

UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW) 2014-15 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 in-person meetings and one teleconference during the 2014-15 academic year, and the major actions and discussions of ongoing issues are highlighted in this report.

UCFW has two key task forces with memberships independent of UCFW and with particular expertise in: (1) the University of California 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 task forces monitor developments and carry out detailed analyses of questions and issues in their respective areas and report back to UCFW for further action. UCFW is indebted to the extraordinary commitment and skills of our task force leadership, Jim Chalfant (TFIR) and Robert May (HCTF). These two task forces spend a great deal of time in consultation with systemwide Human Resources (HR). Many of these consultants, along with others from Academic Personnel and the Office of the Budget 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.

CASH COMPENSATION ISSUES:

Salary Equity Plans: The University Committee on Affirmative Action and Diversity continued its work to illustrate and address the salary equity gaps at UC. UCFW reviewed the campus responses to the plans and found room for improvement. The campuses continue to develop remediation plans, and UCFW will continue to monitor action in this area.

Total Remuneration: Having successfully argued for an update to the 2009 Total Remuneration Study, UCFW received the findings of an updated study. Due to cost considerations, it was determined that a full study was unworkable, so a study focusing on general campus ladder rank faculty only was commissioned (i.e. not health sciences, law, etc.). Current and past UCFW members joined the administration in working with Mercer Consulting to develop and conduct the study as similarly as possible to the 2009 study. The study concluded that UC general campus ladder rank faculty (LRF) total remuneration now lags the Comparison 8 by 10% in aggregate, reflecting a 12% lag in cash compensation and a 7% lag in health and welfare benefits. Junior faculty see the lags more acutely than senior faculty due to the long apprenticeship required to become tenured and the career incentive structure of UCRP. As a result, recruitment and retention efforts may become even more difficult if meaningful redress is not implemented.

In order to best address the situation identified in the report, and joint Senate-administration working group was formed. The group focused on two questions: first, administration of the 3% salary increase approved for July 1, 2015, and second, how to

close the overall remuneration gap. President Napolitano, however, eschewed the group's recommendation to issue the 3% across the board and issued instructions that half of the increase pool should be awarded across the board and the remainder should be used for exceptional merit, equity, inversion, and compression. The group did not issue recommendations for closing the overall remuneration gap. The one-time cost to "fix" the faculty salary scales is estimated at \$140M, but no funds have been identified, and no administration champion has come forward.

In response, UCFW began investigation into other means of increasing remuneration, such as through tax advantaged child care, housing assistance, identity theft protection, etc. Consideration of these and other strategies will continue.

POST-EMPLOYMENT BENEFITS:

As part of the budget negotiations conducted this year, President Napolitano and the Regents agreed to the governor's terms, including creation and launch of a new pension "option" by July 1, 2016. The new option would cap benefits at the PEPRA cap, but some employee groups may also have access to a supplemental defined contribution (DC) plan. The design of the new pension option will be the product of a Retirement Options Task Force that has been charged to deliver a plan design by January 1, 2016. The Senate has four participants on the task force, some with experience in the 2010 Post-Employment Benefits investigation and all with UCFW backgrounds.

UCFW also reported to HR that their decision to centralize retirement counseling services at UCOP under the Retirement Administration Service Center (RASC) was not being well received at the campuses. HR views retirement counseling as facilitating Medicare enrollment and the like, while the Senate views retirement counseling as a much more individualized series of events to ease faculty into a new lifestyle. RASC is designing new training for campus colleagues, as well as webinars that employees nearing retirement can access at their own pace. RASC quality assurance metrics meet or exceed industry standards, but incremental improvement is still sought.

Emeriti groups at the campuses receive widely differing funds, access, and support, yet emeriti often remain contributing members of the campus community by mentoring students and junior faculty, continuing research, and serving on Senate committees. CUCEA has asked UCFW to help lobby divisional Senates to allocate more funds for emeriti support and functions, and UCFW will continue to monitor this situation.

HEALTH AND WELFARE BENEFITS:

UCFW and HCTF reported several problems with UC Care during its roll-out and second year of operation. Operations of the plan continue to be problematic in recurring areas: Reports of reimbursement, referral, and out-of-pocket maximum confusion were widespread, not least because Blue Shield, the plan's third party administrator, did not have adequate training for its staff. Training at the UC medical centers on the plan has also proved wanting. Employees were also concerned about the quality of providers in UC Care's top tier, noting that in some geographic areas, there were no hospitals or physician groups that participated. Riverside, Santa Barbara, west Contra Costa County, and some areas of Davis continue to report access concerns.

