

Office of the President

TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

Compensation Item/Type: Policy Amendments

Funding: Non-State-Funded

ACTION ITEM

For Meeting of July 21, 2016

AMENDMENT OF REGENTS POLICY 7712: SENIOR MANAGEMENT GROUP INCENTIVE AWARDS, TO CONFORM WITH CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN CHANGES

EXECUTIVE SUMMARY

Beginning in January 2009, the President directed the department of Systemwide Human Resources at the Office of the President to undertake a comprehensive review of all incentive plans for staff members at the campuses, Office of the President, and UC Health for the purpose of aligning the framework, guidelines, accountability, and oversight. These reviews led to an initiative to establish a consistent and rigorous process to review and amend the University's incentive award programs, bringing consistent standards, accountability, and oversight to the design, goal-setting, and administration of all incentive plans for staff members regardless of funding source or level of staff participation.

The consolidation or elimination of nearly 70 plans identified in 2009 gave rise to the incentive policy presented in this item, Regents Policy 7712 (Senior Management Group Incentive Awards). It was originally approved by the Regents in July 2010 and has not been updated since. It governs any incentive plans that include SMG members. At this time, only two such incentive plans exist: (a) the Office of the Chief Investment Officer Annual Incentive Plan (AIP), which provides an opportunity for employees in that office to earn variable financial incentives based on the performance of the University's investment portfolio, the assets managed by them, and their individual qualitative performance, and (b) the Clinical Enterprise Management Recognition Plan (CEMRP), which provides UC Health employees with an opportunity to earn variable financial incentives based on their individual performance as well as the performance of their particular Health System and the Clinical Enterprise as a whole.

The proposed changes to this policy are necessary to align with changes to the Clinical Enterprise Management Recognition Plan (CEMRP) approved by the Health Services Committee at their June meeting, largely reflecting best practices and instituting efficiencies identified over the past several years of administering the plan. We have been careful to preserve the

transparency and Regents' involvement in material plan design changes and incentive payouts to participants. The amendments to this policy include non-substantive corrections or changes, as well as substantive or material changes. The changes that are substantive or material are summarized below, with the full, amended policy, attached:

1. Section III.B, page 3, of the policy currently requires that any material or substantive changes that the Administrative Oversight Committees may recommend for incentive plans that include SMG participants be approved by the President as well as "the Regents' Committee on Compensation and other Committees, as appropriate." The proposed change would replace the quoted language with "the appropriate Regents' Committee" and would also add that the "Regents' Committee may consider and approve such changes in a single meeting." These changes are being proposed in light of the expanded role of the Committee on Health Services. Specifically, in November 2015, the Regents amended Bylaw 12.7, to recognize the Committee on Health Services, as the Standing Committee with primary jurisdiction under Bylaw 10.1 over the "[a]ppointment and compensation of UC Health executives whose compensation is paid solely from sources other than State general fund support to the University (e.g. clinical revenues, charitable contributions, et al)." Because incentive awards under CEMRP are an element of executive compensation for UC Health executives that is funded exclusively from clinical revenue, it is appropriate for the CEMRP plan to be overseen at the Regental level by the Committee on Health Services. The other incentive plan governed by Regents Policy 7712, the Annual Incentive Plan for the participants in the Office of the Chief Investment Officer, is subject to the review and approval of the Regents' Committee on Compensation. The proposed change would accommodate these different approval requirements.
2. For the same reason, a change is proposed for section III.C, page 4, that would require the Administrative Oversight Committee to provide the Chair "of the applicable Regents' Committee" rather than the Chair "of the Regents' Committee on Compensation" with a listing of award recommendations before awards are scheduled to be paid.
3. The policy currently states in section III.C, page 4, that "[a]ny award for an employee who reports directly to the Regents or who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will also require the approval of the Regents." Under this provision, the CEMRP awards for the Executive Vice President – UC Health and the AIP award for the Chief Investment Officer have been presented to the Regents for approval. The following more straightforward language, which will not require the reader to consult or interpret the Education Code, is being proposed: "Any award for an employee who reports directly to the Regents and/or the President will also require the approval of the Regents." Under the proposed language, the intent of the Education Code is clarified by adding language that requires Regents' approval of any incentive awards for the Executive Vice President – UC Health and the Chief Investment Officer.
4. Currently, all incentive awards for SMG members and for those non-SMG staff whose total potential cash compensation exceeds the Indexed Compensation Level, currently set at \$301,000, must be reported in the Annual Report on Executive Compensation (AREC). The current policy also requires reporting the SMG awards to the Regents, albeit with more detail than the AREC displays, e.g., range of awards and the percentage of the

payout. However, the AREC contains sufficient detail to be able to determine these two data points. In an effort to reduce redundancies, the proposed changes to section III.F, page 5, would eliminate the additional reporting requirement and instead utilize the existing AREC, which is presented to the Regents and posted publicly. This change implements the recent changes to reporting for CEMRP that were approved by the Health Services Committee.

5. The policy currently provides in section III.G, page 5, that an incentive plan participant 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 plan. Additional language is proposed for that section to clarify that, if such allegations against a participant are pending at the time of award distribution, the participant's award for that plan year may be withheld pending the outcome of the investigation.

RECOMMENDATION

The President of the University recommends that the Committee on Compensation recommend to the Regents approval of the proposed amendments to Regents Policy 7712, Senior Management Group Incentive Awards, as reflected in [Attachment 1](#).