



UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
JUNE 17, 2016
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Vice Chair James Chalfant, Chief Operating Officer (COO) Rachael Nava, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor David Odato (via telephone), Professor Henning Bohn, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCRA Chair Lee Duffus (via telephone), and CUCEA Chair Roger Anderson.

BOARD MEMBERS ABSENT: Chair Meredith Michaels.

UCOP STAFF PRESENT: Sr. Vice President Julie Henderson, Associate Vice President (AVP) Debora Obley, Associate Chief Investment Officer (CIO) Arthur Guimaraes, Executive Director Michael Baptista, Executive Director Gary Schlinggen, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Director Sam Kunz, Director Kris Lange, Director Ellen Lorenz, Director Marco Merz, Associate Director Tony DiGrazia, Sr. Investment Analyst Ardeshir, Principal Analyst Mary Jenkins, Principal Analyst Melissa Rad, and Principal Analyst Robert Semple.

OTHERS PRESENT: Incoming Academic Representative David Brownstone, CUCRA/CUCEA Joint Benefits Committee Chair Dick Jensen (via telephone), CUCEA Chair Elect Richard Attiyeh, CUCRA Chair elect Marianne Schnaubelt (via telephone), UCB Emeriti Association representative Amy Block Joy, UCB Retiree Association representative Antonia Sweet, CUCFA representative Eric Hays, CUCFA representative Michael Buroway, AFSCME representative Claudia Preparata, Teamsters Local 2010 representative Timothy Mathews, Academic Senate representative Ken Feer (via telephone), Actuary Paula Angelo (Segal Consulting) and Actuary John Monroe (Segal Consulting, via telephone).

The meeting officially began at 10:02 a.m.

PUBLIC COMMENT PERIOD: (There were no public comments).

APPROVAL OF THE MINUTES: Vice Chair Chalfant, who presided as Chair in the absence of Chair Michaels, called for approval of the minutes from the Board meeting of February 19, 2016 and the Board teleconference call of March 17, 2016. The minutes for both were approved by acclamation.

COMMENTS FROM THE CHAIR: Acting Chair Chalfant stated that this was his last meeting as a Board member and that he enjoyed working with all the other members of the Board. He stated that he is ending his Board term after two years due to other pressing commitments, such as becoming the new Chair of the Academics Senate. He introduced his replacement as an Academic Senate representative

on the Board, Professor David Brownstone, who is an economist from UCI. Vice Chair Chalfant then announced that this meeting was also the last for Board member Roger Anderson, whose term as CUCEA Chair, and thus his corresponding term on the Board, expires at the end of the month. On behalf of the Board, he thanked Roger for his dedicated service to both the University and the Board. He and member Anderson then introduced the new incoming CUCEA Chair and Board member, Richard Attiyeh, who is a Professor Emeritus of economics from UCSD. In closing, he noted that this meeting would also be the last for Debora Obley, the Associate Vice President of Budget Analysis & Planning, who is retiring on July 1, 2016. Although not a member of the Board, he thanked her for the many budget updates she provided to the Board and wished her a happy retirement.

CHIEF FINANCIAL OFFICER – BUDGET UPDATE: AVP Obley began by noting that the budget was adopted by the legislature and it was now with the Governor, who is expected to approve the budget by the end of the month. The proposed budget includes a base budget increase of 4% and includes funding for student enrollment for Fiscal Years (FY) 2016/17 and 2017/18. Although UC asked for \$10,000 per student, the budget allocates only \$7,400 per student.

CHIEF INVESTMENT OFFICER – REPORT: CIO Bachher began by introducing Marco Merz, the new Director of the Retirement Savings Program (RSP) investment line-up. Director Merz will report to Associate CIO Guimaraes. CIO Bachher noted that Director Sam Kunz would speak about asset allocation followed by Sr. Investment Analyst Ardeshir, who would speak about the performance of the University of California Retirement Plan (UCRP or Plan) and concluding with Associate CIO Guimaraes and Director Merz, who would discuss the RSP investment line-up and how to improve RSP investment outcomes for its participants.

