The Regents of the University of California

SPECIAL COMMITTEE ON COMPENSATION
March 16, 2006

The Special Committee on Compensation met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Dynes, Hopkinson, Juline, Marcus, Moores, Parsky, Pattiz, Schilling, and Wachter; Advisory members Coombs and Oakley

In attendance: Regents Gould, Island, Johnson, Kozberg, Lansing, Lozano, Preuss, Rominger, Rosenthal, and Ruiz, Regents-designate Ledesma and Schreiner, Faculty Representative Brown, Secretary Trivette, General Counsel Holst, Interim Treasurer Berggren, Acting Provost Hume, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Foley, Gurtner, and Hershman, Chancellors Birgeneau, Bishop, Carnesale, Córdova, Denton, Drake, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Laboratory Director Anastasio, Acting Laboratory Director Kuckuck, University Auditor Reed, Financial Expert Advisor Vining, and Recording Secretary Bryan

The meeting convened at 10:15 a.m. with Committee Chair Hopkinson presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 18, 2006 were approved.

2. **COMMENTS OF UCSA PRESIDENT**

Committee Chair Hopkinson invited Ms. Anu Joshi, President of the UC Student Association, to address the Committee.

Ms. Joshi recalled that Regental guidelines permit the President of the UC Student Association to address the Regents at every Regents meeting, at the discretion of the President. She reported that this month her request to speak to the Committee on Finance regarding access, affordability, and quality was denied on the basis that none of these issues was on the agenda. Her subsequent request to speak on executive compensation was granted. She began, however, by questioning the President's commitment to hearing from student leaders and asked how, under such circumstances, students could be expected to work with the administration toward common goals. She maintained that student leaders should be granted permission to speak at Regents meetings on whatever topic they desired. Concerning executive compensation, she reported that students are less concerned about how much University executives make than the cost at which they are paid. Everyone in the University community has been expected to make sacrifices due to budget cuts; however, it is apparent that some are sacrificing much more than others. She expressed the hope that she would be permitted to speak at the next Regents meeting regarding the student compact resolution that UCSA will introduce in the Legislature regarding a long-term policy on affordability and access.

3. **COMMENTS OF CHAIRMAN PARSKY**

Chairman Parsky recalled that the previous day the Regents had discussed how to address the challenges the University faces with regard to executive compensation, considering that there have been lapses in compliance with Regental policies and principles. He believed that the Regents are confident that President Dynes understands the concern and shares the commitment to addressing the problems that face the University, and they are determined to establish the University of California as a national leader in business practices. The Regents and the President will embark on a process to reorganize the Office of the President, beginning by assessing how best to organize and staff the President in ways that strengthen the business practices and management of the University to complement the University's academic excellence. Consideration will be given to creating a chief operating or administrative officer and a chief financial officer with responsibility for non-academic functions within the Office of the President. In order for the Regents to provide sufficient oversight, an independent compliance officer position will be created that will report directly to them, with responsibility for ensuring compliance with Regental policies and practices but with an equal focus on preventing problems from occurring, and when they do occur, on working with the Regents and the administration constructively to devise and implement solutions.

4. **UPDATE ON PENDING COMPENSATION ISSUES AND ACTIONS TAKEN**

Status of Ten-Year Compensation Audit Requested by Chairman

Chairman Parsky summarized briefly the status of the compensation audit. He recalled that PricewaterhouseCoopers had undertaken an audit of compensation for University employees who hold or have held 32 senior positions from 1996 through 2005. Compensation in connection with that audit is broadly defined, as is the 1993 policy under which the audit is taking place.

The audit has three phases. Phase one includes an examination of compensation for the incumbents of the 32 positions and any previous incumbent who may be in an acting capacity, and certain selected former incumbents. The procedures will include assessing the accuracy and completeness of compensation based on interviews, confirmations, review of payroll and personnel records and W-2 forms, and certifications from each individual as to the total compensation received. The audit will also consider whether a compensation was approved and paid in accordance with relevant University policies and procedures. The first phase should be completed by the end of the month, following which there will be a special meeting of The Regents to review the results.

The second phase of the audit will include the application of the same procedures outlined in phase one for previous occupants of those 32 positions. Due to the passage of time, this information and data may be more difficult to assemble. That analysis will be presented at the May Regents meeting.

The third phase of the audit will include an examination of the expenses reimbursed to or on behalf of those same incumbents, a review of travel and entertainment reports, and other procedures that the University Auditor deems appropriate. The procedures will determine whether these expenses were approved and paid in accordance with relevant University policies and procedures. The goal is to have this review available at the May meeting.

Based on the auditors' findings and a review with the Regents relating to phases one through three, PricewaterhouseCoopers may be requested to perform additional analyses of compensation and expenses. Upon completion of the entire examination, PricewaterhouseCoopers will issue an independent accountant's opinion as to whether the compensation as revealed is fairly stated in all material respects. The report will also contain a statement as to the compliance with University policies.

Status of State Audit

Chairman Parsky reported that the Bureau of State Audits has been charged by the Joint Legislative Audit Committee to perform an audit of UC's compensation practices and report its findings to the Legislature in early May. The University has been cooperating fully with that audit.

