THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

December 13, 2010

The Regents of the University of California met by teleconference on the above date at the following locations: UCSF–Mission Bay Community Center, San Francisco; James E. West Alumni Center, Los Angeles Campus; 2220 Lodgepole Circle, Modesto; The Savoy, Strand, London

Present: Regents Blum, Cheng, DeFreece, De La Peña, Gould, Hime, Island, Johnson, Kieffer, Makarechian, Marcus, Pattiz, Reiss, Ruiz, Schilling, Varner, Wachter, Yudof, and Zettel

In attendance: Regents-designate Hallett, Mireles, and Pelliccioni, Faculty Representatives Anderson and Simmons, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Pitts, Executive Vice Presidents Brostrom and Taylor, Vice Presidents Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Drake, Fox, Kang, Katehi, and White, and Recording Secretary McCarthy

The meeting convened at 1:35 p.m. with Chairman Gould presiding.

1. **PUBLIC COMMENT**

Chairman Gould explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Board concerning the items noted.

A. Ms. Mary Higgins, representing Coalition of University Employees (CUE) Teamsters Local 2010, recounted recommendations from William Hallmark, consultant to the Teamsters. Mr. Hallmark noted that there was a need to develop an appropriate funding strategy for the UC Retirement Plan (UCRP). He recommended that contributions be escalated incrementally over time to balance short-term funding needs with the long-term sustainability of UCRP. He recommended basing contributions on the normal cost plus a 30-year amortization of the unfunded liability as a level percentage of payroll. Mr. Hallmark's report noted that most of the proposed savings come from delaying retirement, which would pose a hardship for employees who need to retire early. The report also pointed out that reducing the subsidy for health premiums to 70 percent would have a disproportionate effect on lower-paid employees. Ms. Higgins also reported a recommendation by John Slatery, Director of the Benefits Department of the International Brotherhood of Teamsters, that workers have representation on the board of trustees of UCRP. Mr. Slatery also recommended that the contribution amount be integrated with Social Security. Ms. Higgins urged adoption of a plan that is fair and balanced, and pay increases for clerical workers and allied service staff.

B. Mr. Charles Schwartz, retired UC Berkeley professor, spoke regarding the UC Commission on the Future (Commission). He expressed his opinion that the Commission would not achieve the goal of solving the long-range financial problems of UC. He stated that the main problem facing UC is funding its research mission. He noted that he had presented a detailed proposal to the Commission.

C. Mr. Justin Riordan, second-year student at UC Santa Cruz, expressed his concern about the report of the Commission, since it did not address the needs of undocumented students. He stated that AB 540 students have no access to aid, even though they are required to contribute to financial aid funds. He also expressed concern about the contingency proposals in the report.

D. Mr. Doug Wagoner, student and external vice president for statewide affairs of the Associated Students of UC Santa Barbara, expressed his opinion that increasing student fees and student aid would not be a sustainable solution to UC's financial problems. He urged the Regents to turn to the Legislature for creative funding solutions.

E. Mr. Ratha Lai, UC Berkeley fourth-year student and Bridges Multicultural Resource Center organizing community development director, noted that UC's students are extremely bright. He urged the Regents to meet with students regarding issues facing the University.

F. Mr. Robert Samuels, president of University Council-American Federation of Teachers (UC-AFT) representing UC lecturers and librarians, applauded President Yudof's endorsement of proposed Option C for the UCRP, although he expressed the opinion that creation of a second tier would hurt the long-term funding of UCRP. Mr. Samuels also expressed concern about the effect on low-income workers of proposed changes to the retiree health program. He urged consideration of linking payment for retiree health premiums to pay levels, as is done for health care premiums for active employees. Regarding the Commission, Mr. Samuels expressed concern about funding for upper division and graduate students, and about indirect cost recovery. He expressed the opinion that undergraduate fees are expected to support all endeavors of the University.

