



UCRS Advisory Board

MINUTES

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

ADVISORY BOARD MEETING/VIDEO-TELECONFERENCE

DECEMBER 3, 2021

10:00 AM – 2:00 PM

BOARD MEMBERS PARTICIPATING: Chair Jo Mackness, Chief Operating Officer (COO) Rachael Nava, Vice President/CHRO Cheryl Lloyd, Professor Terrence Hendershott, Professor Henning Bohn, Academic Personnel Policy Analyst Tiffany Wilson, Pharmacy Technician Ruth Zolayvar, CUCRA Chair John Meyer, and CUCEA Chair Henry Powell.

BOARD MEMBERS ABSENT: Chief Investment Officer (CIO) Jagdeep Bachher

UCOP STAFF PARTICIPATING: Associate Vice President David Alcocer, Senior Managing Director Satish Swamy, Managing Director Marco Merz, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Chief of Staff/Executive Director Dianna Henderson, Executive Director Bernadette Green, Director Ken Reicher, Director Hyun Swanson, Manager Janie Berry, Manager Jennetta Brown, Manager Aliya Dibrell, Manager Kendra Eaglin, Manager Michelle Estes, Manager Doug Kanigher, Manager John Monroe, Manager Greg Ricks, Manager Scott Sylva, Supervisor Judy Ohmott, Supervisor Alexandra Fuentes, Principal Analyst Ashley Eigenauer, Principal Analyst Melissa Rad, Principal Analyst Gloria Sit, Thought Leader Richard Townsend, Accountant Vicky Lam, and Accountant Kiet Luu.

OTHERS PRESENT: Retiree and UPTE representative Paul Brooks, UC-AFT representative Mitchell Brown, Teamsters representative Mary Higgins, Retiree and CUCRA member Marianne Schnaubelt, Retiree and CUCEA member Louise Taylor, UAPD representative Glynnis Golden Ortix, CNA representative Nate Johnson CAN, CUCRA Chair-elect Sue Ables, UC-AFT member Daniel Schoorl, retiree and CUCEA member Caroline Kane, Actuary Paul Angelo (Segal), and Actuary Emily Klare (Segal).

The meeting officially began at 10:01 a.m.

PUBLIC COMMENT PERIOD: Retiree and UPTE representative Paul Brooks requested that Item A of the meeting agenda include an explanation of the cost of living adjustment methodology for UCRP. Chair Mackness confirmed that Actuarial Services Group (ASG) Manager John Monroe would provide the requested explanation in his agenda item(s). American Federation of Teachers (AFT) member/Vice President for Legislation and UCLA librarian Daniel Schoorl informed the Board that a tentative collective bargaining contract agreement had been reached for AFT represented lecturers. He stated that the contract could provide pathways for stable employment, resulting in what he hopes is more lecturers participating in UCRP, as well as provide for retirement benefits on earnings from summer session courses. He then inquired what party is responsible for making recommendations regarding

UCRP funding. Board member Rachael Nava responded that the Chief Financial Officer makes recommendations to the Board of Regents.

AD HOC DISCUSSION – PURCHASING POWER FOR UCRP RETIREES: Board member Henning Bohn provided his analysis on the changes to the Consumer Price Index as it relates to UCRP retiree purchasing power possibly falling below 75%, and requested further details on how an ad hoc COLA may be provided. In response, ASG Manager John Monroe explained that ad hoc COLAs are not a provision within UCRP, and that the Regents are the only authority which can approve an ad hoc COLA. Board member Rachael Nava added that the Board could send a letter to the President, and Chair Mackness agreed that if the situation called for it, action could be taken by the Board.

APPROVAL OF THE MINUTES: Chair Mackness called for the approval of the Board minutes of June 18, 2021. The minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Mackness began by announcing that Board member Ron Cortez accepted a new position outside of the University, and a new Board member will be appointed by the President.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer began by informing the Board that in November, 2021 the Regents approved the University budget for the upcoming fiscal year (2022-23). The approved budget includes a proposed ask for state support in sustaining core operations, enhancing student access and success, and assisting vulnerable student populations. He then stated that in addition to state support there would be an increase in revenue through the tuition stability plan that was approved by the Regents in July, 2021, which provides for a 4.8% tuition increase to those undergraduates entering class in fall of 2022. He noted that locations would see a cost savings through a reduction to the UCRP employer contribution rate (to be discussed in Item B). Lastly he stated that in response to an estimated \$32 billion state budget surplus, there is a request for one-time funding for deferred maintenance, capital projects and energy efficiency projects.

