



UCRS Advisory Board

MINUTES

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

ADVISORY BOARD MEETING/VIDEO-TELECONFERENCE

JUNE 19, 2020

10:00 AM – 1:00 PM

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

UCOP STAFF PARTICIPATING: Associate Vice President David Alcocer, Chief Operating Officer Arthur Guimaraes, Managing Director Marco Merz, Executive Director Gary Schlimgen, Sr. Counsel Luis Blanco, Sr. Counsel Robert Gaumer, Deputy Chief Information Officer Molly Greek, Director Ellen Lorenz, Director Nilofeur Samuel, Director Hyun Swanson, Manager Aliya Dibrell, Manager Veronica Garcia, Manager John Monroe, Manager Greg Ricks, Manager Scott Sylva, Manager Michael Waldman, Manager Kevin Young, Business Controls Leader Anne St. George, Principal Analyst Ashley Eigenauer, and Principal Analyst Robert Semple.

OTHERS PRESENT: CUCEA/CUCRA Joint Benefit Committee Chair Roger Anderson, incoming Academic Senate representative Professor Terrence Hendershott, incoming CUCEA Chair Professor Henry Powell, CUCRA Chair-elect Joe Lewis, Teamsters Local 2010 representative Mary Higgins, CUCFA representative Eric Hays, retiree/UPTE representative Paul Brooks, Academic Senate Principal Analyst Ken Feer, UCI Finance Manager Stephanie Tenney, AFT representative and Librarian David School (UCLA), AFT member and Lecturer Sophia Cheng (UCLA), and Consultant Emily Klare (Segal Consulting).

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

PUBLIC COMMENT PERIOD: Retiree and UPTE representative Paul Brooks noted that the UC International Equity Index Fund has performed poorly for many years and has higher fees than other funds. Consequently, he questioned why a fairly significant percentage of the UC Pathway Funds' composition is attributable to the UC International Index Fund. AFT representative and UCLA librarian Daniel School informed the Board of a UCPath error which resulted in approximately 2,100 missed employer contributions to the Pension Choice Supplemental Defined Contribution Plan (DC Plan) account, totaling roughly \$650,000, for over 200 UC lecturers and librarians. He noted that the impacted employees were notified by UC in May 2020 regarding this error and that retroactive contributions would be reflected in their June 2020 paycheck. However, he also noted that in early May 2020, the American Federation of Teachers (AFT), which represents the impacted UC lecturers and librarians, submitted a request to UC asking for the methodology used to determine the retroactive employer contributions as well as the formula used to calculate the interest due. He indicated that, to

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date, the University has not provided this information to the AFT. He stated that UC's lack of transparency and UCPath oversight is a major concern, especially since many of the missed employer contributions date back over three years. He questioned if other unnoticed payroll errors have occurred that have impacted employee retirement benefits. AFT member and UCLA lecturer Sophia Cheng was briefly online for the meeting but experienced connection problems. She wished to advise the Board that she was also impacted by the missed employer contributions to her Pension Choice Supplemental DC Plan account, which was the second payroll mistake she experienced this academic year. Additionally, she expressed concern that UC had not been more forthcoming with answers regarding the manner in which retroactive employer contributions, and especially retroactive interest, were calculated. She stressed that compound interest is a critical component of a defined contribution plan, and thus it is vital for UC to provide the AFT and impacted employees with the correction methodology/formula. She also indicated that the lack of transparency from UC results in a lack of trust from employees and causes them to question whether other mistakes may be occurring. In closing, she noted that UC should also develop and communicate processes for preventing future payroll problems.

APPROVAL OF THE MINUTES: Chair Cortez called for the approval of the minutes of the Board meetings of February 28, 2020 and April 17, 2020. Both sets of minutes were approved by acclamation.

