



UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
JUNE 23, 2017
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Meredith Michaels, Vice Chair David Brownstone, Chief Investment Officer (CIO) Jagdeep Singh Bachher, Vice President (VP) Dwaine Duckett, Associate Vice Chancellor David Odatto (via telephone), Professor Henning Bohn, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCRA Chair Marianne Schnaubelt (via telephone), and CUCEA Chair Richard Attiyeh.

BOARD MEMBERS ABSENT: Chief Operating Officer (COO) Rachael Nava

UCOP STAFF PRESENT: Associate Chief Investment Officer (CIO) Arthur Guimaraes, Director Marco Merz, Director Scott Chan, Executive Director Gary Schlimgen, Director David Alcocer, Director Esther Cheung Hill, Director Kris Lange, Director Ellen Lorenz, Associate Director Tony DiGrazia, RASC supervisor Scott Sylva, Manager Ken Reicher, Principal Analyst Kendra Eaglin, Principal Analyst Melissa Rad, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA/CUCEA JBC Chair Roger Anderson, CUCRA Chair elect Joe Lewis, UCBEA representative Amy Joy, UCRAB representative Antonia Sweet, CUCFA representative Eric Hays, retiree Marianne Smylie, and Actuary John Monroe (Segal Consulting – via telephone).

The meeting officially began at 10:03 a.m.

PUBLIC COMMENT PERIOD: Board member Nakamura read a statement prepared by AFSCME representative Claudia Preparata, who was not in attendance. Ms. Preparata stated that the change in the Retirement Savings Program (RSP) fee structure was not announced to the Board or the RSP participants in a timely manner. Additionally, she indicated that the flat administrative fee unfairly impacts lower paid employees, as it disproportionately impacts those with lower account balances. She stated that the change in the RSP fee structure was another example of UC implementing a provision that favors highly compensated employees.

APPROVAL OF THE MINUTES: Chair Michaels called for the approval of the minutes from the Board meeting of February 24, 2017. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR AND VICE CHAIR: Chair Michaels announced that it was her last meeting as a Board member as she will be retiring in September 2017. She thanked the Board for its dedication.

On behalf of the Board, Vice Chair Brownstone thanked Chair Michaels for her dedication to both the Board and the University. He then read a letter from President Napolitano which also thanked Chair Michaels for all she has done for the University and the Board.

Vice Chair Brownstone then informed the Board that the Los Angeles Times had requested data on UC retiree pension amounts. He stated that the LA Times would most likely be producing a critical article regarding the high pensions received by a number of UC retirees. He also noted that the Faculty Welfare's Task Force on Investment and Retirement (TFIR), for which he is Chair, has been working with Fidelity to improve the UC retirement planning tool at Fidelity (such as adjusting for expected inflation, etc.).

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Director Alcocer began by noting that the state budget is currently with the Governor, having been passed by the legislature the previous week. He indicated that the proposed budget for UC represents a 4.2% increase over last year's budget. The budget includes a 4% base budget increase, along with \$5 million for graduate enrollment, \$169 million for UCRP (which represents the third installment of the promised Proposition 2 monies) and \$81 million in health research funds from Proposition 56 (i.e., the cigarette tax to fund healthcare). He also noted that the budget includes a proposed additional \$50 million contingent upon UC taking certain actions in the coming year: enrolling two freshmen for every transfer student and complying with the state audit recommendations. He also mentioned a proposed change in the way UCOP would be funded in the future; the Governor would like to allocate a specific amount of funding for UCOP, as opposed to UCOP assessing the locations to support its operations.

Director Alcocer also noted that an action item was being presented to the Regents in July to raise the University contribution rate for the campus and medical center segment of UCRP from 14% to 15% and to increase the employer assessment on the Savings Choice option from 6% to 7%, which is used to pay down the unfunded liability for UCRP. Additionally, the Regents will be asked to approve additional borrowing for UCRP for fiscal years 2018/19 through 2021/2022 to fully cover the difference between the approved employer contribution to UCRP and its annual required contribution (ARC). The total amount of the borrowing is not to exceed \$2.3 billion and is expected to be transferred primarily from the Short Term Investment Pool (STIP).

