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Office of the President

TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

ACTION ITEM

For Meeting of May 16, 2007

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN BENEFIT PROPOSAL FOR UC LADDER-RANK FACULTY ON LEAVE WITHOUT PAY AT THE HOWARD HUGHES MEDICAL INSTITUTE AND THE LUDWIG INSTITUTE FOR CANCER RESEARCH

EXECUTIVE SUMMARY

The President recommends that the Committee on Compensation recommend to The Regents that the University of California Retirement Plan (UCRP or Plan) be amended to revise the benefit calculations for UC ladder-rank faculty who, while on approved Leave Without Pay (LWOP) from UC, work under affiliation agreements with either of two private agencies, the Howard Hughes Medical Institute (HHMI) and the Ludwig Institute for Cancer Research (Ludwig). The recommended change would make these benefit calculations similar to UCRP's current calculations for members eligible for reciprocity with CalPERS. The proposal would apply only to eligible faculty who retire, become disabled, or die on or after March 1, 2007. The cost of the proposal would be paid through assessments to the affected campuses; it would be cost neutral to UCRP.

Since this item was discussed at the March Regents meeting, the Office of the President has engaged in continued consultation with the University Committee on Faculty Welfare (UCFW) and its Task Force on Investments and Retirement (TFIR). Acting on the recommendations of UCFW and TFIR, which were based in turn on detailed analyses of the terms and costs and UCRP repayment commitments set forth in the present terms of the proposal, the Academic Council approved the proposal at its meeting on April 25, 2007.

Previous Action:	**March 2007**: The Committee on Compensation was presented with a discussion item on this topic.
Relevant Policy:	Plan document for UCRP
Issues:	Certain faculty members working under affiliation agreements with HHMI/Ludwig lose the value of increases in covered compensation used to determine their future UCRP pension benefits while on LWOP from UC, although they continue to provide valuable services to UC while on leave, including teaching, research, and administrative services.

RECOMMENDATION

The President recommends that the Committee on Compensation recommend to The Regents that:

(1) The University of California Retirement Plan (UCRP) be amended as reflected in Attachment 1, effective March1, 2007, to provide for the following:

a. Effective for UCRP retirement dates, disability benefit dates or deaths (survivor benefits) occurring March 1, 2007 or later, ladder-rank faculty on LWOP with concurrent affiliate appointments at HHMI or Ludwig would have their UCRP benefits calculated so that:

- The highest average plan compensation (HAPC) used in the UCRP retirement income calculation or death while eligible to retire benefit calculation would be determined over the 36-consecutive-month period that produces the highest monthly average, taking into account UCRP covered compensation while on UC payroll and UC-approved equivalent covered compensation while on LWOP to allow the value of their UCRP benefit to reflect higher compensation in later years.

- Past and future HHMI or Ludwig service would count toward satisfying UCRP's 5-year vesting requirement for UCRP retirement income only (but not for eligibility for death and disability benefits), but would not count as additional UCRP service credit in the calculation of retirement income.

- The "Final Salary" as defined in UCRP that is used to determine the UCRP preretirement survivor income and the UCRP disability income benefits payable while on LWOP would take into account the highest salary earned while on the UC payroll or the equivalent UC salary earned while on LWOP, but eligibility for these benefits would be based only on UCRP service credit on the same basis that applies to all UCRP members on LWOP.

b. The affected locations would fund the increase for the past and future UCRP liability due to these proposed changes, as determined by the Plan's Consulting Actuary, The Segal Company (Segal), so that the cost of adopting the proposed changes described would be cost neutral to UCRP.

(2) Authority be given to the Plan Administrator to implement the proposed amendments.

BACKGROUND

The Office of the President has received inquiries from individuals and administrators who are concerned that faculty holding affiliate appointments at HHMI and Ludwig receive retirement benefits that have significantly less value than faculty who hold equivalent full-time UC-paid appointments throughout their careers.

After extensive analysis and systemwide consultation, a proposal has been developed to address retirement issues for UC ladder-rank faculty working under HHMI and Ludwig affiliation agreements. The proposal, in addition to improving UCRP retirement benefits, would also improve the UCRP benefits payable to eligible faculty and their spouses/domestic partners in those cases in which the faculty member becomes disabled or dies while on LWOP. Adoption of the proposal would allow eligible ladder-rank faculty appointees on LWOP from UC to make retirement choices based on academic decisions; they would no longer be required to return to UC employment primarily to vest in UCRP benefits or to earn a higher HAPC for their UCRP benefit. The proposal would modify the UCRP benefit calculations for such faculty members to address the disparity.

