UNIVERSITY OF CALIFORNIA ACADEMIC SENATE
UNIVERSITY COMMITTEE ON FACULTY WELFARE

Minutes of Meeting
February 9, 2009

I. Chair's Announcements

Helen Henry, UCFW Chair

UPDATE: Chair Henry reported that the revised statement on the restart of contributions to UCRP even absent off-setting salary increases was submitted to and adopted by the Academic Council. Subsequently, Senate Chair Croughan relayed the Senate's views to The Regents.

Chair Henry also reported that the statement on lump sum cashouts was approved by the Academic Council and has been posted on the Senate website. It will also be featured in the next issue of the systemwide Senate newsletter.

DISCUSSION: Members noted that many confusing statements regarding UCRP and retirement benefits generally have been reported in the press and attributed to senior university leadership. Chair Henry responded that the Academic Council heard similar reports from President Yudof at their January meeting, but clarified that a task force is being established to explore benefits structures, and like other task forces being formed, such as the creative funding one, it will debate all options. Members also wondered whether changes to retirement benefits of existing employees were legally permissible.

Vice Chair White noted that at his campus, UCLA, the lump sum statement has already been circulated by the Administration. Chair Henry encouraged members to see that knowledge of the existence of the statement is promulgated on their campuses.

II. Consultation with Officers of The Regents, Part I: Office of Ethics, Compliance, and Audit Services

Sheryl Vacca, Senior Vice President

ISSUE: On-going and newly emerging concerns with electronic certification for effort reporting, online sexual harassment prevention training, and other compliance programs has led UCFW to inquire of SVP Vacca when and how the Senate can best participate in the development of compliance programs. A second issue involves the administration and severity of punitive responses to training non-compliance that are sometimes more severe than those for outright violations of the policies which are the subject of the training.

SUMMARY: SVP Vacca gave the committee an overview of her role and the role of her office. As the Office of Ethics, Compliance, and Audit Services is still relatively new, both SVP Vacca and her staff continue learning about the labyrinth of UC's compliance programs, what is available in the status quo, both systemwide and campus-based, and what needs to be created to fulfill compliance duties. At present, a comprehensive revamping seems impossible as there are so many separate and esoteric programs. For example, the Learning Management System (LMS) was inherited, and institutional memory has been lost. Part of the difficulty in attacking these problems is balancing competing claims, such as legally mandated programs and conditional compliance requirements imposed by private funding sources.

In response to voiced concerns over the sexual harassment training module, SVP Vacca noted that the Senate was consulted in the development phase, but acknowledged that there had been hiccups in the roll-out phase. Regarding the effort reporting requirements, her office continues to investigate potential improvements.

DISCUSSION: Members inquired as to the process for emending compliance software programs. SVP Vacca noted that some software was developed by another UC office or an external vendor, which makes initiating programming changes difficult, an issue which campus-customization exacerbates. Members then asked whether vendors provided software maintenance services for easier customization. HR&B Executive Director Scott observed that many vendors will not support software that has been customized and that many changes to software must be undertaken manually. SVP Vacca added that HR&B Executive Director Baptista is also working on this issue.

Members also asked how much UC spent on compliance software from vendors, such as the LMS. SVP Vacca stated that compared to previous years, compliance costs have gone down, and Executive Director Scott offered to provide the exact costs the LMS contract after the meeting.

Members next addressed the issue of increasing Senate participation in the entire compliance process. Senate Chair Croughan noted that previously, divisional chairs Crosby (UCSC) and Mecartney (UCI) had begun working on the LMS issues, but that their efforts were tabled until the SVP position was filled. A new working group, comprised of Chair Croughan, Senate Vice Chair Powell, and Senate Executive Director Winnacker, has since submitted significant feedback to SVP Vacca, with a second round of "tweaking" forthcoming.

Regarding the e-verify program, members voiced concern over anecdotal reports of perceived obstructionism on the part of OP to subvert Senate input. Senate Chair Croughan noted, however, that UCSF served as a beta test for the current e-verify program, but added that the complexity of the program and myriad campus differences precluded meaningful standardization. Further, shortcomings in the personnel payroll system make fixing the software a second-phase operation. SVP Vacca concurred that once the payroll system is modernized, many software issues will be easier to address. Senate Chair Croughan and Chair Henry agreed with Executive Director Scott that Senate participation in an emerging HR and IT work group on payroll coding would be beneficial to all involved.

