the LBNL segment funding policy contribution rate (i.e., the LBNL segment ARC).

He stated that the proposal could save LBNL approximately \$6 million per year and would have little impact on UCRP, since the LBNL segment represents only 3.3% of UCRP's actuarial liability. He concluded by stating that the LBNL Director would like to bring the proposal for approval to the Regents in September, with an October 1, 2015 effective date.

**ITEM D. UCRP – FUNDING PROJECTIONS BASED ON FUTURE BORROWING REQUESTED BY THE UNIVERSITY COMMITTEE ON FACULTY WELFARE TASK FORCE ON INVESTMENT AND RETIREMENT:** As Chair of TFIR, Board member Chalfant

explained that TFIR had requested that projections on UCRP's future funded status be updated in light of borrowing and favorable investment returns that had occurred over the past year. He indicated that these projections were useful in helping TFIR determine whether it should advocate for further borrowing for UCRP. Actuary Monroe from Segal Consulting then briefly summarized the updated projections based on the parameters provided by TFIR, which included a constant UCRP employer contribution of 14% along with different scenarios for additional borrowing and projected UCRP membership growth. Chair White noted that the Board had previously seen similar projections and that the updated projections reflected a similar result; the sooner money is put into UCRP, the sooner UCRP is projected to attain fully funded status.

**ITEM E. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2015 AND MEASUREMENT OF ANNUITANT PURCHASING POWER:** Manager Reicher stated that the UCRP annuitant COLA for July 1, 2015, which is based on the average increase in the Consumer Price Index (CPI) for all urban consumers in the San Francisco and Los Angeles metropolitan areas from February 1, 2014 to February 1, 2015, ranged from 1.33% to 2%, depending upon a member's date of retirement and applicable COLA or inflation bank. Based on their retirement date, all UC-PERS Plus 5 annuitants will receive a 2% COLA. He also noted that the retained purchasing power for all UCRP annuitants is 80% or higher and is 91% for all UC-PERS Plus 5 annuitants.

**ITEM F. UCRS REQUEST FOR PROPOSAL FOR CONSULTING AND AUDITING ACTUARY:** Manager Reicher noted that UC periodically has the work of a Consulting Actuary audited and a request for proposal (RFP) is periodically issued to review providers and their fee structures. Consequently, in early June, an RFP was sent to qualified actuarial firms with public sector experience to provide consulting or auditing services. Firms have until late July to submit proposals. Different firms will be selected to provide the consulting versus the auditing services.

**ITEM G. RETIREMENT SAVINGS PROGRAM – FUND MENU MANAGEMENT – UPDATE:** Director Kris Lange began by noting that this project has been presented to the Board at the last two meeting and noted that the attachment to the item provided a project overview. She mentioned that all project communications were issued per the attached timeline and reminded the Board that the default transition for affected participants will occur on July 2, 2015 with a follow-up notification issued in mid-July. In closing, she addressed a complaint from a retired professor concerning what he felt was misinformation concerning the expense ratios of funds remaining on the UC menu versus those of funds available through the Brokerage Link. For clarification purposes, she noted that an addendum was added to the UC decision guide for this project, which is available on [ucfocusonyourfuture.com](http://ucfocusonyourfuture.com) website, which provides a chart with the expense ratios of the funds remaining on the UC menu. The addendum also includes a chart comparing the expense ratios of all the "institutionally-priced" funds being removed from the UC fund menu with their counterpart expense ratios as "retail" funds available under the Brokerage Link.

**ITEM H. RETIREMENT SAVINGS PROGRAM – PATHWAY FUNDS GLIDEPATH REVIEW:** Associate CIO Guimaraes noted that, as part of due-diligence, the Office of the CIO reviews the glidepath of the UC Pathway funds, which are somewhat unique among custom target date funds due to the fact that UC also provides a defined benefit plan. Mercer Consultant Andrew Scheufele indicated that Mercer has reviewed target date funds for many public and private institutions and considers all sources of retirement income when making recommendations. He indicated that the UC Pathway funds are very conservative, especially in view of the fact that UCRP provide most

retirees with a steady stream of income of approximately 50% of their preretirement pay. Additionally, he indicated that most UC retirees do not elect a full or partial refund of RSP assets upon retiring. Based on Mercer's recommendations, Associate CIO Guimaraes indicated that additional equities would be added to the UC Pathway funds, changing their glidepath to a "through retirement" approach which should increase the number of years that assets in the Pathway funds last post-retirement. It is envisioned that the changes will extend the "call-up" date of each Pathway by 8-10 years. Associate CIO Guimaraes indicated that the changes to the Pathway Funds' glidepath would be implemented over a period of 6-9 months.

