



UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
JUNE 22, 2018
10:00 AM – 2:00 PM

BOARD MEMBERS PARTICIPATING: Chair David Brownstone, Vice Chair Henning Bohn, Chief Operating Officer (COO) Rachael Nava, Chief Investment Officer (CIO) Jagdeep Bachher, Vice Chancellor Ronald Cortez, Vice President (VP) Dwaine B. Duckett, Pharmacy Technician Naomi Nakamura, Computer Resource Specialist Michael Fehr, CUCEA Chair Richard Attiyeh.

BOARD MEMBERS ABSENT: Associate Vice Chancellor David Odat, CUCRA Chair Marianne Schnaubelt.

UCOP STAFF PARTICIPATING: Associate Chief Investment Officer (CIO) Arthur Guimaraes, Associate Vice President David Alcocer, Senior Managing Director Edward van Gelderen, Executive Director Gary Schlingen, Sr. Counsel Luis Blanco, Senior Investment Analyst Susie Ardeshir, Chief Information Security Officer David Rusting, Director Esther Cheung Hill, Director Ellen Lorenz, Associate Director Anthony DiGrazia, Manager Hyun Swanson, Principal Analyst Kendra Eaglin, Principal Analyst Melissa Rad, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCRA Chair elect Joe Lewis, UCSCEA representative Todd Wipke, UCBEA representative Caroline Kane, UCBEA representative Amy Block Joy, UCRAB representative Antonia Sweet, CUCFA representative Eric Hayes, AFSCME Local 3299 representative Owen Li, Teamsters Local 2010 representative Mary Higgins; Teamsters Local 2010 representative Alex Vermie, employee Terry McDonald, attorney Tracy Lemmon (on behalf of Terry McDonald), and Actuary John Monroe (Segal Consulting – via telephone).

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

PUBLIC COMMENT PERIOD: Private counsel Tracy Lemmon stated that her client, UC employee Terry McDonald, was incorrectly classified by UC as an independent contractor from 1984 to 1988, which prevented him from accruing UCRP service credit for that period. She claims that his appeal for UCRP service credit for that period was unfairly denied and she questions the UCRP provisions cited in denying her client's request. She also mentioned that other UC employees were recently awarded retroactive UCRP service credit for periods of time for which they were misclassified. Ms. Lemmon asked the UCRS Advisory Board (Board) to recommend that her client's request for retroactive UCRP service credit be approved. Chair Brownstone thanked Ms. Lemmon for her comments and conveyed to her that the Board is advisory in nature and its members are not fiduciaries. Consequently, the Board does not make such recommendations.

CUCFA representative Eric Hays noted that UCRP currently has slightly over \$3 million in investment

holding of Global Dynamics, a global aerospace and defense contractor. He noted that Global Dynamics is a contractor for the Office of Refugee Resettlement and has helped facilitate the separation of children from immigrant parents seeking asylum in the U.S. Due to Global Dynamics involvement with this contentious issue, CUCFA advocates for the divestment of Global Dynamics holdings in the UCRP portfolio.

UCSC Emeriti Association (UCSCEA) President Todd Wipke indicated he wished to discuss ways to improve security with respect to UC At Your Service Online (AYSO) services, specifically by adding multi-factor authentication. He also called for UC to set aside funds to reimburse retirees whose UCRP pension payments are stolen. He cited a recent example where UC denied a UCSC retiree's request for reimbursement for a stolen UCRP monthly payment after a scammer obtained the retiree's AYSO password and rerouted the retiree's pension payment to another bank. He stated that the cost to UC for replacing stolen pension payments would be minimal as these are rare occurrences, and added that UC's failure to reimburse stolen pension payments would not garner favorable public opinion.

UCB Emeriti Association representative Caroline Kane indicated that she agreed with the views expressed by UCSCEA President Wipke on this matter. Although she is aware that the replacement for AYSO (i.e., UCRAYS) will incorporate multi-factor authentication when it is implemented in early 2019, she stated that UC cannot wait that long to increase security. She noted that CUCEA, CUCRA and the UCFW advocate for UC administration to implement additional security measures as soon as possible.

AD HOC DISCUSSION - SECURITY FOR AYSO/UC SYSTEMS: Chair Brownstone called for an ad hoc Board discussion concerning security issues with respect to UC interactive systems, with the focus of the discussion on AYSO. He asked Board member and VP/Plan Administrator Duckett to respond to the issues raised during the public comment period.