Director Kunz noted that in reviewing the appropriate asset allocation for UCRP, the focus should not just be on meeting the Plan's assumed rate of return but should also maximize the probability of meeting the Plans' liabilities. He indicated that he would be working with Mercer Consulting and Segal Consulting to look at the best practices of UC's peers. He stated that bonds were producing very low returns but that UCRP shouldn't be invested too heavily in public equities, as they are expected to have sub-par returns over the next few years. He indicated that the strategy for UCRP was to keep 65% of its portfolio somewhat liquid. He stated that an appropriate asset allocation for UCRP's immediate future might be comprised of 50% equities, 20% bonds and 30% various opportunities, such as private equity and real estate. He stressed that such an asset allocation may not provide returns equal to the Plan's assumed rate of return of 7.25% for the immediate future, but should improve the Plan's funded ratio over 20 years.

Sr. Investment Analyst Ardeshir noted that global equity markets have struggled over the past fiscal year, with China down about 20%. She also indicated that there was a downturn in health care-related investments and banks were underperforming. She stated that while public equity was the largest negative contributor to UCRP's performance, private equity and real estate contributed positively to the Plan's returns. However, since UCRP was overweight in public equities and underweight in private equities and real estate, its one-year return (as of March 31, 2016) was -2.4% compared with -1.7% for its benchmark. She indicated that the Plan's performance as of the close of the fiscal year won't be close to its assumed rate of return (7.25%), a trend she expects to continue for the next five years and which will put pressure on UCRP's funded status. She stressed, however, that UCRP's performance should be viewed from a long-term perspective.

Associate CIO Guimaraes stated that with the implementation of the 2016 Retirement Choice Program, the RSP, and the DC Plan in particular, will play an increasing role in providing the 70% (or more) of final income replacement that UC employees should have in retirement. He indicated that his focus for the RSP was on improving the investment line-up and the performance outcome for participants. He noted that the UC Pathway target date funds make up only 25% of the RSP investments, which is lower than the industry average. He indicated that too many participants have assets in the Savings Plan, which is providing minimal returns, and he attributed the issue to the fact that the Savings Fund was the default investment option until 2014, when the default investment was changed to an age-appropriate Pathway Fund. He and Director Merz concluded that more communication and training on retirement investing and the investment options available through the RSP, especially the Pathway Funds, is needed.

ITEM A. UCRS – 2016 RETIREMENT OPTIONS – NEW HIRE EXPERIENCE: Referencing an attachment which fully described the design of the 2016 Retirement Choice program, Principal Analyst Jenkins briefly summarized the major aspects of the new program, including its plan choices, compensation limits, employee and employer contribution levels and other provisions.

Sr. Vice President Henderson then discussed the UC communication strategy for the 2016 Retirement Choice Program. She indicated that the main objective was to make sure that employees understand the nature of the choice; the difference between a pensions and a defined contribution plan. Additionally, she indicated that the goal was not to overwhelm new employees but to provide sufficient information so that they felt equipped to make a decision. She indicated that the retirement section of UCnet had been redesigned to describe the new retirement program and contained the new program Decision Guide, an interactive chooser tool, an updated version of “The Benefits of Belonging” video and a “frequently asked questions” section about the new program.

Director Kris Lange then described the onboarding process for new eligible employees, noting that retirement communications would be automatically sent when a new eligible employee was entered into the payroll system. Once entered into payroll, the information would be sent within a day or so to Fidelity, which would then email (or mail) the new employee a welcome kit containing a retirement booklet and a Decision Guide. She noted that Fidelity would send up to three email reminders to new employees who had not made a retirement plan choice. She then described the online election process made through the Retirement Decision Tool on myucretirement.com She stated that the Retirement Decision Tool also included a model financial comparison tool. She closed by describing the education and counseling options that would be available to new employees.