SVP Vacca added that her office was also working on developing better communications and collaboration mechanisms. Members agreed that improved central communications was needed as many faculty feel bombarded by compliance requests and confused as to how to navigate the divergent systems. Senate Chair Croughan posited that departments could develop a short compliance overview program to help address some of these issues, including when renewal trainings are necessary. SVP Vacca noted that campus Title IX officers should be able to assist faculty in terms of record keeping and scheduling required modules. Other members suggested that a different approach to the tone of compliance communications might also be useful as many faculty feel bullied, not encouraged, to be compliant.

Finally, members noted that better initial training for new faculty and new PIs might help avert more serious issues later on. Members also encouraged SVP Vacca to examine carefully senior managers' compliance issues, as those often receive greater press. SVP Vacca summed up by noting that while there is individual accountability to adhere to compliance requirements, the systems in place to do this are sources of frustration. She said that she would be happy to return to update the committee on improvements and in the meantime, members are invited to email her regarding their experiences in this area.

III. Consultation with the Office of the President – Budget Office

Patrick Lenz, Vice President (via phone)

UPDATE: The state legislature appears close to approving a budget, and the cuts to UC appear not to be as draconian as initially feared. Nonetheless, several concerns remain: many legislators seek to forego any UC budget augmentations, and the $20M previously marked for UCRP contributions may not survive interparty negotiations; funding for enrollment growth also seems to be in jeopardy. Overall, while the new reductions in state funding may not be significant in absolute dollars, the implications of the cuts are. The Legislative Analyst's Office (LAO) funding recommendations, while disfavorable to UC, may become moot following a weekend special session; moreover, UC cannot make any official statements until a specific action has been taken.

DISCUSSION: TFIR Chair Anderson noted that another concern with the LAO recommendations was not just the removal of funding for UCRP, but the precedent it might set by implying that the state is not obligated to fund the plan. VP Lenz indicated that his office has been clear that the state has the same obligation to fund UCRP as it does CalPERS, but the contribution holiday, which also was extended to the state, in conjunction with term limits, necessitates an extensive legislative educational campaign. Members agreed that penalizing UC for good management of the plan, which enabled the contribution holiday, by continuing to withhold funds now that they are required, sends an inappropriate message to all state agencies.

IV. Consultation with Officers of The Regents, Part II: Treasurer

Marie Berggren, Treasurer

A. <u>UCRP Performance Reporting Procedures</u>

SUMMARY: (See Distribution 1: Performance Measurement and Reporting.) UCRP returns combine liquid marketable securities and nonliquid assets, so sometimes the final values may not be known for years. And even when the totals are known, verification procedures sometimes yield amended findings. In order to provide "next day" returns, several verification standards must be met; otherwise, only preliminary results can be known. For securities, there are two methodologies: time-weighted and dollar-weighted returns, and both are industry standards. In time weighted reporting, the manager does not control the amount or duration of the investments, whereas in dollar weighted reporting, the manager does. Many valuation practices impute liquidity for estimation purposes, but these are often only best guesses.

DISCUSSION: TFIR Chair Anderson asked whether equities traded in foreign markets are time-lagged for reporting, and Treasurer Berggren indicated that such equities are evaluated at a fixed point, usually at the end of the day. Chair Anderson also asked whether DC plan investments were valued at their final trading prices. Treasurer Berggren, pending verification, responded that they would be evaluated on their value at the close of trading.

Treasurer Berggren also noted that the bulk of UC's securities are custodied by State Street. Members inquired whether this posed any risks. TFIR Chair Anderson clarified that if a custodying bank were to fail, the assets they held in custody would revert to UC and could not be claimed by the bank's creditors.

Treasurer Berggren continued by explaining that value calculations are impacted by two factors: the attributes of the asset and the timing of the reports. For the former, whether the investments are public or private is at issue, and for that latter, whether the reports are released monthly, quarterly, etc., impacts the degree of reporting available at any given time. Final data cannot be generated until all reports from external managers, including those covering both marketable and illiquid securities, are received; reporting a partial valuation would be misleading. Treasurer Berggren also stated that current practices are to report monthly and quarterly, as available, on the 25th day of the calendar month; the next reports will be available February 25th, following The Regents Committee on Investment meeting on the 24th. These reports will include the final quarter of the 2008 calendar year, and will be available on the Treasurer's website; the CoI (Committee on Investments) meeting schedule is also available through The Regent's website. Given the recent market fluctuations, the Treasurer's office has used best practices and reported as much as possible on a monthly basis, including those funds managed in-house.

