UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

UNIVERSITY COMMITTEE ON FACULTY WELFARE

Minutes of Meeting
June 12, 2015

I. Announcements

Joel Dimsdale, UCFW Chair
Calvin Moore, UCFW Vice Chair

Update: Chair Dimsdale noted that the committee will meet in July, most likely by teleconference.

Chair Dimsdale reminded members of several continuing issues that the next UCFW will continue to face: The impact of the new retirement options on total remuneration and recruitment and retention are unknown. Direct action on total remuneration is unlikely in the current political environment, so alternative strategies merit investigation. The health sciences faculty continue to face unique challenges, as do other non-Senate members of the University community; UCFW should keep advocating for all groups as much as possible.

Vice Chair Moore reported on the Academic Council meeting of May 27: Most of the Council has accepted the budget framework, but not enthusiastically. The lack of adequate enrollment growth funding is a source of concern to many. The Council did not endorse the "Equity for Access" proposal.

Chair Dimsdale reported on the Academic Assembly meeting of June 10: President Napolitano noted that after two years, tuition hikes will be tied to inflation. She also said that the new pension funds will lower the employer contribution, but the specific amount and timing of the reduction is not yet known. The new pension tier will be bound by the PEPRA cap, but other features can be added; COO Nava will chair a workgroup to explore the various new options. How to proceed with in-state enrollment growth is still under discussion. President Napolitano also stressed her research facilitation awards.

Discussion: Members asked if the budget deal was as good as it was being portrayed by the administration. Chair Dimsdale noted that this year's budget was the result of hard-ball politics in Sacramento and that negotiations with the legislature are actually continuing. Members asked if there was a commitment to increase the cash compensation of new hires directed into the new retirement options, but there is not. Members also noted that the "selected employees" who would be eligible for the supplement DC plan had not yet been specified, and wondered if the employee base would Balkanize as a result.

II. Consent Calendar

1. Minutes of May 8, 2015

   Action: The minutes were approved as amended.

III. Update: Task Force on Investment and Retirement

Jim Chalfant, TFIR Chair

Update: Chair Chalfant updated the committee on the preliminary thinking for the new retirement options. DC plans shift risk to the employee, despite their portability. DB plans encourage career-long behavior. The current UCRP liability was not caused by risky investments, but by mismanagement such as the too-long contribution holiday.

Discussion: Members asked if annuities would receive more attention going forward, and if the DC plan would include matching contributions. Chair Chalfant indicated that such specificity was not yet available, but that the plan design is open at this point. How to include retiree health in a DC plan also needs further attention. Members asked if the July 2016 deadline was flexible, but it does not appear so; as a result, the bulk of the work must be complete in six months.

IV. Consultation with Office of the Chief Investment Officer

Jagdeep Bachher, CIO

1. UC Ventures Updates
   With Michele Cucullu, Director, Private Equity
   Update: Director Cucullu noted that not much has changed from the previously discussed business plan. The Regents voiced many of the same concerns as the Senate. The fund of $250M will be administered separately from OCIO. The next steps are to engage search firms to recruit leadership. The goal is still to launch by the end of the year.
   Discussion: Members asked if UC/OCIO would exercise more than shareholder rights and duties, and CIO Bachher noted that was still under discussion. Members also asked how this program would differ from current venture investing practices, and Director Cucullu indicated that specific governance structures will be established to help manage UC's involvement; current efforts "lock" funds for 10 years or more. Other details are still being reviewed with the Office of General Counsel. The fee structure will be as similar to the market as possible. The level of return required to deem the program a success has not yet been specified.
2. Investment Performance
   With Susie Ardisher, Senior Investment Analyst
   Update: The end of March returns reflect continuing market volatility. OCIO is actively investigating ways to lower management fees, which are currently at 90 basis points. External consultants have been brought in to review contracts, and CEM is completing an asset class comparison that should be informative.
   Discussion: Members asked how much value could be added with greater active management, and while specific figures are not available, generally lower fees compound. Members asked what the reporting schedule is, and Ms. Ardisher said that links are being updated, and one-pagers will be circulated. OCIO looks to adjust the asset allocation partially by increasing the share of equity funds in the portfolio.
3. Sustainable Investing/ESG Framework
   With Ophir Brook, Intern
   With Amy Jaffee, Senior Advisor (UCD)
   Update: Mr. Brook reminded members that the ESG task force was established at the Regents request. To date, the group has: 1) undertaken a listening tour to foster stakeholder engagement. Faculty, student, and staff groups have all been contacted, as well as foundation and alumni representatives. Town halls and such will be scheduled in

the fall. A “sustainability” tab on the OCIO website should go live soon. The group has also 2) been studying literature and joining peer networks such as the Principles for Responsible Investment. UC is actively participating by working to better measure portfolio risk and generating white papers. Ms. Jaffee added that industry leaders, not just academic literature, were being consulted, and that the “social and governance” impacts are also being scrutinized; aging, demographics, income and the like will all be considered.

