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TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

DISCUSSION ITEM

For Meeting of July 23, 2015

REPORT ON THE 2014 TOTAL REMUNERATION STUDY FOR GENERAL CAMPUS LADDER-RANK FACULTY

EXECUTIVE SUMMARY

A total remuneration study for general campus ladder-rank faculty was undertaken in 2014 to assess the competitiveness of UC salary and benefits for both current and future faculty. Since the previous study (2009), major changes in UC benefits had been instituted, including a new pension tier (approved by the Regents in 2010 and implemented in July 2013) and major changes to employee health and retiree healthcare plans effective as of January 2014. Because such changes have a potential impact on the recruitment and retention of faculty, the study was undertaken to provide data on the value of salary and benefits relative to competitor institutions. The study focused on ladder-rank faculty only, those whose expertise and responsibilities place them at the core of the University's excellence; only general campus ladder-rank faculty were included, because of the difficulty in obtaining comparable market data for health sciences ladder-rank faculty. All salary components, including on-scale, off-scale, and above-scale components, were included. The study was conducted by consultants at Mercer.

The study found that total remuneration at the University trails its peers by ten percent. Additionally, study results clarify that UC benefits do not compensate for lower-than-market salaries in the calculation of faculty total remuneration, as has been the case in the past. Key study findings include the following:

- Between 2009 and 2014, UC's total remuneration for general campus ladder-rank faculty systemwide fell from two percent below market to ten percent below market. Total remuneration for current faculty is valued at an average of $18,777 below market.
- Between 2009 and 2014, salaries for this group fell from ten percent below market to 12 percent below market. Current salaries are an average of $18,238 below market.
- Between 2009 and 2014, retirement benefits (including health and the defined benefit plan) decreased in value from 33 percent above market to six percent above market. The reduction was driven both by the adoption of the 2013 pension tier and the restart of employee contributions to the retirement plan. The change in the pension tier affects only new faculty hires while the changes in other retirement benefits affect current faculty as well.

Eight of the nine UC campuses in the study had total remuneration below market, with the lag ranging from three percent to 36 percent below market. Details of the study are available on the UC Compensation website, http://www.ucop.edu/institutional-research-academic-planning/_files/faculty_remuneration_2014.pdf.

BACKGROUND

In support of the University's goal to achieve competitive pay and benefits for all employee groups, and to recruit and retain excellent faculty, UC periodically evaluates how total compensation for faculty compares against competitor institutions. In 2013, the leaders of the Academic Senate maintained that the absence of an updated market study of total remuneration impeded the University's ability to accurately portray the University's market position for faculty. In particular, they argued that available comparisons, the most recent in 2009, did not take into account the new pension tier (2013) and the reduced health and welfare benefits instituted in 2014 and did not reflect the recruitment challenges being felt on campuses. In response to this Senate input, former President Yudof directed Provost and Executive Vice President Dorr to undertake a compensation and benefits study for general campus ladder-rank faculty. An Advisory Group composed of Academic Senate members and senior academic and human resources administrators supervised the design and execution of the study, working with the Mercer consulting firm which provided comparative market data and the statistical analysis capability to produce market-based results.

Study Objectives
The study objectives were to generate a comprehensive, market-based evaluation of UC's current competitive position on total remuneration, which includes faculty cash compensation, health and welfare benefits, and retirement benefits; to compare 2009 results to those of 2014; and to evaluate the effect of the 2013 pension tier and 2014 benefits plans on total remuneration. Study findings include data on both current and new faculty.

Approach and Methodology
The 2014 Total Remuneration Study evaluated the current competitiveness of UC's salary and benefits for general campus ladder-rank faculty when compared to market. Market was defined as the standard "Comparison 8 Institutions," comprised of four public and four private institutions (Illinois, Michigan, SUNY-Buffalo, Virginia, Harvard, MIT, Stanford, and Yale). The Comparison 8 Institutions, the same comparison group used in the 2009 study, were established in an agreement between the University and State governmental leaders and represent some of UC's key, direct competitors in the recruitment and retention of faculty. Salary and benefits for 7,305 general campus ladder-rank UC faculty were included; health sciences and law faculty were excluded because comparable data were not available at the Comparison 8 Institutions. Results are reported at the systemwide level, with the recognition that salary varies widely by discipline and by campus.

