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**JANET NAPOLITANO
PRESIDENT
UNIVERSITY OF CALIFORNIA**

Re: Proposed Composite Benefit Rates

Dear President Napolitano,

As you know, the Academic Senate has serious concerns about the methods being proposed to standardize benefit rates charged to external fund sources as part of the UC Path project. The Senate supports the efforts to increase efficiency by moving to standardize Composite Benefit Rates (CBR) for various classes of employees. These average rates will replace the current practice of charging individualized actual costs to funding sources that pay benefits for UC employees. However our analysis shows that the specific methodologies proposed will introduce significant fund shifts across sources that will be difficult to mitigate and will cause accounting problems at the campuses. We believe that an alternative method can achieve the efficiencies of CBR without the added accounting complexities of the current proposal, at the same time reducing collateral damage to the research enterprise and graduate education. I write now to transmit the Academic Senate's analysis and alternative proposal for implementing Composite Benefit Rates.

The currently plan favored by UCOP, Option B, will result in at least \$27M in funds shifting from the academic and clinical enterprise that will include a \$10M cut to research and graduate student support, while saving auxiliaries over \$14M. The consultant's tables containing this information can be found on pages 4 and 8 of our report. The accounting complexities introduced by these fund shifts go far beyond faculty issues and are a major reason Berkeley and Davis changed to a two-rate CBR in 2013. This is a structural problem that cannot be fixed with single-rate CBR plans. Indeed multiple proposals of the past 18 months have failed to find a way to do so. This is why the Senate is proposing a two-rate full CBR plan as opposed to the single-rate or the single-rate hybrid plans currently under consideration.

The Senate was surprised that three of the four proposals put forward by the Administration are "hybrid" plans with some benefits averaged and others are based on actual charges, which lose the key benefits of moving to CBRs. Instead, the Senate proposes a fully CBR approach, but one that allows two rates per employee, similar to the plans the Division of Cost Allocation (DCA) has already approved for Berkeley and Davis. The key element in the Senate's plan is a provision for two benefit rates to be applied to individuals, depending on whether the applicable salary is or is not covered compensation for purposes of retirement or medical benefits. The two rates would be used for 9-month academic employees and Health Sciences Compensation Plan faculty. Another major

concern with the Administration plans is that it is unclear if the DCA would approve a hybrid that projected uneven funding shifts.

In preparing its analysis the Senate reviewed the CBR consultant's analysis of summer salary, the consultant's analysis of fund shifts, analyses performed individual department about of impact of the plans on graduate students support, and the actual impact on research grants at two campuses that implemented CBR during 2012-13. The picture emerging from these sources is consistent, and the plans with fewer CBR categories result in greater disparity across funding sources.

Complicating the discussion of CBR is the assumption that because a CBR collects the correct benefit total within an employee category it means impacts are to an individual unit or fund source will be "modest." This is not true. The analysis shows there can be substantial overcharge and undercharge swings that come together in an apparent balance. Small swings could be acceptable, but the analysis shows they are too large to manage. For example, calculations by the consultant for Option B show that on a systemwide basis the overcharge to extramural grants will total only \$2.4M, yet the overcharge on extramural summer salary alone would be at least \$9.6M, or four times the total. As one drills down to the department or grant level, the swings are even more dramatic. The administrations at Berkeley and Davis each changed to a two-rate per employee CBR plans in July 2013 because the one rate plans caused too many difficulties and could not fixed through any mitigation plan. Like the Senate, both Berkeley and Davis chose fully CBR plans, not a hybridized approach that would continue to lead to such swings in funding and have to be modified again.

The Senate recognizes that CBR has important advantages and that compromises must be made in designing a CBR plan. The Senate recommendation is compatible with the PeopleSoft payroll system used in UC Path and with the DCA requirements as evidenced by the current Berkeley and Davis negotiations.

Please let me know if you have any questions about the Senate proposal. Although there are other CBR plans that could reduce the disparate impacts on funding sources even further, such as combining salary banding with a two-rate plan, we believe that the Senate proposal provides a middle ground that will serve UC well without requiring another abrupt change in a year or two.

Sincerely,



Bill Jacob

Encl. (1)

Cc: Seth Grossman
Provost Dorr
Executive Vice President Brostrom
Chief Financial Officer Taylor
Associate Vice President Arrivas
Academic Council

Academic Senate Recommendations for Composite Benefit Rates

Executive Summary. A number of proposals for Composite Benefit Rates (CBR) have emerged as part of the development of UC Path. The Academic Senate supports the CBR project in principle. However, the Senate has serious concerns about the impact of the currently proposed single rate and “hybrid” plans because of their adverse fund shifts. “Option B”, the currently favored plan, will shift at least \$27M in funding away from the academic and clinical enterprise, including \$10M from to research and graduate student support, while saving auxiliaries over \$14M¹. Each of the proposed plans—Options A, B, C and D—impose new charges on summer salary for benefits either previously covered by 9-month salaries or in the case of UCRP charges, not received on summer income. There are similar impacts on Health Sciences Compensation Plan faculty whose ‘Y’ salary, which is not UCRP covered compensation, would be charged a composite rate that includes UCRP.

