UNIVERSITY COMMITTEE ON FACULTY WELFARE
MEETING MINUTES – DECEMBER 12, 2008

I. Chair's Announcements – *Chair Helen Henry*

Chair Henry updated the committee on several items:

1. Chair Henry removed differential fees from the agenda, noting that until a definitive proposal is put forward, there is nothing substantive to discuss. She informed members that Council Chair Croughan has forwarded the Senate's position on differential fees to President Yudof.
2. At the last Council meeting, Council approved UCFW's letter in support of the pension board; this will be sent to President Yudof. UCFW's budget statement, which was presented to The Regents orally by Council Chair Croughan, encountered some resistance at the November Council meeting, where some members objected to parts of the document. Chair Croughan agreed to incorporate the basic contents of that statement into a letter from herself to President Yudof acknowledging that the proposed 2009-10 budget contains support for year 2 of the Faculty Salary Plan.
3. At the Assembly meeting, President Yudof noted that the University is approximately 11,000 students over-enrolled. An enrollment plan will be sent to The Regents for consideration at their February meeting.
4. Year two of the faculty salary plan will not be funded in 2008-09. On a related note, there is an Assembly bill that would freeze faculty and staff salaries of $150,000 and higher until 2012 (AB 53).
5. Regarding the outsourcing of the UCRP administration, President Yudof is still gathering data and has not made a decision.
6. Lastly, there will be a national search to replace the Provost, as the informal internal search has failed.

II. Consent Calendar

A. Minutes of the Meeting of November 14, 2008

ACTION: Members approved the minutes from the November 14, 2008 meeting with minor amendments.

III. Campus Issues

1. Compliance Concerns (UCSD)

ISSUE: UCSD brought forward the issue of cumbersome UCOP compliance rules and procedures. Among the most burdensome has been 'E-Cert,' which was designed as a way of electronically certifying percent effort on grants, and is remarkably user-unfriendly. It is not written for a contemporary research environment of multiple grants with many staff members, but more for a solitary researcher with one grant with one research assistant.

DISCUSSION: This was a topic of discussion at the September Council meeting; the electronic version is worse than the previous paper form. Members remarked that faculty are not against compliance per se, but need to have useful input into the design of such programs/forms. Other examples at other campuses include 'My Info Vault' and 'My Travel' (both at UCD), as well as

'E-File' at UCR. There are two issues— 1) user-friendliness and 2) the rules are unclear (e.g., what does 100% effort mean?). It is also unclear what the underlying definitions are (and even where to go to get definitions). Faculty involvement in the design phases and training are other issues. Next steps include ascertaining to whom these concerns should be directed and raising it (again) at Academic Council.

ACTION: Chair Henry will draft a next steps document that will be discussed at the January UCFW meeting.

2. Family Friendly Policies (UCB)

ISSUE: The Berkeley Faculty Welfare committee has become increasingly involved in family/work-life balance issues. One example of progress made in this area is the 'backup child care,' which will be rolled out as a trial program for assistant professors, and will be used as a recruitment tool. The campus will pay a significant portion of the fee; the faculty member will be responsible for a minimal fee. It has an insurance-like format that will incorporate economies of scale. The other issue is the affordability of child care, which is more difficult. The Berkeley member expressed his desire for statements of commitment from UCOP.

DISCUSSION: HR&B Executive Director Randy Scott mentioned that HR&B is concerned about systemwide priorities with regard to family-friendly policies and work-life balance issues. These issues will be considered in detail the March UCFW meeting. Chair Henry remarked that ten years ago, money was made available to all of the campuses for child care facilities (approximately ½ million dollars per campus in matching funds). It is not clear whether all of the campuses have used these funds. It may be time to do another census on the number of child care slots needed, etc. Both the quality and the location (relative to the workplace) of the child care are also important. Executive Director Scott said that typically these facilities do not make money, but they should provide quality child care. Members mentioned that the National Institute of Health (NIH) offers free child care on site; UC is far behind the curve on this issue. On at least one campus, there is a 2.5 year wait to get child care. Another issue is that campus child care centers are also closed on holidays (when many faculty members are on campus doing work). It was also mentioned that providing such comprehensive benefits would further reduce salaries. Chair Henry asked members to find out the amount of demand in relation to available child care slots on their campuses.