Members also noted that many of the communications that emerge from the Office of the President regarding investment reporting are confusing, contradictory, or inaccurate (see Distribution 2: email from concerned faculty to President Yudof). It was suggested that that Treasurer Berggren's distribution be converted to a textual summary and posted to enable self-education; Treasurer Berggren was receptive to this suggestion. Members suggested making reporting and valuation caveats clearly visible on the websites, as well.

B. UCRP Peer Comparisons

SUMMARY: (See Distribution 3: Peer Comparisons.) Measuring asset allocations against their benchmarks yields 75% of returns in any given fund, but allocations vary greatly between plans. The ultimate returns on some investments such as private equity are not known for many years. Different allocations are incomparable – a fact underscored by differences in relative risk for different allocation classes. Further, the contribution holiday has affected UC's allocations, and thus its returns. Because different plans have different allocations, they cannot serve as benchmarks by which to evaluate UCRP success. The lack of standardized reporting guidelines (time frame, assets included, etc.) also serves to make peer comparisons an apples-to-oranges measure, as do different fee structures for each fund and plan. UC's asset allocation is determined by the The Regents on the recommendation of The Regents' Committee on Investments (CoI), and UC's assets have been increasingly diversified since 2005.

DISCUSSION: Members inquired as to the functioning of the CoI, longitudinally. Treasurer Berggren noted that although the CoI is populated with strong personalities, they are professionals in this realm and have, under recent chairs have provided good oversight of and advice to fund managers. Senate Chair Croughan added that CoI has been receptive to the opinions of its consultants and continues to act conscientiously, not haphazardly; members noted that publishing the qualifications of members of CoI might be a useful strategic move.

Members observed that even if done well, that the asset allocation could be influenced by the CoI chair might be disconcerting to some. Treasurer Berggren noted, though, that her office has improved the caliber of its staff over time by adding more subfield specialists to provide more targeted analysis and recommendations. TFIR Chair Anderson added that nostalgia for the management practices during the contribution holiday might be misplaced; changes initiated by The Regents and the Treasurers Russ and Berggren have resulted in a very professional approach.

Members then questioned how investment recommendations were generated, and whether the Senate could or should seek to play a larger role there. Treasurer Berggren indicated that allocation recommendations were developed by external consultants and the Treasurer's staff, which are presented to CoI in February and acted on in May. Every two years, a comprehensive long-term portfolio evaluation occurs, while smaller internal evaluations are conducted quarterly, which may impact ~5% of the portfolio at any one time. Senate Chair Croughan noted that the Senate has been successful in influencing socially responsible investing practices, but has not otherwise had much voice in allocation determination.

V. Total Remuneration

Randy Scott, Executive Director, Strategic Planning & Workforce Development, HR&B
Mike Hill, Principal Retirement Consultant, Hewitt Associates

UPDATE: Executive Director Scott noted that the current preliminary study findings incorporate feedback from both the December UCFW consult and specific input from the remuneration working group, which will meet again by teleconference next week. HR&B and Hewitt will meet with Mercer later in the month to receive the cash component information that will be shared with UCFW in March. In April, a total report, including UCRP restart figures, will be available.

SUMMARY: Mr. Hill noted that today's presentation will focus on the cash valuation of benefits only, which will subsequently be compared to market benchmarks. Within the faculty population, there are three groups: full professors, associates, and assistants; this presentation focuses on full professors only, which generally serves as a good template, though minor variances arise in the other groups.

DISCUSSION: Members asked where lecturers fit into the remuneration methodology, and Mr. Hill indicated that lecturers, along with librarians, are in a separate group; other groups include senior managers, professional staff, and support staff. Mercer will continue to present the medical center evaluations because they have more robust data. Additionally, inconsistencies in medical center grouping and reporting procedures, along with coding concerns, necessitate that medical center remuneration proceed along a different path. TFIR Chair Anderson observed that medical center employees' covered compensation is available through UCRP, which might be more expedient than relying on external vendors' calculations.

Mr. Hill reviewed briefly his update to the committee in December, highlighting that the present study primarily explores the value of differences in plan designs. Members questioned, though, how an accurate value of the defined benefit plan, for example, could be generated absent consistent employer contributions. Mr. Hill clarified that the measure was not of the cost of the benefit, but the value to the employee, which is measured by deducting the employee portion of costs from the total value of the benefit. Further, the values presented are composites comprising all retirement, all death, all dependents, all health care, and all long-term disability and security benefits. The comparators' data is based on new hires only, whereas UC's data includes grandfathered benefits. Members questioned this assumption, however, wondering whether such would yield an apples-to-apples comparison.

