



# UCRS Advisory Board

## MINUTES

### UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) ADVISORY BOARD MEETING NOVEMBER 22, 2019 10:00 AM – 2:00 PM

**BOARD MEMBERS PARTICIPATING:** Chair Ronald Cortez (via telephone), Vice Chair Jo Mackness, Chief Investment Officer (CIO) Jagdeep Bachher, Chief Operating Officer (COO) Rachael Nava, Professor David Brownstone, Professor Henning Bohn, Academic Personnel Policy Analyst Tiffany Wilson, Pharmacy Technician Ruth Zolayvar, and CUCEA Chair Caroline Kane.

**BOARD MEMBERS ABSENT:** Vice President (VP) Dwaine B. Duckett and CUCRA Chair Marianne Schnaubelt.

**UCOP STAFF PARTICIPATING:** Associate Vice President Cheryl Lloyd, Associate Vice President David Alcocer, Managing Director Marco Merz, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco (via telephone), Sr. Counsel Robert Gaumer, Director Esther Cheung Hill, Director Ellen Lorenz, Director Ken Reicher, Associate Director Anthony DiGrazia, Manager Greg Ricks, Manager Scott Sylva, Manager Hyun Swanson, Manager Michael Waldman, Business Controls Leader Kendra Eaglin, Benefits Controls Leader Anne St. George, Benefits Analyst Damian Plebuch and Principal Analyst Robert Semple.

**OTHERS PRESENT:** CUCRA Vice Chair Joe Lewis, AFSCME Local 3299 representative Nischit Hedge, retiree/UPTE representative Paul Brooks, CNA representative Ben Elliott (via telephone), Teamsters Local 2010 representative Alee Vermie (via telephone), Academic Senate Principal Analyst Ken Feer (via telephone), and Actuary John Monroe (Segal Consulting).

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

**PUBLIC COMMENT PERIOD:** Retiree and UPTE representative Paul Brooks stated that UPTE opposes any additional employee contributions to UCRP. He also questioned why RASC performance and response times have been so poor. He cited an example in which a surviving spouse, who spent hours on the telephone trying to get in touch with RASC, did not receive survivor forms/paperwork for a month and did not receive survivor income for three months following the death of her member spouse. He stated that it should not take three months to initiate survivor income and the process should be better explained. CNA representative Ben Elliott noted that CNA was also adamantly opposed to any increase in UCRP employee contributions. He stated that in order to retain certain provisions of the UCRP 1976 tier for their new employees hired on/after July 1, 2013, CNA members agreed to pay 9% to the UCRP 2013 “modified” tier; 1% more than non-represented 1976 Tier members pay to UCRP. He noted that CNA members will not accept a further increase in their UCRP contributions and that CNA will be willing to strike to prevent such an increase.

Chair Cortez noted that the Regents had tabled the item to potentially increase UCRP member contributions until next July, which gives all concerned parties time to research/arrange alternatives means to provide additional UCRP funding.

**APPROVAL OF THE MINUTES:** Vice Chair Mackness called for the approval of the minutes of the regularly scheduled Board meeting of June 21, 2019 and the ad hoc meetings of August 30, 2019 and October 23, 2019. All three sets of minutes were approved by acclamation.

**COMMENTS FROM THE VICE CHAIR:** Vice Chair Mackness began by asking if the two newest Board members, Tiffany Wilson and Ruth Zolyavar, wished to address the Board. She also asked Associate Vice President (AVP) Cheryl Lloyd to introduce herself.

Ruth Zolyavar, a Pharmacy Technician at UCSDMC, noted that she has been at UC for 13 years and that she is on the AFSCME Executive Board and bargaining team. She stated that the primary message that she wanted to convey as a staff representative on the Board was that UC should not mess with the rights of staff members to retire with dignity. Tiffany Wilson, an Academic Personnel Policy Analyst at UCOP, stated that she was happy to be a member of the Board representing the interests of staff members. Cheryl Lloyd, AVP and Chief Risk Officer, stated that she has been with UC for 22 years. She also mentioned that, since July 2019, she has also assumed the role of acting VP/CHRO of systemwide Human Resources. She mentioned that she participated in the Board's ad hoc meeting in August and that she has lately been working with UCOP staff on retirement issues.

