

UNIVERSITY COMMITTEE ON FACULTY WELFARE

MINUTES OF MEETING

OCTOBER 11, 2013

I. Welcome, Introductions, and Announcements*Dan Hare, UCFW Chair*

Update: After the members introduced themselves, Chair Hare provided an overview of UCFW's charge as well as the duties of its two standing subcommittees, the Health Care Task Force (HCTF) and the Task Force on Investment and Retirement (TFIR). Chair Hare then provided updates on several items of interest:

- Total Remuneration (see also Item X below): The goal is to update the 2009 Total Remuneration study with current information that reflects UC's growing salary gap and the impact of increased contributions to the University of California Retirement Plan (UCRP). The Senate participants on the Total Remuneration task force have the dual roles of serving as institutional memory and ensuring that the methodology is a precise match with the previous study.
Discussion: Members noted that caveats would be needed to explain the omission of geographic cost of living discrepancies.
- UCRP Funding Status (see also Item IX below): Members are reminded to review the UCRP primer developed over the summer by Chair Hare, TFIR Chair Chalfant, and Analyst Feer, and which was circulated prior to the meeting.
- Health and Welfare Benefits Changes: UCFW and HCTF will monitor closely the implementation of the changes, especially primary care physician capacity and the financial viability of the new plan offerings.
- Composite Benefits Rate: The Senate's concerns with the proposed rates center on fairness principles, accurate accounting, and the capacities of the UC Path facility and its programming to accommodate the nuances benefits deductions require.
- Presidential Orientation: President Napolitano is new to UC-style shared governance, but the briefing prepared by former Council Chair Powell is a good introduction. Members are encouraged to read and share it.

Chair Hare also provided an update from the Academic Council meeting of September 24-25:

- Budget: The budget office expects increases in state funding over the next 4-5 years, but the increases will not be enough to grow UC programs absent tuition increases, too.
- Presidential Listening Tour: President Napolitano's campus tour is underway, and divisional Senate members should expect an hour of dedicated discussion with her. Please let Council Chair Jacob know if this expectation is not met.
- Enrollment Planning: The Senate is working closely with the campuses to define and meet systemwide targets that will meet UC's academic needs and the state's demographic profile.
- Capital Improvements: These projects are difficult to fund under the current model. Our sister committee, the University Committee on Planning and Budget (UCPB), will follow this and related issues closely.

Finally, Chair Hare encouraged members to listen to or watch the Regents' meetings.

II. Consent Calendar

None.

III. Consultation with Senate Leadership

William Jacob, Chair, Academic Council

Mary Gilly, Vice Chair, Academic Council

Martha Winnacker, Executive Director, Academic Senate

****Note:** Item occurred in executive session; other than action items, no notes were taken.**

Action: UCFW will draft a letter to the Academic Council detailing its concerns with the Composite Benefit Rate development process and the current proposal.

IV. Consultation with the Office of the President – Budget

Patrick Lenz, Vice President

Update: Vice President Lenz reported that the proposed state funding plan that debars tuition increases leaves many mandatory costs uncovered, and rules out any growth plans (see Distribution 1). The possibility of performance outcome measures may return, as both federal and state education leaders feel they are important; UC is working to identify meaningful comparative metrics that will be workable with the Comparison 8 and the other California higher education segments. Additional stakeholder meetings to identify the metrics are being scheduled and will include more subject matter experts.

Discussion: Members asked how the state calculated its share of the UCRP contributions, and VP Lenz indicated that the formula considers funded students in relation to FTE, among other items, and that the final formula is still under discussion since the state and the LAO only recently recognized the State's responsibility for UCRP solvency. Referring to Distribution 1, VP Lenz noted that any expected Indirect Cost Recovery increases will not materialize this year due to federal budget issues. Members asked how likely adoption of the budget as outlined is, and VP Lenz indicated that it seems unlikely, but that more information will be available closer to the November Regents' meeting.