G. Ms. Wendy Brown, Emanuel Heller Professor of Political Science at UC Berkeley and co-chair of the UC Berkeley Faculty Association, noted that UC's historic tradition of excellence is threatened by the current State fiscal crisis. She commended the Commission for its efforts, but expressed concern about the effect of its recommendations regarding undergraduate education accessibility and quality, particularly proposals regarding three-year degrees, online courses, and increasing enrollment of nonresident students. She expressed the opinion that online courses are of inherently lower quality than classroom courses for most subjects. She also stated that a three-year degree would simply be less education than a four-year degree. She urged UC to facilitate, rather than discourage, students' taking non-required courses and double majors. She pointed out that lower-income students would be more apt to take a three-year degree than their more affluent counterparts.

H. Mr. Richard Walker, geography professor at UC Berkeley and representative of the UC Berkeley Faculty Association, spoke about proposed reforms to UCRP, which he acknowledged to be in crisis because of a lack of contributions for 20 years. He applauded President Yudof for backing Option C. He expressed concern about UCRP's unfunded liability and urged UC to increase contributions more rapidly. He also expressed the opinion that the proposed changes shift too large a burden to faculty and staff, resulting in an effective pay cut. Mr. Walker emphasized the importance of UC's excellent benefit plan in recruiting high-level faculty. He stated that the proposed changes would have a disproportionate effect on low-income employees.

I. Mr. Robert Meister of the Council of University of California Faculty Associations (CUCFA) expressed the opinion that the Commission avoided most controversial issues. He contrasted California's post-World War Two economy with its current economy. He expressed concern about maintaining the goals of the California Master Plan for Higher Education (Master Plan).

J. Ms. Patricia Olivares, a UC custodian for 20 years, stated that she stayed at the University because of its benefit plan. Health care in retirement is particularly important for workers who do physical labor. She said that she expected security in her medical care after working so many years for the University. She expressed concern about reduced benefits for future employees. She stated that low-wage employees cannot afford increased costs and would have to choose between keeping their health care or keeping food on the table for their families.

K. Ms. Margaret Konjevod, a senior psychiatric technician at UCLA's Resnick Neuropsychiatric Hospital for 26 years and member of the executive board of American Federation of State, County and Municipal Employees (AFSCME), expressed her wish that there be no increase in retiree health care costs for the lowest-paid University employees. She advocated a sliding scale based on rate of pay for retiree health care premiums, similar to the current sliding scale for active employees' health care premiums. She expressed the opinion that highly paid employees need to pay their fair share.

L. Ms. Donyelle Smith, employee at UCLA for 14 years, stated that she represented low-wage workers such as custodians, housekeepers, and hospital workers who lift patients. She stated that it would be extremely difficult for these employees to work until they are 65 years old since their jobs are physically demanding. She urged the Regents to come to an agreement that would help the hospital workers who have given so much to UC.

M. Ms. Tanya Smith, local president of University Professional and Technical Employees Communication Workers of America Local 9119 at UC Berkeley and UC Office of the President, expressed opposition to the proposed two-tier plan for UCRP. She also expressed concern about raising the age for full retirement benefits to 65. She urged the Regents to link premiums for retiree health care benefits to wage levels at retirement.

N. Ms. Louise Hendrickson, UC Riverside alumna and current University Affairs Director for the UC Student Association, expressed concern about the Commission's recommendations, particularly lack of aid for undocumented students and the contingency proposals in the report.

O. Ms. Kathryn Lybarger, gardener at UC Berkeley for nine years, reported that many of her fellow gardeners have had work-related injuries. She expressed opposition to the proposal to raise the age for full retirement benefits to 65. She also stated the cost for retiree health care for low-paid employees should not be the same as that for more highly compensated employees. She noted that workers who have job-related injuries particularly need affordable health care in retirement. She noted the dedication of workers at the University.

P. Ms. Maricruz Manzanarez, senior custodian and 11-year University employee, reported that she had surgery on one shoulder and both hands. She noted the importance of her retirement benefits so she can enjoy her time after her employment. She expressed concern about raising the age for maximum retirement benefits to age 65. She urged the Regents to maintain the age for maximum retirement benefits at 60 years for workers with physically demanding jobs. She noted that these workers are committed to maintaining the quality of the University.