Complicating the discussion is an assumption that because a CBR collects the correct benefit total within a category, the impacts to a unit will be “modest”. This is not true. In fact the analyses show that there can be substantial swings in overcharges and undercharges that come together in an overall balance. For example, the consultant UCOP used to devise the current options provided calculations for Option B, which show that systemwide the overcharge to extramural grants will only be \$2.4M, yet the overcharge on extramural summer salary alone would be at least \$9.6M², or four times the total. The swings are even more dramatic as one drills down to the department or grant level. The Senate’s examination of contracts and grants suggest that the vast majority of reductions will have to occur in graduate student support. Specifically, the extra costs imposed on summer benefit expense will reduce funds available for Graduate Student Researchers from 5% to 15% depending upon the unit.

It has been suggested that a MOU redirecting overcharges back to grants could mitigate the problems, but the Senate believes this approach would create additional confusion from the perspective of a funding agency. The Senate does not believe that any ad hoc, campus-based mitigation plan can correct these swings and believes that it is best to charge the correct amount from the start. Instead the Senate concluded that a CBR plan that allows two rates per employee depending on funding source will achieve far greater equity than any of the proposed one-rate hybrid plans. Such a plan can be implemented consistent with UC Path and meet DCA approval.

The Senate proposes that 9-month academic employees have a second composite summer rate that is based on the actual benefit charges. This is the simplest and cleanest way to achieve equity. Similarly, the Senate proposes that faculty in the Health Sciences Compensation Plan (HSCP) have two CBR rates, one for ‘X’ and ‘X-prime’ salary component and a second for the ‘Y’ component. The ‘Y’ component of the HSCP salary is not covered compensation for UCRP and therefore UCRP expenses should not be averaged across this salary component. Finally, the CBR for the HSCP

¹ See Section II for details

² See Section III for details.

should also be capped, as it is in the CBR plans Versions 1 and 2, and the Senate asserts this preference.

Introduction.

This Report examines the impact of proposed Composite Benefit Rate (CBR) plans on contracts and grants at the University of California with a focus on the possible impacts on funding for graduate student researchers (GSR). Composite benefit rates charge an average rate for categories of employees rather than actual costs and have two primary advantages: (i) they simplify accounting, and (ii) they eliminate instability of charges when an employee's personal circumstances change (e.g. acquires additional dependents). Because a single rate is used within a category the CBR cost for higher paid employees will be higher than that of lower paid employees; in other words CBR also "socializes" costs within a category. The Senate recognizes these strengths and supports CBR in principle for these reasons.

A complexity for CBR stems from the fact that unlike most employees, the salary for UC faculty often comes from multiple sources for which the funds are not fungible. These are 'X', 'X-prime', Summer 'X', 'Y', and 'Z'. In addition, these sources support different benefits or portions of benefits. As a result, if a single CBR was applied across all funding sources, it could potentially reduce access to funds from some sources, in particular if the source is a grant or contract where the total amounts available are capped by the agency.

This note examines the impact of CBR plans on faculty summer salary, the majority of which (approximately 56%) of which come from research contracts and grants. Because in most cases the margin on the grant is used to support GSRs as part of their educational opportunity, an estimate of impact on GSR support is given. Four modeling exercises are used in making these estimates: (i) CBR costs using recent consultant supplied data, (ii) department estimates of reduction in GSR funding using CBR, (iii) fund source shift information to estimate portions of summer salary costs going towards research, and (iv) impacts at two campuses that used CBR. The Senate recommendations follow discussion of these impacts.

The situation for HSCP faculty is quite complex; the salaries of HSCP members can vary across X, X-prime, and Y sources on a monthly basis. Although we do not have access to data that would separate X, X-prime from Y, based upon the disparate impact on X and Summer X salaries for 9-month employees, by analogy the Senate expects disparate impacts on salary available for the Y component of salary for HSCP members. The consultant impact analyses for Option B confirms this, the systemwide overcharge to HSCP fund sources is over \$10M, the largest overcharge from all sources (the only larger number is the \$14M undercharge to auxiliaries, which reap serious savings from these overcharges.) The only equitable resolution to this problem is to have two CBR rates, one for X and X-prime and the other for Y that reflect the benefits received for each salary component. Two CBR rates also preserve the advantages of CBR in simplicity of execution of UC Path, one of the main reasons UC embarked on this project in the first place. The hybrid plans in Option B, C, D will be far more complicated to execute.