Discussion: Members asked what kind of feedback the work group had received, but the bulk of the engagement activities have yet to occur. As always, at UC a balancing act will be required. The goal is to create a lens through which to assess risk, not to generate a prescriptive investment policy. Members asked how UC’s prominent ties to BP, for example, might impact discussions, and Mr. Brook indicated that change would be incremental, but carbon stress tests are now common. Changes to the investment allocations and standards for market performance are still in early discussions.

4. Funds Menu Management Project

   With Arthur Guimaraes, Associate CIO and Chief of Staff

   Issue: The goal of the project is to simplify the menu UC employees have when making elections with Fidelity for 403(b) and 457(a) funds. The old menu had hundreds of options, and many had low returns. Most employees saw no impact from the culling, but 1 in 8 employees did. Standing deposits to discontinued funds will be migrated to pre-selected funds, unless the employee makes a new election. New elections may incur new fees.

   Discussion: Members noted that the pre-selected funds were performing well, and that this fact should be better advertised. Members noted that there may be more concern than has reached OCIO, and that the rationale needs reinforcement. The impact of the funds menu changes could significantly impact the competitiveness of new pension tiers.

5. UCRP Experience Study

   Sam Kunz, Managing Director of Asset Allocation and Investment Strategy

   Update: Mercer and Segal are helping to conduct the study, and it should be complete before the end of summer. Preliminary findings suggest that the current assumed rate of return, 7.5%, will be lowered to 7.25%. Either the allocation or inflation assumption needs to change to reflect the current market.

   Discussion: Members asked how inherent market volatility could be compensated for in allocation strategy. Director Kunz noted that fixed income returns are expected to decrease. Nonetheless, members questioned whether 11% returns would be needed if the funding policy were actually followed, and for how long. Director Kunz said that if the plan makes less through investments, contributions will have to increase or payouts decrease, lest the plan’s funding ratio deteriorate. Members asked how much further out full funding would be if the assumed rate of return were lowered, but that information is not yet available.

V. Consultation with Finance Office: Mortgage Origination Program

Ruth Assily, Director, Office of Loan Programs

Issue: UCFW asked the Office of Loan Programs to discuss alternate strategies for home loans, such as 40-year mortgages. Director Assily noted that campuses can offer 40 year loans, but they assume the full risk if they do so; so far, only UCSD has offered one such loan. The risks of a 40 year loan are not much greater than for a 30 year loan, but UCOP policy remains to offer MOP only in “qualified” situations.

Another strategy to bolster the program could be to centrally fund a supplemental home loan program. A plan is being considered that would offer $5M in revolving funds to help cover down payments and supplement chancellors’ discretionary funds.

Discussion: Members asked if the 3% interest floor was likely to change, and Director Assily said it was unlikely to change more than a few basis points and that the rate is tied to STIP. Members asked how many failed loans were on the books, and Director Assily reported that no loans had been lost during the past 2 fiscal years; some loans are distressed, and the Office of Loan Programs is working with those borrowers. Feedback suggests that people want fixed rate loans, but rates can’t be fixed for 30 years; after 10 years, reverting to the MOP rate is considered a best practice. Members asked if preapproval for cash offers had been considered, and Director Assily said such a practice is possible, with final approval coming after due diligence regarding assessments and appraisals, following standard lending rules. Members asked if SHLP was being funded, and Director Assily noted it was a campus decision whether to continue the program; additional central funds could be used to supplement local moneys. Supplemental loan rates would likely be similar to standard MOP rates. Earthquake insurance has not been required since the 1980s, following state guidelines. Members speculated that salary wedges might help new home buyers, but Director Assily suggested that in some markets, construction is prohibitive, so loans are more helpful.

VI. Update: Health Care Task Force

Robert May, HCTF Chair

Update: Blue Shield has come to agreement with UC Medical Centers, enabling them to continue functioning as the third-party administrator (TPA) for UC Care. UCOP has requested that health care expenditures increase no more than 5% for next year, but the impact of that limit on plan design is not known. Premium increases to employees are expected to follow recent trends.

