

UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

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Faculty Representative to the Board of Regents
University of California
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November 13, 2006

REVISED

PRESIDENT ROBERT C. DYNES

RE: Academic Council Analysis and Recommendation on Total Remuneration and the 2007-08 Budget

Dear Bob,

At its October 25, 2006, meeting, the Academic Council unanimously endorsed the enclosed document, *Total Remuneration and the 2007-08 Budget: An Academic Council Analysis and Recommendation*.

As you will see from the enclosed analysis, in order for the University to avoid losing ground against its competitors in total compensation in 2007-2008, the University must provide a range adjustment (COLA) to faculty of seven percent up to the Social Security wage base, and ten percent above that base. Therefore, the Academic Council offers the following recommendation:

The Academic Council urges the President and The Regents to seek sufficient funds in the 2007-2008 budget to provide a range adjustment (COLA) for faculty (in addition to funding for merits) that will fully compensate for the reduction in compensation caused by the restart of contributions to UCRP in addition to matching the anticipated increase in faculty salaries at competing institutions.

On behalf of the Academic Council, I respectfully request a response from the appropriate UCOP division concerning this analysis and recommendation, and that this letter be transmitted forthwith to The Regents.

Sincerely,

A handwritten signature in blue ink, appearing to read "John B. Oakley".

John B. Oakley, Chair
Academic Council

Encl: 1
Copy: Academic Council
Executive Director Bertero-Barceló

Total Remuneration and the 2007-2008 Budget: An Academic Council Analysis and Recommendation

Endorsed by the Academic Council October 25, 2006
As proposed by the University Committee on Faculty Welfare (UCFW)

Conclusion: To avoid losing ground against its competitors in total compensation in 2007-2008, UC must provide a range adjustment (COLA) to faculty of:

- **7% up to the Social Security wage base and**
- **10% above that base.**

Background and Analysis

The Board of Regents adopted RE-61 in November, 2005, which commits the University to “increase salaries to achieve market comparability for all groups of employees over the ten-year period from 2006-2007 through 2015-2016.” The key philosophy behind RE-61 is:

“The quality of our academic, management and staff personnel is essential to maintain the excellence of the University of California and its ability to contribute to the health and vitality of the State of California. Our strategy is to attract and retain the highest quality academic, managerial, and staff talent by offering competitive total remuneration.”

RE-61 anticipated that the value of health and welfare and retirement and retiree medical benefits would be “reduced significantly” over the next few years due to rapidly increasing healthcare costs and the resumption of employee contributions to UCRP. To achieve the goal of market comparability, RE-61 recognized that cash compensation must be increased and provided that the following action would be taken:

“The University will actively pursue obtaining additional funds from State and all other resources.”

In January, 2006, the University Committee on Faculty Welfare (UCFW) adopted the position—which it believes is critically important to the health of the University—that **any reduction in the value of UC benefits must be *simultaneously* accompanied by an increase in cash salaries sufficient to ensure there is no deterioration in UC’s competitive position in total remuneration.** The Academic Council adopted the same position at its February 22, 2006, meeting.

The Academic Council has strongly supported the gradual restart of contributions to UCRP beginning July 1, 2007.¹ Restarting at a low level with a gradual rise, rather than deferring to a later date, will be much less painful than having to restart contributions at the higher level deferral would require. The Academic Council strongly supports efforts by UCOP to obtain funding from the state and other funding sources to meet the required employer contributions.

¹ Contributions are needed to ensure that the plan remains fully funded and capable of paying the benefits that have been promised and continue to be earned.

As explained below, to prevent the restart of UCRP contributions from reducing total faculty remuneration, it will be necessary to increase cash compensation by a COLA of at least 3% up to the Social Security wage base, and 6% above the wage base. In addition, to avoid increasing the gap between UC and its comparator institutions, salaries must be increased by an additional 4%. The Academic Council is alarmed at reports that UCOP's 2007-2008 budget will propose only a 3% COLA plus 2% funding for merits for faculty. Such a budget will seriously diminish UC's competitive position in total faculty remuneration.