2. REPORT OF THE UC COMMISSION ON THE FUTURE

The Chairman of the Board and the President recommended that the Regents endorse the principles of the report of the UC Commission on the Future.

[Background material was mailed to the Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

[Regents were provided with a packet of correspondence received regarding this item, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chairman Gould stated that it is important for the University to stabilize the UC Retirement Plan (UCRP) to meet obligations to current and future UC retirees. He noted that many employers are facing similar challenges to those facing UC. In order to stabilize the retirement plan, Chairman Gould stated that it is necessary to make some changes in benefits to employees hired on or after July 1, 2013. He emphasized that these changes would not change the Plan for existing employees and noted that the proposed changes would be subject to collective bargaining.

Turning to the report of the UC Commission on the Future (Commission), Chairman Gould commented that the report is the result of 15 months of work and is based on the University's commitment to maintaining its high quality, access, and affordability in the face of diminishing State resources. Chairman Gould stated that this report represents the beginning, not the end, of the conversation about the issues facing UC. He stated his opinion that the Commission is recommending important, sensible steps that would position the University to move forward productively. He noted that recommendations regarding academic efficiency could reduce the cost of a UC education for students, their families, and taxpayers. In addition, the Commission is targeting $500 million annually in administrative efficiencies. He noted that the recommendations would address current financial challenges while maintaining UC's core principles.

Chairman Gould stated that the Commission also addressed possible contingencies such as reducing the size of the University by limiting student enrollment, and reducing faculty and staff. He noted that the financial aid program redirects 33 percent of fees to student aid, which might have to be reassessed in the future. He commented that other possible future contingency proposals include increasing tuition, setting differential fees by individual campuses, and increasing the number of nonresident students. Chairman Gould noted that these contingencies could be revisited should State funding decrease further.

President Yudof thanked the members of the Commission, faculty members, and staff of the Office of the President who worked on the report. He stated that the Commission's report represents the University's best answer to the question of how to ensure and enhance the greatness of the University when the external conditions that had previously supported UC's success have radically changed. President Yudof stated that his first obligation is to be fiscally realistic while preserving UC's valuable faculty and staff.

President Yudof advised that the Board would be asked to vote on changes to the retirement plan and retiree health system designed to close a $21 billion unfunded liability. He noted that many issues raised in the public comment period would be discussed during the collective bargaining process. President Yudof emphasized that the present tier and the proposed new tier pension benefits are among the most lucrative in the entire country, and he noted that the proposed new tier has been criticized by some as being more than the University can afford. President Yudof stated that the challenge facing the University is to adapt to the current economic downturn while carrying on the highest traditions of unsurpassed excellence and exceptional levels of access.

President Yudof noted that one obligation of the Commission was to place some possible contingencies before the Regents, should State support of UC continue to decline. He stated his opinion that the University could not shrink and remain great. He remarked that it would be preferable to increase the size of the University to meet its goal of educating the population to keep pace with other nations.

President Yudof pointed out that the University has already taken steps to address the current uncertain economic environment. The Office of the President has been downsized; faculty and staff were furloughed; freshman enrollment was reduced; tuition has been increased; efficiency measures have been initiated with a goal of $500 million in annual savings. He stated that the State faces a $25 billion deficit and that, even if the State maintains its current level of funding, the University faces an increase of $5 billion in expenditures over the upcoming three to five years, including retiree health benefits, union contracts, energy costs, contributions to UCRP, and inflation.

President Yudof concluded by stating that the report of the Commission involves not just the future of UC, but the future of the entire State of California. He stated that the source of California's future economic development would be the University, California State University (CSU), and the community colleges. He stated that he trusted that the Board would act to safeguard the future of the University.