CHIEF INVESTMENT OFFICER – REPORT: Senior Managing Director Satish Swamy began by providing the retirement system asset value of \$125 billion as of September 30, 2021, with \$91 billion in UCRP and \$34 billion in the Retirement Savings Programs (RSP), and noted that the market value of assets has remained virtually unchanged from the close of the fiscal year. Additionally he noted that UCRP has a 9.9% annual return over a ten year period and an 8% annual return over a 25 year period, and that performance has kept pace with the market. He followed by providing an economic analysis, detailing information on the current market environment and factors which could affect future market environments. He then reported on UCRP asset allocation, adding the rationale behind the strategic move of assets from fixed income to public equities.

Managing Director Merz began by reiterating the Retirement Savings Program (RSP) asset value as of \$34.5 billion as of September 30, 2021, with an increase of almost \$7 billion from a year ago. He then provided a breakdown of asset value by fund class, noting that 40% of assets were in the UC Pathway Funds, 53% invested in the core lineup, and the remainder invested in the Brokerage Window.

Reviewing slides provided to the Board, a brief overview of the RSP fund performance was provided, and it was noted that most funds tracked to benchmark.

Managing Director Merz then announced that the first window to purchase a Qualified Longevity Annuity Contract (QLAC) opened on August 16, 2021 and closed on September 10, 2021. Lastly he reminded the Board that a tobacco and fossil fuel free fund, the UC Global Equity EX fossil fuel fund, is available to RSP participants at a cost of one basis point.

ITEM A – UCRP – ANNUAL ACTUARIAL VALUATION REPORT AS OF JULY 1, 2021:

Actuarial Services Group Manager Monroe began by providing the valuation highlights. He indicated that, as of July 1, 2021, UCRP had a market value return of 30% (30.3%) a market value of almost \$92 billion (\$91.7 billion), an actuarial return of about 11% (11.1%), and an actuarial value which was \$11 billion less than market value due to the 5-year smoothing of gains and losses. He stated that UCRP's funded ratio was 83%, an increase from 79% on July 1, 2020, and its unfunded actuarial accrued liability (UAAL) was now \$16.4 billion, a decrease from \$19.8 billion the previous July 1st. He also noted that there was a decrease in the total funding policy contribution rate from 34.5% to 32.7% of pay, and that the transfer of \$600 million from the Short Term Investment Pool (STIP) is reflected in the valuation results.

Segal Actuary Klare then proceeded to review the slides provided to the Board, summarizing UCRP's current demographics, historical rates of return, and historical funded status. Actuary Angelo and Actuary Klare then discussed the final slides which showed projections of UCRP employer contributions and funded status. In response to a question from Board member Zolayvar, Manager Monroe informed the Board that current actuarial projection models do not reflect any future negative investment returns. Actuary Angelo added that the total funding policy takes into account the actual experience of UCRP, including a negative market return, and the fixed contribution rate would be revisited if a negative investment return altered the path to reaching a fully funded status.

Lastly, Board member Zolayvar stated her concerns with and opposition to the temporary decrease in the UCRP employer contribution rate (to be reviewed in Item B).

ITEM B – UCRP – CHANGES TO EMPLOYER CONTRIBUTION RATE AND TRANSFERS FROM THE SHORT TERM INVESTMENT POOL (STIP):

Manager Monroe began by summarizing the UCRP experience study that went before the Regents in 2019, which resulted in an approved action to increase the UCRP employer contribution rate half a percent each year for six years, starting at 14% and ending at 17%. He then informed the Board that in November, 2021 an item went before the Regents requesting a decrease in the UCRP employer contribution rate, as well as approve transfers from the Short Term Investment Pool (STIP) over the next two years. Manager Monroe proceeded to inform the Board that an amended version of the November, 2021 item was adopted, and reviewed a slide comparing the UCRP employer contribution based on the November, 2019 Regents item to the recently approved November, 2021 Regents item. He added that the two approved STIP transfers could be up to \$500 million for each of the approved two years. Manager Monroe then reviewed two scenarios for UCRP funding projections based on the recently approved Regents item which temporarily decreased the UCRP employer contributions. Lastly, Manager

December 3, 2021

Monroe reminded the board that funding is reviewed on an annual basis, and that a full experience study for UCRP would be conducted in 2023.

Board members John Meyer and Terrence Hendershott requested that an ad-hoc meeting be held if the regularly scheduled meeting would not be able to cover an item in advance of it going before the Regents.

ITEM C – RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION

REPORT: Following up on RSP financial information provided by Managing Director Merz, Director Swanson provided the highlights of the second quarter RSP report. She indicated that the percentage of RSP participants making voluntary contributions remained at 55% and that 64% of career employees were on track to replace 80% of pay in retirement from UC sources. She noted that Fidelity met all of their performance standards. With respect to communications and education, Director Swanson advised that there were over 28,000 calls to Fidelity during the last quarter, and that 68% of active participants accessed their account information within the last twelve months, with over 2,000,000 total sessions. She also added that there were over 26,000 financial education interactions during the second quarter, with over 3,400 participants attending a webinar and just under 10,000 one-on-one phone meetings. With respect to Retirement Choice statistics, she mentioned that 37% of eligible hires/rehires selected Pension Choice, 36% selected Savings Choice, and 27% defaulted to Pension Choice.