I. General Background.

According to the 2013 Accountability Report, in 2011-12 UC expended \$5.517B in research funds from which \$1.931B was salaries, \$0.901B was benefits and \$1.005B was indirect costs. Included in this salary were \$228M for 5009 student researchers (mostly GSRs) and \$231M for 4,426 post-doctoral researchers. Of the \$4.2B direct expenditures on research, \$2.5B came from government grants with the remainder from industry, non-profit, and university sources. Of this \$4.2B approximately \$2.0B was from medicine with the remainder across other disciplines. Approximately 4,350 of the GSRs were in the non-Health Science departments (87%) and this means that the 9-month faculty generated approximately \$2.2B in direct costs for research that supported these GSRs at a cost of approximately \$198M.

Approximately 60% of the Health Science instructional budget of \$1.8B comes from clinical income (compared to 19% from general funds.) In addition to reducing clinical funds available for salaries, a CBR on both X and Y salaries combined will reduce access to funds for this budget. The Senate has no access to information that would enable us to model these cuts.

The data supplied by the consultants show that in 2011 UC had 5758 9-month faculty who received summer salary. Some of this salary was for summer teaching or administrative work, but the majority of the summer salary was paid out of research contracts. We understand that approximately 56% of summer salary comes from research contracts and grants. This enables us to estimate the overcharges to extramural funds for CBR. Much of the remainder of the overcharge will be for Summer Session faculty teaching, although we don't have numbers for that. Summer Session overcharges will impact the teaching mission unless a mitigation plan is in place to cover extra charges for faculty teaching. Many departments have to use Graduate Teaching Assistants instead of regular faculty because of tight summer session budgets and this will increase unless a separate summer CBR is used.

II. Analysis of Fund Source Shifts.

Scenario L Option B Analysis. Recently the Senate received the fund shift analysis for Scenario L Option B. This analysis shows that systemwide the overcharge to extramural grants will only be \$2.4M overall, yet the overcharge on extramural summer salary alone would be at least \$9.6M, or four times the total. This shows that even though the overall impact may appear to be small, the effect is extremely "lumpy" in that there are large shifts across categories that only achieve balance in the end. The advocates of hybrid plans ignore disparate (or lumpy) behavior of a single rate. The research fund disparity quadruples when you look at smaller units (total summer salary), and as noted in section III, when you look at individual departments, there are big winners and big losers depending upon the configurations and the field of study. In other words, the disparities grow as you drill down. For this reason, arguments for the hybrid plans based upon "overall costs of benefits" or that "each campus or medical center will continue to pay their actual benefit costs" are extremely misleading. Of course in the end, UC will pay the overall cost; the question is how it is distributed.

For example, an argument for such a plan as Option B was presented to the Senate as follows,

“While the charges to research for the faculty group may increase, the charges to research for other employee groups may well decrease, offsetting the increases for faculty benefits almost dollar-for-dollar. Since averages will be used to allocate benefits within each campus and medical center, there will be some departments/schools/grants or funding sources that are charged more or less in employee benefits than what is charged under the existing methodology. Therefore, the overall financial impacts presented as a basis for the Senate’s recommendations are inaccurate.”

In fact this discussion, as validated by the consultant calculations, illustrates precisely why the Senate is so concerned about the CBR plan Options A, B, C, and D. The overcharges can be quite extreme, only to be masked by the fact that they are balanced by undercharges. When reporting only averages, instead of drilling down to individual funding sources one does not see the magnitude of the problem. In option B (see Section III below) there is a \$17M overcharge to summer salaries (\$10M from grants) and a separate \$10M charge to Health Science compensation. So \$27M is being shifted across the system from research and clinical income, largely to the benefit of auxiliaries (\$14M). The problem here is structural, namely it is failure to establish two rates for 9-month faculty and HSCP faculty. No amount of tweaking of a one-rate plan can mitigate this problem.

CBR Consultant Fund Shift Analysis of Scenario L Option B

Campus	External Funding	Fees and State Appropriations	General Funds	Gifts and Endowments	Health Science Compensation	Sales and Services / Auxiliary
Agriculture & Natural Resources	(356,394)	(0)	293,953	7,310	-	41,872
UC Berkeley	(145,937)	(909,514)	1,078,122	159,253	-	(242,008)
UC Davis	(925,018)	(4,767)	(1,626,095)	(77,954)	3,951,438	(1,368,666)
UC Irvine	782,454	228,495	(22,855)	(14,279)	471,213	(1,384,955)
UC Los Angeles	2,659,521	697,079	22,548	707,166	2,509,668	(6,757,156)
UC Merced	101,270	59,116	164,790	(24,498)	-	(305,335)
UC Office of the President	(30,369)	(29,518)	75,348	21,360	-	(18,432)
UC Riverside	(175,234)	(195,931)	192,520	16,912	-	166,716
UC San Diego	(530,514)	594,490	(189,822)	602,490	492,895	(977,885)
UC San Francisco	(396,694)	(83,067)	(1,552,152)	720,440	2,819,954	(1,292,451)
UC Santa Barbara	526,476	138,283	(11,551)	122,106	-	(819,147)
UC Santa Cruz	909,285	(682,979)	1,178,020	(96,484)	-	(1,327,856)
Total	2,418,846	(188,313)	(397,173)	2,143,821	10,245,169	(14,285,304)

