

TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

For Meeting of March 25, 2010

Compensation Item/Type: Governance

DISCUSSION ITEM

GOVERNANCE OF UNIVERSITY OF CALIFORNIA INCENTIVE PLANS

EXECUTIVE SUMMARY AND BACKGROUND

Beginning in January 2009, the Board of Regents set forth a series of restrictions on Senior Management Group (SMG) salaries as well as restrictions on certain bonus and incentive plans, culminating with the Regents adopting recommendations that, among other actions, deferred consideration of non-clinical incentive payments for the 2007-2008 and 2008-2009 performance years until the end of fiscal year 2009-2010 as an important additional measure to respond to the ongoing State financial crisis.

In further response to these actions, the President has directed the Department of Human Resources at the Office of the President to undertake a review of all incentive and bonus plans for staff members at the campuses, Office of the President and the medical centers.

These reviews have led to an initiative to create a consistent and rigorous process to review and amend the University's incentive award programs. The initiative proposes to establish appropriate standards, consistency and oversight to the design, goal setting and administration of all variable pay plans for staff members, regardless of funding source or level of staff participation, within the following recommended governance policy framework.

DESIGN AND DEVELOPMENT OF GOVERNING PLAN DOCUMENTS

All incentive and bonus plans will be overseen by independent Administrative Oversight Committees (AOCs). This item addresses the Treasurer's Annual Incentive Plan (AIP) and the Clinical Enterprise Management Recognition Plan (CEMRP). A similar process will be followed for the University's other incentive and bonus plans.

For the AIP and CEMRP, the AOCs will be comprised of the following members:

- In regard to the AIP, the AOC will be comprised of the Executive Vice President – Chief Financial Officer, the Executive Vice President – Business Operations, the Vice President – Human Resources, and the Executive Director – Compensation Programs and Strategy, working in consultation with the Chief Investment Officer.

- Governance of the CEMRP will be overseen by an AOC comprised of the Executive Vice President – Business Operations, the chancellor of every campus with a medical center, one chief medical officer and one chief nursing officer each selected from a UC medical center, the Vice President – Human Resources, and the Executive Director – Compensation Programs and Strategy, working in consultation with the Senior Vice President – Health Sciences and Services.

Plan development may be supported by consulting firms who will provide industry standards and peer practices. Plans will be reviewed every spring, and amended as necessary to reflect plan revisions for the upcoming fiscal year. The appropriate AOC will review each incentive plan, which should define key elements such as:

- Eligibility criteria and identifying participants.
- Minimum, target and maximum award levels.
- Performance standards, weightings of performance objectives, and award formulas.
- The performance measurement period.
- Any contingencies and administrative rules governing payouts, e.g., for new or terminating employees.
- The payout schedule, including any deferral mechanism.

PLAN APPROVAL

All incentive and bonus plans will be presented by the AOCs to the President for approval. Upon the President's approval, the AIP Plan will be reviewed and approved by the Committee on Compensation in consultation with the Committee on Investments. Upon the President's approval, the CEMRP Plan will be reviewed and approved by the Committee on Compensation in consultation with the Committee on Health Services. Upon Committee approval, these plans will be forwarded for approval by the full Board of Regents.

Other staff incentive or bonus plans that include SMG participants will be approved by the President and then reviewed and approved by the Committee on Compensation in consultation with the appropriate Board committee, if applicable. Upon Committee approval, such plans will be forwarded for approval by the full Board of Regents.

Any staff incentive or bonus plans that do not include SMG participants may be approved within the President's authority.

If a plan with SMG participants has been approved as outlined above, and substantive or material changes are recommended in the plan design, the AOCs will obtain the approval of the Committee on Compensation before implementing such changes. Plan design changes recommended by the AOCs that are not material or substantive, or are deemed to be technical corrections, may be approved within the President's authority.

All staff incentive and bonus plans shall be reviewed annually, generally in the spring, but dependent upon the appropriate review/plan cycle so that new or revised plans are in effect at the commencement of the applicable plan year and measurement period.

PLAN ADMINISTRATION

Once the plan documentation is approved, plan administration for the Regentally-approved plans will be performed by the Executive Director – Compensation Programs and Strategy, who may receive quantitative input from consulting firms, as warranted. Awards for those reporting directly to the Regents will require approval by the Board. Review and approval of all other awards under these Regentally-approved plans will be the responsibility of the AOCs regardless of whether the participant's total compensation is above or below the Indexed Compensation level or subject to other policy distinctions.

In regard to CEMRP, implementation of the plan for the CEOs of the medical centers will be administered by the Senior Vice President – Health Sciences and Services. Implementation of the plan for other medical center employees will be overseen by the Chancellor for the employees of their campuses. Implementation of the plan for the Senior Vice President – Health Sciences and Services will be conducted by the AOC with input from the President and the Chair of the Committee on Compensation.

For plan participants who do not report directly to the Regents, the AOCs will review and approve awards within 60 days of the fiscal or plan year-end, as applicable, and award payouts to the individuals will be processed within 90 days of the fiscal or plan year-end.

In addition, the Office of the President will provide the Chair of the Committee on Compensation and, in the case of the CEMRP, the Chair of the Committee on Health Services, and, in the case of the AIP, the Chair of the Committee on Investments, with a listing of the award recommendations before they are scheduled to be paid. The awards under both plans will be reported annually to the Regents, with appropriate levels of detail, such as the range of potential awards and the percentage of the award granted for each plan participant.

(Attachments)