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OFFICE OF THE PRESIDENT

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SEP 16 2002

ACADEMIC COUNCIL

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September 13, 2002

ACADEMIC COUNCIL CHAIR BINION

Dear Gayle:

I am responding to former Academic Council Chair Viswanathan's June 18th letter regarding Professor Binder's request for consideration of the Educational Fee Waiver Program for UC students who are dependents of UC employees.

As you know, the proposed Educational Fee Waiver Program has broad support among faculty and staff. The University Committee on Faculty Welfare has reaffirmed its commitment to this program and has been trying to find ways to fund it. The Council of UC Staff Assemblies has identified this as a key initiative it would like to see implemented to improve employee morale.

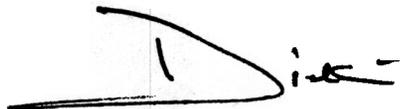
While the interest in this program is understandable, we have calculated that it would benefit only about 2 percent of our career staff and academic employees. Total cost for the program, based on October 2000 student and employee data, is approximately \$5.6 million per year. During that year, 1,905 employees had 2,044 student dependents in the UC system. Implementation of the program could affect decisions about attending UC, but there is no accurate way to predict the impact approval of the benefit would have on these figures.

Although we have looked at possible ways UC might fund the program, we are mindful of the State's continuing fiscal crisis and our need to be restrained in making financial commitments. We are not hopeful that funding could be found for the next few years with the current state of the University's budget. We are also concerned that carving \$5 to \$6 million for this program from our already constrained budget, instead of allocating more money to salaries or health benefits, would not be prudent or well received by the legislature. We believe it would not be appropriate to use scarce resources to give a benefit of significance to some employees at the same time many other employees are receiving very minimal salary increases. While the Educational Fee Waiver Program remains a high priority for me, medical benefits are currently our top benefit priority and I do not want to detract from our efforts in that area.

Academic Council Chair Binion
September 13, 2002
Page 2

I appreciate the Academic Council's interest in the Educational Fee Waiver Program, and look forward to discussing it again as budget opportunities allow.

Fiat Lux,

A handwritten signature in black ink, appearing to read "Richard C. Atkinson". The signature is stylized, with a large, sweeping initial "R" and a long horizontal line extending to the left.

Richard C. Atkinson
President

cc: Provost King
Senior Vice President Mullinix
Associate Vice President Boyette

Fee Waiver/Educational Grant Proposal

Introduction:

- Proposal was originally developed by HR&B in consultation with the Faculty Welfare Committee and endorsed by the Academic Council. Council of Chancellors endorsed moving forward.

Waives the UC annual educational fee (\$2,716 - undergraduates/\$2,896- graduate students) for dependents of eligible faculty and staff – for up to 12 person years per employee.

- Eligibility includes active membership in UCRP + 5-yr of full-time service.
- Chancellors can make exceptions to 5-year requirement to meet documented recruitment needs.

Fee waiver will be non-taxable for most employees (*exceptions -graduate students unless they are T.A.s or R.A.s; domestic partners and their children; and Cal grant recipients*)

Current status of proposal :

- Proposal was circulated to Chancellors for comment in May 2000.
- Data reports were circulated to campuses in September 2000 for local costing analysis.
- Target date for implementation planning is Fall 2001.

Summary of 1999 enrollment data:

- 1,727 employees (600 academics, 1,127 staff) had dependents enrolled at a UC campus.
- Number of dependents = 1,858 (some employees have more than one child attending UC)
- Systemwide cost estimate = \$5 million/year.
- Dependents receiving Cal grants (State provided fee waiver) = 92 (or 5% of eligibles)*

Issues pending:

- Cal grant recipients – since the State is covering the educational fee for these students, an equivalent amount of money in the form of a grant is being considered. The Cal grant student could use this grant toward reducing loans or other educational expenses. Counsel advises that grant monies used for educational purposes other than tuition will be taxable. We are exploring the aspects of creating a two-tier program (i.e. non-taxable waiver for students without the Cal grant and a taxable grant for the Cal grant student).

An IRS opinion letter has been requested to ensure that the program does not discriminate in favor of the highly-compensated.