V. Health Care Task Force Update

Bill Parker, HCTF Chair

****Note:** Item occurred in executive session; other than action items, no notes were taken.**

VI. Task Force on Investment and Retirement Update

Jim Chalfant, TFIR Chair

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

- UCRP Funding (see also Item IX below): The unfunded liability continues to grow as the Regents' funding policy is not being followed. The target funding ratio has been re-opened for discussion, as has how best to calculate it- as a funding ratio or as an absolute dollar debt. Both the public and the administration seem to think that pension benefits, by definition, are too generous and unsustainable. This view is perpetuated when campus officials prioritize one-off expenses over long-term, recurring expenses. The retiree health liability is not yet under consideration, even though it is just as large.

- Fossil Free/Carbon Divestment: TFIR heard a presentation from students advocating that UCRP divest from carbon-intensive companies, but the committee was not persuaded by the arguments. The identified goals are unlikely to be achieved by the course of action suggested, and the necessary level of financial analysis to support such propositions was found lacking.
- Pension Referendum: TFIR is working closely with State Governmental Relations and External Relations to monitor the progress and impact of a newly proposed initiative to allow governments to break the vested rights doctrine and roll back previously guaranteed pension benefits.
- Children's Hospital of Oakland Acquisition: TFIR is working closely with Human Resources to ensure that UCRP is held harmless during the business acquisition process.

VII. Consultation with the Office of the President – Chief Financial Officer

1. Mortgage Origination Program (MOP) Changes:

Ruth Assily, Director, Office of Loan Programs

Sandra Kim, Executive Director, Capital Markets Finance

Issue: Due to new Consumer Financial Protection Bureau Truth in Lending disclosure guidelines, administration of the MOP program must change accordingly. A new 5/1 ARM option is being made available, with the first adjustment capped at 5%. Since annual increases seldom reach 1%, though, this cap is on the high end. Additionally, the rates will be tied to STIP, which will serve as another buffer to sharp rate increases. Nonetheless, the change from 3/48 to 7/43, in terms of absolute purchasing power, is significant. UC has four options: 1) comply and limit buying power but retain federal protections, 2) ignore them which risks liability and litigation but increases flexibility in terms of recruitments and retentions, 3) pursue a small creditor exemption which has a modest rate benefit and requires 401(c)3 status, or 4) pursue a “no action” exemption; the final decision is still being debated.

Discussion: Members noted that the loss of 40 year loans could be a significant blow to recruitment and retention efforts, and Chair Hare asked if statistical data illustrating the relationship between MOP and successful recruitments/retentions existed. Director Assily indicated that she would provide the data to the committee. Members also suggested that CFO project the changes onto a sample of extant loans to better estimate the impact to borrowers.

VIII. Health and Welfare Benefits Re-bid Discussion

Dwaine Duckett, Vice President, Human Resources

Cheryl Lloyd, Interim Chief Risk Officer, CFO

Issue: VP Duckett noted that the re-bid initiative followed the recommendation of the Health Care Benefits Working Group convened last summer. The standard renewal bids were too high, and so new alternatives had to be found. The HMO programs did not receive major changes, but the PPO programs did. The new program, UC Care, has room for improvement in subsequent years, but in the short term, it is better than outright cuts or greater cost shifting. In fact, UC Care negotiations continue, as on-the-ground realities in some of the impacted areas also continue to change.

Discussion: Chair Hare asked for more information on the possible cost shifts that were considered and rejected, and he asked what lessons had been learned from the Santa Cruz/PAMF

negotiations that were recently concluded. He also noted that the justifications for and benefits of UC Care have changed over time: the goal of customer flexibility has been replaced with lower employer cost, and the promise of robust, affordable coverage statewide has not been met. Lastly, Chair Hare observed that claims of lower premiums and cost savings to employees need to be illustrated within parallel program parameters.