Chairman Gould explained that the current item was presented directly to the Board for approval. A roll call was taken to refer the current item directly to the Board in accordance with Bylaw 10.1(a), Regents Cheng, DeFreece, De La Peña, Gould, Hime, Island, Johnson, Kieffer, Makarechian, Marcus, Pattiz, Reiss, Ruiz, Schilling, Varner, Wachter, Yudof, and Zettel (18) voting "aye."[1]

Provost Pitts presented a brief synopsis of the work of the UC Commission on the Future, which began in July 2009 and was co-chaired by President Yudof and Chairman Gould. Dr. Pitts stated that the charge of the Commission was to develop a far-reaching vision to ensure UC's excellence and access in the future despite the short-term fiscal crisis. The Commission had five working groups which included students, alumni, staff, and other concerned individuals. Input was solicited through campus listening tours, public forums, Web-based feedback, and presentations by national, State, and UC experts, including Jane Wellman of the Delta Project on Postsecondary Education Costs, Productivity, and Accountability, Mark Baldassare, president of the Public Policy Institute of California, Robert Reich, faculty member at UC Berkeley, and former UC presidents Richard Atkinson and David Gardner.

Dr. Pitts reported that the Commission received over 60 recommendations and endorsed 20 unanimously. The Commission also considered six contingency proposals that may be necessary in the future and included them in the report. In the area of access and enrollment, the Commission recommended further reducing barriers for transfer students by adoption of consistent lower-division requirements in top majors, increasing nonresident enrollment subject to a ten percent systemwide cap, and optimizing indirect cost recovery to support graduate students and research infrastructure.

UC Berkeley Boalt Hall School of Law Dean Christopher Edley reported on the Commission's recommendations relating to teaching and curriculum. He noted that UC currently graduates 60 percent of students within four years, and 80 percent within eight

[1] Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

years. The Commission recommends increasing the proportion of students graduating in four years or less. Mr. Edley pointed out the advantages of reducing the cost of a UC education, increasing the number of UC degrees produced with the same amount of educational investment by the taxpayers, and giving students more options to fulfill their personal objectives. The University would reduce administrative barriers to students' obtaining a three-year degree, for example by using advanced placement credits, allowing students to increase their UC class load, or making key courses more readily available, thus allowing students to proceed more quickly toward their degree. Mr. Edley emphasized that any such options would be voluntary for students.

Mr. Edley reported that the Commission recommends advancing online education. He noted that over 60 faculty letters of interest for competitive grants to develop online content in lower-division gateway courses had been received by today's deadline. He stated that if the pilot program is successful, enrolled students could take online courses in addition to their regular courses. In the future, revenue could be provided by having non-registered students pay for UC online courses.

Mr. Edley reported that the Commission recommends strengthening academic program reviews to eliminate unnecessary duplication and inefficiencies. As new academic programs are introduced, the Commission recommends that the campuses consider budget priorities and resource trade-offs involved and consider combining resources of various campuses.

Executive Vice President Brostrom noted that the University faces cost pressures over the coming decade, largely driven by labor costs: a dramatic increase in the University's contribution for post-employment benefits, increased costs for current employee benefits, and costs built into contracts with represented employees. Additionally, UC must make significant investments in order to maintain its quality and overall competitiveness. Particularly, he noted the Regents' priorities for investment in faculty and staff salaries, reduction of student-faculty ratio, increased support for graduate students, maintenance of a robust financial aid program to ensure access, and investment in capital renewal and deferred maintenance.

In order to bridge the looming $5 billion funding gap over the coming decade, Mr. Brostrom stated that opportunities must be developed in three areas: UC must reduce its administrative expenses, leverage existing revenue streams more effectively, and identify new revenue streams. Additionally, Mr. Brostrom commented that UC must achieve a dependable partnership with the State to have steady growth in UC's core funding, so that UC can provide stability and predictability for any increases in student tuition and fees.

Mr. Brostrom discussed the impact of implementation of these measures. Over $2 billion of the potential funding gap could be covered by reducing expenditures and increasing revenues. He noted that the remaining half must come from a partnership with the State, through a steady and predictable funding stream and through State funding of its portion of the UCRP contribution, as the State does currently for both CSU and the community colleges.

