UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
AD HOC ADVISORY BOARD CONFERENCE CALL
TUESDAY, MAY 14, 2013
9:00 AM

(DISCUSSION TOPIC)
PROPOSED UCRP CONTRIBUTIONS RATES BEGINNING PLAN YEAR 2014-2015

BOARD MEMBERS PARTICIPATING: Chair Ross Starr, Vice Chair Shane White, Executive Vice President (EVP) Nathan Brostrom, Vice President (VP) Dwaine Duckett, CUCRA Chair Lee Duffus, CUCEA Chair W. Douglas Morgan, Vice Chancellor Meredith Michaels, Associate Vice Chancellor Angela Hawkins, Assistant Researcher Catherine Brennan, Spectroscopist Paul Brooks.

BOARD MEMBERS UNABLE TO PARTICIPATE: Chief Investment Officer (CIO) Marie Berggren

STAFF PARTICIPATING: Associate Chief Investment Officer Mel Stanton, Executive Director Gary Schlimgen, Principal Analyst Robert Semple.

GUESTS PARTICIPATING: Actuary Paul Angelo of the Segal Company

The conference call began at 9:03 a.m.

CHAIR'S STARR'S OPENING REMARKS: Chair Starr reminded everyone that the purpose of the call was to discuss the proposed UCRP contribution rates beginning Plan year 2014-2015 and confirmed that everyone received the letters on this subject; one from EVP Brostrom and EVP Taylor to the Academic Senate Chair and one from the Academic Senate Chair to President Yudof and EVP Brostrom. He then announced that he will ask for opening remarks from EVP Brostrom, Vice Chair White and Actuary Angelo before requesting brief remarks from each member, called in alphabetical order.

EVP BROSTROM'S OPENING REMARKS: EVP Brostrom noted that the President plans to propose increased UCRP contributions to the Regents in July. The total proposed contributions beginning Plan Year 2014-2015 would be 22% of covered payroll; 14% contributed by UC, and 8% by employees. He clarified that the 14% employer contribution rate would apply to all UCRP members, including those in the 1976 tier, but does not reflect the additional location assessment for borrowing. In contrast, the proposed 8% employee contribution rate would only apply to employees in the 1976 Tier. No contribution rate increase is being proposed for employees in the 2013 Tier, who would continue to pay 7%, which is approximately half the Normal Cost of the 2013 Tier. He also clarified that contribution rates for represented employees are subject to collective bargaining. He indicated that the proposed UCRP contribution increases are consistent with past modeling shared with the Regents, various Academic Senate committees and the UCRS Advisory Board and that the only incremental increases are being recommended due to the level of state support for UCRP and the impact that more accelerated UCRP rate increases would have on location budgets and on the competitiveness of UC's total remuneration. EVP Brostrom continued by acknowledging that another contribution increase beginning in July 2014 is a big step for employees, whose UCRP contributions will already be increasing from 5% to 6.5% effective July 1, 2013. He hoped that there could be an announcement of a general salary increase for faculty and a merit program for policy-covered staff soon, but they are contingent on state funding. More information about such state funding should be known after the publication of the Governor's revised budget, which is due later this month. In closing, he noted that he wished to thank the Academic Senate for its support of the proposed contributions.

VICE CHAIR WHITE'S OPENING REMARKS: Vice Chair White summarized the Academic Senate support of the proposed UCRP contributions, noting that it unanimously endorses the increase in the employer contribution to 14%, but only supports the increase in the employee contribution to 8% provided that it is accompanied by an increase in salaries for faculty and policy-covered staff. He indicated that the Academic Senate endorses a salary increase of at least 3%, which would just cover the 1.5% increase in member UCRP contributions for the upcoming Plan year and the proposed 1.5% member increase for Plan year 2014-2015. He also summarized the Academic Senate's continued support of the President's Post-Employment Benefits (PEB) Task Force's recommended target dates for funding UCRP; ramping up employer contributions to pay UCRP's modified annual required contribution (ARC) by 2011 and full ARC by 2018. He noted that the Academic Senate is concerned that UCRP contributions are not on track to meet either the modified ARC or full ARC within the recommend timelines. Finally, he indicated that the Academic Senate strongly supports further borrowing from the Short Term Investment Pool (STIP) and/or external borrowing as the most fiscally advantageous way of addressing UCRP's unfunded liability and noted that UC has sufficient liquidity to do so.