Report from Legislative Hearings

Chairman Parsky believed that the Regents have a responsibility to ensure that the public trust is being honored and adhered to. Part of that responsibility is responding to legislative inquiries. It was for that reason that he, Regent Kozberg, President Dynes, and former Assembly Speaker Hertzberg, on behalf of the University's task force on compensation, appeared before the Legislature to assure the University's friends and colleagues in Sacramento that the Regents will respond to the urgency that these issues require. During his testimony, Chairman Parsky was asked how he could represent that the issue was being taken seriously by the Regents. He had suggested that it would be appropriate, should the Legislature so request, that the Chairman of the Board of Regents appear annually before the Legislature to provide a report on compliance with policy.

Status Report from Task Force on Compensation, Accountability, and Transparency

Regent Kozberg, co-chair of the task force, provided an update on its activities. She commented that the University had an opportunity to emerge as a leader in compensation practices, accountability, and disclosure. She reported that the group has been rigorous in its efforts, focusing on competitive compensation, to which the University is committed. The definition of compensation adopted in the 1993 Principles of Executive

Compensation may need to be expanded. Although steps have been taken to assure compliance and prompt disclosure to public records act requests, the task force may recommend that an ombudsman be assigned to public records requests in order to expedite the University's responses. Because the University's information systems lack the ability to communicate well with one another, a commitment must be made to undertake system improvements. The task force has been considering what steps should be taken to ensure accountability, including better training of employees to make them aware of the policies that have been implemented over the years. This will be difficult, given that the University has a series of Regental, Presidential, and faculty policies that are overlapping and complex. Upon completion of its examination of a number of related, complicated issues, the task force will produce a full report.

Chairman Parsky reported that he had asked the task force to consider whether the 32 positions governed by the policy that was put in place in November 2005 with respect to Regental approval should be expanded and for a recommendation concerning the treatment of outside activities in connection with any employee.

Regent Marcus acknowledged that, as a public university, UC must disclose its compensation practices, but he emphasized that it must do so while attempting to compete with other institutions for the best faculty and staff. He advocated doing everything possible to remain competitive so as to protect the University's quality. Regent Kozberg assured him that the task force had never wavered from its goal of maintaining excellence.

5. **SUMMARY OF UNIVERSITY COMPENSATION POLICIES**

This item was postponed until the May meeting.

6. **POLICIES ON ADMINISTRATIVE AND FACULTY SABBATICALS**

It was recalled that Regents had expressed interest in the principles underlying and the policies regulating sabbatical leave for academic administrators relative to those governing administrative leave for administrators not holding academic titles. Acting Provost Hume and Senior Vice President Mullinix led a discussion on the University's administrative and faculty sabbaticals policies for senior management.

Separate policies govern leaves for the University's academic and non-academic personnel. Leaves for academic personnel are covered by the Academic Policy Manual (APM); leaves for non-academic personnel are addressed in the Personnel Policies for Staff Members (PPSM). In recognition of differences in the terms and conditions of employment for senior managers who are employed at will, Appendix II of the PPSM sets forth policies specific to senior managers and identifies those general staff policies that apply and do not apply to senior managers.

Sabbatical leave is one type of paid leave afforded certain categories of academic personnel. Leave policies for senior management differentiate individuals who also hold academic appointments and are entitled to accrue sabbatical leave credits during their administrative service and individuals who do not hold academic appointments and are not eligible for sabbatical credits. The purpose of sabbatical leave for academic administrators is to allow them to maintain or rebuild their scholarly capabilities so that they can return to productive teaching and research within the University following a period of administrative service.

Administrative leave is another type of leave that may be granted to all senior managers for a number of reasons, from personal and family matters to pursuit of additional educational opportunities. Administrative leave may be paid, partly paid, or unpaid depending on the circumstances. The Regental Policy on Extended Administrative Leaves With Pay (approved May 20, 1994, and updated September 22, 2005) states: "The Board endorses as Regental policy the Presidential practice announced on April 6, 1994 that no extended paid administrative leaves will be approved for Chancellors, Vice Presidents, or Laboratory Directors." "Extended" leave is not clearly defined in existing policy, but it appears to mean any leave over three months in length.

Senior Management without academic titles:

Pursuant to Personnel Policy II-46 (Administrative Leaves With Pay), a senior manager who does not also hold an academic title which qualifies for accrual of sabbatical leave credit may be granted administrative leave with full or part pay in accordance with certain conditions and approvals as specified:

- The President and Principal Officers of The Regents may be granted administrative leave of any length with approval of the Board.

- Chancellors, Laboratory Directors, Senior Vice Presidents, and Vice Presidents may be granted administrative leave up to three months with approval of the President. Board approval is required if the leave is greater than three months.

- Officers of the University not specified above may be granted administrative leave up to six months with approval of the President, and over six months with approval of the Board.

- Other Senior Management Appointees may be granted administrative leave up to six months with the approval of the Chancellor or Laboratory Director, and over six months with approval of the President or Principal Officer of The Regents.

