



# UCRS Advisory Board

## MINUTES

**UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)  
ADVISORY BOARD VIDEOCONFERENCE MEETING  
MARCH 1, 2019  
10:00 AM –12:00 PM**

**BOARD MEMBERS PARTICIPATING:** Chair David Brownstone, Vice Chair Henning Bohn, Chief Investment Officer (CIO) Jagdeep Bachher, Vice President (VP) Dwaine B. Duckett, Vice Chancellor Ronald Cortez, Interim AVC and CHRO Jo Mackness, Computer Resource Specialist Michael Fehr, CUCEA Chair Caroline Kane, and CUCRA Chair Marianne Schnaubelt.

**BOARD MEMBERS ABSENT:** Chief Operating Officer (COO) Rachael Nava and Pharmacy Technician Naomi Nakamura.

**UCOP STAFF PARTICIPATING:** Chief Operating Officer Arthur Guimaraes, Managing Director Marco Merz, Associate Vice President David Alcocer, Associate Vice President and Chief Risk Officer Cheryl Lloyd, Executive Director Gary Schlingen, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Director Esther Cheung Hill, Director Ellen Lorenz, Associate Director Anthony DiGrazia, Manager Ken Reicher, Manager Greg Ricks, Manager Hyun Swanson, Business Controls Leader Kendra Eaglin, and Principal Analyst Robert Semple.

**OTHERS PRESENT:** CUCRA/CUCEA Joint Benefits Committee Chair Roger Anderson, CUCRA Chair –Elect Joe Lewis, UCBEA representative Amy Block Joy, CUCFA representative Eric Hayes, CUCFA representative Joe Kiskis, AFSCME Local 3299 representative Claudia Preparata, Teamsters Local 2010 representative Alex Vermie, UCLA employee Daniel Schoorl, UCB Alumnus Tiffany Chen, Retiree Paul Brooks, Managing Director Patrick Vaughan (Fidelity), and Actuary John Monroe (Segal Consulting).

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

**PUBLIC COMMENT PERIOD:** UCLA employee Daniel Schoorl thanked the Board for conducting the meeting via video-conference, noting it provided more accessibility and visibility for guests wishing to participate. Chair Brownstone thanked Mr. Schoorl for his comments, adding that a video-conference only works for a meeting of two hours or less and is not suitable for most UCRS Advisory Board meetings that normally run for four hours.

**APPROVAL OF THE MINUTES:** Chair Brownstone called for the approval of the minutes from the Board meeting of November 30, 2018. The minutes were approved by acclamation.

**COMMENTS FROM THE CHAIR:** Noting that the meeting was being conducted via a two-hour video-conference, the Chair advised presenters to be mindful of time.

**CHIEF INVESTMENT OFFICER – REPORT:** Director Merz began by describing the last quarter of 2018 as a period of volatility. He noted that the UC Retirement Savings Program (RSP) had \$25 billion in assets as of September 30, 2018, which dropped to \$22.8 billion as of the end of the year. However, he noted that as of the end of February 2019, the RSP assets were back up to \$24.5 billion. On a positive note, he indicated that the message of “stay the course” appeared to be resonating, as few RSP participants sold or traded assets during the last quarter of volatility. He briefly summarized cost savings measures that the Office of the CIO had implemented, such as streamlining fund choices from 74 to 13 funds and reducing average management fees from 14 to 6 basis points, which saved RSP participants \$25 million over the last five years. He concluded by mentioning a few projects planned for the RSP in 2019, such as transitioning the Pathway 2015 Fund into the Pathway Income Fund and launching a new Pathway 2065 Fund.

