



Kum-Kum Bhavnani
Telephone: (510) 987-9303
Email: kum-kum.bhavnani@ucop.edu

*Chair of the Assembly of the Academic Senate
Faculty Representative to the Regents
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200*

April 2, 2020

**JAGDEEP BACHHER, CHIEF INVESTMENT OFFICER
UNIVERSITY OF CALIFORNIA**

Re: Qualified Longevity Annuity Contracts (QLACs)

Dear Jagdeep,

On April 1, the Academic Council endorsed a recommendation from UCFW and its Task Force on Investment and Retirement (TFIR) to support a proposal from the Office of the CIO to add qualified longevity annuity contracts (QLACs) to the UC Retirement Savings Program Pathway fund. Council members were enthusiastic about this and we thank your office for thinking about this need at this time.

I am attaching the supporting letters from UCFW and TFIR discussing the benefits of QLACs.

Please do not hesitate to contact me if you have additional questions.

Sincerely,

A handwritten signature in cursive script that reads 'Kum-Kum Bhavnani'.

Kum-Kum Bhavnani, Chair
Academic Council

Encl.

cc: TFIR Chair Brownstone
Arthur Guimaraes, Chief Operating Officer, Officer of the CIO
Marco Merz, Director, Defined Contributions Products, Officer of the CIO
Gary Schlimgen, Executive Director, HR-Retirement Programs & Services
Academic Council
Senate Executive Director Baxter



UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
Jean-Daniel Saphores, Chair
saphores@uci.edu

Assembly of the Academic Senate
1111 Franklin Street, 12th
Oakland, CA 94607-5200
Phone: (510) 987-9466
Fax: (510) 763-0309

February 20, 2020

**KUM-KUM BHAVNANI, CHAIR
ACADEMIC COUNCIL**

RE: Qualified Longevity Annuity Contracts (QLACs)

Dear Kum-Kum,

The University Committee on Faculty Welfare (UCFW) Task Force on Investment and Retirement (TFIR) has been working closely with the Office of the Chief Investment Officer (OCIO) over the last 18 months to develop a new retirement benefit to be offered in addition to the current suite of options which include 403(b)s, 457(b)s, and the like. This new option, Qualified Longevity Annuity Contracts (QLACs), offers additional income security later in retirement as drawdowns can only begin at age 78. Nonetheless, OCIO and TFIR agree that a non-trivial segment of the UC population could benefit from access to this option since UC is able to leverage its size to obtain for discounted rates. As the enclosed documents show, QLACs are financially sound to the institution, and if entered into carefully, beneficial to retirees.

UCFW supports TFIR and OCIO and encourages the Academic Council to convey their support as well. We note, however, that our support is conditional on the opportunity for TFIR to review the draft communications documents supporting QLACs to ensure lay-accessibility and factual accuracy.

Sincerely,

Jean-Daniel Saphores, UCFW Chair

Copy: UCFW
Hilary Baxter, Executive Director, Academic Senate

Encls.



UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
Task Force on Investment and Retirement
David Brownstone, Chair
dbrownst@uci.edu

Assembly of the Academic Senate
1111 Franklin Street, 12th floor
Oakland, CA 94607-5200
Phone: (510) 987-9466
Fax: (510) 763-0309

February 10, 2020

**JEAN-DANIEL SAPHORES, CHAIR
UNIVERSITY COMMITTEE ON FACULTY WELFARE**

RE: QUALIFIED LONGEVITY ANNUITY CONTRACTS (QLACs)

Dear Jean-Daniel,

TFIR met on January 27 and discussed OCIO's proposal (attached) to add qualified longevity annuity contracts (QLACs) to the UC Retirement Savings Program Pathway fund. We have discussed this proposal at earlier stages, and OCIO has made some significant revisions in response to our earlier comments. TFIR agrees that QLACs could provide a useful source of insurance against running low on retirement savings in old age, and this could be particularly important for those in the 2016 tier whose pensionable earnings are capped. While we would have liked more flexibility in the QLAC terms, we appreciate that OCIO has worked hard to get the best possible pricing. Putting in more options results in significantly higher costs.

The proposed QLAC works by giving participants in the Pathway funds an option to purchase a deferred annuity at age 62. They can purchase any amount up to 25% of their assets in the Pathway fund or the regulatory limit (currently \$135,000). This annuity pays them nothing until they reach age 78, and then payments start until the participant (or their spouse if they choose a joint annuity) dies. The payout rate is determined by market rates when the annuity is purchased. Currently a single annuity contract will pay \$13/month for every \$1000 purchased. This implies that the participant would need to live at least another 10 years (to age 88) to break even on the annuity purchase. Like all insurance policies, QLACs only give a positive financial return if a particular event occurs (in this case living past a certain age). TFIR and OCIO are aware that the current \$135,000 regulatory purchase limit will be binding on most participants. There are bills pending in Congress to substantially raise this limit, and OCIO will raise the limit on Pathway purchases as soon as one of these bills passes.