Total remuneration for UC and for the Comparison 8 Institutions includes three broad categories: cash compensation, health and welfare benefits, and retirement benefits. Cash compensation is defined as base salary, including on-, off-, and above-scale components, but excluding other forms of pay that generally are not part of ongoing compensation, such as one-time relocation allowances, stipends for assuming additional temporary duties, and summer salaries. Health and welfare benefits include medical, dental, life, and long-term disability insurance; hearing and vision insurance; and dependent tuition reimbursement. Retirement benefits include the defined benefit (pension) or defined contribution plan (while UC offers the defined benefit plan, the plan option varies among the Comparison 8[1]) and retiree medical and life insurance plans.

So that results could be compared, the 2014 study used the 2009 study methodology as much as possible, comparing general campus ladder-rank faculty at UC to equivalent faculty at the Comparison 8 Institutions. The employer-provided value of benefits was determined for both UC and the Comparison 8 Institutions using methods and assumptions typical of studies like this one, consistent with established industry practices.

The study presents three sets of results based on such methodology. The first two sets of results have implications for remuneration of all current faculty as well as potential faculty recruits, and the third set of results has implications for new faculty hires. The three sets of results are as follows:

(1) *UC's 2014 market position, a comparison between UC and its Comparison 8 Institutions on total remuneration.* This part of the study compares UC's current total remuneration (including the 2013 Pension Tier and January 2014 health and welfare benefits) to the Comparison 8 Institutions' current (2014) total remuneration.

(2) *Comparison of 2009 and 2014 study results.* Because the 2014 study used the methodology that had been developed for the 2009 study, a comparison of total remuneration between the two studies, for both UC and market (the Comparison 8 Institutions), was possible.

(3) *Comparison of UC's 2014 benefits and its 2009 benefits.* To understand the effect of recent changes in pension tier, in health and welfare benefits, and in retiree health benefits, the study developed an internal comparison of UC in 2009 to UC in 2014. This allows for analysis of the way faculty hired after the implementation of these changes have been affected by the changes in these components of total remuneration.

(1) UC's 2014 Market Position

UC's total remuneration position for general campus ladder-rank faculty is ten percent below market, due primarily to non-competitive salaries. Data in the full report show that this lag varies by rank from nine percent below market for full professors to 14 percent below market for associate professors and 11 percent below market for assistant professors. Figure 1 summarizes the value of various components of total remuneration in 2014 and represents the difference between UC and its Comparison 8 Institutions in both dollar value and percent; a brief analysis of the details in this figure follows. These are systemwide averages; differences from market also vary by campus.

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[1] Among the Comparison 8 Institutions, five have a defined contribution plan only and three offer the choice of a defined benefit or defined contribution plan.

Figure 1. Value of 2014 Individual Total Remuneration Elements

Elements of Remuneration	Market		UC		Difference From Market Value		Percent
Cash Compensation	**$**	**147,473**	**$**	**129,235**	**$**	**(18,238)**	**-12%**
Health and Welfare Benefits	**$**	**20,442**	**$**	**18,988**	**$**	**(1,454)**	**-7%**
Medical & Dental	$	18,104	$	17,717	$	(387)	-2%
Life Insurance	$	331	$	332	$	1	0%
Dependent Care/ Health Care FSA	$	191	$	180	$	(11)	-6%
Long-term Disability	$	1,299	$	759	$	(540)	-42%
Depenedent Tuition	$	517	$	-	$	(517)	n/a
Total Retirement	**$**	**16,000**	**$**	**16,915**	**$**	**915**	**6%**
Retirement (DB/DC)	$	14,066	$	13,808	$	(258)	-2%
Retiree Health(Med,Life,Dental)	$	1,934	$	3,107	$	1,173	61%
Total Benefits	**$**	**36,442**	**$**	**35,903**	**$**	**(539)**	**-1%**
Total Remuneration	**$**	**183,915**	**$**	**165,138**	**$**	**(18,777)**	**-10%**

Cash compensation or salary. For both UC and its Comparison 8 Institutions, salary comprises the largest share of total remuneration: 78 percent for UC and 80 percent for its competitors in 2014. Thus the lag against peers of 12 percent in salary has a major impact on the total remuneration gap of ten percent.