Under current agreements, UC faculty members receive salary and benefits from the affiliated agencies and are placed on a concurrent LWOP from UC. Consequently, their UC salary and benefits are suspended and they stop accruing UCRP service credit while on leave, even though under the affiliation agreements they are permitted, on a part-time basis, to provide valuable academic services to UC, including teaching, research and administrative services.

Currently, salary and service at HHMI or Ludwig do not count towards eligibility for or enhancement of any retirement, disability, or survivor benefits under UCRP, which generally are based on three factors – UCRP service credit, HAPC, and the applicable age factors. The 36-consecutive-month period used to calculate a UCRP member's HAPC is usually a member's final three years of employment with UC; however, the HAPC for UC faculty on LWOP while working at HHMI or Ludwig typically is based on the lower salary the faculty member earned while on the UC payroll at an earlier point in his or her career. In addition, vested UC faculty on LWOP while working at HHMI or Ludwig do not receive cost-of-living adjustments (COLAs) on the HAPCs during the leave, whereas vested faculty who leave a UC-paid position and become inactive members of UCRP (for example, to take a position with a competitor institution) receive annual COLAs on their HAPCs until they elect to retire or take a Lump Sum Cashout. Currently, in order to maximize the UCRP HAPC, the faculty member on LWOP with HHMI or Ludwig must return to a UC-paid position for at least three years prior to electing retirement benefits from UCRP.

Salary Setting While on LWOP from UC

For each HHMI/Ludwig faculty member, the campus determines the appropriate rate of equivalent UC covered compensation that the faculty member would earn if paid directly by UC.

This rate is based on the faculty member’s rank and step according to established UC academic review procedures. For general campus faculty, the rate is based on the academic-year faculty salary as a nine-month appointee. For faculty covered by the UC Health Sciences Compensation Plan, the rate is the fiscal-year base salary (X) determined by the faculty member’s academic rank, step and Academic Programmatic Unit (APU).

The campuses annually provide salary recommendations to HHMI, which take into account the equivalent UC covered compensation rate as well as the equivalent UC non-covered salary that the faculty member would receive if paid by UC for a 12 full month period of service. For general campus HHMI/Ludwig faculty, this includes the equivalent of three summer 9ths (the three summer months). For Health Sciences Compensation Plan faculty, this includes the equivalent of negotiated compensation (Y) paid from grants or clinical funds. The salaries that HHMI pays to faculty are comparable to UC-paid faculty.

Contributions to UC by HHMI / Ludwig Faculty

The HHMI and Ludwig investigators who hold concurrent UC faculty appointments are an integral part of their campus communities. The academic review process for the UC faculty appointment and promotion is the same for them as it is for other ladder-rank faculty members. The University substantially benefits from the affiliations not only because of the contributions made by the individual investigators, but also from the sizable institutional support provided by HHMI and Ludwig. Affiliate institutional support to UC includes occupancy fees, funding for construction and renovation of facilities, investigator start-up expenses, and salary support. For UC Berkeley and UC San Diego alone, this support is more than $50 million annually.

HHMI/Ludwig faculty are extremely valuable and productive teachers and mentors. For example: as of February 2007, the ten HHMI faculty members at UC Berkeley were supervising and mentoring a total of 82 graduate students and 39 UC-paid postdoctoral scholars. At UC San Diego, teaching by HHMI/Ludwig faculty includes delivering lectures, mentoring junior faculty, directing the Cell Biology Course for Biomedical Sciences graduate students, mentoring graduate postdocs and graduate students in the laboratory, and leading discussion groups. At UC San Francisco, one HHMI faculty member has won UC San Francisco teaching awards eleven times, and another received the Inspirational Teacher Award from the Class of 2006.

Many of the investigators serve in leadership positions. The investigators may serve as department chairs, leaders of graduate training programs, and directors of major research centers. For example, members of the HHMI faculty at UC Berkeley have served as co-Chair of Molecular and Cell Biology, Vice Chair of Chemistry, Director of the Lawrence Berkeley Laboratory Molecular Foundry, Division Head of Genetics, and Director of the Campus Stem Cell Center, among other major leadership posts. At UC San Francisco, two HHMI faculty have served as department chairs, two are division chiefs, and three have led or still lead graduate training programs.

Many investigators have received recognition for their outstanding contributions. At UC San Diego alone, HHMI/Ludwig faculty include seven members of the National Academy of Sciences, two members of the Institute of Medicine, and three members of the American Academy of Arts and Sciences.