Whether to release a new RFP for UC Care HMO business is being cast as part of normal due diligence by COO Nava. A decision to proceed would need to be made soon given the time frame required for the RFP review and selection process. The normal RFP cycle would be in 2018.

UC Care performance is under scrutiny. UC Care financials are in good shape, pending outstanding billing; the plan is expected to break even or run a small deficit, which is good for a new plan. No significant changes to the benefit structure are expected, but a push will be made to encourage plan members to use primary care physicians to a greater extent. Improving access will continue to be a priority, especially for Santa Barbara and Riverside. Billing transparency will also be targeted for improvement. PPO cost drivers will also be analyzed; high cost users consume a significantly disproportionate amount of services: 2.5% of the population account for nearly 70% of plan expenditures. The benefit of increasing PCP use is opaque to some, as it would only delay meeting with specialists and add an additional round of co-payment.

HCTF continues to discuss philosophical duties to the employee population vis-à-vis health care economics. Specifically, Hepatitis C treatment costs are currently prohibitive, but prices are expected to drop soon. The taskforce has also had preliminary discussions regarding "medical tourism" pharmacy rates for such medications. Some employees do not receive immediate care because their symptoms are not acute enough to justify the high cost of the drugs, but the drugs are curative, so delaying treatment is hard to explain. The future of paybands is another continuing topic. The goal of paybands was to foster fairness in health care expenses by making sure that no pay group paid too high of a percentage of their take home income on insurance premiums. Since 2003, unintended consequences have arisen, and some paybands are receiving 90+% subsidy from the employer, while other groups are receiving less than the 70% "floor" outlined in policy. Whether and how to rebalance the contribution formula, and the impacts such an action would have, are under discussion. UC will likely keep retirees in its health care plans since doing so helps off-set the younger active population for ACA calculations.

HCTF is drafting a memo to call for greater transparency and academic involvement in medical center strategic planning efforts.

VII. Consultation with Human Resources

1. Disability Review

   Mike Baptista, Executive Director, Benefits Programs and Strategy
   Heather Pineda, Senior Consultant

   Issue: UC's disability insurance is unique to the university. Staff received uncapped sick leave, and faculty receive up to a year. HSCP participants only receive six weeks per year. Negotiating the system is confusing and complex, and elections made during an employee's Period of Initial Eligibility (PIE) are often ill-informed and difficult to change, e.g. multiple waiting periods. UC offers two types of disability: short-term basic SDI and a voluntary long-term supplement. At present both must be bought at the same time. Recent cost increases have not abated, and subsidizing the program from life insurance reserves is not sustainable. The new design is currently under discussion; launch is not expected until 2017. Ms. Pineda added that this disability program is distinct from the UCRP benefit.

   California short-term SDI is not available to UC employees. UC short-term SDI provides only $800/month, with the state benefit awards up to $4400/month.

   Long-term disability coverage depends on whether a member is vested; if so, up to 70% of income can be replaced, but if not, up to 50% of income can be replaced. In some cases, because SDI is taxed at a low rate, disability income can exceed active pay, which leaves little incentive to return to work. Members on long-term disability still accrue UCRP years-of-service, but they do not contribute.

   Plan participation is declining, while costs continue to increase. HR's consultant, Towers Watson, suggests that maintaining the current structure would require an additional 30% increase in premiums. Possible plan design changes could see the cessation of the basic short-term program and enrollment in a restructured voluntary plan.

Discussion: Members wondered if opting out is considered wise, and whether a restructured benefit could be tax-exempt. Some suggested that staff be required to use vacation and sick leave, if available, to prevent abuse of the system. Others suggested that the disability definition should refer to work in one's "own occupation" rather than in "any occupation" for the first two years. Lowering the level of income replacement in long-term disability scenarios would also increase incentives to return to work. Director Baptista noted that a 60% income replacement level would help return to work programs and lower UC costs. Ideas that work could be resumed at partial time were discouraged. Members noted that if 60% replacement is the industry standard, UC must first meet industry salary to use that justification for salary-informed benefits. Others speculated on the impact to family friendly considerations. Some suggested that donated leave be available for purchase, if needed. HSCP concerns will require dedicated attention during the drafting process.

