UCRS Advisory Board

MINUTES
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)
ADVISORY BOARD MEETING
FRIDAY, JUNE 21, 2013
10:00 AM – 2:00 PM

BOARD MEMBERS PRESENT: Chair Ross Starr, Vice Chair Shane White (via telephone), Chief Investment Officer (CIO) Marie Berggren, Vice President (VP) Dwaine Duckett, Vice Chancellor (VC) Meredith Michaels, Associate Vice Chancellor (AVC) Angela Hawkins, Spectroscopist Paul Brooks.

BOARD MEMBERS ABSENT: Executive Vice President (EVP) Nathan Brostrom, CUCRA Chair Lee Duffus, CUCEA Chair W. Douglas Morgan, Assistant Researcher Catherine Brennan

STAFF PRESENT: Associate Vice President (AVP) Debora Obley, Principal Legal Counsel Barbara Clark, Senior Legal Counsel Ina Potter, Executive Director Gary Schlimgen, Director Kris Lange, Director Joe Lewis, Director Ellen Lorenz, Associate Director Tony DiGrazia, Manager Kurt Steinhoff, Manager Hyun Swanson, Coordinator Anne Wolf, Specialist Ken Reicher, Principal Analyst Mary Jenkins, Principal Analyst Robert Semple.

OTHERS PRESENT: UCB Retiree Association representative Antonia Sweet, UCB Emeriti Association representative George Goldman, CUCFA representative Eric Hays, CUCFA representative Joe Kiskis, AFSCME representative Marie Choi, Teamsters Local 2010 representative Anytra Henderson, Actuary Paul Angelo (The Segal Company), Actuary John Monroe (The Segal Company).

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

PUBLIC COMMENT PERIOD: CUCRA representative Kiskis questioned why the UCRP modified annual required contribution (modified ARC) was still high after UC already transferred $2.1 billion to UCRP. He asked if more borrowing was planned for the future.

APPROVAL OF THE MINUTES: Chair Starr called for approval of the minutes from the Board meeting of February 22, 2013 and the conference call of May 14, 2013. Vice Chair White requested some clarifications to his statements in the minutes of the May 14, 2013 conference call. With the clarifications noted, both sets of minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Starr noted that member Catherine Brennan would be leaving UC employment at the end of the summer, and thus would be resigning from the Board. UC staff will be contacting the UCRP staff member who received the next highest amount of votes in the last staff election from 2011 to see if they are still interested in serving on the Board. Chair Starr also noted that President Yudof had reappointed Vice President Duckett to another 4-year term on the Board running from July 1, 2013 through June 30, 2017. Chair Starr then announced that this was his last meeting as Board Chair and that an election for new Board officers would be conducted towards the end of the meeting. In closing, he announced that EVP Brostrom was unable to participate in the meeting, so the budget update would be provided by Associate Vice President (AVP) Debora Obley.

EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS – BUDGET UPDATE: AVP Obley stated that it appears that the legislature will approve a multi-year budget plan for UC and attributed the successful budget outcome to intense lobbying from UC, particularly by VP Lenz and EVP Brostrom. The overall base budget for UC for Fiscal Year (FY) 2013-2014 should increase by $469 million, including a $125.1 million increase (5%) to the base budget, $125 million to fund the deferred tuition buy-out for FY 2012-2013, $6.4 million for annuitant health and approximately $212 million attributable to debt restructuring under which some state debt service would shift to the UC, which has a better credit rating than the State. It is envisioned that the State's share of the increased employer contributions to UCRP, approximately $67 million for FY 2013-2014, would be derived from this debt restructuring, which should save UC $80 million in annual savings over the next ten years. The budget includes language that directs $15 million for the UCR School of Medicine, $10 million for online education, $3.6 million for debt service on building projects at UC Merced and $750,000 for development of a middle class scholarship program.

In response to a request from the Chair, a discussion ensued on the potential for further borrowing for UCRP. AVP Obley indicated that EVP Taylor had proposed the idea to the locations, but the Chancellors were against committing additional funds for UCRP at the present time. Vice Chair White noted that UCOP administration appears to favor more borrowing for UCRP. He also noted that borrowing for UCRP now would lower UCRP's unfunded liability and the locations' future UCRP contributions. Other members countered that the locations could invest excess funds/liquidity now to generate additional income for future use rather than committing funds to UCRP. A member suggested that the locations confer with the Treasurer's Office on this matter.