Director Swanson then informed the Board that the “Choice modeler”, which is used by employees newly eligible for the Retirement Choice Program, will receive an enhancement that will display both portions of the Pension Choice benefits separately; UCRP income subject to the PEPR compensation limit and the DC Supplemental Benefit. In addition to the modeler enhancement, those employees making an election in the Retirement Choice Program will be given an eight question survey, and the results of the survey will be shared with the Board. Lastly, Director Swanson announced that in early 2022 there would be a launch of an online tool to help Savings Choice participants model future retirement benefits if they were to change their election to Pension Choice during their Second Choice Window.

Lastly, following-up on a previous request, Director Swanson informed Board member Ruth Zolayvar that salary data for those who are participating in the RSP would be provided as soon as it was available.

ITEM D – UCRS – ANNUAL FINANCIAL REPORT AND RESULTS OF EXTERNAL AUDIT OF THE FINANCIAL STATEMENTS FOR FISCAL YEAR 2020-21:

Director of Benefit Plan Accounting Ken Reicher informed the Board that Price Waterhouse Coopers issued an unqualified opinion for the UCRS financial statements for the plan year ending June 30, 2021. He noted that one issue regarding information technology controls was identified, and that additional information on the subject could be found in the item presented to the Regents Compliance and Audit Committee during the November, 2021 meeting.

December 3, 2021

ITEM E – UCRP – LUMP SUM CASHOUT REPORT: RASC Manager Greg Ricks summarized the FY 2020/21 lump sum cashout (LSC) report for the Board. He began by stating that the LSC was available to certain vested retirement-aged members, as well as their former spouses entitled to UCRP benefits as a result of qualified domestic relations orders. He also stated that the LSC is actuarially equivalent to a member's expected lifetime basic monthly retirement income, including assumed cost-of-living adjustments. Turning to LSC statistics, he indicated that the LSC take rate for FY 2020/21 remained at 20%. He noted that the total dollar amount of all FY 2020/21 LSC payments increased by 51%, and the average dollar amount of each LSC payment increased by 16%, from FY2019/20. He mentioned that 48% of the members who elected an LSC in FY 2020/21 would not have been eligible

for retiree health coverage had they opted for UCRP monthly retirement income. In closing, he mentioned that 64% of the FY LSC recipients elected an internal (UC) or external rollover, while 24% elected a direct payment and 12% elected a combination of rollover and direct payment. Board member Ruth Zolayvar inquired if those who elect a LSC are surveyed as to why they elect a LSC. RASC Executive Director Bernadette Green responded that there are plans to implement a survey and results would be shared with the Board.

ITEM F – UCRS – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, ROOTS AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: Prior to the start of the item, Chief of Staff/Executive Director Dianna Henderson announced that Bernadette Green accepted the RASC Executive Director position. HR Business Information Systems Manager Dibrell then began the item by informing the Board that the Redwood recordkeeping system had completed all planned phases of implementation. She then provided an update on UCRAYS, reviewing past and future functionality releases, user activity within the online system, and security enhancements.

RASC Executive Director Green then reviewed the slides provided to the Board, detailing the RASC's performance in processing retirement elections. She then reported that the "no-lapse in pay" option for future retirees has been expanded to three previously ineligible groups.

Executive Director Green then reported that three new service enhancements would be implemented at the RASC. The first being a new survivor intake process that will include a dedicated phone line for survivors and an electronic communication tool that is being developed and is set to launch in March, 2022. The second being the reintroduction of one-on-one appointments with a RASC retirement counselor, which is planned to commence in May, 2022. The third service enhancement being a newly created position which will provide a direct contact for insurance related inquiries. Lastly, Executive Director Green provided an update on the new telephony system, informing the Board that a statement of work was in the final stages.

Executive Director Green then informed the Board that the previously announced new leadership team had been fully on boarded. She proceeded to introduce each RASC manager, and provided details on their position's roles and responsibilities. Lastly, she reiterated that the RASC had returned staff to on-site operations using a hybrid model of 60% time on-site and 40% remote.

Following brief acknowledgments from Board members Henry Powell and John Meyer, RASC Managers Brown, Kanigher, Estes, Ricks, and Berry formally introduced themselves.

UCRS Advisory Board Minutes
December 3, 2021

Lastly, in response to a question posed by Chair Mackness, Manager Doug Kanigher reviewed in detail the appendix data listed within the slides provided to the Board.

The meeting adjourned at 1:53