CIO Bachher noted that UCRP’s assets also dropped in the last quarter of 2018, from \$68.3 billion as of September 30<sup>th</sup> to \$63.3 billion as of year’s end. He noted that most of the \$5 billion loss occurred in December but that by February 2019 UCRP’s asset were back up to \$68 billion. He stated that geopolitics, especially nationalistic strategies, was a major cause for such volatility. He said that new tariffs and trade barriers were making many investors nervous. He also indicated that economies worldwide appear to be slowing and interest rates will be low for a while, noting that trillions worth of foreign bonds are currently yielding negative returns. Nevertheless, he indicated many professional investors still appear to be taking a “risk-on” approach and are willing to pay top dollar for investments, which he doesn’t believe makes sense in a nervous marketplace. He does not expect that UCRP will achieve its expected rate of return of 7.25% for the fiscal year (FY), but indicated that he has no immediate plans to change the investment strategy for UCRP. With respect to public equity holdings, he may slightly increase passive management, but his goal is to find a good balance between active and passive management. In conclusion, he indicated that UCRP will remain slightly overweight in cash holding as he looks for investment opportunities, which can often be surprising in a volatile market.

**OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE:** Associate Vice President Alcocer noted that UC’s proposed budget for FY 2019/20 seeks a base budget increase of approximately 3.7% (\$128 million) for mandatory costs and additional funding for enrollment growth, improving graduation rates, a tuition buyout (i.e., money to avoid a tuition increase), and deferred maintenance needs. He indicated that the Governor’s proposed budget, released in mid-January, addresses some of UC’s funding needs, but not all. He noted that the Governor’s budget provides funding to cover mandatory retirement contributions and active and retiree health benefits costs. The Governor’s proposed budget also provides funding for deferred maintenance and degree attainment/student success, but not quite the amount that UC wanted. He indicated, however, that the Governor’s proposed budget does not provide any new funding for a tuition buyout or enrollment growth, but he hopes that the state legislature will subsequently advocate for such funding for UC a bit later in the budgetary process. He closed by indicating that UC should make a case with the state for more permanent funding for UC’s long-term needs and goals, especially additional Proposition 2 funds to help pay down UCRP’s unfunded liability.

**ITEM A. UCRP – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM – UPDATE:** After congratulating all those who worked on the Redwood project, VP Duckett addressed a concern that the legacy retirement recordkeeping system may have been retired

too early, potentially preventing campus benefits personnel from accessing critical member data required for retirement counseling purposes. VP Duckett indicated that the closure of the legacy retirement system was deemed necessary to avoid significant risk to the Redwood Project. He noted that a brief information blackout period was unavoidable and common when institutions transition to a new recordkeeping system. While he conceded that certain information previously available on the At Your Service Online (AYSO) site would not be accessible under the replacement site (UCRAYS) until summer, he noted that campus benefits personnel could obtain needed information from the Retirement Administration Service Center (RASC) in the meantime. He noted that RASC was prepared to receive additional calls from benefits personnel seeking member information.

Director Cheung Hill proceeded to describe the successful third round of testing for the Redwood system and indicated that all dress rehearsals were successful. She indicated that the cutoff/blackout period began on February 22, 2019 and the new system should go live on March 5, 2019. She stated that the transition was a daunting task, as the Redwood team had to transfer over fifty years of member data. Director Lorenz then summarized the training that the RASC had undergone in preparation for the transition to the Redwood system. With respect to communications, she indicated that UCOP benefits personnel received Redwood updates via a regularly published Redwood newsletter and articles on UCnet and in the UCOP Link newsletter. Additionally, she noted that benefits personnel at the locations were informed about impacts of the transition via benefits memos and monthly benefits managers calls. Finally, she noted that informational meetings and/or conference calls were also held with other groups, such as the Health Care Facilitators and the retiree associations, to inform them of potential changes due to the transition to the Redwood system.

