



UCRS Advisory Board

MINUTES

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) ADVISORY BOARD MEETING/VIDEO-TELECONFERENCE

February 25, 2022

10:00 AM – 2:00 PM

BOARD MEMBERS PARTICIPATING: Chair Jo Mackness, Chief Investment Officer (CIO) Jagdeep Bachher, Chief Operating Officer (COO) Rachael Nava, Vice President 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.

UCOP STAFF PARTICIPATING: COO – UC Investments Arthur Guimaraes, Associate Vice President David Alcocer, Senior Managing Director Satish Swamy, Managing Director Marco Merz, Principal Counsel Robert Gaumer, Chief of Staff/Executive Director Dianna Henderson, Executive Director Bernadette Green, Associate Director Peter Nguyen, Director Ken Reicher, Interim Executive Director Hyun Swanson, Manager Janie Berry, Manager Jennetta Brown, Manager Aliya Dibrell, Manager Doug Kanigher, Manager John Monroe, Manager Greg Ricks, Manager Scott Sylva, Principal Analyst Ashley Eigenauer, Principal Analyst Ken Feer, Principal Analyst Jennifer Luna, Principal Analyst Melissa Rad, Supervisor Alexandra Fuentes, Accountant Vicky Lam, and Accountant Kiet Luu.

OTHERS PRESENT: , Retiree and CUCEA Chair-elect Jo Anne Boorkman, Retiree and UPTE representative Paul Brooks, Retiree and CUCRA member Marianne Schnaubelt, Retiree and CUCEA member Louise Taylor, IUOE representative Mark Fragoso, AFSME representative Geoff Goodman, CUCFA representative Eric Hayes, CNA representative Nate Johnson, Teamsters representative Melissa Munio, and Actuary Emily Klare (Segal).

The meeting officially began at 10:00 a.m.

PUBLIC COMMENT PERIOD: There were no public comments made.

APPROVAL OF THE MINUTES: Chair Mackness called for the approval of the minutes of the Board meetings of December 3, 2021. Board member Zolayvar requested that the minutes be revised to include a comment she had made at the December meeting during item A, the UCRP Annual Actuarial Valuation Report as of July 1, 2021. Specifically, she wanted the minutes to reflect her inquiry regarding if the actuarial projection models presented reflected any future negative investment returns, as well as reflect her concern with and opposition to the temporary decrease in the UCRP employer contribution rate, which was to be discussed in item B. With the instruction to include Board member Zolayvar's comment, the minutes were approved by acclamation.

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COMMENTS FROM THE CHAIR: Chair Mackness began by announcing UCLA Vice Chancellor and CFO Gregg Goldman had been appointed by the President to the Board. She then asked UCOP staff to share the current state of returning to on-site operations to determine if it would be feasible to hold the June 2022 meeting at UCOP facilities. Board members Lloyd and Nava responded that at the current time large in-person meetings were not being held, but they could better assess options in April 2022. Board members Bachher, Bohn, Hendershott, Powell and Zolayvar shared their support for in-person meeting.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer began by stating that the Governor’s proposed budget, released in January, provided for approximately \$307 million in new ongoing State funding. He then noted that the increase in ongoing State funding contained within the proposed budget provides for a 5% base budget increase as well as dedicated funding to increase system-wide undergraduate enrollment by 6,000 California residents per year. Additionally he noted that the proposed budget increase also includes funding for three campuses to further increase California resident enrollment, and decrease non-resident enrollment, by offsetting any reduction in tuition revenue from a decrease in non-resident enrollments. He then stated that the proposed budget also includes one-time support from the State totaling \$295 million, with allocations of \$185 million for work related to climate resilience, up to \$100 million for deferred maintenance and energy projects, as well as \$10 million for dyslexia research at UCSF. He indicated that the 5% base budget increase may also be seen over the next several years provided that UC meets certain expectations, but noted that this was not included within the proposed 22-23 budget. Lastly he announced that there were a record number of freshman applicants for the upcoming fall cycle, and that every campus saw an increase in applications, indicating that the demand for a UC education remained strong.

CHIEF INVESTMENT OFFICER – REPORT: Senior Managing Director Swamy began by providing the retirement system asset value of \$130.5 billion as of December 31, 2021, with \$94.5 billion in UCRP and \$36 billion in the Retirement Savings Programs (RSP). He noted that the equity markets performed very well and the value of UCRP assets increased from almost \$91 billion as of September 30, 2021, to over \$94 billion as of December 31, 2021. He then addressed UCRP asset allocation noting that the policy for asset allocation remained unchanged from the last Board meeting. Chief Investment Officer and Board member Bachher followed by providing analysis of the current market conditions and noted the drop in UCRP asset value to \$87 billion as of February 24, 2022.

Managing Director Merz began by reiterating the Retirement Savings Program (RSP) asset value as of \$36 billion as of December 31, 2021, with an increase of almost \$4.5 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. He pointed out the large asset value within the Savings Fund and stated a communication and education campaign was launched to inform participants of the very low expected return for the fund. Referencing slides provided to the Board, a brief overview of the RSP fund performance was provided and it was noted that most funds tracked or outperformed their benchmark over the long-term. Lastly he stated that a tobacco and fossil fuel free fund, the UC Global Equity EX fossil fuel fund, is available to RSP participants and has about \$10 million in assets.