There is an additional difficulty that that will cause campuses serious problems when implementing a hybrid approach like Option B. As noted there are at least \$27M in fund shifts (\$17M from summer grants and \$10M from clinical overcharges), although the consultant table only shows \$15M in undercharges and \$15M in overcharges. This means at least \$12M has to be shifted “across pots” and there is no discussion

how this it to be accomplished. (In fact this amount is likely much more because of “lumpy” grant assessment.) But one cannot shift funds across grants (that is illegal), and it is not clear how campuses will handle extra summer session expenses. These complexities are among the reasons Berkeley and Davis went to a two rate per employee fully CBR plan. Even if UC Path at Riverside can handle the complexity of a hybrid plan, the accounting nightmare at the campuses will be painful and it will pit units against one another as they struggle to deal with disparities introduced by ignoring funding sources in the benefit charges.

As discussed in the recommendations below, it is largely because of the structural problems associated with a single rate or a single rate hybrid CBR (as are Scenario L Options A, B, C, and D) that the Senate advocates a two rate fully CBR plan. As we see in the next section, this will also mitigate many of the disparities relating to summer and ‘Y’ salary.

III. CBR Modeling of 9-month Faculty Summer Salary.

UC academic year employees receive a 9-month salary that includes as additional compensation their full-year health and UCRP benefits. For many faculty, this comprises their total salary and benefits. However, the remaining faculty receive summer salary in addition to their 9-month salary. Currently the actual benefits charged to funding sources for this salary are taxes and a 3.5% DC retirement withholding that is separate from UCRP, which totals close to 11% of summer salary. There are four CBR plans being considered for faculty and the differences between these CBR rates and actual costs based upon consultant modeling are considered next.

Option A.

Option A calculates a CBR rate for academic faculty that is based upon total earnings (‘X’ and Summer ‘X’ combined.) This is the rate that must be used if there is no separate category for Summer ‘X’ salary and if all benefits are to be covered by a single CBR for ‘X’ salary. The projected fringe (provided by the consultants) in this calculation assumes a 12.7% charge on UCRP covered compensation. The rates, based upon consultant data are shown below.

Full Salary Base and Fringe for Calculation Option A

Campus	Fac	Salary Base	Proj Fringe	Full Year Rate Option A
Berkeley	2068	215365623	68368842	0.317455
Davis	1803	161247225	51222113	0.317662
Irvine	1199	118885491	38713694	0.325639
LA	2227	239602895	72378549	0.302077
Merced	245	17214850	5882522	0.341712
Riverside	863	73195082	24155262	0.330012
San Diego	1211	122653397	37693068	0.307314
UCSF	214	3793648	1510601	0.398192 *
Santa Barbar	1055	106968352	35038690	0.327561
Santa Cruz	734	63720312	21372877	0.335417
Total	11619	1122646875	356336218	0.317407

Note: Health Science Faculty have separate Rate and are not included
 * UCSF Academic Faculty may have a typo in head count or amounts or else they are correct and only include 'X' salary, not 'Y'.

Option A represents what will happen whenever there is no separate summer rate available for 9-month salary.

We next determine the differences in charges to summer salary sources for the nine general campuses.

Option A Summer Impact.

This plan uses the same composite rate for academic year and summer salary that were calculated above and also provided by the consultants. The right hand column of the next chart shows the additional funds collected from summer sources above actual costs.

Plan A Differences between Actual Cost and CBR Charge on Summer Salary

Campus	SU Fac	Su Salary Base	Proj Su Fringe	CBR A%	A Bene Cost	Difference
Berkeley	1241	26368911	3698960	0.317	8358944.79	4659984.787
Davis	727	15026734	1569385	0.318	4778501.41	3209116.412
Irvine	631	16075522	1764350	0.326	5240620.17	3476270.172
LA	1181	37607036	3350220	0.302	11357324.9	8007104.872
Merced	102	1941260	218421	0.342	663910.92	445489.92
Riverside	341	7061202	761525	0.33	2330196.66	1568671.66
San Diego	643	18566467	1787981	0.307	5699905.37	3911924.369
Santa Barbar	607	13716382	1519873	0.328	4498973.3	2979100.296
Santa Cruz	285	6018385	711490	0.338	2034214.13	1322724.13
Total	5758	142381899	15382205	0.3158	44962591.6	29580386.62