Other methodological aspects of the study include: UC salaries are taken from the CPEC valuations; only one comparator, MIT, has a DB plan; and standard withdrawal assumptions are made regarding retiree health and welfare benefits and employees who terminate prior to being vested. Members voiced concern about the viability of those withdrawal assumptions and reiterated the importance of having precise data.

Note: The preliminary findings were presented in executive session, and no notes were taken.

ACTION: The remuneration working group will add the issues of how best to incorporate grandfathered benefits and withdrawal assumptions to its teleconference agenda.

VI. Consultation with the Office of the President – Human Resources and Benefits

Randy Scott, Executive Director, Strategic Planning & Workforce Development, HR&B

1. UCRP
   A. ACA 5 Update
      Note: This discussion occurred in executive session; no notes were taken.
   B. Restart of Contributions Update
      UPDATE: Executive Director Scott thanked the committee for its thoughtful response on this issue, and indicated that the Senate may have tipped the balance into a principled and workable position. Unfortunately, the approved date of restarting contributions may need further evaluation given the state's budget situation.
   C. Outsourcing RFP Update
      UPDATE: There is no new information to report on this topic at this time.
2. Rehired Retirees
   UPDATE: The final changes have been made to this new policy, and a presidential letter of issuance is forthcoming.
3. Retiree Benefits
   UPDATE: A new task force is being established to review comprehensively all post-retirement benefits. The task force will have two groups, a steering committee and a working group; both groups will be comprised of a mix of

Senate and administration representatives, and both will be charged to take a broad and long-term look at the liabilities on the health and pension systems.

VII. Consultation with the Office of the President – Academic Advancement

Pat Price, Executive Director
Janet Lockwood, Associate Director
Jim Litrownik, Coordinator, Data Management and Analysis

1. Faculty Salary Plan Update
   UPDATE: Coordinator Litrownik has revised salary comparison projections based on the deferral of year two of the faculty salary plan to show the current rate of slippage in UC competitiveness (see Distribution 4). The gains of year one have been lost, with UC faculty now trailing their competitor institutions by 9.8%, up from 7.2%. However, since the comparators may not receive raises, either, this year, the rate of slippage may slow.
   DISCUSSION: Members asked whether plotting the salaries faculty would have had if they had been on scale would provide any useful information. Coordinator Litrownik indicated that such plots could only capture snapshot data, not longitudinal trends, and he added that separate studies exist that monitor the usage and utility of the scales. Chair Henry added that since the inadequacy of the scales was one of the original impetuses behind the salary plan, there is no need to reiterate those data now. It was suggested that the previous studies be made more widely available. It was also suggested that the slippage charts be amended to include zero-growth in the comparator institutions.
   Members noted, however, that discussion of the scales was academic. More immediate concerns need more attention, such as addressing rumors circulating about furloughs, vacations, and pay cuts. Interim Provost Pitts asked whether it would be worthwhile to reconvene the salary planning group, given both the deferral of the plan and the absence of general funding. Members asserted that presenting the Senate perspective, even as a place-holder, would hold the University in good stead in the long term.
   ACTION: Coordinator Litrownik will revise the slippage chart to illustrate UC slippage versus zero-growth at the Comparison 8.
2. APMs Under Review
   A. APM 670
   UPDATE: Vice Chair White reported that the informal working group of health sciences faculty from UCFW, along with UCAP Chair Plaxe, had met via teleconference with Academic Advancement personnel, and noted the major changes suggested by the group: restoring prominence to the advisory group, clarifying distinctions between departmental and school responsibilities, addressing both recalled faculty and split appointments, re-framing “good standing”, and better explicating regulations on sick leave and external income with the overall aims of including transparency, accountability, and equity, as well as better enabling faculty recruitment and retention. Associate Director Lockwood noted that she had also received preliminary feedback from both medical center and academic personnel directors, and there is still much work to do, especially

regarding differences on split appointments and outside income. A revised working draft should be ready for circulation soon.

B. APM 710

UPDATE: Following recent changes in federal law, such as to the Family and Medical Leave Act, APM 710 will need to be revised again to remain in compliance.

VIII. Consultation with the Office of the President – Provost

Larry Pitts, Interim Provost

ISSUE: Interim Provost Pitts continued the earlier budget discussion, focusing on academic affairs issues, such as new projects and schools. Noting that many capital projects have been suspended, Interim Provost Pitts added that all new plans should have an exit strategy in case the plans become stymied. As a result of these and other funding challenges, greater care is being given to philosophical discussions regarding campus autonomy and global UC strategies. These discussions will occur in a newly formed creative funding group, co-chaired by Senate Chair Croughan and UCSB Executive Vice Chancellor Lucas; additionally, this group will discuss short-term strategies, such as furloughs, differential fees by course, and non-resident fee rates. While it is anticipated that many strategies will be discarded, each must be explored fully first.

