

University of California – Regents Policy 7712
Senior Management Group
Incentive Awards

Approved July 21, 2016



Responsible Officer: Vice President–Human Resources

Responsible Office: Human Resources

Effective Date: July 21, 2016

Next Review Date: The responsible officer will review the policy annually for update purposes, and will conduct a full review at least every three years.

Who is Covered: All employees whose position is designated to be in the Senior Management Group, inclusive of officers of the University per Regents Standing Order 100.1.a.

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I. POLICY SUMMARY

This policy provides direction and authority for the development and approval of incentive award plans that include Senior Management Group (SMG) participants.

Incentive awards are intended to motivate individuals or teams to produce results that have been pre-defined and communicated to the participants in advance in accordance with an incentive award plan, and to reward them for achieving the stated performance objectives. Plan performance objectives should require participants to stretch their performance beyond their normal duties and responsibilities so that the incentive award plan rewards exemplary performance.

II. POLICY DEFINITIONS

Exception to Policy: An action that exceeds what is allowable under current policy or that is not expressly provided for under any policy. Any such action must be treated as an exception and must be reviewed and approved by the Regents.

Executive Officer: The University President, Chancellor, or Laboratory Director.

Plan Document: A document that provides specific detail and definitions governing the administration of the incentive award plan, including, but not limited to, defining the eligible population, the plan year, the award opportunity levels, the criteria for establishing the annual performance objectives for each participant, and the methodology for calculating award payouts.

Top Business Officer: Executive Vice President–Chief Operating Officer for the Office of the President, Vice Chancellor for Administration, or the position responsible for the location’s financial reporting and payroll as designated by the Executive Officer.

III. POLICY TEXT

A. Plan Document

Incentive award plans must be documented and approved prior to implementation and communication. An incentive award program Plan Document must be approved by the Regents if SMG members are included as eligible program participants. Incentive or bonus award plans that do not have SMG participants are subject to the President’s approval.

The Plan Document defines the key terms, conditions and design elements of the incentive award plan. The Plan Document will include the following elements:

- Plan purpose
- Governance and oversight responsibilities

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- The process for plan approval and for making changes to the plan
- The plan year (performance measurement period)
- Eligibility criteria
- Award opportunity levels (e.g., threshold, target and maximum), when appropriate
- The criteria for establishing the annual performance objectives for each participant and, when appropriate, the weightings to be given performance objectives
- Funding and award formulas, if applicable
- The protocol for the review and approval of awards, as well as the schedule for award payouts
- Any contingencies and administrative rules governing payouts, including any mechanism for the deferral of award payouts

Incentive awards are at risk, meaning that whether they will be paid depends on the plan participant's achievement of predetermined objectives. Awards must be variable and directly correlate to each plan participant's actual accomplishment of stated performance objectives. Award amounts should be appropriate for the level of each participant's performance and contribution. Incentive awards are not a means of providing additional pay for performing normal duties and responsibilities, as described in the participants' respective job descriptions. Nor are they meant to be a replacement or substitute for a merit, promotion, equity, or retention increase as described in the policy on *Senior Management Group Appointment and Compensation (Regents Policy 7701)*

B. Plan Review and Approval

Independent Administrative Oversight Committees (AOCs), comprised of senior executives and subject matter experts, will be established to oversee the creation and annual review of each incentive award plan. Incentive award plans that include SMG participants are first subject to the review and approval of the President. After the President approves such plans, Chair of the Regents' Committee on Compensation may consult with other Chairs of the applicable Regents' Committees, as appropriate, prior to presentation to the appropriate Regents' committee or full Board, as appropriate, for approval.

Once such a plan has been approved by the Board, the applicable AOC will be responsible for its administration. The Chief Compliance and Audit Officer will ensure that periodic auditing and monitoring will occur, as appropriate.

Once approved by the Regents, an incentive award plan will be implemented each year upon the approval of the AOC if the plan is being implemented without changes. If a plan with SMG participants has been approved as outlined above, and the AOC recommends substantive or material changes to the plan, the applicable AOC will obtain the approval of the President and the appropriate Regents' Committee, before implementing such changes. That Regents' Committee may consider and approve such changes in a single meeting. Reasonable efforts, given all

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circumstances, will be made to delay implementing substantive or material plan changes until after the end of the current plan year. However, if changes are implemented during the plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and implemented by the AOC at an appropriate time. The appropriate Regents' Committee will receive reports of all material or substantive changes to the plans.

All incentive award plans will be reviewed annually by the applicable AOC, generally in the spring, but dependent upon the appropriate review/plan cycle so that new or revised plans are in effect at the beginning of the applicable plan year, which will be the performance measurement period.

C. Plan Administration

Each SMG member who participates in an approved incentive award plan will be notified in writing of: (a) the participant's individual performance objectives, (b) the performance standards that will be used to determine the level of performance achieved for each objective, (c) when appropriate, performance weightings applicable to the participant's objectives, and (d) a copy of the applicable Plan Document.

The AOC will review and approve plan participants' performance objectives, as specified in the Plan Document for each incentive plan, prior to the start of the plan year or as soon as possible thereafter. The AOC will also review and approve all proposed awards. The AOC will consult the Chief Compliance and Audit Officer in an independent advisory capacity during its review of Plan participants' objectives and award recommendations. Any award for an employee who reports directly to the Regents and/or the President will also require the approval of the Regents. The AOC will provide the Chair of the applicable Regents' Committee with a listing of award recommendations before awards are scheduled to be paid.