Senior Management with academic titles:

Senior Management policy (PPSM II-50) attempts to conform the administrative leave policy for senior managers with policy governing sabbatical leave for academic personnel (APM 740). The policy reads:

A. SABBATICAL LEAVE
In conformance with Academic Personnel Policy 740-11, certain Senior Managers who also hold academic titles which qualify for accrual of sabbatical leave credit continue to accrue such credit while on pay status in the Senior Management appointment. Sabbatical leave taken by an eligible Senior Manager must be approved by the Chancellor. Professional leave may be approved for Senior Managers who accrue sabbatical credit only in lieu of taking sabbatical leave.

B. COMPENSATION
Sabbatical compensation shall be based on the administrative salary of the Senior Manager unless some of the sabbatical leave credit was accrued as an academic appointee, in which case an appropriate fraction of the sabbatical compensation shall be based on the salary of the academic appointment.

It is not unusual for faculty who assume senior management positions to maintain some degree of scholarly activity, and many senior managers return to full time faculty status. Policy governing sabbatical leave (APM 740) for senior managers holding academic appointments is intended to provide senior managers, such as Deans, an opportunity to take an occasional sabbatical leave during their administrative appointment to maintain active research programs. In such cases, an interim dean is appointed for the period of the leave.

APM 758 addresses senior managers who accrue sabbatical leave while in administrative service but who do not take leave during the administrative service. The policy provides for these former senior managers to take leave in lieu of sabbatical at the end of their administrative service to prepare for resumption of their academic duties.

APM 758 – 0b states that the purpose of these administrative leaves is "to allow administrators to devote effort to their research which may have been interrupted by administrative service." Length and percent of time allowed depends on accrued sabbatical leave credits.

APM 758 - 0b(2), building on APM - 740, specifies that salary during sabbatical leave is based on the administrative salary when three conditions are met: (1) a full-time administrative position has been held for five years or more, (2) no sabbatical or administrative leave has been taken during those years, and (3) when the administrative leave of up to one year is taken immediately after the end of the administrative service. The pay and term for the administrative leave is based on the salary that would have been received as an administrator in the year of the administrative leave. The required number of sabbatical leave credits is forfeited upon receipt of an administrative leave. Note that the administrative leave generally uses sabbatical leave credits that were accrued at the administrative salary rate.

Those taking sabbatical or these administrative leaves must either return to regular University service immediately after sabbatical leave for at least as long as the duration of the leave or refund the salary received in proportion to the length of the time served following the return from the leave. With Chancellor approval, return to service may be delayed for a period of leave without pay not longer than the period of the sabbatical leave. Sabbatical leave is not granted to an individual who plans to retire immediately following the sabbatical. For an individual who unexpectedly retires or who resigns immediately after the sabbatical leave, repayment is required. The requirement for repayment may not be waived without approval of the Chancellor. This authority may not be re-delegated.

Regent Preuss asked whether the University's policy of sabbatical is in line with those of other research universities. Acting Provost Hume confirmed that it conforms with those of other institutions around the United States and internationally. It has evolved over several hundred years in order to ensure the continuing academic strength of institutions such as UC.

7. **ANNUAL REPORTS ON COMPENSATION: PRINCIPAL OFFICERS OF THE REGENTS AND OFFICERS OF THE UNIVERSITY FOR 2003-04 AND 2004-05**

The Annual Reports on Compensation of officers and other senior managers for fiscal years 2003-04 and 2004-05 were mailed to Regents in advance of the meeting. The reports were prepared using the same format and procedures that have been used historically.

Committee Chair Hopkinson noted that the Special Committee on Compensation will review the format and content of the current reports. In addition, the administration will work with the Regents to determine the appropriate reporting requirements for future years.

Associate Vice President Boyette acknowledged that the reports had not been filed with The Regents on schedule. She explained that after recognizing the failure to file this report and the report cited in paragraph 8 below, she contacted the auditor to report a failure in the control processes. She also asked her department to set up a systems-driven tracking mechanism that will alert her and her superiors when reports are due to The Regents and will provide a followup check to see that the reports are filed on time.

Ms. Boyette noted that the reports are done manually. The information must be gathered from across the campuses. It is hoped that in future they can be produced from the payroll systems. She confirmed that with the submission of the two reports the schedule has been brought up to date.

Committee Chair Hopkinson commented that when the new format has been developed, every element of compensation should be covered.

Regent Juline asked for an overview document that does a better job of explaining what all the items in the two reports represent. Also, he reported that he had submitted a set of questions and comments to the Office of the President for response. He believed the data could be improved in numerous ways.

8. **ANNUAL REPORTS OF PAID SERVICE ON CORPORATE BOARDS BY OFFICERS OF THE UNIVERSITY AND OFFICERS OF THE REGENTS FOR 2003-04 AND 2004-05 AND AMENDED REPORT FOR 2002-03**

The Reports on Compensated Service on Boards by Officers of the University for fiscal years 2002-03 (revised), 2003-04, and 2004-05 were mailed to Regents in advance of the meeting. These reports were prepared using the same format and procedures that have been used historically. The report format has consistently shown the number of days of vacation used (under UC's vacation policies), not the total amount of time spent on the compensated outside activities listed.