Proposal requires Regental approval in the Spring 2001 because action involves the Educational Fee.

- Faculty Welfare Committee has requested that program costs be centrally funded so that the cost impact would not fall on individual campuses or departments. Academic Vice Chancellors had originally recommended that the employee's campus (rather than the campus of the enrolled student) cover the cost, as is the case for benefits administration.

UCFW Fee Waiver
File 14

UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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University of California
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Oakland, California 94607-5200

January 13, 2000

Richard C. Atkinson, President

Dear Dick:

It is my pleasure to forward to you for consideration the following unanimous recommendation from the Academic Council to institute an Educational Fee Waiver Program at the University of California. The proposal from University Committee on Faculty Welfare (UCFW) reads:

"That the University of California implement a full waiver of the educational fee for undergraduate and graduate education at the University of California for qualified children, spouses and domestic partners of University of California employees vested and active in the University of California Retirement System, up to a maximum of 12 person years per eligible employee. "

UCFW Chair Robert May first presented the proposal to the Academic Council at its October 1999 meeting. Chair May introduced the proposal by noting that UCFW has considered this benefit for a number of years. The projected unprecedented growth of the University and the need for large numbers of newly hired faculty and staff called for the serious consideration of this proposal.

The attached proposal from UCFW includes their research on the extent to which such a benefit is offered at other institutions. Current Internal Revenue Service policy indicates that, if this benefit were solely offered to faculty, the IRS would likely regard it as taxable, on the grounds that it is being offered only to UC's most highly compensated employees. UCFW believes that while this benefit would be important to faculty, it may be even more important to staff, serving as an inducement for both their recruitment and retention. Overall, this benefit would help keep UC competitive with other institutions.

In response to Council's request to Senior Vice President Kennedy for further financial analysis, Assistant Vice President Lubbe Levin provided UCFW with the cost of waiving the UC educational fee for children, spouses and domestic partners of UC employees. This study is also attached.

Additionally, Council endorsed UCFW's views that this policy:

- be implemented in accordance with the assumptions embedded in the methodology employed in the costing projections, and
- provide the authority to waive the requirement that the employee be vested in UCRS be available in cases where there is an urgent and demonstrated recruitment or retention need. We assume that such authority would reside with the President of the University and would be delegated to the Chancellors.

Under the leadership of your office, I hope this worthy proposal will be distributed for review to all relevant University offices and, eventually, fully implemented. UCFW stands ready to assist in the development of implementation strategies.

I look forward to a response on the progress of this proposal and, on behalf of Academic Council, extend my gratitude for the cost analysis support provided by Lubbe.

Cordially,



Lawrence B. Coleman, Chair

cc: Senior Vice President V. Wayne Kennedy
Assistant Vice President Lubbe Levin
✓Academic Council
UCFW members
UCFW Committee Analyst Jeannene Whalen

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UNIVERSITY COMMITTEE ON FACULTY WELFARE

Robert Anderson, Chair

Economics

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August 19, 1999

Aimée Dorr
Chair of the Academic Council

Re: Fee Waivers for Dependents of University Employees

Dear Aimée,

At its June 11, 1999 meeting, the UCFW adopted a proposal that a full waiver of UC's educational fee be given to a spouse, domestic partner, or child of an eligible employee or of the eligible employee's spouse or domestic partner. Most private universities and some public universities, including California State University, provide a substantial reduction in tuition to children of faculty or staff. The proposed fee waiver would be available for a maximum of 12 person years per eligible employee.

I am forwarding a copy of UCFW's proposed *Fee Waivers for Dependents of University Employees* with a request that it be placed on the September Academic Council agenda for discussion and action.

Cordially,

A handwritten signature in cursive script, appearing to read "Rob".

