UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

UNIVERSITY COMMITTEE ON FACULTY WELFARE

Minutes of Meeting
July 18, 2014

I. Announcements

Dan Hare, UCFW Chair

Update: Chair Hare indicated that the committee might meet in early September via teleconference to receive further details on the benefits satisfaction survey, open enrollment for 2015, and other health and welfare related business.

Today, members should focus on the total remuneration study update and how to present the findings to audiences unfamiliar with the topic and the methodology. The findings, as most faculty expected, show that restarting UCRP contributions have significantly eroded UC's benefits' competitiveness; this was surprising to many in the administration, though. The findings will be presented to the Academic Council next week.

Discussion: Members asked how significantly the report could be changed, and the Chair Hare noted that the report is from the consultants, not from OP, so edits would have to be moderate at this point. Members noted that the incentive structures UCFW is charged to monitor are eroding, and that short-term employees are significantly disadvantaged by the mechanics of the DB plan. Members wondered what recruiting advantage UC will have now that benefits have regressed to the mean and cash compensation continues to lag. Members also speculated how faculty remuneration could be framed so as not to compete with other high priority issues or could be married to them, such as academic quality measures.

II. Consent Calendar

**Note- Item not addressed.*

III. Total Remuneration Update

Susan Carlson, Vice Provost, Academic Personnel
Gerry Murphy, Mercer Consulting
Stephen Pollack, Mercer Consulting
April Tofanelli, Mercer Consulting
John Bruning, Mercer Consulting
Christie Jack, Mercer Consulting
Bob Anderson, Faculty Representative to TR Steering Committee

Overview: The study included ~9300 ladder rank faculty from the general campuses. Notable findings implicate UC's long apprentice period: there is no way to reach 40 years of service and receive the maximum UCRS benefits until faculty reach their 70s. But median retirement age remains in the mid 60s, so most emeriti only receive 75-80% salary replacement upon retirement, if all of their professional service is at UC only. Data is not available to compare the 1974 UCRS tier with new market hires; only the 2013 tier's competitiveness is evaluated in this fashion. UC is 12% below the market for LRF cash compensation, and now 7% below in terms of health and welfare benefits. UC's lowered benefits competitiveness is partly attributable to

UC's fourth pay band for medical premiums, less generous long-term disability benefits, and the absence of a dependent tuition program. Overall, general campus ladder rank faculty total remuneration lags the Comparison 8 by 10%.

Discussion: Members asked if child care was factored in, and VP Carlson said no, it was not in the previous study so it is not in the current one. Members observed that defeating the long-false mantra that UC's benefits off-set its low cash compensation could be a victory. Members asked how the fourth pay band for medical premiums negatively impacted the value of health and welfare benefits. Since the UC contribution toward plan premiums is flat, the employee contribution goes higher with each successive pay band, which leads the highest tier to pay disproportionately high dollar figures for their health care premiums. As a result, the value of the employer contribution is lower than it is for other pay bands. Since senior faculty are more likely to be in the fourth band, the value of that remuneration is lessened correspondingly in the study, especially as none of the comparators has a pay band as high as the $151K used by UC

Demographic analyses of the data are not available because the competitors do not report their data in that format; it may be possible to acquire more specific data, but only at some expense. Additional analysis by campus, carried out by UCOP and the Academic Senate, should occur next year when new databases have been constructed.

IV. Further Discussion

Discussion: Members speculated as to how best to present the data to different audiences. Given the long apprentice period's impact on the value of UCRP to assistant and associate professors, the committee frequently hears that offering a defined contribution (DC) plan as an option would improve UC's competitiveness in recruitment and retention. Members do not agree, though, asserting that the recruitment troubles of the affiliated national labs belie such claims. Nevertheless, UC faculty should not fear DC plans as much as the Administration should fear the potentially greater mobility off faculty whose DC plans would be portable. Members agreed that more analysis of new hires is needed, as are scenarios that illustrate faculty salary corrections vis-à-vis other high priority expenses.

V. Executive Session

Note: other than action items, no notes are taken during executive session.

VI. Update from the Task Force on Investment and Retirement (TFIR)

Jim Chalfant, TFIR Chair

Update: Chair Chalfant updated the committee on several items of interest:

- The Regents approved the UCRP borrowing proposal for $700M. TFIR will reissue its call for greater borrowing to fund more of the liability, but how such a call will be received is unknown at this time, especially as returns have been above average lately. The Regents Investment Committee will meet on September 12 to discuss institutional liabilities prior to a November report to the full board.
- Divestment discussions continue, but TFIR has no additional details to share at present.