ACTUARY ANGELO'S OPENING REMARKS: Actuary Angelo kept his opening remarks brief, simply indicating that the proposed contributions rates are consistent with past modeling. In response to a question, he noted that UC must have a plan to fund UCRP's Normal Cost and its unfunded liability or the unfunded liability will continue to grow.

MEMBER COMMENTS: The Chair gave each member two minutes to make initial comments. Following the first round of comments, the Chair offered each member an opportunity for additional comments**.** The teleconference concluded prior to the one-hour time allotted for the call, without any member expressing a desire to extend the call for further discussion or comments. A summary of member comments, in alphabetical order, is provided below:

<u>Mel Stanton (standing in for Marie Berggren)</u>: indicated support for the proposed contributions and measures to move UCRP to fully funded status. He indicated that UC does have additional liquidity and investing in UCRP makes sense, but so does keeping money in reserves for emergencies. He noted that the Treasurer's office is considering changing the investment allocation of the Total Return Investment Pool (TRIP) to provide campuses with a better return on their long-term working capital.

<u>Catherine Brennan</u>: agreed with the all of the Academic Senate's positions. She supports the increased University contribution to 14% and conditionally supports the increased member contribution to 8%,

provided there is a corresponding salary increase for faculty and policy-covered staff of at least 3%. She also supports additional borrowing, especially from STIP.

Paul Brooks: agreed with all of the Academic Senate positions and noted that both UC administration and UC employees need to lobby for greater, consistent state funding for UCRP. He noted that now was an ideal time to lobby for additional state funding as the state recently announced it had collected more tax revenue than anticipated.

Nathan Brostrom: responded to questions/statements made by other members since he had already made opening remarks. He acknowledged that UC has approximately $2 billion in excess liquidity. He personally stated support for moving the excess liquidity to UCRP. He also indicated that UC will continue to request long-term state funding for UCRP; a commitment similar to that which the state has made on behalf of CSU employees.

Dwaine Duckett: declined to indicate specific support or disapproval of the proposed UCRP contributions. Speaking as both Plan Administrator and head of Labor Relations bargaining, he acknowledged the need to maintain the viability of UCRP as well as attractive salaries as part of UC's total remuneration to recruit and retain the best faculty and staff. He stressed that UCRP member contributions are subject to collective bargaining.

Lee Duffus: supported all of the Academic Senate's positions. Additionally, he inquired if CUCSA had been consulted on or advised of the proposed UCRP contributions. He was advised that CUCSA had been informed of the proposed contributions that will be presented to the Regents.

Angela Hawkins: supported the increased University and member UCRP contributions.

Meredith Michaels: supports the increased University and member UCRP contributions. With respect to borrowing, she indicated that excess liquidity in STIP is extremely valuable to locations for uses other than UCRP. She indicated support for ongoing lobbying for more state funding for UCRP.

Douglas Morgan: supports the increased University contribution to 14% and the original PEB Task Force recommended timeline for UCRP employer contributions. He noted that the University Committee on Faculty Welfare (UCFW) had urged the resumption of UCRP contributions as far back as the year 2000. He does not support increased member contribution to 8%. He stated that the Academic Senate had previously indicated that it would not support an increase in member contributions to UCRP in excess of 7% and he continues to feel that member contributions should not exceed that amount. He supports salary increases for faculty and policy-covered staff but does not like conditional agreements. He feels that faculty and policy-covered staff should get salary increases regardless of whether the proposed UCRP contribution rates are approved and/or implemented. He supports borrowing from STIP to help fund UCRP.

Chair Starr: supports all of the Academic Senate's positions. He stressed that increasing contributions to get closer to funding UCRP's full ARC is critical and that UC is not moving quickly enough. If UCRP's unfunded liability is not addressed soon, the future excellence of the University will be in jeopardy.

Vice Chair White: thanked EVP Brostrom for endorsing the asset strategy of borrowing from STIP to help fund UCRP. However, he indicated that he had not previously heard that UC administration endorses further borrowing from STIP to fund UCRP. He also stated that he is a bit concerned that the process of shared governance with the Academic Senate is not being followed regarding the Regents item on L-TRIP. In closing, he mentioned some points raised by the UCFW's Task Force on Investment and Retirement (TFIR) with respect to borrowing from STIP to fund UCRP; (1) the campuses would still receive the same cash flow, (2) future employer contributions to UCRP would be reduced, and (3) UC's credit rating would improve by reducing UCRP's unfunded liability.