VP Duckett noted that the state insurance commissioner certified the UC Care plan design as meeting requirements for statewide access. Members noted that while UC Care coverage is statewide, within the state, there are significant discrepancies in terms of proximity to preferred providers. Members asked what options were explored in regions where providers were recalcitrant and how delivery and satisfaction outcomes will be monitored. VP Duckett noted that HR's external consultants monitor the satisfaction metrics, but a new consultant will be sought moving forward. Members encouraged VP Duckett to have feedback mechanisms in place and active by March. Members also noted that the UC Care doctor search tool needed improvement, and that the Blue Cross physician database in use seems to be outdated. Members suggested a cost calculator be developed so that employees could more easily determine which plan will meet their medical and financial situations best.

IX. UCRP Funding Status

Gary Schlimgen, Executive Director, Retirement Programs and Services

John Monroe, Segal

Issue: The July 2013 UCRP valuations show a funded status of 79%, Market Valuation of Assets (MVA), which is up from 76.5%. However, on a smoothed, actuarial basis, the funding ratio is down to 76% from 78.7%, although part of this can be attributed to the retention of the 2008 losses in the report since smoothing is done on a 5 year basis. The federal sequestration is also having an impact, since the DOE national laboratories are not able to fully fund their portion; this added liability will show in next year's amortization. This year, UC is expected to meet Normal Cost, but not to make any payments on the interest or the unfunded liability; as a result, any future actuarial losses will necessitate still higher contribution rates or additional borrowing.

Discussion: Members asked how the gap between the approved funding policy and the actual funds being deposited was to be illustrated and communicated to senior leaders, and how long full funding would take to achieve at various rates of maximum employer contributions. Mr. Monroe indicated that at 14% employer contributions, the unfunded liability grows to \$20B in 2042; lower rates will have longer horizons. Members also asked how the assumed rate of return of 7.5% was determined, and Mr. Monroe answered that it has two parts: 3.5% inflation and 4% real returns.

X. Total Remuneration Study Update

Susan Carlson, Vice Provost, Academic Personnel

Dennis Larsen, Executive Director, Compensation Programs and Strategy, Human Resources

Issue: Vice Provost Carlson reported that the working group was largely appointed by Provost Dorr and met for the first time October 7 via teleconference. The first task is to compile an RFP and secure bids. It is not expected that an exact replica of the previous study can be generated since the players are expected to be different. The bids should be received by the end of the calendar year, and the study is expected to take 6-12 months to complete.

Discussion: Members noted that although the previous methodology may be owned by a non-participating consultant, the calculations were done by a returning consultant. Members also wondered if the study could project hypothetical scenarios, such as if all faculty were paid on scale. More usable and manipulatable data is a hoped-for by-product of the study.

XI. Consultation with the Office of the President – Academic Personnel

Susan Carlson, Vice Provost

1. “Stop the Clock”/APM 133:

Discussion: Members noted that bereavement should be included explicitly in the revised list of acceptable reasons to “stop the clock.”

Action: Members should send additional suggestions to Chair Hare by October 25 for transmittal to Academic Personnel.

2. Salary Equity Study:

Issue: Some campuses have stalled in their implementation of remediation strategies. Each campus was encouraged to include more Senate consultation in the next phase of analysis and implementation. An evaluation methodology is being developed, based on the Davis protocols. The next report-in date is November 15.

Action: Vice Provost Carlson will share the August updates with UCFW.

3. Upcoming APM Reviews:

Issue: Vice Provost Carlson reported that the next round of APM reviews will include the formal review of the proposed changes to APM 600 series (Salary Administration) and further proposed changes to APM 025 (Recall of Academic Employees) and APM 671 (HSCP Conflict of Commitment). The first report on the implementation of the Negotiated Salary Trial Plan is expected in November, as well.

XII. New Business

1. Medical Center Compensation: The competitiveness of benefits at the Medical Centers merits further analysis, especially as members of the HSCP have been excluded from present and past remunerations studies.

Meeting adjourned at 3:30 p.m.

Minutes prepared by Kenneth Feer, Principal Analyst

Attest: Dan Hare, Chair