ITEM B. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2016 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Principal Analyst Rad stated that the UCRP Annuitant COLA for July 1, 2016, 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, 2015 to February 1, 2016, ranged from 2.00% to 2.72%, 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. She also noted that the retained purchasing power for all UCRP annuitants is 79% or higher and is approximately 91% for all UC-PERS Plus 5 annuitants.

ITEM C. RETIREMENT SAVINGS PROGRAM – PROSPECTIVE CHANGE TO DIRECT FUTURE SUMMER SALARY CONTRIBUTIONS TO THE 403(B) PLAN: Principal Analyst

Jenkins began by briefly providing background on the summer salary benefit for eligible academic appointees, initially approved by the Regents in 2000. The summer salary benefit provides for a mandatory 3.5% pre-tax employee contribution and a 3.5% UC contribution on summer salary (which is not Covered Compensation for UCRP) to be directed to the UC DC Plan Pre-tax Account. She stated that beginning this fall, prospective summer salary contributions will be directed to the 403(b) Plan rather than the DC plan. All historical summer salary contributions will remain in the DC Plan.

ITEM D. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION

REPORT: Director Lange provided highlights of the report, noting that the biggest changes involved the planning and implementation of operational, systems and processes development to accommodate and support the DC Plan changes due to the 2016 Retirement Choice Program. Citing some of the standard report statistics, she noted that the RSP had \$19.8 billion in assets and slightly more than 302,000 unique participants. She indicated that Fidelity had met all of its service level agreements with the exception of the of the 10-day case management closure rate, which it missed by .23% (i.e., 98.77% rather than the service level of 99%). She mentioned that a newly designed portal, myUCretirement.com, was launched which contains updated retirement readiness scores and which is the site where new employees will make their 2016 retirement plan election. She closed by noting that there continues to be significant interest in the retirement-related educational program, with over 12,000 having attended onsite events or engaged in one-on-one counseling during the first quarter of 2016.

ITEM E. RETIREMENT ADMINISTRATION SERVICE CENTER – JULY 1ST

RETIREMENTS: Director Ellen Lorenz briefly summarized the RASC Quick Facts attachment, noting that Customer Care had met or exceeded all of its service metrics for the first quarter of 2016. She mentioned that satisfaction with Customer Care service was very good, with 89% of customers indicating that they were satisfied (or better) with the service they received during the first quarter. Turning to the Fulfillment Operations Unit, she indicated that staff had reduced the average turnaround time for processing retirement elections to 32 days during the first quarter, which was well below the service metric of 45 days. She noted that the July 1st retirements were a little bit down from last year, but she indicated that a mailing to inactive UCRP members likely caused the higher number of retirements last July. She closed by noting that her staff was gearing up for the 2016 Retirement Choice Program which becomes effective on July 1st. While Fidelity representatives will handle many of the initial inquiries, she noted that Fidelity would transfer some calls to RASC, such as complex eligibility questions. In preparation, RASC staff members had attended several in-person trainings and webinars on the new retirement program and had taken weekly quizzes prepared by subject matter experts to help ensure they provide accurate and consistent responses to inquiries.

ITEM F. UCRS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2016-17:

Principal Analyst Semple noted that member Nava had nominated Vice Chancellor Meredith Michaels to serve a second term as Board Chair and that member Chalfant had nominated his replacement on the Board, Professor David Brownstone, to serve as Vice Chair for FY 2016-17. Vice Chair (acting Chair) Chalfant called for a voice vote and, by acclamation, Meredith Michaels was elected as Board Chair and David Brownstone was elected as Board Vice Chair for FY 2016-17.

ITEM G. UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL

YEAR 2016-17: Principal Analyst Semple announced the proposed meeting dates for the next fiscal year, as delineated in the Board item. He asked the Board members to contact him within the next

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month to report any potential scheduling conflicts. He indicated that if no scheduling conflicts were reported, he would consider the proposed dates as acceptable and have them added as a link on the Board's main page on UCnet.

The meeting adjourned at 1:53 p.m.