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OFFICE OF THE PROVOST AND
EXECUTIVE VICE PRESIDENT FOR ACADEMIC AFFAIRS

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

August 11, 2014

CHANCELLORS

Dear Colleagues:

I am writing to inform you that the *2014 Total Remuneration Study for General Campus Ladder Rank Faculty*, a study designed to measure market competitiveness for faculty, is available on the UC Compensation website at http://compensation.universityofcalifornia.edu/total-remuneration-ladder-rank-faculty-2014.pdf.

Also attached is a brief overview of the study approach, objectives, and results. The study shows that the comparative value of our total remuneration has, since 2009, gone down compared to our peers; I believe the results were to be expected given the ongoing salary lag between UC and the Comparison 8 institutions as well as the recent changes to the UC defined benefit plan and retiree health benefits.

In the fall, we will need to consider possible responses to the findings; to facilitate conversations about possible responses, we are putting together additional salary data and contextual information about faculty recruitment and retention. The Academic Senate is concerned about this lag in total remuneration and will also be reviewing the results.

Questions about the study may be directed to Vice Provost Susan Carlson at Susan.Carlson@ucop.edu or telephone (510) 987-0728.

Cordially,

Aimée Dorr

Aimée Dorr, Provost and
Executive Vice President for Academic Affairs

Attachment: Briefing Points: Total Remuneration for General Campus Ladder Rank Faculty

cc: President Napolitano
Academic Council Chair Jacob
Executive Vice President Brostrom
Vice President Duckett
Council of Vice Chancellors
Vice Provosts for Academic Affairs/Academic Personnel
Academic Personnel Directors
Executive Director Larsen
Executive Director Tanaka
Executive Director Winnacker
Manager Lockwood
Policy and Compensation Analyst Flinker

Briefing Points: Total Remuneration Study
General Campus Ladder-rank Faculty (8-8-14)

Background

- In July, 2013, then President Mark Yudof approved a total remuneration study of general campus ladder-rank faculty (LRF), at the urging of Academic Senate leadership. It was considered cost-prohibitive to study the entire UC employee population, as had been done in the previous 2009 study.
- An Advisory Committee, with Senate, campus, and HR representatives, and chaired by Susan Carlson, selected the consultants in December 2013 and worked with them from January through July 2014.
- This Total Remuneration Study for General Campus LRF was conducted by consultants (Mercer).
- The study results will be posted on the UC compensation website (http://compensation.universityofcalifornia.edu/), as was the case for previous studies.

Approach and Methodology

- The Total Remuneration Study evaluates the current competitiveness of UC's compensation and benefits for general campus, ladder-rank faculty (LRF) when compared to market, defined as the "Comparison 8 Institutions," comprised of four private and four public institutions (Harvard, MIT, Stanford, Yale, Illinois, Michigan, SUNY-Buffalo, and Virginia).
- Total remuneration includes cash compensation, health and welfare benefits, and retirement benefits.
- The study compares faculty at UC, by rank (based on each current faculty member's salary and benefits), to faculty at comparator institutions (based on aggregated data available from the Comp 8).
- The employer-provided value of benefits is determined for both UC and the Comparison 8 institutions using methods and assumptions typical of studies like this one, which are similar to those used in the 2009 Total Remuneration Study.
- Details of study methodology are specified on pp. 64-80 of the report.

Study Objectives and Results

- The main objective of the Study was to evaluate UC's current competitive position for total remuneration for 7,305 general campus LRF, by rank, compared to market. Additionally, the objective was to evaluate the effect of New Tier benefits (post-July 2013) on total remuneration.
- The methodology from the 2009 study has been used in the 2014 study as much as possible. (See pages 64-80 for detailed information on the methodology.)
- The study presents three sets of results:
  1) **2014 Market Position (Market v. UC).** Comparison of total remuneration for UC's new tier (current) benefits to the Comp 8 current benefits.
  2) **Comparing 2009 Findings to 2014 Findings.** Comparison of 2009 and 2014 study results.
  3) **Effect of New Tier Benefits on Total Remuneration 2014 (UC Old Tier v. UC New Tier).** Comparison assumes all faculty are in the pre-July 2013 plans (UC Old Tier) versus all faculty are in the plans currently available to new hires (UC New Tier).

Briefing Points: Total Remuneration Study
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1) Study Findings: 2014 Market Position (Market v. UC) (see pages 12-31)

- UC general campus LRF salaries lag by 12%, for all ranks pooled, but vary among ranks -- 13% lag for Full and Associate Professors and 8% lag for Assistant Professors.
- UC health and welfare benefits are 7% below market.
- UC total retirement (defined benefit plan and retiree health plan) is 6% above market but varies substantially by rank.
- **UC's total remuneration position is 10% below market**, due primarily to non-competitive salaries. This also varies by rank from 9% below market for Full Professors to 14% below for Associate Professors and 11% below for Assistant Professors.

The table below provides a summary of the results and selected observations for all faculty ranks combined.

