

UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW) 2008-09 ANNUAL REPORT

TO THE ASSEMBLY OF THE ACADEMIC SENATE:

Under [Senate Bylaw 175](#), the University Committee on Faculty Welfare (UCFW) considers and reports on matters concerning the economic welfare of the faculty, including salaries, benefits, insurance, retirement, housing, and conditions of employment. UCFW held ten meetings during the 2008/2009 academic year and the major actions and discussions of ongoing issues are highlighted in this report.

UCFW has two key subcommittees with memberships independent of UCFW and with particular expertise in: (1) the University's Retirement System (UCRS) including its policies and its investments (the Task Force on Investment and Retirement, TFIR); and (2) the University's health plans for employees and retirees (the Health Care Task Force, HCTF). These committees monitor developments and carry out detailed analyses of questions and issues in their respective areas and report back to the parent committee, UCFW, for further action. UCFW is indebted to the extraordinary commitment and skills of our two chairs, Robert Anderson (TFIR) and Rick Kronick (HCTF).

It is important to recognize that although this is the report of UCFW, the work done by the two subcommittees forms the basis of much of what is reported here. These subcommittees spend a great deal of time in consultation with systemwide Human Resources & Benefits (HR&B). Many of these consultants also regularly attend UCFW meetings and lend their expertise to our discussions. We are indebted to these consultants, and they are individually acknowledged at the end of this Report.

The 2008/2009 academic year was characterized by the singularly and dramatically deteriorating financial condition of the State and the University. For example, at the beginning of the year, it was clear that year two of the Faculty Salary Plan would not be funded, but it was believed that there would be sufficient support from the State to re-start contributions to the University of California Retirement Plan (UCRP) in July 2009. But by May and June, plans were afoot for faculty and staff furloughs and/or pay cuts and the current and projected funding status of UCRP was dire. As highlighted below, these two arenas, the well-being of UCRP and faculty compensation, dominated this year's UCFW agenda.

Outsourcing Benefits Administration: As detailed in [last year's Annual Report](#), the possible outsourcing of the administration of UCRP occupied considerable time and attention during the late spring and throughout the summer of 2008. [UCFW's recommendation against outsourcing](#) UCRP administration was approved by the Academic Council at its September 2008, meeting. At this time it was thought that a decision would be made by the administration by October 1, 2008, the departure date of then Associate Vice President for Human Resources & Benefits, Judy Boyette. However, President Yudof, who had taken office the previous June, chose to delay the decision until he had more information about the issue; the formal announcement that the administration of UCRP would not be outsourced came in March 2009. At its April meeting, UCFW received an update on the process of developing an improved in-house UCRP service center. A new unit of Retirement Administration has been established within HR&B with an interim director; UCFW was encouraged to suggest nominees for an Advisory Board for what will be the new Center.

Restart of Contributions to UCRP: Since the beginning of the consideration of the restart of contributions to UCRP, TFIR, UCFW and the Senate have steadfastly supported this action, ending the now 19-year long holiday of contributing the normal cost of the plan. This year there were major developments in this vital area of the health of our retirement plan.

- (a) [Statement Regarding Restart of Contributions to UCRP:](#) It has long been the unwavering position of UCFW that employee contributions to UCRP, including the re-direction of the DC contribution, should not be made in the absence of off-setting increasing salary compensation so that total remuneration is unaffected by the contributions. This position is necessary to maintain UC's competitive position in hiring and retaining both faculty and staff. The impending unfunded status of UCRP in the face of a looming budget crisis, however, this year led UCFW to consider prioritizing the two imperatives of funding UCRP and maintaining constant faculty and staff total remuneration. On balance and without unanimity, the committee came down on the side of supporting the restart of contributions to UCRP, realizing that compensatory increases in salary were unlikely to be forthcoming immediately. Our letter to the Academic Council on this issue, while supporting the restart of contributions to UCRP in the absence of salary increases, urged that the negative impact of restarting contributions on total remuneration be measured, recognized and ameliorated as soon as possible.
- (b) [TFIR Recommendation for Funding UCRP:](#) Many factors, including the worsening financial condition of the State and the University, led TFIR to carry out, in collaboration with the University's actuary, a study of UCRP's projected Unfunded Accrued Actuarial Liability (UAAL). The results of the study, and TFIR's recommendation based on those results, were presented to UCFW at its May meeting. The committee unanimously endorsed this report which was forwarded to the Academic Council for consideration at its May meeting. The Council approved the Report and TFIR's recommendation, and forwarded it to the President; it will be considered at the November 2009 Regents meeting. The Report was also presented for information to the Assembly at its June 17, 2009, meeting and to the Pension Work Group of the Presidential Task Force on Post-Employment Benefits (see below).