Traditionally, those who have served on boards have indicated often that the board service necessitated less than a full day of work and that they performed significant University service in the remainder of the day. Some people may have not recorded vacation time for this outside service as a result of confusion about the application of UC vacation policy in this context.

In addition, if senior managers also hold an academic appointment, there may have been confusion about the application of the relevant academic policy (APM 025) in this situation. On December 1, 2005, Associate Vice President Boyette issued a clarifying letter to all senior managers indicating that if they have an academic appointment in addition to their senior management position, they must fulfill the pre-approval and annual reporting requirements of both APM 025 and the University's Policy on Outside Professional Activities for University Officers and Designated Staff that applies to senior managers.

It is expected that the Special Committee on Compensation will review not only the format and content of the report but also the policies applicable to senior managers. The administration will work with The Regents to determine the appropriate reporting requirement for future years.

Committee Chair Hopkinson noted that the compensation task force, in its analysis of the subject, may suggest how service on outside boards should be treated, determine whether there exists an appropriate amount of time for devotion to such activities, and analyze the potential conflict from any cash compensation that might be significant in context with an employee's University compensation.

Regent Preuss noted that, in order to remain attractive to candidates for employment, the University must align its practices with those of the institutions with which it competes. Regent Rosenthal suggested including both for-profit and not-for-profit institutions in the comparison.

Associate Vice President Boyette mentioned that some errors have been identified in the report that will be corrected and the corrections made public.

9. **ADOPTION OF POLICY ON VIOLATION OF UNIVERSITY POLICY OR LAW BY INDIVIDUALS WITH NEGOTIATED SEPARATION TERMS**

The President recommended that the Policy on Violation of University Policy or Law by Individuals with Negotiated Separation Terms (attached) be adopted effective immediately.

It was recalled that recently there has been considerable concern expressed about the provision of leave arrangements, faculty appointment terms, or other arrangements negotiated at the time of an employee's appointment in relation to questions about the employee's compliance with University policy or applicable law during employment. Such an agreement regarding separation terms negotiated by individuals at the time of their appointment to University positions is not common, but neither is it unprecedented, given the competition in the marketplace. Objections have been raised, understandably, to making pre-negotiated payments in circumstances in which the employee may have violated University policy or law or both. However, absent some qualification in the negotiated terms, typically the University will have no choice but to make the payments to which it has committed.

The proposed Policy on Violation of University Policy or Law by Individuals with Negotiated Separation Terms provides that separation terms negotiated with an individual employee prior to the time of the employee's separation from a particular position or from University employment would be subject to reduction or elimination if the President, in consultation with the General Counsel, determines that the employee has violated University policy or applicable law. The terms of the Policy would be incorporated in agreements providing for negotiated separation terms. The Policy would not affect an employee's entitlement to retirement and similar benefits that are vested under law. Any application of the Policy to a particular employee would be subject to due process applicable to the imposition of discipline for the employee's employment category.

Committee Chair Hopkinson supported the recommendation as an interim measure but noted that some revisions to the final policy would be necessary. She recommended that the policy be revised to provide for The Regents to approve any such matters for the 32 positions that require salary approval. She believed that the policy the way it is written is subject to misinterpretation because of the broad condition for determining whether an employee has violated University policy. General Counsel Holst indicated his intention to develop a more articulated policy in that regard, in consultation with the President. He emphasized that this was an interim policy, to be resubmitted at the May meeting with a more refined statement of process. He suggested that the Chairman of the Board and the Chair of the Committee on Compensation, acting in consultation with the General Counsel, be responsible for implementing the policy with respect to the 32 positions. The President would act as to other University employees.

Regent Marcus suggested that a final policy not be presented until the comprehensive analysis of the University's policies is completed. Committee Chair Hopkinson reported that it may be as many as six months before recommendations concerning policies may be presented to The Regents.

In response to a question asked by Regent Juline, General Counsel Holst indicated that until a specific reference is established, attention will be given to any individually negotiated separation agreements, with a view to assuring that remedies will be available.

Faculty Representative Oakley suggested that the policy would be articulated better as a policy on mandatory terms in individually negotiated contracts to indicate that it contains contractual terms The Regents wish to have in any contracts that go into effect in the future. General Counsel Holst emphasized that existing University policy provides for appropriate disciplinary action in response to any activity of a University employee which is in violation of policy or law. Policy governing the rare cases within the University where there are individually negotiated separation terms would not inhibit the University's capacity to discipline employees in general.

Regent Moores noted the importance of ensuring that the policy, when refined, is compatible with State law and the California Constitution.

Upon recommendation of Committee Chair Hopkinson, it was decided to postpone action on the President's recommendation until the May meeting.

10. **COMPENSATION STRUCTURE FOR THE PRESIDENT AND CHANCELLORS**

This item was postponed until the May meeting.