COMMENTS FROM THE CHAIR: Chair Cortez began by noting that Gary Schlimgen, Executive Director of Retirement Programs & Services, would be retiring on July 1st after working at UCOP for thirty years. On behalf of the Board, he thanked Gary for his service to both the Board and the UC community and wished him a well-deserved retirement. He then mentioned that the Board terms for Professor David Brownstone, an Academic Senate representative on the Board, and Caroline Kane, the CUCEA Chair and ex-officio representative on the Board, were ending as of June 30, 2020. He thanked them both for their service to the Board and for ably representing the Academic Senate and the emeriti, respectively. He noted that the new Academic Senate representative on the Board would be Professor Terrence Hendershott from UC Berkeley. He also noted that the new CUCEA Chair and ex-officio representative to the Board would be Professor Emeritus Henry Powell from UC San Diego. Both would start their Board terms effective July 1, 2020. In closing, he noted that it had been an honor to serve as Board Chair for the last year and he thanked the Board members for their service.

OFFICE OF THE CHIEF FINANCIAL OFFICER – BUDGET UPDATE: Associate Vice President Alcocer stated that the Governor's proposed January budget had provided for a 5% base budget increase for UC, as well as \$25 million dedicated funding for the UC Riverside school of medicine. However, he noted that the budget situation had changed dramatically as a result of the pandemic. He said that the Governor's May 2020 revised budget indicates that UC's budget would remain essentially flat (i.e., no increase) if the state received sufficient federal reserve funds, otherwise UC's budget could be reduced by approximately 10%. He noted that the medical centers had been especially impacted as a result of the pandemic, as non-essential care had been severely restricted. He indicated that UC might have a better picture of the state's economic situation within a few weeks, but the budget situation for UC will remain uncertain until medical center operations stabilize and the student enrollment figures for the fall become more clear.

CHIEF INVESTMENT OFFICER – REPORT: Chief Investment Officer (CIO) Bachher began by noting that the CIO's team had adjusted well to working off-site. He stated that the first two quarters had been very eventful. Stock market returns for the first quarter (calendar year) were near a record

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low, despite stock prices hitting a record high in February 2020. However, even with mass unemployment caused by the pandemic, the market had rebounded during the second quarter (calendar year). He attributed the market's turnaround to the unprecedented fiscal stimulus from the government.

With respect to UCRP, he said he had been maintaining a significant amount of cash holdings, even before the onset of the pandemic, fearing stocks were overvalued and would drop. He stated that the pandemic and the government's reaction was not something that could have been predicted and that he had recently deployed a lot of UCRP's cash holdings. Due to the conservative stance, he indicated that UCRP's 2019-20 fiscal year (FY) return would be well below its assumed rate of return. However, he stated that he does not regret his investment decisions, as he strives to mitigate risk and invest for the long-term stability of UCRP. He closed by noting that a new asset class, private credit, would likely be incorporated into the investment portfolio in July 2020.

Director Merz began by noting that the Retirement Savings Program (RSP) had recently rebounded, increasing from \$23.6 billion as of the end of the first quarter to \$27 billion as of June 18, 2020. He mentioned that 40% of RSP assets are invested in the UC Pathway Funds and noted that an appropriate age-based UC Pathway Fund has been the default for new participants since 2014. He stated that some of the vintage UC Pathway Funds (i.e., Pathway Income Fund, Pathway 2020 Fund) had underperformed in the short term but are aligned with their benchmarks from a long-term perspective. He then reminded the Board of the RSP accomplishments over the last six years: reduction in number and complexity of investment choices; 65% reduction in management fees; 35% increase in passive investments; improved asset allocation in the UC Pathway Funds; and significant increase in communication with RSP participants.

In closing, he said he was happy to report that the pandemic had not resulted in significant selling or trading in the RSP. He attributed this reaction, in part, to a robust educational platform, especially a webinar conducted in late March by CIO Bachher in which the CIO stressed that RSP participants should stay on course with their respective long-term retirement strategies. He noted that the CIO's webinar had been repeated several times during the second quarter and was attended by thousands of RSP participants. Approximately 99% of RSP participants have maintained their asset allocation in equities to date.