D. Funding Sources

Funding for awards may be provided by University-wide program sources and/or by local resources.

E. Treatment for Benefit Purposes

Cash awards under this policy are not considered to be compensation for University benefit purposes, such as the University of California Retirement Plan or employee life insurance programs.

F. Tax Treatment and Reporting

Under Internal Revenue Service Regulations (IRS), payment of such cash awards must be included in the employee's income as wages subject to withholding for federal and state income taxes and applicable FICA taxes. The payment is reportable on the employee's Form W-2 in the year paid.

Awards made to any SMG participants under this policy will be reported in the Annual Report on Executive Compensation.

G. Conditions

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Incentive award plans may be terminated or replaced at any time for any reason upon the recommendation of the President and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay plan termination until after the current plan year has concluded.

The President, in consultation with the Chair of the Board of Regents and other Chairs of the applicable Regents' Committees, may defer payments from an incentive award plan for reasons specified in the applicable plan document. Once the contingency has been resolved, awards deferred for that reason will be processed as soon as possible thereafter.

A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under an incentive award plan. If such allegations against a participant are pending investigation at the time of the award distribution, the participant's award for that plan year may be withheld pending the outcome of the investigation.

The University may require repayment of an incentive award that was made as a result of inappropriate circumstances.

The University does not allow any guaranteed awards of any level or of any nature under any incentive award plan. Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year.

Participants in an incentive award plan may not participate in any other University incentive award plan or bonus plan, except in the event of a mid-year transfer within the University. Specifically, if a plan participant is eligible for only a partial year award under a plan because a mid-year transfer of position renders him or her eligible for plan participation for only a portion of the plan year, he or she may participate in a different University plan for the other portion of the plan year. Concurrent participation in more than one plan is not permitted.

IV. APPROVAL AUTHORITY

A. Implementation of the Policy

The Vice President–Human Resources is the Responsible Officer for this policy and has the authority to implement the policy. The Responsible Officer may apply appropriate interpretations to clarify policy provided that the interpretations do not result in substantive changes to the underlying policy.

B. Revisions to the Policy

The Regents is the Policy Approver for this policy and has the authority to approve any policy revisions upon recommendation by the President.

The Vice President–Human Resources has the authority to initiate revisions to the policy, consistent with approval authorities and applicable *Bylaws* and *Standing Orders* of the Regents.

The Executive Vice President–Chief Operating Officer has the authority to ensure that policies are regularly reviewed and updated, and are consistent with University governance policies.

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C. Approval of Actions

Authority to approve incentive award plans and individual incentive awards is described in Section III.B and III.C of this policy.

All actions that exceed this policy or that are not expressly provided for under any policy must be approved by the Regents.

V. COMPLIANCE

A. Compliance with the Policy

The following roles are designated at each location to implement compliance monitoring responsibility for this policy:

The Top Business Officer and/or the Executive Officer at each location will designate the local office to be responsible for the ongoing reporting of policy compliance, including collecting information regarding all relevant compensation package activity and creating specified regular compliance reports for review by the location's Top Business Officer.

The Top Business Officer establishes procedures to collect and report information, reviews the specified regular compliance reports for accuracy and completeness, reviews policy exceptions and/or anomalies to ensure appropriate approval has been obtained, and submits a copy of the compliance report to the Executive Officer for signature.

The Executive Officer is accountable for monitoring and enforcing compliance mechanisms, ensuring monitoring procedures are in place, approving the specified regular compliance reports, and sending notice of final approval for the reports to the Senior Management Compensation Office, Top Business Officer, and Local Resources.

The Vice President–Human Resources is accountable for reviewing the administration of this policy. The Senior Vice President–Chief Compliance and Audit Officer will periodically audit and monitor compliance with these policies, and results will be reported to senior management and the Regents.

B. Noncompliance with the Policy

Violations of the Senior Management Group Incentive Awards policy will be subject to corrective action, consistent with how the University addresses any policy violations. The action taken will depend on the nature and severity of the conduct. Remedies may include, but are not limited to, issuance of a letter in the personnel file, mandatory training, consideration in the performance review and related salary actions including loss of or reduction in a merit, equity increase or incentive award, reassignment, demotion, removal from the Senior Management Group position where there is an underlying academic appointment, or termination of employment.

Noncompliance with the policy is handled in accordance with the Regents' *Guidelines for Corrective Actions Related to Compensation Practices* and *Guidelines for Resolution of Compensation and Personnel Issues Resulting from the Findings of Audits and Management Reviews*.

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Noncompliance is reported in the monthly compliance report from each location as approved by the Executive Officer and reviewed by the Senior Vice President–Chief Compliance and Audit Officer and the Regents at each Regents’ meeting.

REVISION HISTORY

As a result of the issuance of this policy, the following policy is no longer applicable for SMG members:

- *Personnel Policies for Staff Members 34 (Incentive Awards)*, dated July 1, 1996

IMPLEMENTATION PROCEDURES

The Responsible Officer may develop procedures or other supplementary information to support the implementation of this policy. Such supporting documentation does not require approval by the Regents.