CHIEF INVESTMENT OFFICER – REPORT: CIO Berggren indicated that all plan portfolios generated positive returns for the third quarter and fiscal year to date (FYTD) based on improving business conditions and continued quantitative easing in the U.S. UCRP had a return of 4.6% for the quarter, exceeding its benchmark by .44%, and a 12.4% return for the FYTD, exceeding its benchmarks by .85%. She attributed the gains within UCRP during the third quarter to asset allocation and manager selection, noting that UCRP benefitted from being overweight U.S. equities, high yield bonds and real estate, which all performed very well, while being underweight in poor performers, such as TIPS and core fixed income. She advised of a few changes to the UC Core funds available under the UC Retirement Savings Program (RSP). As of July 1, 2013, the asset allocation in the UC Balanced Growth Fund will be changed to make it more similar to that of UCRP and a new short-term TIPS fund will be available to offer investors the potential for less volatility relative to the longer duration TIPS fund. The TIPS holdings in the UC Pathway funds will be converted to short-term TIPS holdings. In response to a question from the Chair, it was announced that there are approximately 15,000 RSP participants in the TIPS fund but that every RSP participant with an email address (approximately 169,000) would receive an email notice about the new short-term TIPS fund.

ITEM A. UCRP – PROPOSED CONTRIBUTIONS BEGINNING PLAN YEAR 2014-2015: As background for this item**,** Executive Director Schlimgen mentioned that, effective July 1, 2013, UCRP employer contributions will increase to 12% for all members while employee contributions for 1976 tier members will increase to 6.5% and employee contributions for 2013 Tier members are set at 7%. The proposed UCRP contributions for FY 2014-2015 being presented to the Regents in July would increase the employer contribution rate to 14% for all members while employee contributions for 1976 tier members would increase to 8% (UCRP employee contributions for members in the 2013 Tier would stay at 7%). He also noted that the employee UCRP contribution rates are subject to collective bargaining. In closing, he stated that the Academic Senate had previously endorsed the proposed FY 2014-2015 UCRP employer and employee contributions contingent upon a 3% salary increase for faculty and non-represented staff. President Yudof subsequently approved a general salary increase, effective July 1st, for these groups.

DISCUSSION OF PROPOSED DEFINED CONTRIBUTION PLAN FOR UC HEALTH POLICY-COVERED STAFF NEW HIRES: At the request of Chair Starr, Executive Director Schlimgen provided a brief update on this topic. He noted UC Health is still interested in the potential for an optional Defined Contribution Plan (DC Plan) but that there have been no further developments. If such a DC Plan were implemented, he noted that UC Health would still have to pay assessments on UC's unfunded accrued actuarial liability (UAAL) for new, policy-covered staff that opted for the DC Plan, which would amount to the difference between the actual UCRP contribution rate and the UCRP Normal Cost in any given year. In response to questions from the Chair, Actuary Monroe noted that UCRP's UAAL would not be impacted by the proposed DC Plan since UC Health would have to pay required assessments towards UCRP's UAAL even for DC Plan participants. He stated that UCRP's Normal Cost could be impacted if many short-term employees who normally quit before vesting in UCRP opted for the proposed DC Plan. However, he noted that it was unlikely that the relatively small number of UC Health Staff new hires who might opt for the DC Plan could impact UCRP's Normal Cost. It was noted that approximately 90% UC Health staff are represented and would not be eligible under the proposal for the voluntary DC Plan. AVC Hawkins added to the discussion by stressing that participation in the proposed plan would be voluntary. She stated that the goal of the proposal is not simply to reduce costs but rather to attract, and provide benefits for, a unique subset of UC Health employees who normally stay with UC for less than five years and would therefore not benefit from participation in UCRP.