The gist of the TFIR recommendation is based upon the fact that the gentle ramp-up of employer and employee contributions envisioned by The Regents in their November 2008 plan for contribution resumption is entirely inadequate to restore the funding status of UCRP to an acceptable level in the foreseeable future. Reductions in benefits cannot ameliorate this funding crisis. Furthermore, since two-thirds of covered compensation is funded by non-state sources, every dollar of state-funded contributions that are deferred now, results in two dollars of deferred contributions from non-state sources. Finally, the loss in income from each dollar whose contribution is deferred now will require the contribution of several dollars in the future. To partially head off the impending crisis in UCRP funding, TFIR recommends that contributions be raised as quickly as possible to the contribution required by the Funding Policy approved by the Regents in September 2008

(<http://www.universityofcalifornia.edu/regents/minutes/2008/fin9.pdf> see p4) and that the Regents obtain and allocate funds sufficient to do this no later than July 1, 2011.

UCRP Informational Documents (TFIR): A combination of circumstances, including the downward spiral of the markets and the increasingly underfunded status of UCRP, led to heightened anxiety regarding the health of the retirement plan among its members, including the faculty. In order to provide accurate information regarding statements and queries voicing members' concerns, TFIR produced two documents to be widely disseminated to Plan members.

- (a) "[Market Turmoil and the UCRP Lump Sum Cashout](#)": In this document, approved by UCFW at its January, 2009, meeting and by the Academic Council in the same month, TFIR sought to counter the notion that because of market turmoil and the impending restart of contributions active employees should retire soon and/or elect the lump sum cashout rather than monthly annuity payments. The document in no way gives benefits or investment advice, but rather provides correct information regarding UCRP so that unwise decisions will not be made on the basis on an inadequate grasp of the facts. Following its approval by the Academic Council in February, the statement on Lump Sum Cashouts was widely disseminated to all employees through the Senate and Human Resources & Benefits.
- (b) "[Evaluating UCRP Investment Returns](#)": Much of the public discussion of UCRP's investment performance has focused on comparisons to peer institutions, such as CalPERS. While it is a natural mistake to focus on these comparisons, it is nonetheless a mistake. A number of critics UCRP's investment performance have made these comparisons, without regard to the fact that the time points chosen for comparison determine the results. The goal of this document is to set forth, in terms accessible to members of the faculty, the reasons that peer comparisons do not provide a valid measure of investment performance. We hope that the availability of these concepts will allow the faculty to understand the measurement of UCRP and critically judge the claims that are made about it. This document was presented to the Academic Council in February and March and approved, with revisions, by Council by email following the March meeting.

The development of "Evaluating UCRP Investment Returns" was discussed by UCFW at each meeting November through March. These discussions included, at our February meeting, a very informative presentation by and discussion with Chief Investment Officer Marie Berggren regarding UCRP performance measurement and reporting.

Faculty Salary Plan: In November 2006, following the documentation of the continuing deterioration of the University's Faculty Scales by the University Committee on Academic Personnel (UCAP) and others, President Dynes appointed a faculty/administration Work Group to address this issue. The result was a four year Faculty Salary Plan intended to raise faculty scales so that once again salaries actually paid to recruit and retain faculty were in line with the scales. The first year of the plan was implemented in October 2007. The Academic Council, based on study and discussion by UCFW, forwarded to President Yudof a report on the effects of Year 1 of the Salary Plan and a letter summarizing the [Funding Priorities for Year 2](#). In addition to the full funding of merit increases, UCFW and the Council recommended

market adjustments ranging from 8% for the lower steps to 4% for the higher steps and for faculty above scale, followed by at least a 2.5% range adjustment.

The deferral of Year 2 of the Faculty Salary Plan until the 2009/2010 budget request was announced at the first meeting 2008/2009 meeting of UCFW in October. Since we now know that the 2009/2010 academic year will bring, instead, an average of an 8% salary cut in the form of furloughs, the future of the Faculty Salary Plan is highly uncertain to say the least.

In November, UCFW requested from Academic Advancement (now Academic Personnel) updated information on UC salaries versus those of the Comparison 8 institutions. The data for the report was received in January by Academic Advancement and reported to UCFW in February. The reported noted that (1) the current *lag*, Comp8-UC/UC, (projected to July 2009 based on 2008-2009 data) is 9.5%, compared to 7.1% last year; and (2) the percentage salary increase needed next year (2009/2010) to bring UC salaries to parity with salaries of the Comparison 8 institutions (assuming no increases other than merits) is 14%, compared to 11.3% last year. It is clear that even without the decreases in salary brought about by furloughs in 2009/2010, UC faculty salaries have fallen further behind those of our Comparison 8. This effect will, of course, be exacerbated by this year's furloughs. It is currently planned to measure the size of the negative effect of the upcoming salary decreases in the 2008/2009 Total Remuneration study (see below).