ACTION: Invite Chris Simon or Mona Litrownik to the March meeting when there will be some information on the experience of the back-up child care program on the Berkeley campus; members will report back with child care data at a future meeting.

3. Funding for Academic Units (UCB)

This issue was removed from the agenda.

IV. Total Remuneration Study

REPORT/PRESENTATION: Mike Hill from Hewitt and Associates began his presentation with the benefit index overview, the project's scope, and the benefit valuation methodology. The overview measures include the total program value and employer-paid value for retirement (DB, DC), life insurance, long-term disability, health care, paid time off, and dependent tuition. The benefit index was developed in 1973 and is used by over 1,000 companies, as well as by many 'Pathfinder' universities (22 total colleges and universities, including UC and seven of its eight comparator institutions). It is used to measure the relative value and competitiveness of benefit programs; to align with organizational objectives; to model proposed plan changes; and to communicate the value of their respective benefits with senior management and employees. The methodology compares economic value—not cost or perceived value (thereby neutralizing demographics); the UC population is used for benefit valuations, and the comparator group(s) are chosen by UC.

The benefit index project's scope includes four peer groups—UC Comparison 8 (professor, associate professor, and assistant professor), national academic institutions (SMG, MSP, and OA), general industry (MSP, PSS represented, and PSS non-represented), and the service industry (PSS represented and service workers). The benefits include defined benefit and defined contribution plans, time off with pay (holidays, vacation), dependent tuition reimbursement, all security benefits (all benefits except time-off, dependent tuition); all death (group life, survivor income, pre- and post-retirement death), all health care (medical, dental, vision, hearing and spending accounts, retirement health care), pre-Medicare and post-Medicare, all pre- and post-retirement health care, and all disability (short-term and long-term). Long-term care benefits are not included in the valuation (as almost all long-term care plans are employee-paid).

The valuation methodology includes valuing each employee group separately according to its own population. The average demographics for these groups is shown in a table (4,400 people will be valued each time). The measurement techniques also include the probability of an event occurring. Mr. Hill noted that for each benefit, there is a total value and an employer-paid value; there are separate indexes for each of these. A base point score of 100 is average among comparator group benefit plan values (i.e., above 100 is above average; below 100 is below average). The average is a straight arithmetic average; it is not weighted by population and each university is given the same weight. UC will not be included in the average of its comparator institutions. It was noted that if different institutions have different levels of pay, this will be included in the total compensation part of this study; in this portion the only differences that appear should be due to differences in benefits.

DISCUSSION: Sabbatical leave and child care are not included in the valuation, but included as 'prevalence' benefits. Members asked if UC's defined benefit changes the age profile of the faculty relative to a contribution plan at a different institution. Mr. Hill responded that the value will be compared on the difference in the wealth of the two plans. Members also asked if early-retirement incentives are being captured. For example, at some institutions, faculty will be paid a couple of years of salary to get them to retire early. Executive Director Scott commented that UC may raise this issue of 'supplemental benefits' with the Pathfinder group. Chair Henry added that this committee is interested in how benefits' design affects the workforce behavior. It was also noted that the total remuneration study will not be ready for the February Regents' meeting.