Robert Anderson /js
Chair, UCFW

ccs w/enc:
Council Vice Chair Coleman
Executive Director Bertero-Barceló

5

FEE WAIVERS

**FEE WAIVERS
FOR DEPENDENTS OF UNIVERSITY EMPLOYEES**

Proposal

The University Committee on Faculty Welfare proposes that academic and staff personnel be eligible for a full waiver of the Educational Fee for a spouse, domestic partner, or the child of the eligible employee or of the eligible employee's spouse or domestic partner. Those eligible would be employees who are active members of a University-sponsored retirement plan, and who have 5 or more years of full-time University service. However, it is recommended that authority to waive the service requirement be available in cases where there is an urgent and demonstrated recruitment or retention need. Dependents who are enrolled in either undergraduate or graduate degree programs would be eligible. Coverage may be applied to an eligible employee's spouse, domestic partner, or child up to a maximum of 12 person years per eligible employee.

The proposed fee waiver would apply only to the Educational Fee. Currently, this fee is set at \$2,896 annually for undergraduate students and \$3,086 for graduate students. It is proposed that the Office of the President develop a mechanism to adjust annual campus budget allocations to ensure equitable distribution of the financial impact of the fee waiver benefit across all campuses.

The Fee for Selected Professional School Students, which is assessed in addition to the Educational Fee, would not be waived under this proposal. The University Registration Fee also would not be waived under this proposal. This fee, currently set at \$713 annually, supports student services and programs. It is proposed that eligible employees' dependents would continue paying the full Registration Fee because revenues lost if the fee were to be waived would ultimately impact all students, either through a lower level of student services or an increased Registration Fee.

The proposed Educational Fee waiver supports the objective of providing a competitive benefit package to help recruit and retain the very best faculty and staff. It would provide a benefit similar to what is already provided for the faculty of the California State University system and would allow the University of California to compete on a more equal footing with other top institutions throughout the country, many of which provide extremely generous tuition waivers for the dependents of their employees. Those institutions include MIT, Stanford, Yale, University of Illinois, Johns Hopkins, Princeton, and the University of Pennsylvania.

In addition to the proposed fee waiver, under current policy, spouses and unmarried dependent children under age 21 of newly hired out-of-state members of the Academic Senate may be eligible to have the non-resident portion of their fees waived in whole or in part. Spouses and dependent children of University employees who work full-time outside the State of California (e.g., employees at Los Alamos National Laboratory or Federal Governmental Relations) may be classified as residents for tuition fee purposes under current University policy.

Tax Exclusion

Fee waivers for undergraduate work provided to an eligible employee's spouse or child who is a tax dependent would be excluded from the employee's gross income pursuant to Internal Revenue Code, Section 117(d). Fee waivers for graduate level work would be reported as additional income to the employee subject to withholding.

Cost Estimates

The estimated annual cost of the proposed fee waiver with a 5-year service requirement is \$9,895,055. The methodology and data sources used for the above estimate are described below.

Methodology

Eligible employees were defined as academic and staff personnel who are vested (i.e., at least 5 years of service credit) in a University-sponsored retirement plan. In July, 1998, 58,661¹ staff and academic personnel had 5 or more years of service credit in a retirement plan sponsored by the University.

An estimated take rate of 3.8% for dependents enrolled in undergraduate programs was developed by representing the estimated number of dependents enrolled in undergraduate programs as a percentage of the total number of academic and staff personnel. An estimated take rate of 1.9% for dependents enrolled in graduate programs was calculated using the same methodology. The overall estimated 5.7% take rate compares to an actual 7.5% take rate at Stanford University. It would be expected, however, that the Stanford rate would be higher since their benefit is provided to eligible dependents regardless of whether the dependent is enrolled at Stanford or another university.

The estimated number of dependents of all University employees who attend the University was developed by adding the number of dependents admitted to the 1998 freshman class (i.e., 1,053) to the number of dependents who transferred to UC in 1998 (i.e., 204). That number was then multiplied by 4 to approximate an undergraduate enrollment of 5,028 dependents. Graduate enrollment of dependents plus other dependents who might transfer to UC if the benefit were to be offered to UC personnel was estimated to be 50% of the estimated undergraduate enrollment, or 2,514 dependents. These estimates do not factor in domestic partners or their children who might take advantage of the proposed benefit since their numbers are expected to be negligible.