UC's Long Term Future: Our discussions of the future health of UCRP and of the apparent suspension of the Faculty Salary Plan took place in the context of the unrelenting decline in the state's and the university's financial health. While we were kept informed as various committees and task forces were constituted, both in the Office of the President and on the campuses, to deal with the budgetary problems and plan for the future, we became concerned at the apparent lack of coordination between them and the lack of an overall vision for the future of the University to guide the planning efforts. The result of these discussions was our May 6, 2009, letter to Academic Council Chair Mary Croughan on "[The Current Budget Crisis and UC's Long Term Future](#)" which was grounded in UCPB's [Futures Report](#) (January 2007) and the [Cuts Report](#) (April 2008). Our letter was endorsed by the Academic Council and forwarded to the President who forwarded it to the Regents. Whether the existence of our letter influenced the decision to form the Gould Commission on the future of UC is not known. Given the initial composition of the Commission and its attention to subject matter which is in the purview of the Academic Senate, UCFW should probably be reluctant to claim such influence.

Total Remuneration: A new Total Remuneration study was undertaken in the fall of 2008. In this study, the salary data provided by Academic Advancement was analyzed by Mercer Human Resources Consulting and the benefits valuations were made by Hewitt and Associates. A Total Remuneration work group, consisting of Bob Anderson, Helen Henry, Rick Kronick, and Shane White was formed to provide close consultation with HR&B as data were obtained analyzed, and prepared for presentation. Teleconferences involving this group of UCFW members, HR&B people led by Executive Director Randy Scott, and the outside consultants occurred at least once and often twice between each UCFW meeting at which the whole committee received an interim report. These conferences allowed for in depth discussions of methodology and data analysis and presentation. The reports at the November, December, and January meetings of UCFW were devoted to overviews and methodology and preliminary

results of benefits valuation were presented by Hewitt in February. In March, the preliminary results of cash compensation were presented by Mercer. Both Hewitt and Mercer participated in the preliminary Total Remuneration report at the April meeting and the final report at the May meeting. It should be noted that while the report covers faculty (except those in the Health Sciences Compensation Plan; a study of these faculty is slated to begin in fall 2009) and Staff, UCFW focused its attention on the Faculty data. One very important feature brought to the study by UCFW was the inclusion of scenarios which project the total remuneration data in the circumstance of contributions to UCRP of the initial estimated amount (2%/4%) and of the final expected employee contribution (5%).

The study is currently being refined to take into account the average 8% loss of salary resulting from furloughs imposed for the 2008-2009 academic year. The current understanding is that the results of the study will be released when these new data have been included and the report has been conveyed to The Regents. It is already well-known, however, that with a 5% employee contribution to UCRP, even without the 8% loss of salary coming this year, UC trails the Comparison 8 significantly and the lag behind the 4 private comparators is in double digits.

Furloughs and Paycuts: UCFW's first discussion of the possibility of a declaration of an extreme financial emergency and subsequent institution of furloughs and pay cuts occurred at the May 8 meeting. The discussion was based on the proposed amendment to Standing Order of the Regents 100.4 and resulted in our May 20 letter to Mary Croughan listing eight areas in which we had reached consensus on our concerns. First among these was the central importance of safeguarding the retirement benefits of all individuals subject to either a pay cut or a furlough. Although the effect of these two actions differ in their potential effect on the retirement benefit, we were unequivocal in our insistence that keeping the benefit whole is essential for employee morale and to avoid perverse incentives for or against retirements that could cause great harm to the University. In our subsequent July 6, 2009, communication for wider distribution, we focused only on this issue. President Yudof has stated his commitment to the principle of safeguarding the retirement benefit during salary cuts and furloughs. Thus, the Recommendation of Item J2 of the Regents' July 15, 2009, meeting was to "Authorize the University of California Retirement Plan ("UCRP") to be amended to preserve UCRP members' calculation of covered compensation and the rate of accrual of service credit at the pre-furlough/salary reduction level for the duration of the [Furlough/Salary reduction] Plan, and that the Plan Administrator of the UCRP be authorized to implement such amendment". This recommendation was approved at the July 16 Regents meeting (<http://www.universityofcalifornia.edu/regents/aar/julj.pdf> .)