The defined benefit (DB) is the primary plan, and is being counted as a benefit; the 403(b)-like plans are optional, and are not counted in this study. Members asked about the DC plan, which is currently not optional, and is funded by the employees. Mr. Hill responded that Hewitt has always included employee contributions into defined benefit plans in valuations of the plans at the Labs. It might be useful to value the DB plan in two ways: one reflecting the time that no employee contributions were required to the DB plan (ca. 1992-2009), and one reflecting joint employer-employee funding (ca. 2009+ and the DC plan during 92-09). Members also asked whether the money paid out of grants would be counted (in the summer, a 7% contribution is divided between employer- and employee contributions). This issue was noted as something that needs to be addressed later. Members also briefly discussed the discount rate for the DB plan, which could be set at either 7.5% or 6.5%. Hewitt prefers using a discount rate of 6.5%, which is the current corporate bond rate. The committee is inclined to use 7.5%, which is more reflective of UC's investment practices. Mr. Hill agreed that Hewitt will use 7.5% for the purposes of this study.

V. Consultation with UCOP – Academic Advancement

REPORT:

1. Second Year of the Faculty Salary Plan

Academic Advancement is currently looking at the salary lag and change with the absence of any UC faculty salary increases in 2008-09. This is a two-step process—UCOP asked comparators to provide general salary percentage increases for 2008-09 and 2009-10. For the current year, it looks like the typical historical increases will continue (approximately a 3.7% increase). In the second step, the comparators will provide FTE and total salary outlay data. It is not expected that the comparator institutions will increase faculty salaries, other than merit increases, in 2009/2010. A preliminary update on salary data for UC's public comparators will be available at the January UCFW meeting.

2. APM Update

The committee was briefed on the following issues/APMs:

1) APM 240 (the 'deans' policy) has undergone an informal administrative review and will be out for systemwide review in the first week of January.
2) A compensation workgroup has been convened to look at deans' compensation.
3) Work is ongoing on a faculty recall policy.
4) There is some revised policy language to the retiree rehire policy, which is coming from the Academic Council.
5) Chair Henry reported that the APM 670 planning group recently met by telephone; this meeting was devoted to big-picture issues. A report will be generated by the second week of January, which will be presented to the Vice Provost.

VI. Consultation with UCOP – HR&B

1. Fee Waivers

ISSUE: There was a proposal from the Davis Division for fee waivers for the children of UC faculty. It was placed on the November Council agenda, and it was subsequently sent back to UCFW for consideration. The consensus at the November Council meeting was that it is not a good time to use the old proposal that had been suggested before; UCFW was encouraged to investigate alternate ways of funding such an initiative (e.g., pre-tax set-aside).

DISCUSSION: Suggestions included a pre-tax fund of some kind. Executive Director Scott indicated that Hewitt could provide information as to the kinds of programs available at other institutions, and he would request that they do so and include the figures in the total remuneration study.. Chair Henry remarked that ascertaining what is out there is a good start to generating the specific design of a program to propose for UC.

2. UCRP

A) ACA 5 Update

UPDATE: Executive Director Scott noted that the Office of General Counsel (OGC) has been asked to do a legal analysis/assessment of the current constitutional initiative, as written, for the University. He noted that ACA 5 does not specifically relieve The Regents of their liability, although it diminishes considerably their governing authority. The OCG analysis will help UC communicate with the public and legislators, and will be shared with the Academic Senate. Executive Director Scott also noted that he has begun to coordinate with Paul Schwartz, Director of Internal Communications, communication efforts with respect to ACA 5.

Another area of concern regarding ACA 5 is the process involved in filing this initiative. When initiatives have financial consequences, there must be a cost analysis of the initiative. UCOP has already submitted a response with respect to the administrative costs of the initiative. Currently, this initiative is pending at the Attorney General's office with a 'title and summary' expected around January 8, 2009. Next, to get the initiative on the ballot, 694,354 registered voters must sign the petition. There is also the possibility that the Attorney General could direct that there should be legislative hearings on the topic, although the Attorney General could just authorize the collection of signatures. The target for the ballot would be the June 2010 primary election. It was noted that the original initiative failed in the Legislature due to the lack of a two-thirds majority vote before the Legislature adjourned.