Mr. Brostrom emphasized that the development of a sustainable funding model for the coming decade would require a combined effort from myriad sources. He reported that UC would realize $100 million in savings this year through increased administrative efficiencies, on its way toward the goal of $500 million annually. Also, enhanced revenue could be achieved through an increase in indirect cost recovery rates and a reduction in the number of waivers granted for administrative costs. Every one percent increase in enrollment of nonresident students would add over $40 million in additional revenue. Private philanthropy produced $1.3 billion in the prior year, the second highest total in UC history; however, 98 percent of this money was for restricted purposes. UC must increase the amount of unrestricted philanthropic contributions and develop models to direct fundraising to support UC's core operations.

Dr. Pitts noted that the Commission also considered a number of other possibilities that could be considered if the need arises. He reported that work has already begun on improvement of administrative efficiencies. Groups of faculty from various disciplines have convened regarding student transfer pathways and greater uniformity than anticipated has been found across campuses. He noted that the report calls for periodic progress updates to the Regents.

Regent Varner asked about the California Master Plan for Higher Education (Master Plan) and achieving a predictable agreement with the State. He commented that many provisions of the Master Plan are no longer in effect. He expressed the opinion that the Master Plan may have to be revisited with the incoming State administration. Chairman Gould recalled that, at its prior meeting, the Board indicated its support for a more comprehensive agreement with the State that would afford UC more predictability regarding funding and sustainability of the Master Plan. Dr. Pitts agreed with Regent Varner that rising tuition is of great concern and noted that educational fees have been charged since the early 1990s. Dr. Pitts stated that all other aspects of the Master Plan are being adhered to by the University. Particularly, Dr. Pitts noted that the University is in compliance with the Master Plan's goal of offering admittance to the top 12.5 percent of resident students, but that this goal may be in jeopardy within a few years, if the State does not provide additional support for the increased capacity.

Regent Marcus expressed the opinion that, given the volatility that all levels of government have shown over the past five to ten years, the Regents must be practical in planning for UC to fend more for itself. He stated that the report of the Commission is innovative.

Chairman Gould stated that the Board's vote on this item would be to endorse the 20 main recommendations of the Commission, not the report's contingency proposals.

Regent Marcus requested that the Regents be given an annual update on the implementation of the Commission's recommendations.

Regent Island commented that he would like to have seen the 60 proposals that were put before the Commission. He expressed concern that the 20 recommendations are insufficient to address the issues facing the University. Regent Island stated that he supports the recommendations of the Commission, with the exception of the proposal to increase nonresident enrollment.

Regent Island stated that currently UC Berkeley, UCLA, UC San Diego, UC Davis, UC Irvine, and UC Santa Barbara reject thousands of qualified, UC-eligible California residents each year. He stated that the proposal to increase nonresident student enrollment would make sense if it sold unused capacity, but that is not the case. He expressed his opinion that the Regents are being asked to agree to a proposal to sell a State-sponsored resource to the highest bidder. He reflected that the Regents ought to be concerned about the approximately 8,000 students annually who are UC-eligible, but who are rejected from UC's more selective campuses. Regent Island noted that while these students are given a referral to a non-selective campus, most of them choose to reject that referral.

Specifically Regent Island noted that UC Berkeley currently enrolls 20 percent nonresident students in its freshman class. Out of a class of 4,500 students, roughly 900 nonresident students are accepted at Berkeley. Regent Island expressed concern about the 900 UC-eligible California residents who had to have been rejected. He cautioned that the Regents ought not to approve this recommendation lightly.

Regent Island stated that the Regents also should be concerned about who would be admitted under this policy. He reported that data show that nonresident students are approximately 47 percent white and 37 percent Asian. A significant number of UC-eligible resident students rejected from Berkeley are underrepresented minorities. Regent Island stated that he could not support this element of the Commission's report. He stated that he supports the balance of the recommendations, particularly the initiative to save $500 million annually in administrative efficiencies and the online learning program.

Regent Kieffer noted that he endorses the recommendations of the Commission in principle. He agreed with President Yudof's focus on practical matters regarding the budget. Regent Kieffer stated his opinion that the Commission's report focuses on solutions to the short-term financial situation, but not the long-term future issues facing the University. He expressed his view that the University has changed greatly over time and will continue to change in the future, and noted that responsibility for curricular and academic matters were delegated to the faculty. Regent Kieffer asked about the purpose of shortening the time to degree; he stated that this issue relates to the broader question of the purpose of the undergraduate degree and of the general education requirements of each campus.