Vice Chair Mackness concluded by noting that she had asked Directors Cheung Hill and Lorenz to combine the Redwood and UCRAYS update (agenda item F) and the RASC update (agenda item H) into one presentation in the interest of time.

**OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE:** Associate Vice President Alcocer mentioned that the proposed UC budget for fiscal year (FY) 2020-21 requests a 7.1% base budget increase, including funding for the UCR school of medicine. He also noted that UC is requesting a one-time payment of \$450 million, of which \$150 million would be for deferred maintenance and \$300 million for energy efficiency. He stated that UC's proposed budget does not call for a tuition increase at this point, but that may need to be reevaluated based on the budget proposed by the Governor in January. He said that UC's budget request is large by historical standards, but also noted that the state is expected to have a \$7 billion surplus. In closing, he mentioned that UC would try to work with the state to see if some of the state's surplus funds could be directed towards UCRP's unfunded liability.

**CHIEF INVESTMENT OFFICER – REPORT:** Managing Director Marco Merz noted that, as of the end of the third quarter, the Retirement Savings Program (RSP) had \$25.8 billion in assets. He noted that the UC 403(b) Plan, which had slightly over \$18 billion in assets (71% of RSP assets) as of September 30, 2019, was the largest 403(b) Plan in the U.S. He also noted that the UC Defined Contribution Plan, which had had approximately \$4.5 billion in assets (18% of RSP assets) as of the end of the third quarter, was the second largest public defined contribution plan in the U.S. He stated that \$10 billion of the RSP Plan assets were invested in the Pathway funds, \$14.1 billion in other CORE funds, and \$1.7 billion invested through the brokerage link. Turning to fund performance, he noted that some investments, most notably fixed income and emerging markets, had underperformed on a short-term basis in comparison to their respective benchmarks. He indicated that short-term

returns should be monitored but he doesn't anticipate any sudden changes to these funds as returns for retirement funds should be viewed from a long-term perspective and the fund managers were performing according to expectations. In closing, he noted that on January 1, 2020, the Pathway 2015 Fund will be closed and merged with the Pathway Income Fund and a new Pathway 2065 Fund will be introduced. He also noted that the Office of the CIO will begin researching options for participants to obtain a guaranteed stream of income for their RSP investments, somewhat similar to an annuity.

CIO Jagdeep Bachher indicated that the third quarter returns for UCRP were relatively flat, with UCRP assets remaining at approximately \$70 billion. He noted that stocks had risen recently, but he couldn't reasonably justify the increase. He indicated that European and emerging markets are quite depressed and the U.S. is currently the strongest market, but he questions whether the U.S. market can continue to provide such increases. Consequently, he indicated that he is currently taking a defensive position by holding up to 8% of assets in cash. He indicated that famed investor Warren Buffett is also taking a very defensive position, currently holding \$125 billion in cash. He feels that European and emerging markets can't continue to provide negative returns for long, and actions to spur growth in those markets could represent profitable investment opportunities. On the other hand, he claimed that there still may be some opportunities in the U.S market as interest rates are low and President Trump will do anything within his power to keep the U.S. market positive before the 2020 election.

Noting that UC could currently borrow at a 3% interest rate, Board member Brownstone asked the CIO's opinion regarding substantial borrowing to help reduce UCRP's unfunded actuarial accrued liability (UAAL). Professor Brownstone stated if the CIO is confident that UCRP investments could provide returns exceeding 3% over time, then borrowing to pay down's UAAL makes a lot of sense. CIO Bachher stated that there was no better time to borrow as long-term loans are available at very good rates. However, he noted that there may be some restrictions on excessive borrowing to fund a pension plan. He clarified that his response was purely theoretical and that the Regents would need to make decision with respect to substantial borrowing for UCRP.