¹ The following number of staff and faculty have 5 or more years of service credit in a University-sponsored retirement plan:

UCRP:	58,364
PERS:	203
OCERS:	91
SCERS:	3

The estimated cost of the proposed fee waiver was calculated as shown below:

(undergraduate fee * (estimated undergraduate take rate * number of eligible employees))
plus
(graduate fee * (estimated graduate take rate * number of eligible employees))

Data Sources

The number of eligible employees with 5 or more years of service credit in a University-sponsored retirement plan was provided by Retirement Planning and reported as of July, 1998. The total number of academic and non-academic personnel, estimated to be 132,853 employees as of July, 1998, was extracted from the Office of Employee Relations Report 1.A. The number of dependents of University employees (both academic and staff) admitted to the 1998 freshman class and 1998 transfers was obtained from Admissions & Outreach.

11/18/99

1. Who would receive the benefits of an Educational Fee waiver program?

Faculty and career staff who:

- are active members in a University-sponsored retirement plan;
- have at least five years of service; and
- have dependents registered as students at the University of California.

2. What would the program cost?

Because actual data are unavailable, many of the costing components were derived. The costs, of course, are dependent upon the assumptions used in deriving the data, such as:

- a) intent to register data from Freshmen and Transfer students with a parent who was a University of California employee in 1997 = 849. (Note: 1997 was the last year such data were collected.)
- b) ratio of graduate students to undergraduates = 20%, or 170.

Using these figures:

- the 100% cost of the fee waiver is approximately \$4.5 million, annually;
- the 75% cost of the fee waiver is approximately \$3.4 million, annually.

See Attachment I for a description of the costing methodology.

3. What would the program cost if it were limited to faculty ?

Based on the derived data noted above and applying the ratio of 30% faculty to staff:

- the estimated cost of a 100% fee waiver for the faculty only, including senate and non senate, is approximately \$1.36 million annually;
- the estimated cost of a 75% fee waiver for the faculty only, including senate and non senate, is approximately \$1.02 million annually.

If the program is limited to faculty, however, the benefit will be taxable pursuant to IRC 117, par.1174.02, and therefore less valuable to faculty. We do not recommend limiting the fee waiver program to faculty.

4. Would the fee waiver replace financial aid?

No, the fee waiver program is not intended to replace existing financial aid programs. The model for determining the amount of financial aid is to first calculate the student's expense budget; then deduct reasonable contributions from the student's parents. If additional support is needed, the student may be eligible to receive federal and state aid.

5. How does financial aid impact on the cost of the fee waiver program?

Financial data for students with parents who work at UC are not available. It is possible however that the actual cost of the fee waiver program will be less than estimated. In the event a student receives a parental contribution, support from federal and state grants, and scholarships monies, the contribution from the fee waiver program will be reduced or not applicable. See Attachment II for examples of how a fee waiver benefit may impact a student's financial aid package.

6. What is the present value of a fee waiver benefit to a new faculty hire?

Proposed eligibility criteria include a 5-year University service requirement, with exceptions granted for demonstrated recruitment and retention reasons.

Appointment statistics show that 60%, or 219, of the ladder rank faculty hired in 1997 were between the ages of 20 and 39; with 40%, or 142, falling between the ages of 40 to 60. Assuming that most college-eligible children belong to the smaller group of faculty (the 40 – 60 age group) the value of fee waiver as a recruitment tool may be an attractive benefit. We are unable to assess the full impact of the fee waiver program as a benefit to faculty because we do not have statistics on the actual age or number of children.

7. Can the program be structured so that the benefit is portable to other institutions of higher education?

We surveyed the Comparison 8 institutions and the California State University system regarding fee waiver programs. None of the public institutions offer a portable fee waiver benefit. Three private institutions within the Comparison 8 offer a portable benefit: MIT, Stanford and Yale. For example, Stanford's program provides that eligible dependents of employees receive \$4,000 annually for 4 years of undergraduate study either at Stanford or another university. The overall take rate at Stanford is 7.5%. Data on the number of UC employees with dependents enrolled at non-UC institutions are not available.