For example, the consultant information shows that at Berkeley 1,241 faculty have summer salary with estimated actual benefit costs of \$3,698,960, but the composite rate of 31.7% projected charge to those sources would produce costs of \$8,358,944, which is \$4,659,984 above actual costs. The other campus amounts can be read off the chart. For the nine campuses together, the extra charge is approximately \$29.6M. If we assume that 56% of these funds come from research contracts this is approximately \$16.6M pulled out of contracts that at this time are used for grant purposes, such as GSR support. This is approximately 8.5% of the GSR support generated systemwide from grants to 9-month academic faculty. As noted above, much of the remaining \$13M in overcharges will hit summer session budgets and will lead to fewer ladder faculty teaching and a greater reliance on Teaching Assistants.

Because Option A is a CBR based upon full benefit costs distributed across the category, if implemented this option would capture full faculty benefit costs, but take a larger share from summer salary and reduce the benefit expense to sources covering the 9-month salary. Most of the \$29M collected in excess of actual summer benefits would be transferred to general funds from grants and summer sessions and then applied to academic faculty 9-month benefit costs. One suggestion has been to refund the \$16.6M to grants or to place it into a separate fund for GSR support. While this might be reasonable for full year 9-month employees (because the general fund has been picking up their benefits anyway), this would introduce a complexity for employees without a full 9-month FTE because then the general fund has new expenses it didn't have before. If this route is chosen, the Senate would insist that an MOU spell out the redirection of funds collected from contract and grants back to these sources. This approach has a serious additional drawback in that the purpose of the direct charges for benefits would not be clear to the funding agency (reducing grant competitiveness) and in the end be more complicated than simply working out two CBR rates with the DCA.

Option B Summer Impact.

This is a "hybrid" plan and in effect, although there is only one CBR, this plan uses separate rates for academic year and summer salary because retirement is a direct charge. In this option, the CBR charges for health benefits and taxes on summer

salary. This means that the cost of health insurance for 9-month employees is spread across their 9-month and summer salaries. The 3.5% DC summer retirement benefit is charged directly to the grant and so in our calculation we use the CBR rate presented by the consultants plus 3.5% to show the cost to summer fund sources. The right hand column of the next chart shows the additional funds collected from summer sources above actual costs.

Plan B Differences between Actual Cost and CBR Charge on Summer Salary

Campus	SU Fac	Su Salary Base	Proj Su Fringe	CBR B%	B Bene Cost	Difference
Berkeley	1241	26368911	3698960	0.23	6064849.53	2365889.53
Davis	727	15026734	1569385	0.231	3471175.55	1901790.554
Irvine	631	16075522	1764350	0.24	3858125.28	2093775.28
LA	1181	37607036	3350220	0.214	8047905.7	4697685.704
Merced	102	1941260	218421	0.259	502786.34	284365.34
Riverside	341	7061202	761525	0.243	1715872.09	954347.086
San Diego	643	18566467	1787981	0.223	4140322.14	2352341.141
Santa Barbar	607	13716382	1519873	0.24	3291931.68	1772058.68
Santa Cruz	285	6018385	711490	0.25	1504596.25	793106.25
Total	5758	142381899	15382205	0.2289	32597564.6	17215359.57

The consultant information shows that 727 Davis faculty have summer salary with estimated actual benefit costs of \$1,569,385, but the composite rate of 23.1% projected charge to those sources would collect \$3,471,175, which is \$1,901,791 above actual costs. The other campus amounts can be read off the chart. For the nine campuses together, the extra charge is approximately \$17.2M. If we assume that 56% of these funds come from research contracts, this is approximately \$9.6M pulled out of contracts that at this time are used for grant purposes, such as GSR support.

Option B is a hybrid CBR based upon full benefit costs excluding retirement distributed across the category, but with direct charges assessed for retirement to funding sources. So if implemented this option would capture faculty benefit costs exactly. The \$9.6M would be a transfer to general funds on academic faculty benefit costs pulled out of contract and grants. As far as mitigating the impact to research and GSR support as well as summer teaching, the comments at the end of the Option A summer impact discussion apply here as well.

Option C Summer Impact.

This hybrid plan is similar to Option B except that retirement is charged to general funds instead of the funding source. In this option, again the CBR charges for health benefits and taxes on summer salary. This means that the cost of health insurance for 9-month employees is spread across their 9-month and summer salaries. The retirement benefit is charged directly to the general fund so in our calculation we use the CBR rate presented by the consultants. The right hand column of the next chart shows the additional funds collected from summer sources above actual costs.