ITEM B. UCRP – CHILDREN'S HOSPITAL & RESEARCH CENTER OAKLAND – PROPOSAL FOR RECIPROCAL VESTING CREDIT: Specialist Reicher stated that the UCSF Medical center (UCSFMC) is evaluating the potential acquisition of the Children's Hospital & Research Center at Oakland (CHRCO), which has a defined benefit plan with approximately $250 million in assets and covers 2,200 active members (50% represented), 550 pensioners and 1,000 inactive vested participants. If the transaction is completed, it is envisioned that CHRCO employees would transition to UCSFMC in waves over a few years. As of their transition date, CHRCO employees would become UC employees covered by the UCRP 2013 Tier. Once all CHRCO employees transitioned to UCSFMC, the assets and liabilities of the CHRCO pension plan would be absorbed into UCRP, following necessary regulatory approvals. He noted that there is a tentative plan to bring an action item to the Regents to provide reciprocal vesting credit to former CHRCO employees upon becoming UCRP members. The estimated financial impact of providing such vesting credit is relatively small, especially since the impact is only felt during the former CHRCO employees' first five years as UCRP members.

ITEM C. UCRP – RETIREMENT BENEFIT CALCULATORS: Board member Brooks, who requested this item, noted that the various UC retirement benefits calculators include different options but none provide estimates on future, post-employment health costs. He stated that UC should develop one calculator with multiple options (i.e., sick leave conversion, contingent annuitant options, adjustments to covered compensation, etc.), including an estimate of future health care costs, since employees aren't aware how health costs could impact their retirement benefit. He noted that UPTE has a retirement calculator that includes an estimate of future health care costs. Coordinator Wolf indicated that the two on-line UC retirement calculators have recently been combined into one, which provides all the aforementioned options for estimating a future UCRP benefit with the exception of health care costs. She also noted that, unlike the UC retirement calculator, the retirement calculator offered through Fidelity is designed as a comprehensive retirement modeling tool which incorporates both an employee's current UCRP and RSP information and allows the UC participant to include additional data, such as expected Social Security income, outside IRA balances, inheritance, etc. Director Lorenz then explained that none of the retirement calculators include projections of future health benefit costs because, unlike UCRP benefits, retiree health benefits are not vested and could be altered or eliminated in the future. Moreover, she explained that while UCRP benefits could be projected based on UCRP's defined formula, health premiums are negotiated annually with vendors and could change dramatically from year to year. Consequently, it is not possible to estimate future health costs. For this reason, Counsel Clark indicated that there would be legal concerns if the UC retirement calculators provided projections on future health costs. In closing, Director Lorenz indicated that verbiage could be added to the retirement calculators to clarify that health care costs are not included in the estimate.

ITEM D. UCRP – DISCUSSION OF THE LUMP SUM CASHOUT AND INACTIVE COLA AS 2013 TIER PROVISIONS: Chair Starr, who requested this item, asked the Segal Actuaries to estimate the cost of adding the Lump Sum Cashout (LSC) and Inactive COLA to the 2013 Tier. Actuary Monroe noted that including the Inactive Cola in the 2013 Tier would raise its Normal Cost by .5%, whereas the inactive COLA in the 1976 Tier only raises its Normal Cost by .2% to .25%. He explained that almost all inactive members retire by the age at which the maximum UCRP age factor is attained, which is age 60 in the 1976 tier as opposed to age 65 in the 2013 Tier. Consequently, it would be more expensive to provide an Inactive COLA in the 2013 Tier because there could potentially be more early terminations, resulting in more inactive 2013 Tier members who could receive an Inactive COLA for five additional years (i.e., until age 65). With respect to the LSC, Actuary Monroe added that, since the LSC option was actuarially equivalent to monthly basic retirement income, there would be no cost impact of adding an LSC to the 2013 Tier. In response to another question from Chair Starr, he noted that adverse selection with respect to the LSC would be minimal.

ITEM E. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2013 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Specialist Reicher noted that the annuitant COLA for July 1, 2013, which is based on average increase in the Consumer Price Index (CPI) for all urban consumers in the San Francisco and Los Angeles metropolitan areas from February 2012 to February 2013, ranged from 2% to 2.34%, depending upon a retiree's date of retirement and applicable COLA or inflation bank. He also noted that, as of July 1, 2013, the purchasing power of all UCRP annuitants remained above 79% of the purchasing power they had as of the date of their retirement. The purchasing power of UC-PERS Plus 5 annuitants was 90.41% as of July 1, 2013.