11. **OVERVIEW OF JOB SLOTTING FOR POSITIONS AT UNIVERSITY OF CALIFORNIA MEDICAL CENTERS AND IN THE OFFICE OF THE TREASURER OF THE REGENTS WITH CURRENT SALARIES ABOVE THE INDEXED COMPENSATION LEVEL AND FOR DESIGNATED POSITIONS IN THE OFFICE OF THE SECRETARY OF THE REGENTS, AT LAWRENCE BERKELEY NATIONAL LABORATORY, AND AT LAWRENCE LIVERMORE NATIONAL LABORATORY**

Mr. Bob Miller, of Mercer Human Resource Consulting, recalled that at the November 2005 meeting, The Regents approved a policy that a salary structure be established, subject to the approval of The Regents, within which salaries for all Senior Leadership Compensation Group (SLCG) positions will be administered. The structure is to be based on the recommendation of an external consultant and consists of salary ranges that provide salary opportunities competitive with those offered by other employers with which UC competes for SLCG employees. Each SLCG position will be assigned to the appropriate salary range based on external competitive salary data and internal equity considerations.

At the January 2006 meeting, The Regents approved the salary ranges and the initial slotting of 284 positions at the campuses and in the Office of the President. At this March meeting, an additional 118 jobs in the Medical Centers, Secretary of The Regents, the Treasurer's Office, and the Berkeley and Livermore laboratories have been proposed for slotting.

The slotting is by base salary only. Total cash compensation (base salary plus additional recurring annual payments such as bonuses and health sciences compensation) has been considered and evaluated for each position where market data on total cash compensation were available. On average, variances in total cash compensation and the market data tracked very closely with the variances between the base salaries and market data.

This study does not include other special compensation such as car allowances, stipends, and housing allowances, although preliminary information on these items is presented for reference. Complete data on these non-salary, non-bonus items are being assembled as part of several audit efforts under way and will be presented to The Regents in the near future.

Compensation information from the comparative institutions is generally available for base salaries and total cash compensation only; therefore, it is difficult to make comparative analyses for compensation purposes for other forms of compensation. A special study would be required in to order to value these additional forms of compensation and provide meaningful competitive value comparisons.

There are 118 positions that have been assigned to salary grades. This will bring the total positions slotted to 402, from a total of approximately 120,000 University full-time employees. There are a number of related positions at Los Alamos National Laboratory that will not be slotted given the structural changes that have or will likely occur.

Assignment of Individual Salary Grades

With Mercer's assistance, UC has slotted affected SLCG positions into the salary structure using the following criteria and process:

- Appropriate market data were collected from surveys of base salary and total cash compensation (base salary plus annual bonuses) for SLCG positions under consideration that are commonly found in the market.

- Positions normally were assigned to the grade that had a base salary range midpoint closest to the indicated median base salary of the market data. The range around the midpoint allows individuals to be paid a base salary higher or lower to recognize individual qualifications, experience, and performance.

- Total cash compensation was also considered when slotting positions into the appropriate salary grade. On average, variances on total cash tracked very closely to variances on base salary.

- At the Medical Centers, consideration also was given to the following factors in slotting the positions:

    - Size relative to the median of the responding organizations in the market data

    - Prominence of the Medical Center

- Other factors considered in slotting all of the positions include internal equity and reporting relationships.

In assigning positions to salary grades, the following criteria were also used:

- The positions, not the incumbents, were considered in assigning grades.

- Positions where no relevant market data were available were slotted into grades based on their relative similarity to other positions in their group (Medical Center, Laboratory, etc.) and/or the entire system.

- Once the positions were slotted, current individual base salaries were compared to the salary ranges, and those that are below range minimum or above range maximum were noted. Future adjustments to each individual's salary will be viewed relative to the salary ranges considering the incumbent's experience and performance.

The review process to complete the overall position slotting included these steps:

- Initial assignment of job slotting was completed by UCOP using market data analyzed by Mercer.

- The initial slotting was reviewed for completeness, accuracy, and internal grade relationships and then updated.

    - Medical Center slottings were reviewed by the Chief Human Resource Officers, Medical Center CEOs, and Chancellors.

    - Laboratory slottings were reviewed by the Laboratory Human Resource Directors and the Laboratory Directors.

  - Treasurer slottings were reviewed by the Treasurer's Office.

- The updated slotting was reviewed by the Health Science Senior Management Advisory Committee, which reviewed the medical center results on a systemwide basis and recommended final job slotting to the President. Non-medical-center positions were reviewed within UCOP.

- The final proposal has been submitted by the President to the Special Committee on Compensation and The Regents.

SLCG positions included are for the Medical Centers, the Office of the Secretary, the Office of the Treasurer, Lawrence Berkeley National Laboratory, and Lawrence Livermore National Laboratory, with exceptions listed below.

SLCG positions not included for approval at this time are:

- Deans of Medicine

- Campus counsel

- The General Counsel's Office

The Regents will continue to approve individually (except as noted below for 2005-06):

- All salary actions for 32 Designated Officers.

- Salary increases of 15 percent or more that take an employee's salary over the salary range midpoint of the grade for the employee's position.

- Salary increases that place an employee's salary above the salary range maximum for the employee's position.

- Any future adjustments to job slotting, including the addition of new positions.

- Setting goals annually for obtaining, prioritizing, and directing funds to achieve market comparability.

- Determining the annual salary increase budget for the SLCG, including priorities for addressing specific groups of employees.

For the academic year of 2005-06, The Regents will also:

- Approve all salary actions for incumbents with total cash compensation (salary plus bonus and stipends) above $200,000 per annum.