- Some of UC's retirement funds are being consolidated, but TFIR did not identify anything controversial. Communications from Human Resources will begin in the fall.

VII. Consultation with Chief Investment Officer

Jagdeep Bachher, Chief Investment Officer
Bill Ryan, Director of Client Relation Services
Steve Sterman, Senior Portfolio Manager

Overview: After introducing himself, CIO Bachher reviewed the preliminary fiscal close numbers from June 30: UCRP returned 17% this year and now has $51B in assets; its benchmark was 17.13%, which is within the 10-15 basis point range UCRP targets. The endowment returned ~18%. Full results may be available prior to the September 12 Regents Investment Committee meeting.

The divestment task force has met twice, and Council Vice Chair Gilly is the faculty representative. She has reported that the faculty have a wide range of opinions on the matter and that the Senate has not yet been asked for, not formulated, a consensus opinion. The students who advocate for divestment see only the moral power of UC's bully pulpit. The task force has focused on quantifying exposure to fossil fuel divestment as requested, which is estimated to impact between $2-5B for both UCRP and the Endowment (the two funds are not managed separately, though their reporting is done so). The figure depends on the parameters, though: The Carbon Tracker 200 index divestment would not be the same as a coal-only divestment, etc.

Discussion: Members wondered if the students had already expanded their parameters to include fracking, for example. Mr. Sterman indicated that tar sands have arisen in discussion, but that it was a second generation goal. Members asked how sophisticated the task force members are in this area. CIO Bachher declined to speculate. Members asked if returns from the Carbon Tracker 200 had been compared against other indexes, and CIO Bachher said the fund managers commingle money, which makes specific comparisons of that nature difficult – at least regarding UC's funds. It remains to be determined how many degrees of separation are necessary, too: UC has contracts with Southwest Airlines, for example. Taken as a whole, CIO Bachher sees the issue as leading to a responsible investment policy that requires a holistic approach, perhaps merging with other efforts, such as the president' Carbon Free 2020 initiative. A new policy might ask fund managers to create similar policies or investment options. A new policy might define new investment goals, such as a double-bottom line analysis. Members agreed, noting that water, agriculture, and several other areas need to be considered to avoid a long-series of one-off divestment requests.

Members asked who makes the final decision to determine in what to invest. CIO Bachher answered that the task force will make its recommendations to the Regents Investment Committee, who will in turn make a recommendation to the full board who set the policy and strategy. The CIO office works to minimize risk and maximize returns within that framework. Members asked how donors were expected to react to any new policies in this area, noting that if UC divests from a company, its board members have less reason to listen to UC concerns. CIO Bachher agreed, noting that the issue is a topic of discussion, but it is hard to project future behaviors. The CIO's goal is to be prepared, not reactive.

VIII. Update from the Health Care Task Force

Bill Parker, HCTF Chair

Update: Chair Parker updated the committee on several items of interest:

- UC Care financial data are preliminary, but the demographic profile of enrollees will push premiums up. Risk adjustment may smooth the increase, but it is still expected to be higher than other plans. Further details about the out-of-pocket maximums are still forthcoming. HCTF continues to discuss how best to deal with the different parties in the UC Care discussion, and their different goals. UC Care is expected to run a cash deficit due to lagged billing practices, but should be actuarially sound; the size of the estimated operating deficit is not yet known. All the select providers in UC Care have an above average rating in CHART; preferred providers were not reviewed similarly but consist of the Blue Shield network. There are no specific plans for how to increase enrollment from the younger cohort, but plan designers see the need to do so. Open Enrollment communications will be better this year, but internal business practices at the UC medical centers continue to cause confusion for billing, referrals, etc.
- Behavioral health programs need further evaluation. So far, two options have emerged: continue the current "carve out" structure with Optum or reintegrate behavioral health with general medical, and reintegration seems more difficult at this point.
- No changes are expected to out-of-state retiree programs.

IX. New Business

None.

Meeting adjourned at 3:30.

Minutes prepared by Kenneth Feer, Principal Policy Analyst
Attest: Dan Hare, UCFW Chair