**ITEM B. UCRP – IDENTITY THEFT PROTECTION – UPDATE:** AVP and Chief Risk Officer Lloyd began by noting that she typically purchases insurance to protect the University. As examples, she noted that UC retains crime insurance against thefts and cyber and private liability insurance to cover expenses for damages and claims made against UC for error or negligence, such as a privacy or security breaches. She also noted that these types of insurance have deductibles that departments must pay for each claim. She indicated that UC does not currently retain insurance designed to reimburse benefit recipients for UCRP payments that are redirected/stolen as a result of identity theft (where UC is not at fault). She confirmed that four retirees, whose pension payments were stolen due to identity theft, had been reimbursed through UC's property insurance. She stressed, however, that UC's property insurance was not really intended, or well-suited, for these types of claims. She mentioned that outside personal identity theft protection policies, such as LifeLock, may provide insurance for recovery of funds, depending upon the policy type. However, she stated that she was not accustomed to purchasing these types of insurance plans and may need to work with Mike Baptista (Executive Director of HR-Benefits programs) to see if UC can offer such coverage. She also indicated that she would conduct further research on whether reimbursements of stolen pension payments could be made through Fiat Lux, the University's wholly owned captive insurance company. The Chair noted that UC encouraged retirees to sign up for electronic deposit of pension payments, as it saves UC time and money. Therefore, the Chair did not feel that the cost of such identity theft insurance, such as LifeLock, should fall to the retirees.

**ITEM C. UCRS – RETIREMENT CHOICE PROGRAM STATISTICS – UPDATE:** Business Controls Leader Eaglin noted that the statistics for the Retirement Choice Program, which will reach its third anniversary this coming July, remained fairly constant with approximately 37% of retirement-eligible employees selecting Savings Choice and 63% either selecting or defaulting to Pension Choice.

She noted, however, that defaults to Pension Choice were down by 2% with a corresponding 2% increase in active selections of Pension Choice. She also noted that approximately 40% of those in Pension Choice were not subject to the PEPRA limit on Covered Compensation used in their pension calculation. She mentioned that 73% of represented employees subject to retirement choice participated in Pension Choice.

**ITEM D. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT:**

Based on statistics for the fourth quarter of 2018, Manager Swanson noted that the RSP had 322,815 unique participants with 54.6% of eligible participants making voluntary contributions. The average monthly voluntary contribution on a percentage basis was 10.2%. For those with a designated monthly dollar deferral, the average amount was \$1,519. She also noted that 61% of employees covered by a primary retirement plan were on track to have at least an 80% retirement income replacement from all UCRS source. However, for employees over the age of 40, the retirement income replacement from UCRS falls to 53% and is significantly lower for those who joined UC late in their careers. She concluded by noting that the myuc retirement.com site is undergoing enhancements to make it a more comprehensive retirement portal with respect to both education and transactions.

**ITEM E. RETIREMENT ADMINISTRATION SERVICE CENTER – UPDATE:** Due to time restraints, Director Lorenz referred the Board to the item attachment for the 2018 (calendar year) RASC statistics and other quick facts. She mentioned that RASC had obtained site certification from the International Customer Management Institute (ICMI), making UC the first California public sector agency to achieve site certification from ICMI.

**ITEM F. UCRS ADVISORY BOARD – 2019 ELECTION OF STAFF REPRESENTATIVES:**

Principal Analyst Semple provided an overview of the election process for two new staff representatives to the Board, whose four-year terms would begin effective July 1, 2019. He noted that election information for both candidates and voters, which was attached to the item, would be available on the Board's pages on UCNet by March 22, 2019, when the call for nominations would be announced via a news article on UCnet. The news article would also be distributed to local campus editors. He reported that the voting period would run between May 20<sup>th</sup> and June 17<sup>th</sup> and would be handled by Election-America, an outside, impartial vendor. He stated that Election-America would send emails with personalized election codes and a link to the Election-America voting site to eligible voters with UC email addresses. Physical ballots would be mailed to the home addresses of eligible voters without UC email addresses. These voters could either return the ballot in a postage paid envelope or vote via the online process. He concluded by stating that he should be able to announce the two new staff representatives at the Board's June 21<sup>st</sup> meeting.

**MISCELLANEOUS:** Manager Ricks provided the Board with responses to some questions posed at the November 30, 2018 Board meeting concerning the items on the UCRP Lump Sum Cashout Report and the UCRP Disability Income Review Update.

The meeting adjourned at 12:03