- Approve any increase in base salary in excess of 7.5 percent.

In addition, The Regents will receive and review annually:

- Total compensation for each of these positions.

- Data on all salary actions, including the overall salary increases compared to budget and the distribution of increases by percent of increase.

- Overall position of salaries relative to the salary range midpoints.

The Regents will establish procedures for reviewing UC and competitive practices for other non-salary elements of total compensation such as bonuses, car allowances, housing subsidies, University-provided housing, and one-time payments such as relocation allowances.

Following the completion of audits and reviews of executive compensation procedures that are currently under way, recommendations may be made to revise these guidelines in the future.

Committee Chair Hopkinson recalled that at its Closed Session meeting on March 15 the Committee had recommended approval of individual salary grades for 118 positions within the interim salary structure approved by The Regents for all senior leadership compensation groups, during which interim period consultation with interested parties will occur. As the process evolves, the Committee will be consulting with the faculty and staff, eventually proposing some changes as part of the overall package that will include recommendations from the task force and the audits. She believed it would be six to nine months before the final proposal is presented.

Noting that there was stratification among positions at the various medical centers, Faculty Representative Oakley asked about the methodology used in making job slotting decisions. Mr. Miller explained that the process for slotting the positions starts with the market data, then considers the relative size of the operation and the academic prominence associated with the institution. Senior Vice President Mullinix added that the medical centers are organized differently from campus to campus, and job responsibilities vary. The basis for the job slotting is not a new process; in the past, Clark Consulting had been engaged to do a roles and responsibility study for each campus.

12. **PROCESS AND TIMETABLE FOR ANNUAL PERFORMANCE REVIEW OF OFFICERS REPORTING DIRECTLY TO THE REGENTS**

Committee Chair Hopkinson recommended that The Regents approve the process and timetable for annual performance reviews of the Officers reporting directly to The Regents.

The Regents have an obligation to provide a performance management program for UC positions that report directly to The Regents: the President, General Counsel, Treasurer, and Secretary of The Regents. Objectives for this proposal include aligning incumbent performance with The Regents' top priorities, promoting incumbent development, and determining possible impact on compensation.

As part of the proposed performance management process, each incumbent will be asked to provide a self-assessment of his or her prior year's performance in three areas: goal progress and achievement, ongoing responsibilities, and leadership competencies. Specific Regental responsibilities and time frames are defined in the proposal.

Mr. Bob Miller, of Mercer Consulting, reported that the objectives of the program are to make sure there is the right focus on priorities, that the individuals receive input from a select group of Regents on their performance in meeting their goals and priorities, and to set the stage for performance management across the UC system. He noted that the Office of the Treasurer has a separate performance management process that focuses on investment performance and is tied to incentive compensation.

Mr. Miller reported that, based on priorities communicated by The Regents, the individuals would develop goals for the coming year in April or May and provide them for Regental review, and in July or September the Regents would respond with input on the prior year's performance and would propose compensation in October or November. There are three major components: four or five annual goals, ongoing responsibilities that might not be included in a specific goal for the year, and leadership competencies.

Committee Chair Hopkinson believed that the proposal was overdue. She indicated that the Chairman would name the lead Regent for each of the positions. Chairman Parsky suggested the following: with respect to the President, the Chairman would take the lead responsibility; for the General Counsel it would be the Chair of the Committee on Finance; for the Treasurer, the Chair of the Committee on Investments; and for the Secretary, the Vice Chairman of the Board. He commented that as part of establishing best practices, this kind of review for these positions is appropriate.

Regent Marcus expressed concern that there is consistency and uniformity among the activities that the Regents are engaged in. He believed that would be difficult under the current structure. He noted that it is common for boards to have a personnel committee or other committee that operates consistently on these matters. Chairman Parsky indicated that over the course of the coming year it may be appropriate to shift the duties solely to the Committee on Compensation.

Regent Moores noted that the proposal was very process-laden and possibly too detailed. On most boards, most members would be very familiar with what their direct reports are going to do. Chairman Parsky responded that the Regents have a responsibility to oversee the performance of their direct reports. The proposal is only a suggestion of how the reviews might take place.

Upon motion duly made and seconded, the Committee approved the recommendation and voted to present it to the Board.

13. **CONSIDERATION OF FUTURE REINSTATEMENT OF CONTRIBUTIONS TO THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN**

The President recommended that The Regents update the funding policy for the University of California Retirement Plan (UCRP) to provide for:

A. A targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at the rates necessary to maintain that level within a range of 95 percent to 110 percent.

B. A multi-year contribution strategy under which contribution rates will increase gradually over time to 16 percent of covered earnings, based on UCRP's current normal cost.

C. The resumption of UCRP contributions effective July 2007, subject to funding and completion of the budget process.

An advisory group to the President is evaluating alternative strategies for the reinstatement of contributions. It is anticipated that in May 2006, specific recommendations for action by The Regents will be made on the reinstatement of contributions, to be effective July 2007, subject to funding and completion of the budget process, to include:

A. A year-by-year schedule of total UCRP contributions through 2013.

B. The specific cost sharing of these contributions between the University and UCRP members through 2010.

The goal is for The Regents to take action on the recommended reinstatement of contributions strategy by May 2006. Implementation of member contributions is subject to available funding and collective bargaining requirements, as applicable.

