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# UCRS Advisory Board

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**MINUTES  
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)  
ADVISORY BOARD MEETING  
FRIDAY, JANUARY 26, 2007  
OFFICE OF THE PRESIDENT  
1111 FRANKLIN STREET, ROOM 5320  
OAKLAND, CALIFORNIA  
10:00 AM**

*(Executive Session from 10:00am -10:30 am)*

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**BOARD MEMBERS PRESENT:** Chair McGraw, Vice Chair Paden, Executive Vice President Darling, Senior Vice Chancellor Barclay, Professor Anderson, Chief Investment Officer Berggren, Professor Wolk, Assistant Dean Stein.

**STAFF PRESENT:** Associate Vice President Boyette, Deputy to the Associate Vice President Ackerhalt, Executive Director Scott, University Counsel Clark, University Counsel Dana, Director Klompus, Director Lewis, Director Olson, Director Schlimgen, Coordinator Chester, Consultant Okada, Project Manager Fox, Coordinator Townsend, Specialist Fujisaka, Principal Analyst McKenna, Principal Analyst Semple.

**OTHERS PRESENT:** CUCRA Chair Jensen (via telephone), CUCEA Chair Taylor, CUCRS Chair-elect Gade, CUCRA Representative Harris (via telephone), UCB Retiree Association Representative Sweet, AFSCME Representative Rosenfeld, CUE representative Higgins, CUCFA representative Meister, UAW representative Cliffhorne, UAW representative Wilson, UCRS Actuary Angelo, FITSCo representative Dower, FITSCo representative Hortin, FITSCo representative Mower.

The meeting officially opened at 10:37 a.m.

**APPROVAL OF THE MINUTES:** The minutes of the November 3, 2006 meeting were approved.

**COMMENTS FROM THE CHAIR:** Chair McGraw summarized his meeting with the Department of Energy (DOE) regarding its proposed policy to reduce liabilities resulting from DOE contractor defined benefit plans. As background, he explained that the DOE had issued a notice last year stating that it was going to stop reimbursing contractors for costs of covering new employees under defined benefit plans. After initial negative reaction, however, the DOE suspended the notice so that it could further consult with its contractors, various unions and Congress. As part of this consultation process, Chair McGraw went to Washington D.C. and advised the DOE that UCRP was a major recruiting tool at the Lawrence Berkeley National Laboratory. He also informed them that many of the most qualified job applicants already

worked for the UC system and that such candidates may decline laboratory job offers if it resulted in a loss of their participation in UCRP.

**EXECUTIVE VICE PRESIDENT, UNIVERSITY AFFAIRS - UPDATE:** Executive Vice President Darling announced a number of leadership changes at UC, with new chancellors at UCLA and Merced. He also noted the ongoing recruitment for a new chancellor at UCSC and a chief administrative officer for the Division of Business and Finance at UCOP. He followed with an update on the UC-State budget process, stating that the Governor remained committed to the compact he made with UC. He mentioned that UC stands to receive a fairly significant allocation of funding, but that much of it is earmarked for capital improvement and medical education. He stated that the Governor's proposed budget did not include the \$60 million requested for funding employer contributions to UCRP but that UC would continue to ask for this funding until the final budget is determined. He concluded by noting that UC was a potential candidate for new research efforts, including a \$300 million initiative to develop high speed computing systems sponsored by the National Science Foundation and a \$500 million initiative to develop alternative energy sources sponsored by British Petroleum.

**CHIEF INVESTMENT OFFICER - REPORT:** Chief Investment Officer Berggren provided highlights of the Treasurer's Report. Since returns for the quarter ending December 31, 2006 were not yet available, she distributed a handout which showed that, for the quarter ending September 30, 2006, UCRP had a positive return of 4.35%, outperforming its benchmark by two basis points. She noted the excellent performance of the Plan's fixed income investments and indicated that private equity, particularly venture capital, was a major contributor to the Plan's performance. She stated that investments in emerging markets would be increased as a vast amount of money is being invested in China. She also noted a recent move in UCRP's asset allocation from small to large cap stocks, for which the Treasurer's Office is currently seeking active managers.

#### **ITEM A. UCRS – ANNUAL ACTUARIAL VALUATION REPORT BY**

**CONSULTING ACTUARY:** Actuary Angelo summarized the findings of the UCRP Actuarial Valuation Report as of July 1, 2006 and provided an illustration of the Plan's five-year asset smoothing methodology. He noted that while no contributions were required for the current fiscal year (FY), the Plan's funded percentage had dropped to 104.1%, down from 110.3% as of July 1, 2005. The Plan's surplus had dropped from \$3.8 billion to \$1.7 billion over the same period. He attributed these decreases to a combination of factors, including the Plan's FY return of 7.1%, which was lower than its assumed 7.5% rate of return. He also noted that the Plan's normal cost, currently 15.81% of payroll, diminishes the Plan's surplus by approximately \$1.3 billion per year. Consequently, without significant investment returns, the Plan's surplus would be eroded by 2008 and UC would need to come up with an amount equal to the normal cost on an annual basis for the Plan to remain fully funded.