**ITEM A. UCRS – FOSSIL FREE DISCUSSION:** CIO Bachher began by acknowledging that many faculty and staff members have expressed opposition to UC's investment in fossil fuels. He clarified that there is no UC policy against investing in fossil fuels, but noted that he is moving towards a fossil free portfolio for UCRP. He indicated that his decision was based on financial realities rather than moral values. He stated that climate change is real and that he does not expect good future returns from fossil investments, such as oil and coal, which are longer-term investments requiring a commitment of ten years or more. On the other hand, he indicated that solar and wind energy investments are becoming more attractive from a financial perspective. Asked whether he will be moving towards fossil free investing for the RSP, he indicated that he has no plans to do so at this point and wants more input from faculty and staff. He stated that while faculty and staff generally object to fossil fuel investments for UCRP and the General Endowment Pool, they seem reluctant to endorse fossil free investment for the RSP. He supposed that RSP participants want more freedom with respect to investing their own voluntary retirement contributions. Director Merz indicated that he feels that the RSP investments should align with UCRP with regards to fossil free investing. He feels that RSP participants don't necessarily object to fossil free investing, they just want more disclosure from UC regarding the RSP investment vehicles.

**ITEM B. UCRP – ANNUAL ACTUARIAL VALUATION REPORT AS OF JULY 1, 2019:**  
Referencing a summary of the report distributed to the Board, Actuary John Monroe from Segal

Consulting (Segal) summarized the highlights of the recent UCRP actuarial valuation report as of July 1, 2019. He noted that the two most significant changes to the recent actuarial valuation were the reduction in UCRP's rate of return assumption from 7.25% to 6.75% and changes to the mortality assumption, including use of a generational projection. He noted that these two changes were primarily responsible for increasing the Plan's Normal Cost by 3.1%, the total funding policy contribution by 7.5% and the UAAL by \$7.5 billion. He also noted that, in September 2019, the Regents approved an increase in the UCRP employer contributions rate of .05%, for six years beginning July 1, 2020, for a total increase of 3% (from 14% to 17% of payroll), thereby offsetting some of the increase in the Plan's Normal Cost. He stated that UCRP had a FY market value return of 6% and a FY actuarial value return of 6.2%. As of July 1, 2019, UCRP had a market value of \$70.3 billion and an actuarial value of \$70.2 billion and its funded percentage had dropped from 87% to 80% since July 1, 2018 (i.e. increase in the UAAL from \$10.3 billion to \$17.6 billion). He noted that the transfer of \$500 million from the Short Term Investment Pool (STIP) is reflected in the valuation results. Turning to demographics, he noted that the total employee population eligible for primary retirement coverage (i.e., career employees) increased in the past FY. However, he stated that membership in UCRP decreased slightly due to an increase in the number of retirements and the fact that approximately one third of all new/rehired eligible employees elect to participate in the Savings Choice as opposed to Pension Choice.

**ITEM C. UCRP – MEMBER CONTRIBUTION CONSIDERATIONS:** Manager Scott Sylva noted that the Regents item concerning a potential increase in UCRP member contribution rates was not officially presented as the Regents immediately “tabled” the item, at least until next July. He then proceeded to summarize the comments made by some members of the Regents concerning the item. He noted that Regent Makarechian immediately asked that the item be tabled until next July so that UC had an opportunity to review other options for funding UCRP, such as seeking dedicated UCRP funding from the state. However, Regent Makarechian also noted that the Regents have a fiduciary responsibility to ensure that UCRP is sufficiently funded. Regent Park noted that comments about the high cost of living in California and UC's competitiveness may not be direct factors in the discussion concerning UCRP's funded status, but are side issues that should be considered when talking about increasing employee contributions. Regent Cohen stated that if UC can't obtain dedicated funding for UCRP from the state, the idea of increasing UCRP member contributions will need to be revisited. As author of Proposition 2, Regent Perez stated that he feels that UCRP is a good candidate for state Proposition 2 monies.