ITEM A. UCRS – COST-OF-LIVING ADJUSTMENT FOR 2020 AND MEASUREMENT OF ANNUITANT PURCHASING POWER: Manager Monroe stated that the UCRP Annuitant COLA for July 1, 2020, which is based on the average increase in the Consumer Price Index (CPI) for all urban consumers in the San Francisco and Los Angeles metropolitan areas from February 2019 to February 2020, will be 2.00% for all UCRP retirees eligible for a COLA. He noted that the COLA for UC-PERS Plus 5 retirees would also be 2%. He then briefly summarized the COLA methodology described in the item and noted that, as of July 1, 2020, the purchasing power for all UCRP annuitants remains above 75% and is higher for those with more recent retirement/benefit dates. (The purchasing power for UC-PERS Plus 5 retirees is approximately 87%.) He concluded by noting that Annuitant COLA would likely be lower next year, since the CPI had gone down since February.

ITEM B. UCRP – REDWOOD RETIREMENT ADMINISTRATION RECORDKEEPING SYSTEM, UCRAYS, ROOTS AND RETIREMENT ADMINISTRATION SERVICE CENTER (RASC) – UPDATE: Director Lorenz began by noting that the majority of RASC personnel had successfully transitioned to working off-site, but that roughly 15% of staff regularly come into the office to process mail, etc. Although the figures were down slightly down from last year, she indicated

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that it will be a busy retirement season, with roughly 2,300 retirements being processed for July 1, 2020. She also noted that the processing of inquiries has improved, aided by the fact that roughly 131,000 members have registered with UCRAYS. In response to some questions/issues raised by Board members, Director Lorenz acknowledged that there was still a backlog of telephone inquiries and secure message in UCRAYS, and it could take up to eight days to provide a response. She noted that members who experienced a dire situation could escalate their issues to a RASC manager.

Manager Dibrell proceeded to explain some of the issues with UCRAYS. She stated that while there are 131,000 registered UCRAYS users, there have been close to a million UCRAYS log-ins for a variety of purposes, such as running retirement estimates, sending secure messages and uploading retirement applications and other documents. While she acknowledged that there had been some technical issues, which have been fixed, she indicated that many users are simply confused and/or frustrated by the increased security log-in features. She feels that when users get used to the security log-in procedures, they will be happier with UCRAYS and telephone calls to RASC will decrease.

Interim Vice President Lloyd indicated that she was concerned that it was taking over a week to respond to inquiries and that she would be looking into measures to improve response times.

ITEM C. Retirement Savings Program – Amendments for Approved CARES ACT Related Provisions – Update: Manager Sylva indicated that the RSP plan amendments related to CARES Act distributions and loans, which had been discussed with the Board in April, had been approved by the Regents on May 21, 2020, and such distributions and loans were made available by Fidelity within a week of Regental approval. He reminded the Board that the CARES Act-related distribution provisions applied to all three RSP plans, whereas the related loan provisions only applied to the UC Tax-Deferred 403(b) Plan (403(b) Plan). He also reminded the Board that the Regents approved permanent (i.e., non-CARES Act related) in-service distributions upon attainment of age 59.5 under the Defined Contribution Plan (DC Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan), thereby aligning the provision in all three RSP plans.

Director Swanson provided the Board with some CARES Act-related figures, noting that roughly 1,100 CARES Act distributions had been requested but relatively few loans. She then proceeded to advise the Board regarding the CARES Act-related communications, mentioning that two articles had been posted on UCnet and distributed to location editors, along with displaying information on the myucirement.com site. Additionally, she said that a memo was sent to all Benefits Managers regarding the availability of CARES Act-related distributions and loans. In closing, she noted that she strived to make information about the CARES Act-related distributions and loans known, but did not want to encourage them.

Board member Zolayvar expressed concern about offering loans to vulnerable UC workers who already are amongst the lowest paid in the system that will hurt them in the future, and suggested that UC should offer relief programs that don't have workers borrowing against themselves.