DISCUSSION: Some members suggested capping new initiatives until current projects receive full funding, but it was pointed out that staged implementation of many projects makes such prohibitions unworkable. Members then asked what the decision-rule was for making pay and budget decisions. Interim Provost Pitts indicated that most decisions are made by campus officials within a framework provided by OP, but members rejoined that such decentralized decision making is only appropriate if the budget allocations are similarly decentralized. Interim Provost Pitts noted that more resources may be soon decentralized.

Members also asked whether merit freezes were still under discussion. Interim Provost Pitts responded that one vice chancellor has indicated his intention never to freeze merits, but that was in a discussion of one-time only alternatives; it is unclear what would happen if such were presented as part of a multi-year solvency plan. Members observed that both pay cuts (furloughs) and merit freezes disproportionately disadvantage faculty as their workload does not diminish correspondingly.

IX. Report: UCFW Task Force on Investment and Retirement (TFIR)

Bob Anderson, Chair

1. Evaluating Portfolio Managers

   ISSUE: The draft document echoes the information presented by Treasure Berggren earlier. The draft, if approved by UCFW and subsequently, the Academic Council, will be posted online and may be circulated widely among colleagues as an educational item.

   DISCUSSION: Members queried whether wider vetting would add worthwhile imprimatur to the document. TFIR Chair Anderson noted that the resident expertise on TFIR, along with the approval of external consultants and the Office of General Counsel, should suffice as adequate endorsement of the document. Members also questioned whether the document addressed the questions of the

"man on the street". TFIR Chair Anderson replied that while the information is specific, it does address concerns raised by many colleagues from many fields.
ACTION: The committee unanimously supported submitting the document to the Academic Council for endorsement and public posting.

2. UCRP and LAO Report
ISSUE: TFIR Chair Anderson noted that federal matching funds for retirement programs cannot be collected absent the employee contributions. The Department of Energy has separate policies for lab retirees. See also Item III above.
3. Retiree ad hoc COLAs
UPDATE: In response to a presubmitted question, TFIR Chair Anderson indicated that retiree ad hoc COLAs, while contractually obligated to be paid regardless of the state's finances, are nonetheless dependent upon changes in the consumer price index (CPI). Thus, for most retirees, if the CPI is zero, the COLA would also be zero. HR&B Director Schlimgen added that through December 2008, the CPI was down .66%.
4. ICA Renegotiations of Public Employee Pension Contracts
ISSUE: The California Secretary of State has recently approved for signature gathering an initiative constitutional amendment (ICA) entitled "Renegotiations of Public Employee Pension Contracts." The legal aspects of this proposed ICA are unclear as federal regulations governing the impairment of contracts and reneging on pension payments are complex. Many contend that before the state could abdicate its pension obligations, all other assets of the University would first have to liquidated. Further, the language of the proposed ICA is internally inconsistent.
DISCUSSION: Members asked whether the state might have a legal escape from its pension funding obligation since UC employees are not subject to other executive decisions. TFIR Chair Anderson indicated that the language of the initiative fails to sever the link between UCRP and the state's obligations since many of the preferred priorities listed in proposal's text are undefined. It was noted that many collective bargaining units would also oppose this initiative.

X. Systemwide Review Item

1. APM 240 (Dean's Policy)
NOTE: Item not addressed.

XI. Consent Calendar

1. Minutes of Meeting of January 16, 2009
ACTION: The minutes were approved as amended.

XII. Report: UCFW Health Care Task Force

NOTE: Item not addressed.

XIII. Continuing Issues for Discussion

1. Family Friendly Policies
ISSUE: Members raised several issues for future discussion:
Q: Is funding dependents' fees on a pre-tax basis possible?

Q: Is establishing a Roth 403 as a recruitment incentive possible?

Q: Can long-term care and some retiree expenses be funded on a pre-tax basis? The pay-as-you-go funding model is disconcerting to many participants.

ACTION: Chair Henry will investigate these questions and report back.

Adjournment: 3:56 p.m.

Distributions:

1. Performance Measurement and Reporting (PowerPoint slides)
2. Email re UC Public Statements on UCRP
3. Peer Comparisons (PowerPoint Slides)
4. Faculty Salary Lag Report

Minutes prepared by Kenneth Feer, Senior Policy Analyst

Attest: Helen Henry, UCFW Chair