Comparison of Retirement Benefits

HHMI investigators receive a flat 10 percent of salary employer contribution to a HHMI-sponsored defined contribution plan; Ludwig investigators receive a 10.5 percent of salary employer contribution to a Ludwig-sponsored 403(b) plan. No employee contribution is required in order to receive these benefits. A comparison of combined benefits with UCRP and HHMI/Ludwig is included in Attachment 2. The account balances in the defined contribution plan and 403(b) Plan are converted to annuities for comparison purposes. These illustrations show that even with the UCRP benefit improvements that would be achieved by this proposal and the annuitized savings plan benefits from HHMI/Ludwig plans, the combined benefits would still be less than if the faculty member spent his or her entire career at UC. It should be noted that these calculations are based on earnings assumptions for the HHMI/Ludwig accounts that are equal to the assumed earnings rate for UCRP. The actual earnings of the faculty member in these plans could be greater or less, depending on the performance of the investments selected by the individual faculty member.

Number of Affected Faculty and Associated Costs

At present there are 45 HHMI ladder-rank faculty at UCB, UCLA, UCSD, UCSF, and UCSC and 7 Ludwig ladder-rank faculty at UCSD. Thirty-nine of these members have UCRP service credit and, of those members, 27 are vested and currently eligible for a UCRP benefit. Members who are not currently vested in UCRP but who have prior UCRP service credit would be eligible for UCRP retirement income under the proposal if their combined service was at least five years. The amount of the benefit would be based only on actual UCRP service credit. None of the current Ludwig faculty have prior UCRP service.

The Plan's Consulting Actuary, The Segal Company, has determined that the total cost as of March 1, 2007 for the proposed change would be approximately $8.5 million, based on the difference between the UCRP benefits under current plan provisions and the benefits that would be provided under the proposed change. The total cost is determined based on the actuarial assumptions in the July 1, 2006 UCRP actuarial valuation, including assumed retirement dates in the future and the current 52 HHMI/Ludwig affiliates only. The impact of members returning from LWOP to UC employment has not been valued. All costs are estimated based on campus-provided data as of August 2006.

Cost Neutrality for UCRP/Location Assessments

As noted earlier, the proposal is designed to be cost neutral to UCRP. For liabilities attributable to past service, the proposal is considered to be cost neutral to UCRP if the contributions to fund the additional benefits from each campus location are equivalent to the ultimate increase in actuarial liabilities, measured as of March 1, 2007 using the July 1, 2006 UCRP actuarial assumptions.

Campus	Affiliate	Past Service Liability	Past Service Liability 5 Year Amortization Per Year	Future Service Liability as a Percent of UC Covered Comp
UCB	HHMI	$ 912,000	$ 217,000	3.59%
UCLA	HHMI	$ 1,102,000	$ 263,000	3.59%
UCSC	HHMI	$ 189,000	$ 45,000	3.59%
UCSD	HHMI/Ludwig	$ 1,783,000	$ 425,000	3.59%
UCSF	HHMI	$ 1,821,000	$ 434,000	3.59%
Totals		$ 5,807,000	$ 1,384,000	3.59%

Of the $8.5 million total cost of this proposed change , $5.8 million is attributable to the past service liability through the proposed effective date of March 1, 2007. This is the value of additional benefits associated with salary increases since the faculty went on a LWOP from UC until March 1, 2007. The affected locations would pay UCRP the full cost for enhancing the UCRP benefits for current HHMI/Ludwig faculty on LWOP for past service liability as of March 1, 2007 either as a lump sum or amortized over five years, as calculated by Segal.

In addition, there are estimated future service costs of $2.7 million for this proposed change in benefits, representing the difference between the total cost and the past service liability. These costs represent the value of additional benefits associated with estimated salary increases that occur after March 1, 2007. Each campus will also pay the future service costs annually for each current and newly appointed HHMI/Ludwig faculty member on the basis of a percentage of UC-approved LWOP equivalent covered compensation, as calculated by Segal. The future service cost as of March 1, 2007 calculated as a percentage of UC-approved LWOP covered compensation is 3.59 percent. This cost includes a provision for the administrative expenses associated with implementing this proposed benefit change. The Plan's Actuary would recalculate the future service liability percentage every three to five years to maintain cost neutrality. The following table illustrates the estimated cost per location:

Attachment 1 - Summary of Provisions
Attachment 2 - Comparison Charts of Combined UC and Affiliate Benefits