TFIR therefore recommends that UCFW support this QLAC proposal and also to ask the Academic Council to endorse this support. TFIR has not had a chance to review the materials and software tools that are being developed to help participants make good choices. We understand that OCIO and HR have hired an outside firm to prepare these materials and they do not have drafts available yet. TFIR's support for this proposal is therefore conditional on having enough time to review and comment on the educational materials before they are deployed in mid-2021.

TFIR also understands that implementing QLACs will require the Regents to amend the documents governing the UC Retirement Savings Program, and that the Regents will be asked to do this at the

next meeting of the Investment Committee. These changes include changing the distribution rules so that all participants (including active employees) can take distributions from the 403B, 457, and DCP plans at age 59.5. This change should be welcomed by all participants - and not just for those opting to purchase QLACs.

Sincerely,

David Brownstone, TFIR Chair

Copy: TFIR
Hilary Baxter, Executive Director, Academic Senate

Proposal to Evolve our Target Date Fund “Pathway”

Executive Summary:

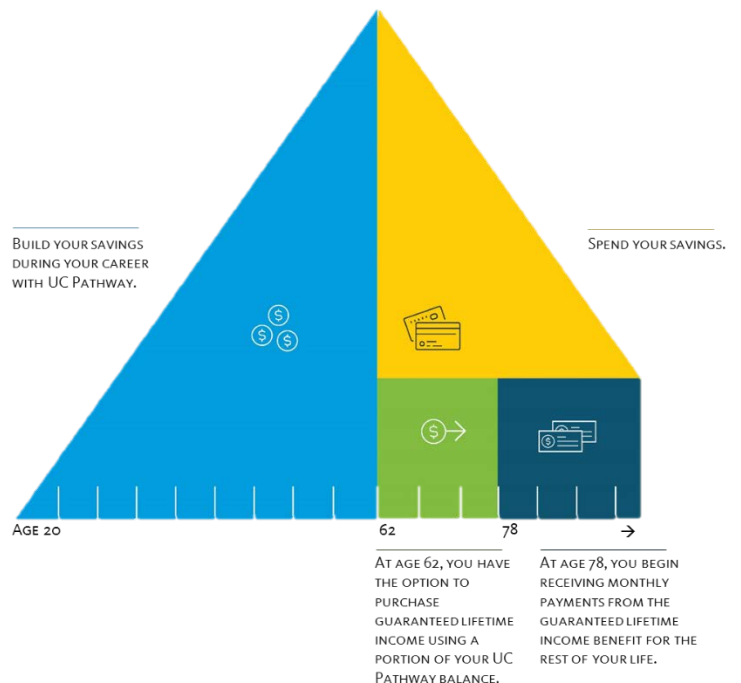
The Office of the CIO proposes to evolve our existing Target Date Fund to include a type of deferred income annuity known as a QLAC (qualified longevity annuity contract) on an opt-in basis to address the increasing number of new hires forgoing a lifetime income stream from our Pension (UCRP), as well as mid and late career hires with smaller Pension benefits. Communication of these enhancements are contemplated to begin in late 2020 with the ability to purchase the deferred annuity in June 2021.

Rationale for evolution:

Since inception of the Choice program over 11,000 individuals have elected Savings Choice our pure defined contribution retirement benefit. While Pathway addresses accumulation, sequencing and inflation risk during the savings phase, our target date fund does not address longevity and retirement income decision risk at and in retirement.

Pathway Evolution high level details:

- Target Date Fund remains Default
- Purchase Deferred Annuity at age 62
- Payments will start at age 78
- Purchase will be an option only (no automatic purchase)
- Maximum purchase limited to 25% of balance, up to \$135,000 (regulatory limit)



QLAC contract details:

The choice of the QLAC provider will be handled by our target date fund manager SSGA and will also take on fiduciary responsibility for the provider selection.

Pre-selected Features	Description
Benefit form	Single: Single Life Annuity Married: Choice of 50% or 75% Joint and Survivor Annuity
Death Benefit	Pre-commencement (62-78): Return of Premium Post-commencement (78+): Cash Refund (Premium – Payments received)
Cost of living adjustment (COLA)	2% fixed increase annually

Communication campaign:

A critical component of the Pathway evolution will be the communication of the enhancements. Human Resources is working with benefits communications experts at Fidelity, SSGA and Segal Benz to craft concise messaging and engaging materials.