**ITEM I. RETIREMENT SAVINGS PROGRAM – MINIMUM REQUIRED DISTRIBUTION– PROCESS AND OPTIONS:** Director Lange noted that there were no changes to the minimum required distribution (MRD) process for the 2015 calendar year. She noted that most MRDs were processed via the default process in which the distribution is taken proportionately from all of a participant's funds and standard tax-withholding is applied. The default MRD date for this year is December 17, 2015. She informed the Board that the chart attached to the item illustrates the process by which participants can customize their MRD. She noted that information concerning the MRD process is published in New Dimensions, the UC retiree newsletter.

**ITEM J. RETIREMENT SAVINGS PROGRAM VENDOR RELATIONS MANAGEMENT REPORT:** Due to time constraints, Director Lange touched on the major highlights of the report. She began by noting that Fidelity Retirement Services (Fidelity) missed two of its performance metrics for the first quarter; average speed to answer calls and call abandonment. She attributed the missed metrics to a combination of increased business and bad weather that occurred around the Fidelity operations centers in the first quarter. She reminded the Board that the first quarter of every year is the time when Fidelity produces the personalized retirement readiness scores for active UCRP members, which are uploaded for viewing on the [ucfocusonyourfuture.com](http://ucfocusonyourfuture.com) website. She indicated that, to date, roughly 15,000 members have logged on to view their retirement readiness scores.

**ITEM K. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE:** Director Lorenz noted that Retirement Administration Service Center (RASC) statistics were attached to the item should the Board members wish to view them. She noted that RASC was seeing a slight increase in retirements for the upcoming July 1<sup>st</sup>, which is traditionally the date on which most UCRP members elect to retire. She also mentioned that RASC had created a comprehensive video on preparing for retirement. The video is presented in short segments, so that UCRP members can watch the entire video or just selected segments. She noted that the video has received 6000 viewings. In closing she introduced Gregory Ricks, the new RASC Fulfillment Operations Manager. She noted that Mr. Ricks was a UCB graduate with a lot of experience in retirement operations, having worked for the Social Security Administration.

**ITEM L. UCRS ADVISORY BOARD – ELECTION OF STAFF MEMBERS – UPDATE:** Principal Analyst Semple provided an update on the 2015 UCRSAB election to fill the two staff representative positions on the Board to replace outgoing members Monica Martinez and Deborah McWilliams. At the conclusion of the five week nomination period that began in late March, six eligible candidates submitted nominations to run in the election. After a month-long voting period which began on May 19<sup>th</sup> and closed on June 17<sup>th</sup>, the two winners were Mike Fehr from UCLA and Naomi Nakamura from the UCSF Medical Center. Mr. Fehr is a computer resource specialist and UPTE represented employee and Ms. Nakamura is a pharmacy technician and AFSCME represented

employee. Their four- year terms on the Board begin July 1, 2015 and end June 30, 2019. Principal Analyst Semple noted that the results of the election and a corresponding news article would be posted on UCnet prior to the end of June.

**ITEM M. UCRS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR**

**2015-16:** Principal Analyst Semple noted that Chair White had nominated Vice Chancellor Meredith Michaels to serve as Board Chair and Professor James Chalfant to serve as Vice Chair for FY 2015-2016. The Chair called for a voice vote and, by acclamation, Meredith Michaels was elected as Board Chair and James Chalfant elected as Board Vice Chair for FY 2015-2016.

**ITEM N. UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL**

**YEAR 2015-2016:** Principal Analyst Semple noted that there are potential conflicts for holding a Friday meeting in November 2015, as is customary. Since there were three new members joining the Board effective July 1, 2015, he indicated that he would poll the Board later in the summer and try to arrange a schedule that did not conflict with a majority of the members' schedules.

**The meeting adjourned at 2:00**