Following the summary of Regents' comments, Executive Director Schlimgen indicated that he and others at UCOP are in the initial planning stages for requesting dedicated UCRP funding from the state. Manager Sylva then indicated that letters from various groups, including the UCRS Advisory Board, contributed to the Regents' decision to table the item on increasing UCRP member contribution rates. Board member Zolayvar expressed gratitude to union leadership for their efforts to defer an increase in UCRP member contributions. She also noted that the union coalition wishes to collaborate with the Regents to obtain dedicated UCRP funding from the state.

**(AD HOC ITEM) - BORROWING TO FUND UCRP – SLIDE PRESENTATION BY BOARD MEMBER BROWNSTONE:** On his own accord, Board member Professor Brownstone shared 2 graphs that he made analyzing the impacts of various funding scenarios on UCRP's funded ratio. Using the baseline projections that Segal presented at the November Regents meeting (6.75% investment return and 2.5% inflation) he showed the evolution of: 1) the already approved increase in

employer contribution to 17%, 2) Borrowing \$7.5 billion at 3% interest for 30 years, putting the proceeds into UCRP, and paying off the loan by partially using the increased employer contributions, and 3) increasing the employer contribution rate further to 18.5% (equivalent to increasing the employee contribution by 1.5%). The results in the graph show that the borrowing scenario is superior and costs considerably less than the 18.5% employer contribution scenario. Chair Cortez asked about the potential problems with borrowing this large an amount, and Professor Bohn indicated that the key risk is that UCRP won't earn enough to pay back the loan. He noted that CIO Bachher is currently holding 8% of UCRP's portfolio in cash, which is invested in STIP and earning only 2%, because he can't find suitable investments that would provide a higher return without undue risk. Professor Brownstone said that borrowing is equivalent to leveraged investing which does increase the riskiness of the overall portfolio. However, he also stated that if UCRP is not able to earn at least 3% over the 30 years in these projections, then UCRP would be in serious trouble independent of any borrowing. Professor Brownstone then shared another graph showing the results of his simulations of investment return uncertainty on the UCRP funded ratio. The UCRP investment return was replaced with a portfolio of 90% S&P 500 and 10% 10-year Treasury bills (which closely match the observed 1992-2018 UCRP investment return). He then showed the UCRP funded ratio after 30 years starting in each year from 1928 - 1989. The results show that the variability in investment returns is much larger than any differences due to different funding scenarios.

**ITEM D. UCRP – LUMP SUM CASHOUT REPORT:** Manager Greg Ricks summarized the FY 2018/19 lump sum cashout (LSC) report for the Board. He began by stating that the LSC was available to vested, retirement-aged UCRP 1976 tier and modified 2013 tier 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 2018/19 was 19%; a .8% decrease from the previous year. However, he noted that the total dollar amount of all FY 2018/19 LSC payments, as well as the average dollar amount of each LSC payment, increased by 8% from the previous year. He mentioned that 70% of the members who elected an LSC in FY 2018/19 would not have been eligible for retiree health coverage had they opted for UCRP monthly retirement income. In closing, he mentioned that 48% of the FY LSC recipients elected an internal (UC) or external rollover, while 27% elected a direct payment and 25% elected a combination of rollover and direct payment.

**ITEM E. UCRS – AUDITED ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2018-19:** Director Ken Reicher noted that he is the new director of Benefit Plan Accounting, replacing David Olson who retired last July. He noted that the report includes information pertaining to both UCRP and the RSP, adheres to Governmental Accounting Standards Board (GASB) reporting provisions, and is audited by Price Waterhouse. He stated that the audience for the report consists primarily of rating agencies, bondholders and the state. In closing, he noted that the audited financial report was presented to the Regents at their meeting last week.

**Note:** in the interest of time and continuity, Vice Chair Mackness asked that agenda items F and H be combined into a single presentation.