VP Duckett began by reiterating that the recent situation regarding the UCSC retiree was not the result of an AYSO security breach and that instances of UCRP pension payments being re-routed/stolen due to identity theft have been rare. He stated that UCRP cannot reimburse stolen pension payments where UC is not at fault, but he is looking at ways to set aside funds outside of UCRP for reimbursement of such incidents. Director Cheung Hill then summarized some of the security measures currently in place for AYSO, noting that an email is sent to the retiree when any information is changed or when users indicate that they have forgotten their password. She indicated that it would not be appropriate to re-program AYSO at this time since the entire current record-keeping system, including AYSO, is being replaced in early 2019. Executive Director Schlimgen noted that in two of three recent instances in which a scammer re-routed a retiree's UCRP pension payment, the scammers re-routed to Green Dot Bank. Consequently, he indicated that Green Dot Bank has been blocked on AYSO. He also indicated that he is looking at ways to verify AYSO changes, such as having RASC corroborate them with retirees.

Chair Brownstone concluded the discussion by noting that current security measures for AYSO were insufficient. He noted that an email generated by AYSO when a user indicates that he/she forgot a password will often go to a retiree's smartphone, which may well have been stolen and in the possession of the scammer. He also indicated that if UC wants to require employees and retirees to use internet-related systems that are difficult to secure, then UC must offer them some indemnification in

case of loss due to identity theft. He closed by noting that, in addition to multi-factor authentication, UC should consider using a secure email system/service.

APPROVAL OF THE MINUTES: Chair Brownstone called for the approval of the minutes from the Board teleconference of February 23, 2018. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Brownstone welcomed everyone to the last Board meeting of the fiscal year. He noted that member David Odato's term on the Board expires as of June 30, 2018. Although Board member Odato was unable to attend the meeting, Chair Brownstone verbally recognized member Odato's service to the Board.

(NOTE: To accommodate the schedule of some of the guest speakers, the Chair changed the order of the presentations.)

ITEM E. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE: Director Lorenz summarized the RASC 2018 first calendar quarter (Q1) statistics for the Board. She noted that incoming calls and correspondence for Q1 2018 were down from Q1 2017. However, the percentage of customers who were satisfied (or better) with RASC service improved from 89% in Q1 2017 to 91% in Q1 2018. She also noted that retirement elections were flat from last year and that RASC is processing 86% of them within 45 days or less. Summarizing some highlights, she noted that RASC delivered 17 onsite "preparing for retirement" presentations in Q1 2018 for approximately 1900 faculty and staff attendees in addition to 5 system-wide webinars. She stated that 94% of respondents were satisfied with the presentations. As mentioned at previous Board meetings, she stated that RASC has contracted with the International Customer Management Institute (ICMI) to improve the RASC contact center efficiency and effectiveness and, in conjunction with ICMI, has developed a roadmap to ICMI site certification. She indicated that RASC currently meets 16 of 23 core criteria for ICMI's contact center certification and expects to receive the certification by October 2018, which will make RASC the first California governmental agency to achieve ICMI site certification.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer began by indicating that \$50 million in the current budget, which was being withheld by the state until UC met certain conditions, has been released to UC. With respect to next year's budget, he indicated that UC has been allotted approximately \$350 million in new funding, but most of it is temporary in nature. The increase to the base budget is slightly less than 3%, as opposed to the 4% base budget increases over the past few years. He stated that the temporary funding was sufficient to avoid a tuition increase next year, but he is concerned that the lack of permanent funding could result in tuition increases in following years. In response to a question, he indicated that the Governor's budget does not include any Proposition 2 or other monies dedicated towards UCRP's unfunded liability. He concluded by noting that, in contrast to the Governor, the legislature seemed inclined to give UC more permanent funding, which is a hopeful sign for the future.

CHIEF INVESTMENT OFFICER – REPORT: Chief Investment Officer (CIO) Bachher began by noting that Scott Chan, the Senior Managing Director of UC's public equities portfolio, is leaving UC to become the deputy CIO of CalSTRS. Turning to investment performance, he stated that UCRP's fiscal year return should be about 8%, which is above its assumed rate of return of 7.25%, and that the General Endowment Pool should return between 8% and 9%. He noted that, while being conservative, his office was still able to meet its goals and objectives.

Senior Managing Director van Gelderen proceeded to discuss UCRP's investments, attributing most of the positive returns to the performance of public equities. He noted that risk to UCRP was lessened by slightly reducing exposure to public equities and other investments. He stated that both UCRP's public equity and fixed income holdings were now roughly 1% below their respective policy weights, while the policy weights for other investments (e.g., private equity, real estate, etc.) were even lower. He indicated that UCRP's cash position, on the other hand, was significantly above its policy weight. He indicated that holding an excess of cash was not bad for UCRP at present, since fixed income returns have been negative and UCRP can take advantage of buying opportunities with cash on hand.