Mr. Edley commented that the Commission members attempted to put forward recommendations for which they could garner consensus. He noted that the contingency items, while more controversial, were items the Commission gave a great deal of consideration. He noted that the Board would continue to consider the six contingency items as necessary. Mr. Edley agreed with Regent Kieffer's comments that academic matters are properly delegated to the Academic Senate. He cautioned that the Master Plan might not currently have the support it had in prior generations, given the difficult financial situation of the State.

Regent Reiss noted that the work of the Commission would be ongoing, since UC faces more than just a temporary crisis. She commended the Commission for taking an open-minded look at all possible options. She agreed with Regent Island's concerns about nonresident students displacing eligible California students; however, she would support increasing nonresident enrollment if the extra revenue would make it possible to enroll all eligible California students and to increase financial assistance to California students. She stated that she supports the recommendations of the Commission.

Dr. Pitts stated that revenues from nonresident student tuition go directly into the academic program. Nonresident student fees are charged return-to-aid which supports resident students. He emphasized that the report of the Commission is explicit about not displacing funded California students. He pointed out that UC Berkeley has the highest proportion of nonresident students, but also has one of the highest proportions of unfunded resident students.

Regent-designate Mireles asked if cost savings were projected from recommendations other than the Operational Excellence initiative. He asked when such cost savings would be able to be included in the budget.

Mr. Brostrom responded that UC foregoes approximately $600 million annually in indirect cost recovery. He indicated that the highest rate of indirect cost recovery for a UC campus is 54.5 percent, while Harvard and the Massachusetts Institute of Technology recover 68 percent. He noted that if UC could increase its indirect cost recovery rate, even to 60 percent, it could generate tens of millions, if not hundreds of millions of dollars. Mr. Brostrom recommended that UC also seek higher indirect cost recovery and direct charges from non-federal contracts and grants, such as those with foundations.

Mr. Brostrom also stated that there are many successful models of fundraising through private philanthropy that can result in unrestricted gains for the entire University, such as faculty chairs supported by the Hewlett Foundation at UC Berkeley.

Regent De La Peña asked if a vote to support the report of the Commission indicated support for the contingency proposals as well as the 20 full recommendations. Chairman Gould responded that the Regents were asked to endorse the 20 recommendations, not the contingencies which were identified as areas which needed further exploration. Regent De La Peña expressed his opinion that support for the report should include support for the principles of the contingency items as well.

Mr. Edley suggested that the contingency proposals needed further exploration, and were not fully-developed recommendations. Regent Kieffer commented that it might be best for the Regents to vote to accept the report and to endorse the report's recommendations.

Regent Varner stated that the vote would be to endorse the recommendations that were unanimously agreed upon and to accept the entire report. He reiterated that this is only the beginning of a discussion.

Chairman Gould stated that the complications of the contingency proposals are substantial, from both an operational and a policy standpoint. Any of these items would have to be brought to the Regents for further careful consideration. Chairman Gould clarified that this vote would be to move forward on the Commission report's 20 unanimous recommendations and to accept the full report.

Regent Johnson expressed concern about increasing nonresident student enrollment and stated her support for Regent Island's prior statement. She noted that the Study Group on University Diversity has worked hard and that this aspect of the report deserves careful consideration.

Regent Makarechian asked what type of credit is earned for online courses. Mr. Edley responded that at the current time the vast majority of online courses are offered through the UC Berkeley Extension. Currently, the courses award transfer credit rather than credit from a UC campus. He noted that development of online courses would fall under the supervision of the Academic Senate. Current online courses which award transfer credit are given less vigorous review and have similar standing as community college transfer credits; students may not earn credit toward a UC major with the current courses. Mr. Edley stated that online courses as envisioned by the Commission's report would require more oversight by the Academic Senate. The courses would be developed with improved production quality and would include more interaction with faculty and fellow students.