Health and welfare. University of California health and welfare benefits were seven percent below market in 2014, with several aspects of benefit plans playing a part in this lag. For example, UC employees pay more for medical coverage when their salaries are higher and UC does not offer a dependent tuition program as some competitors do.

Total Retirement:
Defined benefit and defined contribution plans. To enable the market comparison, the valuing of the defined benefit/defined contribution plans at UC and its Comparison 8 used only current (2014) plans. The study shows that UC lags the market by two percent for its retirement benefits (defined benefit/defined contribution plans), a finding that is directly relevant only to faculty hired after July 1, 2013. UC's 2014 ranking below market is primarily due to lower salaries and to employee contributions of seven percent (2013 Tier). Several other key changes in UC's retirement benefits (the 2013 Tier defined benefit plan) are a factor in the loss of value compared to market; these changes include removing the vested Cost of Living Adjustment (COLA) for those who have separated from UC, changing the targeted retirement age from 60 to 65, and changing the earliest retirement age from 50 to 55.

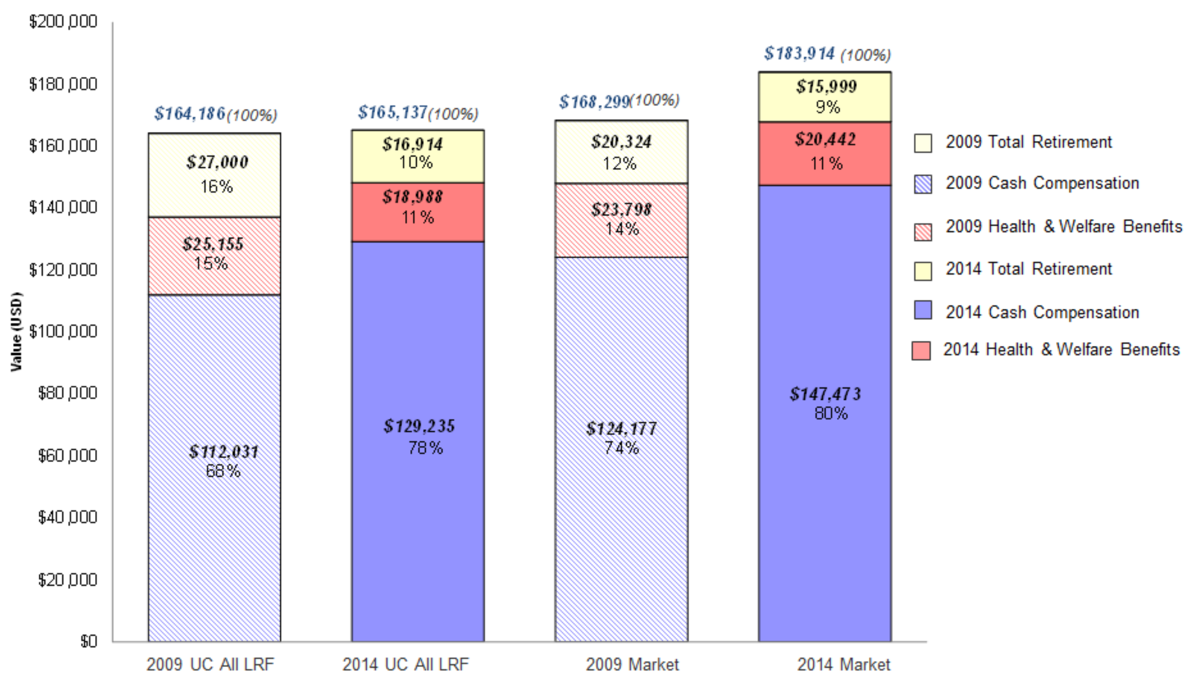
Retiree Health. UC's retiree health benefit (medical, life, and dental) is valued $1,173 higher than market. Since the retiree health benefits are a relatively small portion of total remuneration, however, this much higher than market position (61 percent) has only a small effect on overall positioning.