B) Investment Performance and Reporting

ISSUE: Chair Henry asked if a broadly-available FAQ/Q&A is needed regarding the UCRP investment performance.

DISCUSSION: One member specifically asked why UCOP should not provide UCRP statistics so that its performance could compared to that of other institutions. For instance, UCRP's performance has already been compared with CalPERS; should it not be compared to other public pension systems as well? TFIR Chair Anderson cautioned that investment returns are extremely "noisy" statistics and would be subject to misinterpretation. In fact, ten-year returns do not give a good idea of the value of any one particular portfolio manager, as the volatility is too high. One of the pitfalls in putting together these comparisons is that they invite inaccurate comparisons between institutions that vary depending on the time period being considered.

Providing such statistics would also put a lot of public pressure on the Treasurer's Office in determining asset allocations, and may result in unstable asset allocations. As a public institution, UC is constrained to pay relatively lower salaries to portfolio managers; it may make more sense to have the managers focus on attaining stable results rather than increasing the number/frequency of reports. One member expressed his view that there would not be any real harm in making such information available; there also seems to be a right to know. Another member countered this view by noting that there is nothing wrong with posting the data, but comparisons made on the basis of this data may not be valid. Should the institution not only gather the data, but also make the comparisons as well? Consultants noted that the Treasurer's Office does receive many inquiries with regard to the performance of UCRP relative to other institutions; an agreement has been reached with Mercer to put together some kind of comparison information in part to respond to these requests. One member remarked that the best comparisons are against benchmarks, which are already available, whereas comparing against one institution or the other is really not that helpful.

A separate question is whether UC should have a different asset allocation. Although liability is assumed by the The Regents, and they also are responsible for determining asset allocations, members believe that the expertise resident within the faculty should be utilized.

The committee was in agreement that more reporting/information is generally better, but this should be information that cannot be misinterpreted. Any communications strategy should be driven by thinking through what the University wants to proactively communicate, rather than responding to what is in the press or individual/ad hoc questions. On this point, Chair Henry asked if TFIR should draft some sort of educational piece.

ACTION: Chair Henry will follow-up on the progress of this undertaking and see if Marie N. Berggren could come to the February meeting; Professor Lodha will send a list of questions to both Chair Henry and TFIR Chair Bob Anderson.

C) Restart of Contributions

ISSUE: HR&B is drafting a Regents' action item for the restart of contributions. It will include a redirect of the amount currently going into the DC plan. At the moment, employer contributions will be set at 4% effective July 1, 2009; this is below what is needed, but it is a starting point. There is also a placeholder in The Regents' item for the statement from the Academic Senate.

DISCUSSION: The language in the former Regents' action item on the restart of contributions included the specific language "…pending the available funds..." One member asked if this Regents' item will include similar language, as it is not clear from where funding will come; members are concerned that the contributions will only come from employees. Consultants responded that The Regents will determine the level of available funding and the employer/employee split. The UCOP budget office feels that the 4% level is appropriate without the caveat "subject to…" being lifted.

It was noted that CalPERS is significantly less funded than UCRP with a longer amortization rate (at 30 years). UCOP is working with the Legislature, and initially, UC may receive a promissory note or an IOU from the Legislature given the current financial situation. Members emphasized that the current Regents' item should maintain similar language with respect to the "availability of funding." Towards that end, a statement from TFIR may be useful for Council Chair Croughan to take to The Regents as well.

The language in The Regents' item should also address the contingency that the Legislature may not even offer a promissory note. The unions may also object if the State refuses to contribute. A related question is whether the University will restart contributions to UCRP only for unrepresented employees if the unions object? One member remarked that there seems to be a high probability that the state will not fund the contributions (especially given that any agreement will be subject to collective bargaining), and non-represented employees' DC account contributions will simply be redirected to UCRP contributions.