CHIEF INVESTMENT OFFICER – REPORT: CIO Bachher began by noting the dramatic change in investment returns for UCRP. As of March 30, 2016, UCRP's one-year return was a negative 2% while as of March 30, 2017, its one-year return was a positive 12%. Over the course of a year, UCRP's assets under management had grown by nearly \$5 billion, with total asset now at \$60 billion. He attributed the increase primarily to returns on public equities and noted that despite a 50% reduction in their numbers, active public equities managers had garnered good returns. He stated that the reduction and restructuring efforts with respect to active managers had saved on costs and seems to be providing positive results, but he cautioned against unwarranted optimism. He stated that it is doubtful that UCRP returns would be as high next year. He noted that the 5-year return for UCRP averaged 7.8% and the 20-year return averaged 7.2%, just slightly below UCRP's 7.25% assumed rate of return. He concluded by noting that oil is dropping and is unlikely to increase for a while. He stated that if Saudi Arabia is looking to diversify and not just rely on oil, the world should take note.

Associate CIO Guimaraes indicated that he would focus his RSP summary on three key issues; (1) savings and efficiencies, (2) white labeling for consistent and simple messaging and (3) streamlining.

With respect to savings and efficiencies, he indicated that three funds were being repackaged from mutual funds to institutional vehicles. Each fund would retain the same manager and strategy, but would have a new name and, in some cases, lower fees. Regarding white labeling, he noted that three other funds would simply be labeled using a more intuitive and consistent naming convention. Finally, he indicated that the Core menu would be streamlined by eliminating the Balanced Growth Fund and the Global Equity Fund. A participant's assets in the Balanced Growth Fund would be moved to an appropriate Pathway Fund based on when the participant will turn age 65. Since the Global Equity Fund is comprised of 85% domestic equities and 15% international equities, a participant's assets in this fund would be moved proportionately to the UC Domestic Equity Fund and the UC International Equity Fund, respectively. He stated that these changes would occur in early October 2017 and that participants would be notified in mid-July, with a follow-up reminder in August and another notification after the change occurred.

ITEM A. UCRS – 2016 RETIREMENT CHOICE PROGRAM STATISTICS – UPDATE:

Principal Analyst Eaglin summarized the 2016 Retirement Choice Program statistics that had been distributed to the Board, noting that the data was as of June 3, 2017. She mentioned that slides with the notation of "closed group" represented only those employees whose original 90-day window period had elapsed; it did not include recent hires whose window may have closed early because they made an election before the 90-day window period ended. She indicated that approximately 56% of new hires were subject to the PEPRA limit while the remaining 44% not subject to the PEPRA limit represented rehired employees. She clarified that the statistics were not all-inclusive as some new eligible hires were represented by unions that had yet to bargain the 2016 Retirement Choice Program. Based on a request from the Board, she included a slide of elections made by employees in various salary bands. She noted that the majority of lower paid employees defaulted to the Pension Choice, but the majority of those who made an election selected the Savings Choice. She noted that there were fewer defaults among the more highly compensated employees and that the majority of them who made an election chose the Pension Choice. There was not a notable differentiation of choice between faculty and staff. She stated that the majority of elections were made within 30 days and noted that reminder notices now include information concerning the implications of not making a choice in a timely manner. A discussion ensued about ways to enhance the choice communications, including a new hire "checklist," so that more employees make their elections as soon as possible and don't lose UCRP service credit and/or UC contributions, as applicable.

ITEM B. UCRP – COST-OF-LIVING ADJUSTMENT FOR 2017 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Principal Analyst Rad stated that the UCRP Annuitant COLA for July 1, 2017, 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, 2016 to February 1, 2017, ranged from 2.00% to 3.09%, 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 78% or higher and is approximately 90% for all UC-PERS Plus 5 annuitants.