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ITEM A – UCRP – AD-HOC COST-OF-LIVING ADJUSTMENTS (COLAs) AND PREVIEW OF 2022 ANNUITANT PURCHASING POWER: Actuarial Services Group Manager Monroe began by briefly detailing why Cost of Living Adjustments (COLAs) are applied to retirement benefits as well as the two types available to defined benefit plans. He then introduced a hypothetical example of a July 1, 2022 COLA if the change in the Consumer Price Index (CPI) during the applicable measurement period was 6%. Expanding on the hypothetical example provided, Manager Monroe presented a chart depicting projected retained purchasing power percentage for UCRP retirees on July 1, 2022 (if the change in the CPI was 6%) versus actual purchasing power on July 1, 2021. He noted that only those who retired prior to 1986 would have their purchasing power fall below 75% if the change in the CPI was 6% and that no retirees would fall below 75% in retained purchasing power if the change in the CPI was less than 5%. Referencing a chart presented to the Board, Manager Monroe then proceeded to provide a history of UCRP ad-hoc COLA's and the UCRP funding ratio at the time the last five ad-hoc COLAs we approved. He noted that unlike the annual COLA for UCRP, an ad-hoc COLA requires an action by the Board of Regents. Turning to potential issues with an ad-hoc COLA, Manager Monroe informed the Board that the Treasury Department issued new regulations in 2007 which could impact some retirees receiving benefits from the 415(m) Restoration Plan and that discussions with legal counsel regarding implications of the treasury regulations.

ITEM B – UCRS – SECOND CHOICE OPPORTUNITY FOR SAVINGS CHOICE PARTICIPANTS TO SWITCH TO PENSION CHOICE: Retirement Policy Manager Sylva began by providing a brief overview of the second choice window program design and reminded the Board of the election statistics reviewed in the February 2021 meeting. Turning to recent developments, he noted those who made their Savings Choice election in 2017 had their second choice window open on January 1, 2022 (approximately 1700 individuals) and that 59 elections had already been received. After reviewing additional statistics from slides provided to the Board, Manager Sylva introduced a new UCRAYS feature which allows second choice elections to be made via the online portal. He concluded by announcing upcoming education and resource enhancements which include an update to depict a second choice election within the interactive tool used for new employees making an election under the Retirement Choice Program, a new tool that allows current employees to model a second choice election, as well as the launch of a webinar dedicated to the second choice window.

In response to an inquiry from Board member Zolyvar, Manager Sylva stated that second choice window notices are both mailed and emailed.

ITEM C – RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: Following up on RSP financial information provided by Managing Director Merz, Retirement Program Services Interim Executive Director Swanson provided the highlights of the 2021 4th quarter RSP report. She stated that RSP plans had 328,000 unique participants and that 55.5% of active participants were making supplemental deferral contributions, and with respect to those who elected by deferral percentage they had an average of about 11% of salary and for those who elected a flat dollar deferral the average contribution was about \$2,000.

Following-up on a previous request from Board member Zolayvar, Interim Executive Director Swanson then presented deferral statistics (for career employees) by salary group. Board member Zolayvar requested that the deferral statistics by salary group be included in future quarterly reports.

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Returning to slides previously provided to the Board, Interim Executive Director Swanson indicated that 64% of career employees, and 50.4% of career employees age 40 or over, were on track to receive at least 80% retirement replacement income from all UCRS sources. With respect to communications and education, she advised that there were over 28,000 financial education interactions during the last quarter and that there were over 110,000 interactions in all of 2021. She noted that Fidelity made all performance statistics except average speed to answer in the 2021 4th quarter.

With respect to the Retirement Choice Program and statistics she mentioned that 37% of eligible hires/rehires selected Pension Choice, 27% defaulted to Pension Choice, and 36% selected Savings Choice through the 2021 3rd quarter.

Lastly, Interim Executive Director Swanson reviewed the details of a newly launched survey that is being sent to those who make an election under the Retirement Choice Program.

ITEM D – UCRS – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, ROOTS AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: HR Benefits Information Systems Manager Dibrell began by providing the number of retiree tax statements distributed through mail and email for the 2021 calendar year. She followed by announcing that UCRAYS received a multi-factor authentication security enhancement, as well as an update to the retirement application feature which now provides for systematic evaluation of eligibility for the “No-Lapse in Pay and Benefit Continuation” program.

RASC Executive Director Green then reviewed slides provided to the Board, detailing the RASC’s performance in processing retirement elections, call-center performance statistics in January 2021 versus January 2022, changes to RASC staffing, and planned key initiatives.

Board member Zolayvar inquired if a survey had yet been sent to those who elected a lump sum cashout and Executive Director Green responded that it had not yet been sent and an update would be provided at the next meeting.

The meeting adjourned at 1:41