Regent Makarechian asked if a cost-benefit analysis has been done for online courses and what it would cost to develop courses that carry full UC credit. Mr. Edley replied that the approximate cost for developing an online course currently ranges from $20,000 to $40,000; development of online courses with improved production quality contemplated in the Commission's report could cost twice that. Mr. Edley noted that the primary goal is not to save money, but to serve qualified students who cannot attend classes on campus.

Regent Makarechian asked how more nonresident students could be admitted without displacing resident students if campuses are already at capacity. Dr. Pitts responded that any increase in nonresident students would be in addition to resident students. He noted that every campus currently has unfunded students, that is, students for whom UC receives no funding from the State. No campus is currently at capacity with funded students.

President Yudof stated that revenue from nonresident students would be used to defray costs for resident students. He noted that the University had increased enrollment of resident students, but never received State funding for some of those students. Should the State provide funding for resident students, then the University could examine reducing the number of nonresident students.

In response to a question from Regent Makarechian, President Yudof stated that enrollment would have to be limited at some point to the campus' capacity.

Regent Hime expressed his concern about the effect of unanticipated fee increases on students' abilities to plan for their education. He commented that families should be informed that the problem stems from inconsistent financial support from the State. Chairman Gould reiterated that in order to set a predictable fee schedule, UC must have a reliable partner in the State. He noted that UC should work with the new State administration and Legislature to this end.

Faculty Representative Anderson stated that the item before the Board was to endorse the principles of the report of the UC Commission on the Future. He suggested that the item be moved as written. The item was so moved and seconded.

Faculty Representative Simmons expressed agreement with Regent Kieffer's prior statement. Mr. Simmons stated that the Regents should continue to be involved with development of the University's educational policies and philosophy. He urged the Regents to participate in and to learn about the faculty's work with the Academic Senate in developing educational policy. He noted that theories of general education and course requirements undergo constant evolution. He stated that UC has offered courses online for regular UC credit for some time and that UC faculty generally support development of more online courses so long as those courses meet UC standards of educational quality.

Mr. Simmons also encouraged Regents to talk with faculty about the effect of the increase in student-faculty ratios. He stated that, from a faculty point of view, the addition of either a resident or a nonresident student is simply another person in the classroom. He noted reports from faculty that their ability to evaluate student writing and teach critical thinking on an individual basis is affected by increased enrollment. Mr. Simmons commented that, as more autonomy is given to individual campuses to develop programs and budgets, the Regents should work more with faculty on the campuses.

Regent Ruiz stated that he endorses the report of the Commission and commented that the University should not wait too long to implement the report's recommendations. He noted that the University sometimes struggles to make difficult decisions and requested clarification of the concept of dual governance at UC. Regent Ruiz spoke in support of the Commission's recommendations regarding online education, administrative efficiencies, transfer students from community colleges, and fundraising; he stated his opinion that UC can improve in all these areas.

Faculty Representative Simmons recalled that he made a presentation to the Board in 1995 and wrote a paper regarding shared governance. Chairman Gould stated that Mr. Simmons' paper would be distributed to all Regents.

Upon motion duly made and seconded, the Regents approved the recommendation of the Chairman and the President, Regents Cheng, DeFreece, De La Peña, Gould, Hime, Kieffer, Makarechian, Marcus, Pattiz, Reiss, Ruiz, Schilling, Varner, Wachter, Yudof, and Zettel (16) voting "aye," and Regents Island and Johnson (2) voting "no."

The Committee recessed at 3:45 p.m.

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The Committee reconvened at 4:25 p.m. with Chairman Gould presiding.