Contribution History

Prior to November 1990, both University (employer) contributions and member (employee) contributions to UCRP were required. In 1990, The Regents suspended University contributions to UCRP after the actuaries and the auditors confirmed that UCRP was adequately funded to provide plan benefits for many years into the future. At the same time, The Regents directed that contributions from members participating in Social Security, and a portion of the contributions from members not participating in Social Security, and from Safety members, be redirected to individual accounts in the Defined Contribution Plan (DC Plan), subject to The Regents' reservation of the right to reinstate such contributions in UCRP to maintain the Plan's funded status. Under the DC Plan, contributions from employees are held in accounts and invested at an employee's direction. DC Plan accumulations are available for distribution starting at retirement or termination of employment. In July 1993, The Regents suspended the remaining portion of UCRP contributions from members without Social Security and from Safety members.

The suspension of University contributions to UCRP and the redirection of UCRP member contributions to the DC Plan have continued unchanged since the early 1990s. The rates of member contributions to the DC Plan vary by membership classification.

UCRP Funded Status

At the November 2005 meeting, the Regents were presented with the results of the July 1, 2005 UCRP annual actuarial valuation by The Segal Company, The Regents' actuary. This report illustrated that the funded status of UCRP is projected to decline well below 100 percent unless contributions are restarted or extraordinary market gains occur. A 100 percent target funded status for UCRP over the long term will sustain the viability of the Plan.

Recommended Funding Policy

The Regents' action in October 1990 did not include specific guidelines as to when University contributions should be resumed or when the redirected member contributions should be reinstated in UCRP. To clarify The Regents' intent, the President requests that the Special Committee on Compensation recommend that The Regents update its funding policy to incorporate, effective July 2007, a target funded status for UCRP of 100 percent over the long term, with University and UCRP member contributions established at the rates necessary to maintain that level within a range of 95 percent to 110 percent if actuarial expectations are met. The normal cost of UCRP, as determined by the UCRP actuarial valuation report as of July 1, 2005, is 15.9 percent of covered payroll. The President's recommendation proposes that contributions gradually increase to 16 percent of UCRP covered payroll by July 2013.

It is anticipated that in May 2006 specific recommendations for action by The Regents will be made on the reinstatement of contributions strategy. Once implemented, the UCRP contribution strategy will be a multi-year plan that will not be changed unless the funded status of UCRP increases or decreases significantly because investment returns, salary, or other factors differ significantly from actuarial expectations. If further analysis indicates that such variances are likely to cause the projected funded ratio of UCRP to fall outside a range of 95 percent to 110 percent for an extended period of time, the contribution strategy may be revised to the extent necessary to maintain the long-term viability of UCRP.

Guided by Total Remuneration Philosophy

The recommended funding policy was developed in consultation with an advisory group on retirement benefits that includes representatives from The Regents and the Office of the President, and a member of the Academic Senate. Human Resources/Benefits has engaged Mercer Human Resource Consulting to serve as the lead consultant for advising the University in this process, with actuarial assistance provided by The Segal Company.

The advisory group is considering the strategic positioning of the University's retirement programs as part of the competitive total remuneration offered to faculty and staff. In November 2005, The Regents adopted a resolution that laid out the University's philosophy for total remuneration (defined as cash compensation, health and welfare benefits, pension benefits, and retiree health): "Our strategy is to attract and retain the highest quality academic, managerial, and staff talent by offering competitive total remuneration." With this philosophy as a key driver, a number of principles came out of the consultation with the advisory group to guide the development of the proposed funding policy and the consideration of alternative reinstatement of contribution strategies, including the following:

- Maintain current level of UCRP benefits for existing UCRP members.
- Target the UCRP funded level of 100 percent over the long term, and establish University and UCRP member contributions at the rates necessary to maintain that level within a range of 95 percent to 110 percent if actuarial expectations are met.
- Increase contributions over time to the Plan's Normal Cost.
- Share costs between the University and its employees.
- Employ a uniform UCRP contribution strategy for all existing employees (appropriately recognizing the differing benefit and contribution levels for safety members).
- Maintain total remuneration at market-competitive levels.
- Where possible, mitigate affordability concerns with an integrated approach to changes in total remuneration.
- Periodically review the UCRP contribution strategy and make adjustments if significant changes in funded status occur.

Future Action

The recommended funding policy is necessary to sustain the long-term viability of the Plan. The funded status of the Plan will continue to be monitored by reviews of the annual valuations performed by the actuary to UCRP that are presented to the Regents in November each year.

An advisory group to the President is evaluating alternative reinstatement of contributions strategies. It is anticipated that in May 2006, specific recommendations for action by The Regents will be made on the reinstatement of contributions to be implemented effective July 2007, subject to funding and completion of the budget process, to include:

- A year-by-year schedule of total UCRP contributions through 2013.
- The specific cost sharing of these contributions between the University and UCRP members through 2010.

UCRP members will receive ample notice as the timing and level of UCRP contributions are determined. The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act.