APM revisions: A working group led by Vice Chair Shane White and including UCFW members Henry, Dimsdale, Pitts, Seago, and Wong; Senate Vice Chair Powell; UCAP Chair Plaxe; Academic Advancement consultants Lockwood and Sykes; and Senate Analyst Feer carried out an extensive analysis and suggested revision of APM 670, which governs the Health Sciences Compensation Plan. Vice Chair White reported and discussed the progress of the working group at the January and February meetings. In June, Academic Personnel Associate Director Janet Lockwood reported that the revision of APM 670 had been tabled until a permanent Provost is in place. The Committee also offered informal feedback to Associate Director Lockwood and/or Provost Pitts on a number of APM policies or issues including APM 240, 025, and 710 and a proposed Biological Compensation Plan.

Health Care Task Force: An update on 2009 premiums was given at the October meeting. At the March meeting, Chair Kronick, along with HR&B consultants Esteban and Schlimgen provided a historical and current overview of the retiree health policies of the University.

As part of this discussion, the President's Task Force on Post Employment Benefits was introduced. This Task Force which, along with its constituent Work Groups, began its work in the spring, was described more fully at the June and July meetings. Senate members on the workgroups, as of this writing, include, in addition to Senate Chair Croughan and Vice Chair Powell, TFIR Chair Anderson, former UCFW Chair Chalfant, UCFW Chair Henry, HCTF Chair Kronick, and UCFW Vice Chair White.

Compliance Issues: In November, UCFW participated in the review of a document laying out sanctions for non-compliance with Sexual Harassment Prevention Training. This discussion quickly led to one including the many other areas in which faculty compliance is required. Senior Vice President Vacca attended the February meeting in order to give an overview of her office's activities and to discuss how faculty could be more involved in developing compliance programs. Discussions of faculty frustrations with compliance issues centering around the sheer volume of required compliance measures required of faculty and the technical difficulties associated with complying continued throughout the year, with little resolution.

Fee Waivers: In December, UCFW undertook consideration of a proposal from the Davis Campus for fee waivers for children/dependents of faculty who attend the UC. The proposal was similar to the (unsuccessful) ones that had been put forth in previous years and the committee felt that a fresh approach to this issue was needed. HR&B Executive Director Scott suggested that information regarding such programs at the Comparison 8 be gathered by Hewitt and Associates as part of the Total Remuneration study. We also requested information about possible pre-tax funding options for financing college educations. In April, Director Schlimgen reported that there is no such mechanism and that existing 529 plans are the closest thing to this model. The year ended without clear resolution on this issue.

Back-up Child Care: Of the family-friendly policies discussed over the past several years, having back-up care available has been deemed one of the most needed. The Berkeley campus has instituted a pilot program and a report on its experience during the next academic year should help guide further discussion of this issue.

Identity Theft Insurance: In response to a request from Academic Council Vice Chair Powell, UCFW asked its consultants for background information on a possible institutionally facilitated optional benefit for employees that would provide identity theft protections. Manager Devincenzi reported that only restorative, not preventative, services are currently available; furthermore, only individual, not institutional, plans are available. The conclusion was that there is not yet a market-driven need for such a plan.

Accountability Report: This Report, to be published by the Office of the President was introduced at the October meeting and committee members were invited to submit comments to the Chair. Several thoughtful and detailed submissions were received and compiled into a single document that was sent to Council Chair Croughan. These were combined with comments from all the Division Chairs and other

systemwide committees and submitted to the authors of the Report ahead of preparation of the final document. Few if any of these comments were taken into account in the production of the final report. We have been told that this Report is a living document and that future iterations will include Senate input. At this writing, however, it is unclear what, if any, the Senate's role in the production of this report will be.

Acknowledgements: As is clear from the above Report, and even a casual reading of the minutes of our meetings, UCFW simply could not do its work without the highly collegial relationships that we enjoy with our colleagues in the Office of the President. Those whose fruitful collaboration we gratefully acknowledge include: from Human Resources & Benefits, Randy Scott, Mark Esteban, Michael Baptista, Gary Schlimgen, Lynn Boland, Dennis Larsen, Joe Lewis, Ellie Skarakis, John Cammidge, Dwaine Duckett; from Academic Personnel, Janet Lockwood, Jim Litrownik, Gregory Sykes, Pat Price; from the Budget Office, Patrick Lenz and Debbie Obley; from Academic Information and Strategic Services, Dan Greenstein; from the Office of Loan Programs Ruth Assily; from the Treasurer's Office, CIO Marie Berggren; from Academic Affairs, Interim Provost Lawrence Pitts; and representatives of our external consultants, Mike Hill, Timothy O'Beirne, and Bob Miller. Finally, we are particularly grateful for the involvement, support and guidance from the Senate leadership, Chair Mary Croughan and Vice Chair Henry Powell.

Respectfully submitted, UCFW 2008-09:

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