Faculty compensation at UC is in a state of crisis, and the long-run future of academic excellence at UC is at stake. Increasing the gap between UC faculty's total remuneration and that of its competitors next year would be contrary to the policy adopted by the Regents in RE-61 and a very serious mistake for the University.

Calculation of COLA Required to Maintain UC's Current Competitive Position in Faculty Salaries in 2007-2008

Prepared for UCFW by Robert M. Anderson, Chair of the UCFW Task Force on Investment and Retirement, October 20, 2006

1. A 4% COLA will be needed to match salary increases at comparator institutions

UC and the California Postsecondary Education Commission (CPEC) project each year that faculty salaries at the Comparison 8 institutions will increase by the geometric average of the increases of the previous five years. Using this methodology, they projected that Comparison 8 full Professor salaries would rise by 4.09% from 2005-06 to 2006-07. The data needed to make projections for 2007-08 are not yet available, but it seems very unlikely that faculty salaries at competing institutions will rise by less than 4%. Thus, in the absence of any change in the value of benefits, UC would need to provide a 4% COLA to retain its current competitive position.

2. An additional COLA of 3% of covered compensation up to the Social Security wage base² and of 6% above the base will be needed to offset redirection of the DC plan contribution into UCRP

The Regents are contemplating a major reduction in the value of benefits by restarting contributions to UCRP. Currently, employees make a compulsory contribution (2% of covered salary up to the Social Security wage base, plus 4% of covered salary above the Social Security wage, less \$19 per month) to personal Defined Contribution (DC) plan accounts; when an employee retires, the DC plan balance provides retirement income over and above the UCRP Defined Benefit plan. When contributions to UCRP are restarted, the compulsory employee contribution will no longer go into personal DC plan accounts, and thus will not generate additional retirement income. Mercer's methodology for computing the value to employees of UC's benefits takes into account tax-deferral benefits. Thus, the Mercer methodology values the DC plan as being equivalent to roughly 3% of covered compensation up to the Social Security wage base, and 6% of covered compensation above the wage base. Compensating employees for the restart of UCRP contributions will require an increment of 3% up to the Social Security wage base, and 6% above the wage base.

² The Social Security wage base for 2007 is \$97,500, up from \$94,200 for 2006, and \$90,000 for 2005. See <http://www.ssa.gov/OACT/COLA/cbb.html> for the method of calculating increases to the base.

3. A total COLA of 7% of covered compensation up to the Social Security wage base and of 10% above the base will be required

In order to maintain UC's competitive position in total remuneration, one needs to increase salaries to compensate for the loss of the DC plan accumulation, and to match the anticipated salary increase by competing institutions. Thus, one needs an increase of 7% (4% + 3%) in covered compensation up to the Social Security wage base, and 10% (4% + 6%) above the Social Security wage base to simply keep UC where it currently stands in terms of total remuneration.

The 2% proposed for merit increases for faculty does not alter this calculation. The merit system does not, in a steady state, result in any change in the distribution of faculty salaries, as senior faculty at high salaries retire and are replaced by new faculty at lower points on the salary scale. Net funding for merits is needed only because the UC salary scale has fallen egregiously behind the salaries of our competitors, and a large part of the merit money is, in fact, used to retain faculty who have received outside offers that vastly exceed the UC scale.³ We need to adjust the *scale* to compensate for the increase in competitors' salaries and for the restart of UCRP contributions. A COLA is the only way to increase the scale, so a COLA of 7% of salary up to the Social Security wage base, and 10% of salary above the wage base, is needed to maintain UC's competitive position in total remuneration.

Recommendation

The Academic Council urges the President and The Regents to seek sufficient funds in the 2007-2008 budget to provide a range adjustment (COLA) for faculty (in addition to funding for merits) that will fully compensate for the reduction in compensation caused by the restart of contributions to UCRP in addition to matching the anticipated increase in faculty salaries at competing institutions.

³ For an example, when a faculty member is promoted from Associate Professor to Professor, the increase in salary is charged to the merit pool, but in fact the promotion *lowers* both the average UC full Professor salary and the average UC Associate Professor salary, worsening our competitive position using the CPEC methodology.