	Market v. UC	Observations
Salary	-12%	Salaries lag the market by 12%. Notably, salaries comprise the largest percentage of total remuneration, around 75%.
Health and Welfare Benefits (Medical, Life, Dental, Long-term Disability, Flexible Spending Accounts, Vision, Dependent Tuition Reimbursement)	-7%	Competitiveness of medical benefits and plan choice vary by rank. Plan choice is influenced by pay level and increased contributions based on pay.
Retirement Benefits (DB/DC)	-2%	Changes to UC retirement benefits show decreased value when compared to market primarily due to employee contributions. Additional factors are removing terminated vested COLA, changing targeted retirement age from 60 to 65, and changing earliest retirement age from 50 to 55. Plan design changes affect younger faculty members more than older faculty members who are closer to retirement age.
Retiree Health (Medical, Life, Dental)	+61%	While the employer-provided portion value of the retiree health benefits overall is significantly higher than market values, the benefits are a relatively small portion of total remuneration and have only a small effect on overall positioning.
Total Retirement	+6%	Although current plans are lower than historical plans, UC is well-positioned compared to its peer group due to a defined benefit plan that potentially provides 100% of highest average pay after 40 years of service. However, it is more likely that faculty will receive 75-80% of salary at retirement given average starting and retiring ages. Curent employee contributions of 8% (1976 tier) and 7% (current tier) reduce the value.
Total Remuneration	-10%	UC total remuneration remains behind market due primarily to lower-than-market compensation, a 12% lag.

2) Study Findings: Comparing 2009 Findings to 2014 Findings (see pages 33-39)

The 2009 total remuneration study was conducted by consultants as well, with key findings as follows:

- In 2009, UC's total remuneration position was 2% below market, driven by non-competitive salaries and nearly offset by higher-than-market total retirement benefits. The retiree health benefit was above market; the main reason the pension benefit was substantially above market was the absence of employee contributions.
- In 2009, UC salaries lagged the market by 10%.
- In 2009, UC health and welfare benefits were 6% above market.
- In 2009, UC pension benefits were 29% above market.
- In 2009, UC's total retirement was 33% above market.
- In sum, UC's 2009 total benefits were 18% above market.

Because the 2014 study adopted a methodology similar to that used in 2009, results could be compared. Overall, the value of total remuneration for general campus LRF fell, as follows:

- **Between 2009 and 2014, UC's total remuneration fell from 2% below market to 10% below market.**
- Between 2009 and 2014, salaries fell further below market from 10% below to 12% below.
- Health and welfare benefits fell from 6% above market in 2009 to 7% below market in 2014, primarily caused by higher medical employee contributions at higher salary bands compared to the market.
- Changes to retirement plan designs since 2009 reduced positioning against market from 29% above market to 2% below market.
- Total retirement decreased from 33% above market to 6% above market.
- Total benefits decreased from 18% above market to 1% below market.

Page 36 contains a useful summary of the comparison, as follows:

- In 2009, UC cash compensation represented 68% of total remuneration; total benefits represented 32% of total remuneration.
- In 2014, UC cash compensation increased to 78% of total remuneration and total benefits decreased to 22%.
    - The 2014 UC position is similar to the mix of total remuneration found in the market.
    - Findings indicate that there has been a shift in total remuneration distribution away from benefits to cash compensation. While the UC change mirrors the marketplace change, it means that benefits play less of a role in recruitment and retention, for UC as well as for competing institutions.
- When the results are separated by rank, the most striking changes are for assistant professors, for whom cash compensation represents 86% of total remuneration in 2014 (compared to 75% in 2009; see pg. 39).

3) Study Findings: Effect of New Tier Benefits on Total Remuneration 2014 (UC Old Tier v. UC New Tier)
(see pages 41-50)

- In an effort to isolate and understand the effect of recent benefit changes, the Advisory Committee commissioned this third set of comparisons, which models the effect of the New Tier benefits (or post-July 2013) on the current UC LRF population. Salaries for both groups are as of October 2013. Health and Welfare benefits elections are also the same, valued as of January 2014, to reflect significant benefits changes on that date. The key changes are in the DB plan and in retiree health.
- New tier retirement benefits (the defined benefit plan) are valued 16% below old tier retirement benefits.
- New tier retiree health benefits (medical, life, dental) are valued 23% below old tier retiree health benefits.
- New tier retirement benefits (defined benefit plan plus retiree health) are 17% lower than the old tier.
- **Overall, new tier benefits are 2% lower than old tier benefits (**see page 46).

The table below provides a summary of the results and selected observations on the effect of new tier benefits on total remuneration in 2014.

	UC Old Tier v. UC All New Tier	Observations
Salary	0%	Cash compensation is the same for both comparisons.
Health and Welfare Benefits	0%	Health and welfare benefits are the same for both comparisons.
Retirement Benefits (DB)	-16%	All new tier retirement benefit values are lower than old tier due to the changes in plan design. The most significant changes to design that reduce the values include removing the inactive COLA for separation benefits; changing the targeted retirement age assumptions from age 60 to age 65; and increasing the minimum retirement age from age 50 to age 55. Earlier career ranks are more significantly affected by the elimination of the COLA for separation benefits and the change in retirement ages.
Retiree Health (Medical, Life, Dental)	-23%	All new tier retiree health is lower than old tier, primarily due to changing retiree health eligibility requirements from service to age and service; providing a flat $3,000 for out-of-state retirees for retiree health (assumed as 10% of total retirements) instead of a subsidized benefit plan; and delaying eligibility for maximum benefits, from 20 years of service to age 65 and 20 years of service.
Total Retirement	-17%	All new tier retirement is lower than the old tier given changes that have lowered values compared to the previous plan design. The effect of these changes is greater on the associate and assistant ranks than the full professor rank, mainly due to the fact that many full professors are already eligible for benefits in both scenarios.
Total Remuneration	-2%	While the effect of the new tier on total retirement varies by rank, the effect on total remuneration is almost the same for all ranks, roughly 2% down for each rank. Cash compensation represents the majority of total remuneration value.

Prepared by Academic Personnel and Programs
Contact Susan Carlson (510.987.0728)