Associate CIO Guimaraes provided the overview of the UC Retirement Savings Program (RSP), noting that RSP had been in existence for 50 years (albeit not in the same form as today). He then summarized some major RSP achievements over the last few years, such as streamlining the fund menu and making more funds institutional vehicles with reduced fees, white labelling fund names for clarity, and establishing the Pathway funds as the default investment in the absence of fund elections. He also indicated that he is looking at ways in which the Savings Choice option might be able to provide some level of guaranteed income. He concluded by complimenting Manager Swanson and her team for their education efforts with respect to the RSP.

CIO Bachher ended the presentation by asking Chair Brownstone to provide him with some thoughts from the Board that could be included in the CIO's annual report.

ITEM A. UCRS – RETIREMENT CHOICE PROGRAM STATISTICS – UPDATE: Principal Analyst Eaglin provided a summary of the most recent retirement choice statistics, noting that retirement choice elections and default rates have remained consistent since the program's inception (i.e., 37% choose Savings Choice, 33% choose Pension Choice and 30% default to Pension Choice). She noted that there were 14,796 employees eligible for retirement choice since being hired on or after July 1, 2016, and that the PEPPA limit for those in Pension Choice is increasing to \$121,388 effective July 1, 2018. She stated, however, that 40% of employees eligible for choice are rehired employees who are not subject to the PEPPA limit under Pension Choice. She also indicated that as more collective bargaining units have accepted the program, more newly hired represented employees are being offered retirement choice, with 73% of them either electing, or defaulting to, Pension Choice. In response to questions, she indicated that while the default percentage has not decreased, active elections are occurring sooner after hire, so fewer employees are losing employer contributions and/or UCRP service credit, as applicable. Executive Director Schlimgen added that the IRS private letter ruling request for a second choice window for those in Savings Choice has been submitted and he expects a favorable ruling within the next few months.

ITEM B. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2018 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Principal Analyst Rad stated that the UCRP Annuitant COLA for July 1, 2018, 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, 2017 to February 1, 2018, will be 2.00% for most retirees. Those who retired between 2007 and 2008 will receive 2.30% due to their COLA 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 75% or higher and is approximately 90% for all UC-PERS Plus 5 annuitants.

ITEM C. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION

REPORT: Manager Swanson began by noting that the RSP had 314,000 unique participants with 54% of active participants making voluntary contributions. With respect to retirement readiness, she indicated that approximately 61% of career employees were on track to achieve an income replacement of 80% from the combination of their UCRP benefit and RSP assets, and noted that over 25,000 members logged in to review their retirement income estimates. She mentioned that Vendor Relations Management (VRM) recently conducted testing between UCPATH and Fidelity in preparation for the UCLA and UCSB conversion to UCPATH in October 2018, in addition to additional testing between Fidelity and the Redwood Retirement System in anticipation of its launch in early 2019. She then briefly outlined UC's recent retirement communication and education efforts, some of which were previously summarized by Director Lorenz.

ITEM D. UCRS – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING

SYSTEM – UPDATE: Directors Cheung Hill and Lorenz briefly provided an update on the status of the Redwood retirement administration record-keeping system, referencing a chart they had distributed to the Board. They noted that the design, data transmission, and operational readiness phases were nearly complete and that the remainder of the year would be mostly dedicated to testing, and some demonstrations, of the new system. They briefly described the UCRAYS, the replacement for AYSO, explaining that UCRAYS would focus on needs of retirees, as UCPATH will provide most services for active employees. They stated that retiring employees could see how their retirement process is proceeding via UCRAYS and would not need to call RASC for updates. In response to questions, Director Cheung Hill indicated that retiring employees/retirees would need to establish a new password with UCRAYS as UC cannot transmit old passwords from AYSO to the new system. She indicated that UC is going to be attempting to collect retiree cellphone numbers over the summer as part of the implementation of multi-factor authentication in UCRAYS.

ITEM F. UCRAS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2018-

19: Principal Analyst Semple noted that Vice Chair Bohn had nominated Chair Brownstone to serve as Chair again. In turn, Chair Brownstone had nominated Vice Chair Bohn to serve as Vice Chair again. These were the only nominations received. Chair Brownstone called for a voice vote and Chair Brownstone was re-elected as Chair and Vice Chair Bohn was re-elected as Vice Chair for Fiscal Year 2017-18.

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

YEARS 2018-19: Principal Analyst Semple mentioned that the Chair and Vice Chair had scheduling conflicts with the initially proposed meeting dates, so he provided the Board with an alternative proposed schedule for FY 2018-19 (i.e., meeting dates of November 30, 2018; March 1, 2019; and June 21, 2019). He indicated that if no scheduling conflicts were reported with respect to the alternative schedule within the next few weeks, he would consider these dates acceptable and would have them added to the members' calendars and posted on UCnet.

The meeting adjourned at 1:54 p.m.