Costing Methodology

The following steps describe the methodology used to calculate the costs of the fee waiver program:

- a) In 1997, Intent to Register data from freshmen and transfer students reflect that 849 had a parent who was a University of California employee.
- b) Since the number of UC vested parents is unknown, set up a ratio between the number of intents to register to the total number of UC employees:

$$849 \text{ Freshmen \& transfer intents} / 132,853 \text{ total workforce} = .0064$$
- c) Assume the same number of students in each year of undergraduate study and multiply .0064 by 4 years = 2.56% take rate;
- d) To complete the formula for deriving the number of students with UC vested parents, multiply the four-year take rate by the number of vested employees:

$$2.56\% \text{ take rate} * 58,661 \text{ vested employees} = 1,502 \text{ undergraduate students}$$

It is assumed that the take rate for students with a vested or non-vested parent would be the same. If vesting were not a criterion, the number of undergraduates would be 3,401. (2.56% take rate * 132,853 total workforce = 3,401 undergraduate students.)
- e) The annual cost of providing an educational fee waiver for 1,502 undergraduates is:

$$1,502 \text{ undergraduates with UC vested parents} * \$2,716 \text{ ed fee} = \underline{\$4,079,432}$$
- f) Next calculate the ratio of graduate students to undergraduates = 20%, or 170, and follow same formula above:
- g) Since the number of UC vested parents is unknown, set up a ratio between the number of derived graduate students to the number of all UC employees:

$$170 \text{ graduate students} / 132,853 \text{ total workforce} = .0013$$
- h) Assume the same number of students in each year of graduate school and multiply .0013 by 2 years = .26% take rate;
- i) To complete the formula for deriving the number of graduate students with UC vested parents, multiply the two-year take rate by the number of vested employees:

$$.26\% * 58,661 \text{ vested employees} = 153 \text{ graduate students}$$
- j) The annual cost of providing an educational fee waiver for 153 graduates is:

$$153 \text{ graduates with UC vested parents} * \$2,896 \text{ ed fee} = \underline{\$443,088}$$
- k) Based on the above assumptions, the estimated total cost to the University :

$$\underline{\$4,079,432} \text{ undergraduates} + \underline{\$443,088} \text{ graduates} = \underline{\underline{\$4,522,520}}$$

Note: The number of students used in this model may be overstated. In this costing model we project a steady 4-year participation rate. Also the graduate student number is projected and may be overstated. In this model the number of graduate students who are financially independent of their UC parents are not considered. Rather than refine the details of the student population, any overestimate will be balanced against the underestimate of not including numbers for spousal program participation.

Examples Showing the Potential Impact of the Fee Waiver Benefit on a Student's Financial Aid Package

I. Low income (parental earnings under \$30,000): parent unable to make a contribution; student therefore qualifies for maximum financial aid:

\$13,357	= student expenses*
- 0	= no contribution from parents
- 3,150	= Federal PELL grant
- 3,429	= Cal grant
<u>\$6,778</u>	= short fall to which the fee waiver will be applied
- 2,716	= <i>educational fee waiver</i>
\$4,062	= loans and work study

II. Mid income (parental earnings between \$30,000 - \$60,000): parental contribution provides partial support

\$13,357	= student expenses*
<u>\$ -7,000</u>	= parental contribution
\$ 6,357	= remaining need
0	= assume not eligible for Federal PELL grant
- 3,429	= Cal Grant
<u>\$ 2,928</u>	= shortfall to which the fee waiver will be applied
- 2,716	= <i>educational fee waiver</i>
212	= loans and work study

III. High income (parental earnings over \$60,000): parental contribution meets the entire student expense.

\$13,357	= student expenses*
<u>- 13,357</u>	= parental contribution
0	= not eligible for PELL or Cal grants
<u>\$ 2,716</u>	= <i>educational fee waiver off-sets parental contribution</i>
0	= loans and work study
\$10,641	= actual parental contribution after ed fee waiver off-set

Note: academic scholarships will further offset expenses and be deducted from the student expenses before the fee waiver is applied.

* 1999-00 systemwide average student expenses, used by Student Academic Services office in determining financial aid package, includes books, supplies, personal expenses, health care allowance, transportation, fees, and room and board costs.