2. <u>Preretirement Counseling</u>
   Gary Schlimgen, Executive Director, Retirement Programs and Services
   Ellen Lorenz, Director, Retirement Administration Service Center
   Michael Waldman, Customer Service Manager, RASC

   Update: Director Lorenz reported that the new training modules are still in development. Year-to-date satisfaction metrics indicate 89% of faculty are satisfied; the benchmark is 80%, and efforts have improved responses. So far, preliminary data show that 250 academic retirements are in progress, which is up 20% from last year due to a targeted communications. Staff retirements are flat so far this year. Mr. Waldman added that MediCare enrollment materials are the most confusing, but that UC has little control over them. UC's insurance plans make Part D unnecessary, but federal guidance is not specific for UC. RASC has hired a Social Security specialist for more detailed training and analysis.

   Discussion: Chair Dimsdale offered the committee's assistance in reviewing the training materials. Members questioned the continued use of fax machines, but importing images to the electronic record is helpful. Members noted that face-to-face interactions for complicated decisions with important outcomes are preferred by many, and help to ensure accuracy. Director Lorenz reiterated that her team is working with the campuses to ensure that consistent and accurate information is used. While the final training schedule is not decided, online resources will be self-paced and webinars will be hosted and co-presented.

VIII. Consultation with Academic Personnel

Susan Carlson, Vice Provost

1. <u>Sexual Harassment & Sexual Violence Prevention Policy</u>

   Update: Substantial feedback from the Senate, and some Vice Provosts, is being evaluated. Some of the feedback was about specific verbiage, but some were of higher order concerns, such as organizational structure, protecting the rights of all individuals involved, and transparency and access to information for all individuals involved. The feedback was reported, but the federal deadline for action (July 1) means that 1) an interim policy to be revised will be issued, and 2) new guidance will be issued for the revisions.

Discussion: Members noted the discrepancy between evidentiary standards in the policy and the APM which could be problematic. The next draft policy issuance date is not known, but additional review will occur.

2. Faculty Recalls

   Issue: APM 205 governs this practice, but it is reportedly being implemented differently across the campuses. Additional central guidance could be useful.

   Discussion: Some members reported that their campus handles this well, but that some campuses have "unofficial" recalls. Typically, only about 500 faculty are recalled during any given year, and most problems seem localized.

3. Non-Senate Clinicians

   Issue: Members ask how to better integrate these voices in governance and operations. Informal and parallel committee structures could be used, as could greater use of ex officio representation.

   Discussion: Some of the medical school campuses have two faculty welfare committees, one for Senate issues and the other for the faculty council. Despite such committees, though, obstacles remain, especially regarding sabbaticals, MOP eligibility, on-campus housing access, and more. LSOEs face similar restrictions, as do Cooperative Extension Specialists, whose equivalent status does not seem to alleviate these problems. Vice Provost Carlson noted that most complaints that reach her office are about rights, not governance. APMs 278 and 279, which govern faculty work at VA affiliates and county hospitals etc., will be out for revision in the fall.

4. Total Remuneration

   Update: A presentation to the Regents on the findings of the study is being prepared for the July meeting.

IX. Consultation with Academic Senate Leadership

Dan Hare, Academic Council Vice Chair

Update: The state budget deal includes many provisions that impact faculty, such as enrollment funding at half the level UC projects for new students and no relief for unfunded students. The state feels that an 8% increase in non-resident tuition can close the enrollment funding gap. Funds for UCRP will not be released until after the Regents open the new pension tier, but if the new tier will not save money, UC may not offer the tier, and thus those funds would be left on the table. Many think that new hires in the DC plan would have to pay a legacy tax to keep paying down the unfunded liability; most think that practice would be hugely unpopular. A possible hybrid plan for employees whose income exceeds the PEPRA cap is being considered, but the eligible groups have not been identified.

The budget deal includes several academic and programmatic aspects, too:

- Transfer admissions must reach 2::1 by 17-18,
- At-risk undergraduate students are to be identified and coached/mentored,
- 3-year degree pathways for 10 of the top 15 majors at each campus should be developed,

- Greater time to degree advising is called for,
- Summer session growth and pricing models need investigation,
- Cost-per-courses analyses are to be conducted,
- Transfer pathways for the remaining identified majors must be completed,
- Some majors should be considered for a maximum of 45 upper division credits,
- Additional credit for AP tests should be considered,
- Common course numbering should be implemented, and
- Academic technology and online education should align with workforce needs and be expanded.

X. New Business

1. <u>CUCEA Support</u>
   Action: Members shall continue to brainstorm ways to demonstrate the value of emeriti and that they need ongoing support.
2. <u>July meeting</u>
   Action: Members should consider nominees to the new retirement options task force.

Adjourned at 3:30

Minutes prepared by Kenneth Feer, Principal Analyst
Attest: Joel Dimsdale, UCFW Chair