ITEM F. CALIFORNIA ACTURIAL ADVISORY PANEL: Actuary Angelo began by providing background on the California Actuary Advisory Panel (CAAP), which was created by statute and on which he serves at the request of UC. The panel's purpose is to provide public agencies with impartial information but not to replace any agency's consulting actuary. Actuary Angelo then summarized the panel's most recent report entitled Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model, copies of which had been provided to Board members. He noted that UCRP's policies and practices are generally in line with the panel's recommendations. One difference he noted was that UCRP uses level dollar amortization while the panel generally recommends level percent of pay amortization. However, he noted that level dollar amortization is more appropriate for UCRP since UC does not have taxing authority like most other public sector pension plans in California and also since UC has temporary funding sources, such as contracts and grants. In closing, he noted that the panel recommends that every plan should strive for a full (100%) funding policy.

ITEM G. 2013 TIER – COMUNICATIONS UPDATE: Coordinator Wolf provided a brief update on communications with respect to the 2013 Tier. She noted that the 2013 Tier summary plan description (2013 Complete Guide to Your UC Retirement Benefits), which was distributed to the Board, provides a summary of the various benefits under the 2013 Tier and includes information on benefits for "multi-tier members" who have UCRP service credit in both the 1976 and 2013 Tiers. She then briefly described a variety of other benefits publications which had been created or revised to reflect the provisions of the 2013 Tier. She noted that the Board had been sent web links to access these publications.

ITEM H. RETIREMENT SAVINGS PROGRAM – VENDOR RELATIONS MANAGEMENT REPORT: Director Lange began by introducing Hyun Swanson, the new Manager of Benefits Education at UCOP. She then noted that Fidelity met all of it service requirement for the past quarter and provided highlights from the Vendor Relations Management Report. She stated that the Retirement Savings Program (RSP) has approximately $18 billion in assets and employee participation is up to 51%, just slightly below the all-time high participation rate. With respect to the annual on-line retirement review, she indicated that 60% of UCRP members have a retirement readiness score of 80% or higher. In response to a question, she noted that the annual on-line retirement review does not automatically include a member's expected Social Security benefits, which must be manually entered by a member. Consequently, the retirement readiness score for most UCRP members is probably understated.

ITEM I. RETIREMENT SAVINGS PROGRAM – FUND MENU MANAGEMENT - UPDATE: Director Lange provided an overview of the final phase of the fund menu management project, which had been described at previous Board meetings. She reminded the Board that in February 2013, a personalized letter was sent to approximately 43,000 participants who had assets in non-CORE and/or non-institutionalized funds notifying that they would need to redirect their contributions and transfer their assets in such funds to either UC CORE or institutionalized funds or establish a brokerage link account in order to retain their selected investment funds. Participant who failed to either set up a brokerage link or request a transfer would have their remaining assets in non-Core and non-institutionalized funds mapped to an age-appropriate UC Pathway fund on June 28, 2013. She noted that the transfer deadline was only one week away and it appeared that roughly $1.1 billion would be mapped to the appropriate UC Pathway funds.

ITEM J. UCRS ADVISORY BOARD – ELCTION OF OFFICERS FOR FISCAL YEAR 2013-2014: Principal Analyst noted that Board members Shane White and Angela Hawkins had been nominated as Chair and Board members Paul Brooks and Meredith Michaels had been nominated as Vice Chair for FY 2013-2014. After brief statements by the candidates, the election was conducted using paper ballots that were counted by Analyst Semple, who serves as staff to the Board, along with Board member Berggren. Shane White was elected as Chair and Meredith Michaels as Vice Chair.

ITEM K. UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL YEAR 2013-2014: Principal Analyst Semple indicated that each of the proposed meeting date was scheduled to fall on a Friday, in accordance with the Board's preference for Friday meetings. He indicated that if he did not receive any objections to the proposed dates from the current members within the next few weeks, meeting rooms would be reserved for these dates and the meeting schedule would be posted to the Board's applicable page on the At Your Service website.