A related issue is whether faculty on grants will need to take a cut on their budgets as a result of the restart of contributions. Members asked whether there were any efforts to renegotiate indirect costs to address this concern. Members and consultants agreed that this question should be directed to VP Beckwith. Chair Henry said that this question should go to Chair Croughan with a copy to UCORP.

ACTION: Chair Henry will draft a letter to Council Chair Croughan with respect to the restart of contributions and grants.

D) Covered Compensation Caps
Please note: The 'Restoration Benefits Chart' was distributed to members for this presentation.
ISSUE: The Regents passed the 'restoration benefits' item in 1999, which implemented two components. The first is an IRS code 415 (m) limit, which is an arbitrary dollar limit ($195,000 at age 62, $167,060 at age 60, and $83,715 at age 50) that a retiree's UCRP benefit gets tested against. For example, if a retiree's UCRP benefits total over these limits, then there is a limited amount of restoration monies (currently $5 million per year being paid to a total of 206 retirees) to compensate these people. This is more of a retention issue because people with high salaries and long terms of service would hit up against these limits, beyond which UCRP cannot pay.

The second component is Appendix E, which addresses covered compensation limits. The grand-fathered (applies to everyone who started before 7/1/1994) 401(a)(17) covered compensation limits are the following: $360,000 (2009/10), $345,000 (2008/09), and $335,000 (2007/08). The IRS covered compensation limits were lowered in 1994, so UC subsequently lowered them as well. The non-grandfathered limits (for those who started after 7/1/1994) are $245,000 (2009/10), $230,000 (2008/09), and $225,000 (2007/08). This is a recruitment issue, as chancellors who had long terms of UC service had more of their pay count for UCRP, while relative newcomers had much less of their salaries count for UCRP because they would be subject to the compensation limits (after 1994). With Appendix E, the highly-compensated can collect more from the 415 (m) restoration plan when they hit up against the UCRP limits noted above. Therefore, Appendix E places additional costs on the funds used for these 415 (m) restoration benefits.

The Regents approved Appendix E dependent on UCOP receiving a positive determination letter from the IRS. After almost a decade, the IRS did indeed provide a positive determination letter that approved Appendix E, but it has not yet been implemented; UC is currently re-engaging in a consultation process with the IRS due to this lengthy delay. One issue is the long period of retroactivity of Appendix E. Going forward with Appendix E (for both retroactive and current payments) would cost approximately $42 million. Options include not paying Appendix E retroactively, begin paying Appendix E from 2009 forward ($22 million cost), or not implementing Appendix E at all at this time. Currently, there are 145 people (76 faculty members) who would benefit from Appendix E.

DISCUSSION: When offers are made to new hires, members asked if there are any special offers with regard to retiree health. Consultants responded that retiree health benefits are outside of UCRP, and are subject to graduated eligibility. Graduated eligibility means that one must have ten years of service in the system to receive 50% of the employer contribution towards health benefits, and it scales up from there. The retiree health program can make exceptions to the eligibility requirements (unlike UCRP) through a different schedule (there have been a few exceptions). One member commented that to the extent that Appendix E is used for recruitment purposes, there is no justification for making it retroactive. UC did disclose Appendix E in the last valuation report; however, there is a sentiment that this is just a bad time to implement it. It was noted that Appendix E can be paid from UCRP, but the 415(m) plan is outside of UCRP, must be paid by the campuses, and is funded from location assessments; it also cannot come out of 19900 funds. Members also asked if there is any legal obligation to implement Appendix E. On this point, the OGC does not feel that UC needs to do this from a legal point of view, but there is some basis for legal challenges. UCOP is looking to either take action or seek a resolution to Appendix E by February 2009.

ACTION: Chair Henry will convey to Senate Chair Croughan the recommendation that Appendix E not be implemented at this time.

The meeting was adjourned at 4:00 p.m.

Attest: Helen Henry, UCFW Chair
Prepared by: Todd Giedt, Committee Analyst