**ITEM B. UCRS – AUDITED ANNUAL FINANCIAL REPORTS:** Director Olson provided an overview of the annual reports for FY ending June 30, 2006 for UCRP and the UC Retirement Savings Program. He noted that the UCRP report contained few changes while the report for the UC Retirement Savings program reflected some plan updates, specifically concerning the CORE

fund options. Since both the Treasurer and Plan Actuary had reported on UCRP, Director Olson focused primarily on the UC Retirement Savings Program, advising that the combined assets of its three plans totaled \$12.5 billion following approximately \$1 billion in contributions for the year. He concluded by noting that there were roughly 11,000 outstanding 403(b) Plan loans.

**ITEM C. RETIREMENT SAVINGS PROGRAM – FINANCIAL EDUCATION –**

**UPDATE:** Project Manager Fox and Fidelity Investments Tax-Exempt Services Company (FITSCo) representatives Mower and Dower provided an update on the 2007 financial education campaign, the goals of which are to increase (1) awareness of the importance of retirement savings; and (2) understanding and appreciation of UC's retirement program. The highlight of the campaign is the targeted mailing of the *Personalized Retirement Update and Readiness Guide*, which includes benefit estimates based on the member's current contributions and asset allocation as well as estimates based on different contribution rates and asset allocation approaches. In addition to the guide, the 2007 financial education campaign will feature onsite workshops and other targeted mailings throughout the year.

**ITEM D. UCRP – UPDATE ON UNIVERSITY OF CALIFORNIA RETIREMENT PLAN/LOS ALAMOS NATIONAL SECURITY, LLC DEFINED BENEFIT PLAN**

**ASSET TRANSFER:** Coordinator Townsend provided an overview of a discussion item presented to The Regents in January 2007 on previous and planned future actions related to the transfer of UCRP assets to the Los Alamos National Security, LLC defined benefit plan (the LANS Plan). The discussion item, which was provided to the Board members in advance of The Regents meeting, summarized a UCRP amendment approved under Regental interim authority in December 2006 to provide payments directly from UCRP to LANS Plan participants who enter benefit status prior to the final transfer of UCRP assets, at which time payments from UCRP would cease. The discussion item also recapped the ongoing discussions between UC and the Department of Energy/National Nuclear Security Administration (DOE/NNSA) for reaching a consensus on the terms of the final asset transfer and the DOE/NNSA's obligation and methodology for funding any future shortfall in UCRP attributable to the LANL segment. Coordinator Townsend informed the Board that, following further guidance from appropriate regulatory agencies, the final asset transfer proposal will be submitted as an action item to The Regents in March 2007 for approval with an anticipated transfer date in early April 2007.

**ITEM E. RETIREMENT SAVINGS PROGRAM – MINIMUM DISTRIBUTION**

**PROCESS FOR 2007:** Director Klompus and FITSCo representative Hortin summarized changes to the UC Retirement Savings Program minimum required distribution (MRD) process for 2007. They explained that, under the current process, participants who do not request their MRD receive a default payment in the month of June. Beginning in calendar year 2007, default MRD payments will be issued in December to enable these participants to accrue an additional six months of earnings on their retirement assets. They clarified that participants subject to an MRD could still affirmatively request that their payment be issued at a time of their choosing.

**ITEM F. UCRS – PLAN ADMINISTRATOR'S ANNUAL REPORT:** Director Olson summarized the UCRS and health and welfare statistics for FY 2005/2006. He noted that the number of customer service telephone calls had decreased by approximately 25%, but that web

inquiries had increased nearly 37%. He concluded by explaining that the 68% increase in mass mailings to participants was primarily the result of the Los Alamos National Laboratory transition.

**ITEM G. UCRP – LUMP SUM CASHOUT ANNUAL REPORT:** Director Lewis updated the Board on the UCRP Lump Sum Cashout (LSC) and the Retirement Income election and payment activity for FY 2005/2006. He indicated that there were 813 LSC elections in FY 2005/2006, an increase of 3.6% over the previous year. The retirement income elections totaled 2,907, a decrease of 2.2% from the previous year. Of those electing an LSC, approximately 65% chose to roll over their distribution and roughly 34% would have been eligible for some UC contribution toward retiree medical coverage if they had chosen monthly retirement income.

**ITEM H. UCRS – UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM ADVISORY BOARD ELECTION:** Project Manager Fox announced that a UCRS Advisory Board election will be held in the spring of 2007 to fill the non-Academic Senate member seats held by Lori Stein and Anne Paden, whose terms are set to expire on June 30, 2007. He added that information about the election process would be forthcoming and that all active UCRP members are eligible to submit nominations for the open seats, with the exception of Academic Senate members and employees in the Office of the President who work in a department where UCRS policy is made. Additionally, all active UCRP members who are not members of the Academic Senate are eligible to vote. The terms for the new UCRS Advisory Board members will run from July 1, 2007 through June 30, 2011.

**The meeting was adjourned at 1:25 p.m.**