Plan C Differences between Actual Cost and CBR Charge on Summer Salary

Campus	SU Fac	Su Salary Base	Proj Su Fring	CBR C%	C Bene Cost	Difference
Berkeley	1241	26368911	3698960	0.195	5141937.6	1442977.65
Davis	727	15026734	1569385	0.196	2945239.9	1375854.86
Irvine	631	16075522	1764350	0.205	3295482	1531132.01
LA	1181	37607036	3350220	0.179	6731659.4	3381439.44
Merced	102	1941260	218421	0.224	434842.24	216421.24
Riverside	341	7061202	761525	0.208	1468730	707205.016
San Diego	643	18566467	1787981	0.188	3490495.8	1702514.8
Santa Barabar	607	13716382	1519873	0.205	2811858.3	1291985.31
Santa Cruz	285	6018385	711490	0.215	1293952.8	582462.775
Total	5758	142381899	15382205	0.19394	27614198	12231993.1

The consultant information shows that 643 San Diego faculty have summer salary with estimated actual benefit costs \$1,787,981, but the composite rate of 18.8% projected charge to those sources would collect \$3,490,495, which is \$1,702,515 above actual costs. The other campus amounts can be read off the chart. For the nine campuses together, the extra charge is approximately \$12.2M. If we assume that 56% of these funds come from research contracts this is approximately \$7.1M pulled out of contracts that at this time are used for grant purposes, such as GSR support.

Because Option C is a hybrid CBR based upon full benefit costs excluding retirement distributed across the category, but with retirement cost picked up by the general funds, if implemented this option would *not* capture faculty benefit costs exactly. Missing would be retirement costs on faculty salary whose salaries did not come from general funds (summer or academic year) and they would be charged to general funds. Mitigating this are the extra funds attributable to the CBR percentage from health benefits and charged to summer sources. At the moment we have no way to estimate the additional expense to general funds for retirement, although it might be within the \$7.1M collected from summer contracts and grants in addition to actual costs. Again, if there is to be a reassignment of costs back to grants with this plan, the comments at the end of the Option A Summer impact discussion apply.

Option D Summer Impact.

In this hybrid option, the CBR only charges for taxes. Retirement is charged directly and health benefits costs are assessed to the general fund. The retirement benefit is charged directly to the funding source so in our calculation we use the CBR rate presented by the consultants adding 3.5%. The right hand column of the next chart shows the additional funds collected from summer sources above actual costs.

Plan D Differences between Actual Cost and CBR Charge on Summer Salary

Campus	SU Fac	Su Salary Base	Proj Su Fringe	CBR D%	D Bene Cost	Difference
Berkeley	1241	26368911	3698960	0.115	3032424.77	-666535.235
Davis	727	15026734	1569385	0.109	1637914.01	68529.006
Irvine	631	16075522	1764350	0.11	1768307.42	3957.42
LA	1181	37607036	3350220	0.106	3986345.82	636125.816
Merced	102	1941260	218421	0.113	219362.38	941.38
Riverside	341	7061202	761525	0.114	804977.028	43452.028
San Diego	643	18566467	1787981	0.103	1912346.1	124365.101
Santa Barbar	607	13716382	1519873	0.112	1536234.78	16361.784
Santa Cruz	285	6018385	711490	0.115	692114.275	-19375.725
Total	5758	142381899	15382205	0.1095	15590026.6	207821.575

In this plan, as we add the 3.5% to the taxes the charges in the D Benefit Cost column should approximate the actual Summer Projected Fringe and therefore the difference column should be close to zero. It turns out it is (although Berkeley and LA are +/- \$600K from actual), so this is not a problem.

While Option D aligns CBR so that grants will be charged close to actual costs over the summer, which is consistent with what the Senate believes needs to be done, the Senate is concerned that Option D will not be supported by other units in UC. The direct charge to funding sources for retirement is a good idea because it is a direct percentage of income (assuming caps in some cases) and therefore should be easily assessed. Also paying health through the general fund is fine for salaries paid from the general fund (it socializes costs effectively). However for employees not receiving a full FTE from the general fund, such as many academic faculty at health science campuses, this presents a complexity for recharge. Assuming that complexity can be worked out, then this plan is an equitable one. Unfortunately, the Senate does not have the requisite knowledge about UC Path implementation to know if this is possible, but suspects it will generate opposition from other parties on these grounds.

Summary. The Senate finds that Options A, B, C will recharge research grants in substantial excess of the current actual charges. Based on the Senate's intimate knowledge of these funding sources, the bulk of these increases will not be absorbed by the funding agency and the net result in most cases will be serious reductions to graduate student support. Therefore the Senate is opposed to these options unless a clear MOU provides for the recovery of these funds to grants. However, the Senate realizes that such an MOU would be extremely problematic to enforce because the

funds are needed to cover benefit expenses across the category. (We do note that CBR Option D is viable if the problems facing units that have substantial numbers of non-general fund supported employees can be resolved.)