Chairman Parsky believed that the recommendation represented a responsible approach that would address the pension issue far in advance of the development of an underfunded status.

Faculty Representative Oakley reported that the faculty was in agreement that it would be prudent to reinstate contributions at this time.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

[For speakers' comments, refer to the minutes of the March 16 meeting of the Committee of the Whole.]

14. **UPDATE ON ISSUES RELATED TO THE TRANSITION OF EMPLOYEE BENEFITS FROM LOS ALAMOS NATIONAL LABORATORY TO LOS ALAMOS NATIONAL SECURITY, LLC**

Senior Vice President Mullinix recalled that at the January meeting an action plan had been presented for facilitating the transition of the Los Alamos National Laboratory contract. Associate Vice President Boyette provided an update on the progress of those activities. She began with efforts to clarify the ongoing obligations of the Department of Energy and the University for retirement benefits for Los Alamos members and retirees. In January, a proposal was presented to create a separate plan for all LANL active employees, retirees, and inactive members. That proposal was conditioned on Regental and DOE approval, faculty consultation, and an assumption of approval through appropriate regulatory agencies. There has been concern and confusion about that issue. The primary purpose of the proposal was to facilitate the eventual mandatory transfer of assets and liabilities to the LANS Defined Benefit Plan for continuing employees and also to clarify the DOE's long-term, ongoing financial obligations to former employees who remain in the UC-sponsored pension plan and to comply with DOE/NNSA objectives for separate, standalone pension plans for employees of the DOE facilities.

As part of the University's ongoing fiduciary obligations to all members and retirees and UCRP, it was hoped that, to facilitate the ultimate transfer, an agreement could be made with the DOE on the segregation of LANL assets and liabilities in advance of the LANS transition. It has never been intended to diminish the pension benefits for LANL retirees in any form or to change the oversight, management, or investment policies of the program. UC remains responsible for ensuring the full payment of benefits. Those commitments have been restated in a letter from President Dynes to Mr. Linton Brooks, administrator of NNSA, dated March 9, 2006. In that letter, the President indicated that the University would review with the DOE alternatives to the separate plan for LANL members and would welcome the opportunity to discuss the issues with NNSA. In close consultation with the Regents, faculty leadership, and the University's actuaries and consultants, the process has begun to negotiate with the DOE the appropriate methodologies to calculate the assets and liabilities of certain transferring employees and for those who remain with UC. Ms. Boyette emphasized that the University remains committed to honoring and protecting the pension benefits of all Los Alamos members and retirees.

Ms. Boyette discussed some of the required and supportive transition measures that UC and LANS have taken and the process that the LANL employees must go through to make their decisions. After an extensive review process of the benefits packages involving NNSA, LANS, and LANL employees and retirees, distribution is proceeding of the information that LANL employees need in order to make their UC-benefit decisions. LANL employees have until May 15 to make their employment benefit decisions and elections. A UC decision guide packet was distributed, and letters will be mailed to LANL retirees advising that their retirement benefits will not change. They will continue to be paid by UC, but their future retiree medical benefits will be provided through LANS. In addition, to help the LANL employees and retirees the University is arranging to continue to deduct any applicable medical premiums directly from retirees' benefits through December 2006, even though LANS will be administering the retiree medical benefits following the transition. This will give LANS additional time to prepare to take this over. In the coming weeks, there will be several employee and public meetings at LANL to discuss benefits and to address employee and retiree concerns. Benefits managers and representatives from several campuses have volunteered to go to Los Alamos to guide employees individually through this process.

Ms. Boyette reported that amendments to the retirement plans that are related to LANL will be presented to The Regents in two stages. Following the consultation with faculty, an action item will be presented at the May meeting to make amendments to the existing retirement plans, as required to honor obligations to the LANL management contract. After the transition to LANS, when the employees' decisions and resolutions regarding the mandatory asset transfers are clear, any remaining amendments will be presented.

In closing, Ms. Boyette assured the Regents that the University is making every effort to ensure that the transition to LANS is a seamless process with minimal disruption to UC employees and retirees and that the current LANL employees receive the information and counseling that they need to make these decisions.

Secretary Trivette drew attention to the report of communications received pertaining to this item.

In response to a question asked by Committee Chair Hopkinson, Ms. Boyette reported that the LANS package had been approved by the federal government. The discussion between the University and Department of Energy representatives with respect to closing out contract obligations is under way.

The meeting adjourned at 12:10 p.m.

Attest:

Secretary

ATTACHMENT

POLICY ON VIOLATION OF UNIVERSITY POLICY OR LAW BY INDIVIDUALS WITH NEGOTIATED SEPARATION TERMS

At the time that an employee separates from his or her University position, any and all benefits and payments to the employee, negotiated individually with that employee, shall not be due, owing, or payable to that employee if there is a determination by the President, in consultation with the General Counsel, that the employee has violated University policy, applicable law, or both. The President shall have the discretion to make such a determination based on the magnitude of any such violations and may determine that such benefits and payments to the employee are not payable in whole or in part. The terms of this Policy shall be included in individually negotiated separation agreements. The authority of the President shall be subject to delegation to Chancellors as determined appropriate by the President.