Further, UCFW is concerned with the operations of UC Care behind the scenes. The program did not attract as many younger and healthier employees as expected, so

adverse selection and higher than normal premium increases could negatively impact the plan. In its first year, UC Care received a subsidy from the other health plans, through UC's risk adjustment practice, which is designed to ensure that premiums and other costs do not vary widely by plan. However, UC Care was eligible for that subsidy only when its patient profile was unknown. Last year, to keep UC Care premiums from spiking, President Napolitano used one-time funds to supplement UC Care funds. This year, the likelihood of additional one-time funds is unknown, so UC Care must adjust its plan design to manage costs.

To increase the profile and bankability of UC Care, UC Health proposed the creation of an HMO product under the UC Care umbrella. An ad hoc work group, comprised of Senate and administration representatives, was formed to investigate the feasibility of the proposal, and other systemwide health questions. The work group, chaired by David Kraus from UCSD (the "Kraus Group"), recommended that consideration of an HMO be postponed because the time to investigate and launch for 2016 was not available and because the complexity of the project was not yet fully understood. UC's new Chief Operating Officer, Rachel Nava, has taken the position that such an expansion of UC health insurance programs should be considered as part of the usual analysis and due diligence of UC programs. The next RFP cycle for UC-sponsored health insurance programs is not until 2018.

Last year, UCFW lobbied Human Resources to undertake a satisfaction survey of the University's health and welfare benefits. HR worked with HCTF to develop a survey for major medical, and HR deployed it in the early summer of 2014. The response rate was 26%, and most of the findings were not surprising. UC Care performed moderately better, but aforementioned concerns persist. Kaiser satisfaction continued to lead the plans. Satisfaction with mental health services received particular attention this year, and HCTF met with the president at Optum. Reports of "ghost" providers and rejection of coverage were presented and addressed. HCTF will continue to investigate improving service in this area. UCFW requested, seconded by Academic Council, that a special task force be established to review mental health care, particularly the "carve out" that we currently provide.

This year, Human Resources undertook a review of UC's disability insurance and plan design. UC's benefits are significantly out of line with similar benefits from the state, and in this case, UC is the laggard. A working group is investigating how UC's benefit can become more competitive while remaining cost effective. Easier amendments to elections made during an employee's period of initial eligibility (PIE) are being considered, as are different pay-out caps and funding strategies. Due to the complexity of the issue, a new plan design is not expected to be available until 2017.

In reviewing financial statements from UC Care, HCTF became concerned about the cost of prescription coverage. Investigation revealed that treatments for Hepatitis C constitute the bulk of prescription payouts, but that only a small fraction of the UC employee population with the disease is receiving curative treatment; the remainder are required to follow lifestyle guidelines to minimize the impact and advancement of the disease and/or take medications with a significantly worse adverse effects profile. HCTF noted both moral objections to refusing to offer curative treatment whenever it is available and financial objections to the cost of treatment. Although costs are expected to drop as more drugs appear on the market, the cost of prescriptions continues to rise for cancer

treatments and other diseases. Alternative practices will continue to be discussed. In particular, there were discussions regarding “medical tourism” as might be applied to pharmacy benefits.

Finally, HCTF and UCFW were both concerned over the long-term strategic direction of UC Health, especially after a Rand report was presented to the Regents. The report included some radical recommendations, but shared governance was not reflected in the report or its analysis. It is expected that the “Kraus Group” will continue to meet, and that they will consider this issue. Ensuring that academic voices are heard in UC Health decisions is a goal for the new UCFW and HCTF.

INVESTMENT

Last year, student activists petitioned the Regents to divest from fossil fuels, and they submitted the Carbon Tracker 200 as companies they target. UCFW and TFIR remain skeptical that divestment would achieve the student activists’ goals, regardless of the fiscal impact of divestment to the University’s portfolio value. UCFW is also concerned that should UC accede to these demands, then the University will find itself on a slippery slope that called for additional divestment from other industries – regardless of the fiscal impact on the University’s portfolio. The Regents have convened a task force chaired by new Chief Investment Officer Jagdeep Bachher to investigate and report to the Board in the fall; Council Chair Mary Gilly is the Senate’s representative to the task force.

The Office of the Chief Investment Officer has continued to investigate best practices here, and they recommend an “ESG” approach to investment. This approach would require due diligence to include analysis of Environmental, Social, and Governance aspects of the target investment. Additionally, UC has joined the UN Principles for Responsible Investing, and continues to assess materials from which to develop new investment guidance for OCIO and the external managers and agencies with which it contracts for investment. A draft report was evaluated by TFIR, and edits are in progress.