Senate Recommendation. As an alternative, the Senate proposes that 9-month academic employees have a separate composite summer rate that is based upon the actual benefit charges currently charged today. Similarly, the Senate believes that HSCP faculty need to have a separate rate for their ‘Y’ income because a single ‘X’ and ‘Y’ rate will introduce the same inequities and problems just noted for 9-month academic faculty when their summer salary is included in a single rate. These would be true CBR plans, not hybrids as proposed in Options B, C, and D. It is important to note that while the DCA has approved the two-rate CBR plans at Berkeley and Davis, it is not clear the DCA will support a hybrid plan, especially like B where there are serious fund shifts out of research contracts into general funds for benefits for which the summer salaries are not charged.

IV. Department Estimates of Reduction to Grants in view of CBR Option A.

The Senate has asked departments and research groups to model the costs to research contracts if summer salaries are charged at a rate of 33-36% instead of 11%, and to describe how they would absorb additional costs. 33% is a good approximation of the rates that will emerge if Option A is adopted in view of the increase of employer UCRP contributions to 14% on July 1, 2014. If Option B is selected the cuts can be calculated similarly and would be about 60% of those of Option A.

Three departments (two STEM and one non-STEM) responded as did one research institute. Here are their findings:

Department 1. “I then calculated the total GSR bill, putting 1/3 of the GSRs at the off-campus rate and the rest on-campus. The extra benefits charged to summer salary amounted to 10% of that at 33% and 11% at 36%. In other words a change from the current benefits rate to 33%-36% would amount to a 10-11% cut.”

Department 2. “Here are our departments GSR expenses:

	2012-13 ACADEMIC YR	2013 SUMMER	TOTAL
GSR SALARIES	320,582	141,079	461,661
GSR BENEFITS	2,787	3,107	5,894
TUITION & FEES	240,667	N/A	240,667
TOTAL GSR SAL + BEN + TUITION	564,036	144,186	708,222

“Our total summer salaries charged to grants is \$374,033 with total summer Salary benefits at the current rate \$38,643. At 33% the benefit expense charged to grants would increase to \$123,431. This is an increase of \$84,788 or approximately 12% of our total GSR support. Given the way grants in our field are structured there is no place else we can pull these funds from other than GSR support.”

Department 3. “I did a computation and I found that an increase from 12.8% to 35% in

the summer CBR would amount roughly to a 12.5% cut in GSR support.”

Research Institute: “The bottom line is a net switch of \$53,000 away from research into benefits from summer salary sources. It is unlikely that areas other than student (Grad student, postdoc) support would be used for much of this (faculty are unlikely to give up summer salary or be able to cut engineering/technical salaries). Assuming it all came out of graduate student support, a total of about 4.5 quarters of support would be lost. This corresponds to a loss of about 15% of the student support in this grant. If postdocs are included in the denominator, it would be a loss of about 10% of total junior personnel support. Note that this includes only the proposed increase in the benefit rate due to implementation of the proposal, not the overall benefit rate for the grant.”

Summary: *The Senate is asking other departments to make these calculations. However, what we are seeing here is consistent with the Option A calculations above, namely that a single faculty CBR will reduce GSR support in the 10-12% range.*

V. Impact at two campuses using CBR in Academic Year 2012-13.

Both Berkeley and Davis used CBR rates during 2012-13 that were similar to the Option A plan outlined above. Both campuses saw significant funding shifts that were too complicated to rectify, and both administrations then went independently to the DCA to negotiate two-rate plans that are similar to the Senate proposal. This experience shows that it is possible to negotiate a multi-rate plan with the DCA for faculty. They also show that the cuts to research funding projected in Section II above do, in fact, play out when CBR is implemented.

Berkeley. In 2012-13 Berkeley had a single faculty rate of 24.4% that applied to both academic year and summer salary. The campus also had CBR for four other categories (Other Academic, Staff, Post Doctoral Scholars, and Graduate Students.) These were negotiated with the DCA and were to be in place until Berkeley would join UCPath. Because of dissatisfaction with the plan, it was modified by collapsing some rate bands, excluding some pay instances, introducing a salary cap, expanding the post doc band to include all pay instances for employees with limited access to benefits (like summer salary) and exempting all student pay. The result included a 33.9% Academic rate and a 17.3% Limited rate. Academic faculty would be charged the Academic rate on their 9-month salaries and the Limited rate on their summer salaries. Although the Limited rate exceeds the actual costs of benefits accrued to faculty summer salary it does mitigate the problem. Berkeley reports that the DCA initially incorrectly assumed that one rate would apply to one person, but that eventually Berkeley was able to clarify the point that many people have multiple pay types and that the DCA then agreed to the rate structure.