(2) Comparison of 2009 and 2014 Study Results

This first set of results on UC's 2014 total remuneration compared to its peers can be further understood through a consideration of the second set of results, the changes in total remuneration between the last study in 2009 and the current 2014 study. In fact, the 2014 study adopted a methodology similar to that used in 2009 so that the results could be compared.

Overall, the value of total remuneration for general campus ladder-rank faculty fell from two percent below market in 2009 to ten percent below market in 2014. Between 2009 and 2014, salaries fell further behind, from ten percent below market to 12 percent below market. Health and welfare benefits fell from six percent above market in 2009 to seven percent below market in 2014. These differences in salary and health and welfare benefits affect both current and future faculty. Changes to retirement plan designs since 2009 reduced market positioning for the retirement benefits (defined benefit or defined contribution plan) from 29 percent above market to two percent below market; but this loss in value applies directly only to faculty hired after July 1, 2013.

Figure 2. Study Findings, 2009 versus 2014, All General Campus Ladder-Rank Faculty



These changes in market position over five years are perhaps best understood by considering the value of various components of total remuneration (salary, health and welfare, total retirement). Figure 2 represents the issue graphically in showing UC's total remuneration in 2009 and 2014 and the comparable total remuneration for UC's peers. Although the value of UC's total remuneration increased only slightly from 2009 to 2014 (from $164,186 to $165,137 or by less than one percent), that of UC's peers increased substantially (from $168,299 to $183,914 or by eight percent). UC's increase in salary of $17,204 was offset by a decrease in the value of total benefits of $16,253. UC's peers saw an increase in salary from 2009 to 2014 of $23,296, but their benefits lost less value ($7,681) than UC's did. Both UC and its Comparison 8 Institutions experienced the increasing importance of salary in these five years, but UC saw a more substantial loss in the value of its benefits.

(3) Comparison of UC's 2014 benefits and its 2009 benefits

The third and final set of data produced in the study concerns the changes in UC benefits from 2009 to 2014.

Figure 3. Comparison of Old Tier and New Tier Pension and Retiree Health Benefits

	UC Averages		Difference from
Element of Remuneration	Old Tier	New Tier	**Old Tier**
Cash Compensation	***$129,235***	***$129,235***	***0%***
Health & Welfare Benefits	***$18,988***	***$18,988***	***0%***
Medical & Dental	$17,717	$17,717	0%
Life Insurance	$332	$332	0%
Dependent Care / Health Care FSA	$180	$180	0%
Long-term Disability	$759	$759	0%
Dependent Tuition	$0	$0	n/a
Total Retirement	***$20,483***	***$16,914***	***-17%***
Retirement (DB)	$16,448	$13,808	-16%
Retiree Health (Med, Life, Dental)	$4,036	$3,107	-23%
Total Remuneration	***$168,706***	***$165,137***	***-2%***

The analysis in Figure 3 compares Old Tier (1976 Tier) with New Tier (2013 Tier) retirement benefits. In order to isolate the impact of changes in retirement benefits, cash compensation and health and welfare benefits used for the purposes of this comparison are held constant; thus the figure shows zero percent difference. However, the total retirement benefits have changed, and results show that all of the UC retirement benefit values decreased between 2009 and 2014.

First, the 2013 Tier retirement benefits in 2014 (the defined benefit plan) were valued 16 percent below the 1976 Tier (2009) retirement benefits due to changes in plan design. These changes directly affect faculty hired after July 1, 2013.

Second, the 2014 retiree health benefits (medical, life, dental) were valued 23 percent below 2009 retiree health benefits, primarily due to changing retiree health eligibility requirements from service only to a combination of age and service; providing a flat $3,000 for out-of-state retirees for retiree health instead of a subsidized benefit plan; and delaying eligibility for maximum benefits, from 20 years of service to a combination of age 65 and 20 years of service.

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If UC aspires to remain the world's premiere research university, competitive total remuneration for ladder-rank faculty at UC will continue to be a priority, but closing the gap in compensation and benefits will be a challenge. The results of this 2014 Total Remuneration Study for General Campus Ladder-rank Faculty will be taken into consideration as the Office of the President develops a set of 2016 retirement options in the coming year. A priority will be finding the best way to design a total remuneration package that can attract the world's top faculty.
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