This year, UCRP underwent an Experience Study, which assesses member experiences to determine if new assumptions are needed. Longevity and mortality were revisited, as were considerations such as allocation weightings, inflation assumptions, and return on investment. In the end, the consultants Mercer and Segal will recommend a slight adjustment to the assumed rate of return. This adjustment will increase the fund’s liability, but it better reflects current market realities. TFIR has supported the findings.

TFIR also supported the CFO’s plan to continue borrowing for UCRP to ensure that full ARC is contributed, despite the rate adjustment and as a supplement to the \$436M the governor will provide if UC makes the July 1, 2016 deadline for the new “option” activation. Returns this year show that, with last year’s borrowing, in-flow and out-flow from UCRP were nearly the same, so the improved funding ratio reflects market performance.

TFIR has monitored changes to the Fidelity Funds Menu portal for the last two years. Most members did not notice changes when the Menu was simplified the first time, as most of the funds that were cut or collapsed were seldom used. The final round of consolidation, however, impacted roughly 1 in 8 faculty, and they reported that messaging around the changes could have been more precise. Despite this, TFIR finds the simplified Menu easier to access and hopes that more employees will take advantage of it.

ASSESSING FACULTY WELFARE

Vice Provost for Academic Personnel has entered an agreement with the Collaborative on Academic Careers in Higher Education (COACHE), a Harvard think tank to develop faculty exit surveys. UCFW has long argued that recruitment and retention could be strengthened if more than anecdotal evidence were available to search committees, CAPs, academic personnel directors, and deans and chancellors. UCFW looks forward to helping refine the survey.

UCFW continues to be concerned about non-Senate faculty, be they temporary, clinical, or agricultural. For instance, non-Senate health sciences faculty constitute nearly 40% of the faculty systemwide, but little data is available to analyze their situation. The total remuneration study did not include health sciences faculty, yet the looming changes to the retirement system could have disproportionate impacts on that group.

OTHER POLICY ISSUES AND SYSTEMWIDE REVIEWS:

Academic Personnel Manual Revisions: Several sections of the APM were up for review, and some new sections were proposed. UCFW opined on or discussed each of the following:

- 080 (Medical Separation)
- 133 (Limitation on Total Period of Service with Certain Academic Titles (“Stop the Clock”))
- 210.1.d (Review and Appraisal Committees)
- 279 (Volunteers)
- 330 (Specialists)
- 360 and 210.4 (Librarians)

Additional Items:

UCFW was pleased to receive updates on the following items, and will continue to monitor developments in these areas:

- Changes to Mortgage Origination Program
- Campus Climate Survey
- Negotiated Salary Trial Program
- Innovation Council
- UC Ventures
- UCPath Center

CORRESPONDENCE:

Beyond submitting opinions and recommendations on the topics above, UCFW opined on the following matters of systemwide import:

- Conflict of Interest and Conflict of Commitment
- Open Access Guidelines
- “Equity for Access” - Draft Guidelines for Pilot Program to Accept Equity for Access to University Facilities or Services
- Sexual Harassment and Sexual Violence Prevention
- Proposed State Constitutional Amendment 1

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Academic Affairs: Provost Aimée Dorr;

Academic Personnel: Vice Provost Susan Carlson and Director Janet Lockwood;

Budget: Former Vice President Patrick Lenz;

Finance: Executive Vice President Nathan Brostrom, Executive Director of Self-funded Health Plans Lori Taylor;

State Governmental Relations: Senior Vice President Nelson Peacock;

UC Health: Senior Vice President Jack Stobo;

Human Resources: Vice President Dwaine Duckett, Executive Director of Retirement Programs and Services Gary Schlimgen, Executive Director of Benefits Programs and Strategy Michael Baptista, Director of Benefits Programs Mark Esteban, and Executive Director for Compensation Programs and Strategy Dennis Larsen;

Office of the Chief Investment Officer: CIO Jagdeep Bachher, Associate CIO Arthur Guimaraes;

External consultants from Mercer, Deloitte, and Segal.

We are particularly grateful for the involvement, support and guidance from the Senate leadership, Chair Mary Gilly and Vice Chair Dan Hare, as well as the advice and perspective provided by Senate Executive Director Hillary Baxter. Finally, the committee is indebted to Kenneth Feer who has provided superb staff support.

Respectfully yours, UCFW 2014-15

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