Davis. Davis implemented CBR in July 2012 and revised its treatment of summer salaries in July 2013. The summer salary rate decreased from 33% to 15.6% which resulted in a reduction in summer CBR assessments from \$4.7M in summer 2012 to \$2.2M in summer 2013. During 2012-13, the total benefits charged to sponsored projects (federal and non-federal) was approximately \$2.3M below actual costs (even

with the extra amount charged to summer salary). Davis will carry forward this deficit and will attempt to recover the \$2.3M shortfall in the 2014-15 rates it will negotiate with the DCA. This illustrates the complexity of trying to create a single CBR for an entire campus; the results are lumpy, as those units with a larger number of lower paid employees will pay less than actual costs and those units with a greater number of highly paid employees will pay more than actual costs.

VI. Summary of Senate Positions and Suggestions for CBR at UC.

Composite Benefit Rates for Academic Faculty. The Senate requests that academic faculty have two CBR rates, one for their 9-month salary and a second for their summer salary. The summer rate should be based upon actual expenses (approximately 11%.) None of the proposed Scenario L options A, B, C meet these criteria and therefore the Senate is opposed to them. While Option D would meet this criterion the Senate recognizes that it is problematic for other reasons, namely its complexity. The Senate requests that a new plan for faculty salaries be developed that meets these criteria. The Senate is convinced this can be accomplished with a systemwide payroll system when accompanied by firm and clear negotiation with the DCA about the need to base summer salary withholding on actual expenses.

- At one campus where the Senate has complete data, the Scenario L benefit expenses under Options A, B, C, and D are modeled at the rates 32.6%, 23.5%, 20.5% and 7.5%. When calculated against \$16,129,327 in summer salaries overcharges in the amounts of \$3.49M, \$2,.09M, \$1.53M, and \$4,000 respectively, will result.
- The rates at the other eight campuses will be similar, leading to cuts in GSR support systemwide of approximately \$23M (resulting from approximately 4,750 summer salaries charged an excess of \$5,250 each) in Scenario L Option A. The CBR plans Option B and C with a single faculty rate will also result in overcharges. Scenario L Option B will overcharge summer benefits by approximately \$14M and Option C will overcharge summer benefits by approximately \$10M. *These estimates will be refined when more data on summer salaries are obtained. Given the manner in which these funds are otherwise used, most of these overcharges will translate into reductions in graduate student support (the current estimate is 80% of summer salary overcharge numbers).*
- The CBR attempts at Berkeley and Davis during AY 2012-13 were based upon single rates for faculty and both campuses dropped these approaches in the subsequent year because of inequitable impacts, particularly to research. The situation going forward from 2014 will be even worse because the single CBR rates will have increased by approximately 5%. Berkeley and Davis's ability to negotiate separate summer CBR rates for faculty with the DCA demonstrates that it is possible to do so.

Composite Benefit Rates for Health Science Faculty. The Senate requests two separate CBR rates for Health Science Compensation Plan faculty, one for 'X' and 'X-prime' and a second for 'Y' components. The total should be capped.

- If the CBR plan has two HSCP faculty rates, one for 'X' and 'X-prime' and one for 'Y' salaries, and if the total is capped at the 401(a)(17) limit of approximately \$245K, then CBR works as it should for this group. These rates will need to be calculated separately and based upon the benefits actually received from each salary source. In particular the 'Y' rate should not include UCRP since it is not covered compensation for UCRP. This likely means that the 'X' rate will exceed the current 24% - 27% HSCP combined range, while the 'Y' rate will be less, if any.
- If the CBR plan places HSCP faculty in the same category as 9-month academic faculty then because of salary differences (especially if 'Y' is included, but even if not) the HSCP members would pay a substantially higher share of benefits than they would if they were separate. The Senate opposes this approach should it emerge as a new possibility.
- If the CBR plan for HSCP is not capped, then the assessment is lumpy which is undesirable, especially because of negative impact on grant supported research with senior personnel. The Senate opposes this approach on these grounds (this is the plan for Scenario L Versions 3, and 4.)
- If the CBR plan combines HSCP with any other class of employees, then it raises the HSCP CBR (depending upon the combination) and HSCP faculty with research grants will be charged beyond actual costs, in some cases significantly so. The Senate opposes combining HSCP faculty with other employee groups in any CBR plan.
- The above comments assume that 'Z' salaries are not part of CBR, which we understand has been true in all recent models. The Senate would be opposed to any new proposal that would bring 'Z' salary into CBR. If for some reason an employee's 'Z' salary was needed to cover benefits (very rare), then a separate approach for them would be needed because a CBR that includes 'Z' would over assess these sources for most employees.