ITEM C. UCRS – REDWOOD RETIREMENT RECORDKEEPING SYSTEM – UPDATE:

Director Cheung Hill reminded the Board that she last updated them on this project in the fall of 2015. As background, she noted that the current, COBOL based retirement recordkeeping system is 35 years old and cumbersome and was not designed to handle the complexity of functions now required of it. Additionally, employees who have the most experience with the old system are nearing retirement and

training new employees to become familiar with the current system is challenging. She indicated that the technology used in the Redwood System will make it more flexible, easier to understand and able to more easily accommodate UC's multiple tier pension system. More importantly, the Redwood System will enhance the member experience. It will eliminate a lot of manual work being done today, enabling personnel to process and issue retirement and survivor benefits more quickly. She indicated that the new system will also allow employees to process more retirement-related transactions via UC At Your Service Online (AYSO) and/or the web and that UC will be forming focus groups to determine the transactional methods preferred by today's retiree. In closing, she indicated that there is still a lot to do, such as organizational change management, trainings and testing, but the Redwood System should go live in 2019.

ITEM D. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION

REPORT: Director Lange began by noting that the report was for the first quarter of 2017 and then she proceeded to summarize the report highlights. As discussed during the Board's February meeting, she stated that the RSP administrative fee restructuring (i.e., implementing a fixed participant fee) was finalized and implemented effective June 1, 2017. She also mentioned that UC and Fidelity continue to work together to identify, monitor and resolve UCPath and Retirement Choice Program operational issues. She noted that Fidelity has also developed additional steps to accommodate the remaining CSU DC Plan accounts and 18,000 residual (small) accounts still held within the UC retirement system. With respect to communications and education, she noted that the 2017 Retirement Reviews were tested and released, which showed that 60% of eligible employees were projected to have a retirement readiness score of 80% at age 65. She also noted that the RSP fee restructuring communications were issued and trainings conducted, and that communications regarding the RSP fund changes addressed earlier, in the CIO report, have been planned and drafted.

ITEM E. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Lorenz summarized the Retirement Administration Service Center (RASC) first quarter service metrics for the Board. She stated that the number of RASC Customer Care calls remained the same as the first quarter of 2016 but that correspondences increased by 6%. She noted that RASC met or exceeded its performance goals and that customer satisfaction was at 89%, which was 9% above the goal. She noted that 52% of retiree inquiries were concerning UCRP benefits, while the remaining inquiries involved retiree insurance (21%) or were related to AYSO and financial matters, such as password resets, direct deposits, tax withholding, etc. She also stated that July 1st retiree elections were up 13% from the same time last year. She concluded by mentioning that so far this year, 23 on-site "preparing for retirement" presentations had been given, attended by 1,800 employees along with 6 webinars. She indicated that 95% of the respondents had indicated that they were satisfied (or more than satisfied) with the presentations.

ITEM F. UCRA ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2017-18: Principal Analyst Semple noted that Professor Bohn had nominated Professor Brownstone to serve as Chair. In turn, Professor Brownstone had nominated Professor Bohn to serve as Vice Chair. These were the only nominations received. Chair Michaels called for a voice vote and Professor Brownstone was elected as Chair and Professor Bohn was elected as Vice Chair for Fiscal Year 2017-18.

ITEM G. UCRAS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL YEARS 2017-18: Principal Analyst Semple announced the proposed meeting dates for the next fiscal years, as delineated in the Board item. 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 Board members noted some conflicts with respect to the proposed November 17, 2017 meeting date and asked if the meeting could be rescheduled for Friday, December 1, 2017. Principal Analyst Semple said he would reserve a room for December 1, 2017 and that he would have the meeting dates posted on the Board member’s calendars and on UCnet.

The meeting adjourned at 1:02 p.m.