ITEM D. RETIREMENT SAVINGS PROGRAM – OPERATIONS AND EDUCATION REPORT: Stating that the information for the report was as of the end of the first (calendar year) quarter, Director Swanson proceeded to provide the highlights of the report. She noted that 49% of active participants made voluntary contributions to the RSP, which was down slightly from the previous quarter. She also noted that RSP assets were down to \$23.6 billion as of the end of March but, as stated by Director Merz, were now roughly \$27 billion. Due to an influx of calls as a result of the

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pandemic, she mentioned that Fidelity missed two of its performance standards for the quarter: answering calls within 30 seconds and abandoning no more than 3% of calls. She also mentioned that UC had initiated a request for proposal (RFP) for a new RSP recordkeeper, which was managed by Mercer consulting. With respect to communications and education, she noted that both the first and second quarters were very busy due to the upcoming retirement season and the pandemic, with the added complexity of having to move consultations and on-site workshops to a strictly virtual experience. In closing, she noted that pre-retirement seminars had been expanded, in collaboration with RASC, and that personalized retirement reviews were being updated for a summer launch.

ITEM E. Retirement Savings Program – Addition of Roth Accounts – Discussion: Principal Analyst Semple noted that the discussion on the merits of adding Roth accounts to the 403(b) Plan and 457(b) Plan was added to the agenda at the request of the Board Chair. He then briefly summarized the difference between UC's current 403(b) and 457(b) plan accounts versus potential Roth 403(b) and 457(b) plan accounts. He explained that participants in UC's 403(b) and 457(b) plans make contributions on a pre-tax basis, thereby lowering their taxable income in the year during which contributions are made. Upon distribution, both the contributions and earnings are subject to taxation. Under a Roth account, he noted that participants would make contributions on an after-tax basis. However, upon a qualified distribution, neither the contributions nor earnings would be subject to taxation. In closing, he noted that the UC 403(b) and 457(b) plan documents would need to be amended to incorporate Roth accounts, which would require a recommendation by the Plan Administrator and approval by the Regents.

Referencing slides provided to the Board, Director Swanson explained that if an employee's tax bracket remained the same in retirement (i.e., the same at the time of contribution and withdrawal), the benefit from a traditional 403(b)/457(b) and Roth 403(b)/457(b) plan account would be the same. She reminded the Board of the efforts made over the last few years to simplify the RSP investment platform and stated that adding a Roth account to the 403(b) and/or 457(b) plan would add complexity and might overwhelm RSP participants. She also noted that participants interested in a Roth plan could make contributions to the UC DC Plan after-tax account and immediately transfer their contributions to a Roth IRA. Some Board members countered Director Swanson's scenario, stating that many active RSP participants, particularly faculty, would likely move to a higher income tax bracket over the course of their UC career and into retirement. In conclusion, the Chair asked Director Swanson to provide a few examples of salary increases and income tax bracket shifts for some long-term UC employees, including some faculty members, at the next Board meeting.

ITEM F. UCRS ADVISORY BOARD – ELECTION OF OFFICERS FOR FISCAL YEAR 2020-21: Principal Analyst Semple noted that Jo Mackness had been nominated to serve as Chair and Ronald Cortez had been nominated to serve as Vice Chair. These were the only nominations received. Chair Cortez called for a voice vote and Jo Mackness and Ronald Cortez were elected to serve as Chair and Vice Chair, respectively, for FY 2020-21.

ITEM G. UCRS ADVISORY BOARD – PROPOSED MEETING SCHEDULE FOR FISCAL YEAR 2020-21: Principal Analyst Semple announced the proposed meeting dates for the next fiscal year, as delineated in the Board item. He indicated that if no scheduling conflicts were reported over the summer months, he would consider the proposed dates as acceptable and have them posted on the Board's main page on UCnet.

The meeting adjourned at 1:05