**ITEMS F. AND H. - REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM AND UCRAYS UPDATE – AND - RETIREMENT ADMINISTRATION SERVICE CENTER UPDATE:** AVP Cheryl Lloyd began by noting that she was asked to review problems with

the implementation of the Redwood retirement recordkeeping system as well as the backlog in RASC. She noted that the Redwood project began in 2015 with the aim of replacing the old retirement system (CICS) that had limited functionality and was based on an outdated programming language (COBOL), making any updates to it costly and difficult. Unfortunately, the new Redwood system has been beset by problems since its launch in March 2019, leading to a backlog in retirement, disability and survivor payment processing as well long waiting times in contacting RASC. To address the problems with the Redwood system implementation, she stated that additional IT oversight has been provided and she has hired an outside company to review the problems with the Redwood project and advise how UC can work more efficiently with the Redwood software provider. She has also established an internal, cross-functional strategy team to help address Redwood problems and has consulted with CalPERS, which had similar implementation issues when it went through a systems change a few years ago. With respect to RASC, she noted that benefits payment processing and calls had been steadily improving over the summer but then Open Enrollment occurred and added further work and stress. To assist in benefit processing and responding to RASC inquiries, she noted that 25 temporary workers have been hired in addition to launching UCRAYS, the new retirement portal that has many self-service capabilities. She closed by saying that she is confident that benefit processing and RASC response times will steadily improve going forward.

Director Lorenz acknowledged that the Redwood project has been very challenging and that while RASC average call waiting times have decreased, they are still averaging around 25 minutes. She indicated that both benefit payment processing and call waiting times should improve after Open Enrollment closes at the end of November. She also indicated that the new UCRAYS portal should reduce calls/requests to RASC, but she will still try to extend the contracts of the 25 temporary workers. Addressing an earlier question regarding the backlog in survivor benefit processing, she stated that such work had been delayed by the launch of Redwood and that processing retirements had been a primary focus. She indicated, however, that RASC had eliminated that backlog with respect to survivor benefit processing and that future survivor benefits will be issued within normal time frame, which is approximately one month. In closing, she noted that RASC will focus on better communication, enhanced training and modifying its procedures to better align with the functionality of the new Redwood system.

Director Cheung Hill began with a brief overview of ROOTS, the information portal for UC benefits personnel. She noted that ROOTS was rolled out last July to roughly 100 benefits professionals. Since the rollout, UC has added more features to Roots, such as the ability for benefits personnel to view members' beneficiaries and to report deaths. Turning to the UCRAYS retirement portal, she indicated that it was launched in late September and already has 51,000 registered users, adding nearly 1,000 per day. She mentioned that UCRAYS was launched without its full capabilities in place. She noted that in the near future employees will be able to self-generate retirement estimates on the UCRAYS portal and other capabilities will be added a bit later, such as the ability to initiate retirement requests and do Medicare assignments online.

#### **ITEM H. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION**

**REPORT:** Since Director Merz had already covered RSP financial information, Manager Swanson summarized the operational highlights of the report. She noted that 51% of active participants were making voluntary contributions to the RSP, with an average contribution of 10% of salary, and that 62% of career employees were on track to have at least 80% retirement income replacement from all UCRS sources. She noted that Fidelity had met all of its performance standards. With respect to

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communications and education, she stated that the myretirement.com site was recently updated with a new look, expanded content, and a life stage approach for finding relevant information. She indicated that the updated site was mentioned in the September 2019 version of the retiree newsletter New Dimensions and additional communication pieces for active participants will be forthcoming. She also mentioned that there were over 14,700 financial education interactions during the third quarter. In closing, the Board members asked if Manger Swanson had the ability to randomly listen in on Fidelity calls to see if Fidelity may be attempting to sell their products to UC participants. She responded that Fidelity does record calls with UC participants but she does not randomly listen to them. However, if a problem is reported and she has the participant's name and time of call, she can contact Fidelity for a record of a particular call. AVP Lloyd clarified that unless a specific problem was identified and reported, UC personnel should not listen to any Fidelity calls without a UC participant's permission to do so.

The meeting adjourned at 1:55