Present: Regents Cheng, DeFreece, De La Peña, Gould, Hime, Island, Johnson, Kieffer, Makarechian, Pattiz, Reiss, Ruiz, Schilling, Varner, Wachter, Yudof, and Zettel

In attendance: Regents-designate Hallett, Mireles, and Pelliccioni, Faculty Representatives Anderson and Simmons, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Pitts, Executive Vice Presidents Brostrom and Taylor, Vice Presidents Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Drake, Fox, Kang, Katehi, and White, and Recording Secretary McCarthy

3. **REPORT OF THE COMMITTEES ON FINANCE AND COMPENSATION**

The Committees presented the following from their joint meeting of December 13, 2010:

University of California Post-Employment Benefits Recommendations

The Committee on Finance recommended that the President be delegated authority and discretion to fully fund the Annual Required Contribution (ARC) for the University of California Retirement Plan (UCRP) in the following two phases. From fiscal year (FY) 2011 through FY 2018, the University would contribute to UCRP, to the extent practical, the "modified" ARC, which would include the normal cost plus interest only on the Unfunded Actuarial Accrued Liability (UAAL). Beyond FY 2018, the University would contribute the full ARC payment, which would include the normal cost on the pension, interest on the UAAL, and an amount that represents the annual principal contribution of the 30-year amortization of the UAAL. The President may utilize borrowing from the Short Term Investment Pool (STIP), restructuring of University debt, and other internal or external sources to fund the gap between scheduled pension contributions from the University and employees, and the required funding amount, as described above.

The Committee on Compensation recommended that:

A. UCRP be amended to provide a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55, but retain many of the current features of UCRP in substantially the form illustrated in Attachment 1. The new tier would not offer lump sum cashouts, inactive member Cost of Living Adjustments (COLAs), or subsidized survivor annuities for spouses and domestic partners. Proposed changes are set forth in Attachment 2. For represented employees, all changes would be subject to collective bargaining.

B. The University would lower, over time, the University's aggregate annual contribution to the Retiree Health Program to a floor of 70 percent.

C. The University implement a new eligibility formula for the Retiree Health Program for all employees hired on or after July 1, 2013, and non-grandfathered members described in Paragraph D below, that is based on the graduated formula set forth in Attachment 3, using both a member's age and years of UCRP service credit upon retirement, subject to collective bargaining for represented members.

D. The current eligibility provisions for the Retiree Health Program be maintained for active UCRP members whose age[2] plus UCRP service credit are greater than or equal to 50 and who have at least five years of UCRP service credit as of June 30, 2013 (referred to as "grandfathered members"). Employees who are active UCRP members on June 30, 2013, but do not meet the grandfathered member criteria (referred to as "non-grandfathered members") shall be subject to the new eligibility provisions described in Paragraph C above. In addition, if a non-grandfathered member retires between ages 50 and 55 with at least ten years of UCRP service credit, he or she would be eligible for "access only" coverage (no employer subsidy). A non-grandfathered employee could still attain the 100 percent UC contribution level at age 65 with 20 or more years of UCRP service credit.

E. The University implement an ad hoc COLA for UC-PERS Plus 5 Plan[3] annuitants to restore the purchasing power of their benefit to a level comparable to the benefit of their UCRP counterparts. In addition, the University shall implement an annual COLA provision generally based on the UCRP annual COLA formula, as long as the funded status of the UC-PERS Plus 5 Plan exceeds 100 percent.

[2] Measured in full-year increments.

[3] Retired members of the University of California Voluntary Early Retirement Incentive Program (the UC-PERS Plus 5 Plan) were members of PERS while employed at UC. They elected concurrent retirement under PERS and the UC-PERS Plus 5 Plan effective October 1, 1991. These members receive lifetime supplemental retirement income and survivor benefits from the UC-PERS Plus 5 Plan.

F. The President be authorized to implement these approved recommendations regarding changes to UCRP, the UC-PERS Plus 5 Plan and the Retiree Health Program and supporting technical details.

Upon motion of Regent Varner, duly seconded, the recommendations of the Committees on Finance and Compensation were approved, Regents Cheng, DeFreece, De La Peña, Gould, Hime, Johnson, Kieffer, Makarechian, Pattiz, Ruiz, Schilling, Varner, Wachter, and Yudof (14) voting "aye," and Regents Island, Reiss, and Zettel (3) voting "no."

The meeting adjourned at 4:30 p.m.

Attest:

Secretary and Chief of Staff

ATTACHMENT 1

Provision	Current UCRP Features included in the New Tier Design
Guaranteed Income from a Defined Benefit Plan	Same as current UCRP
Maximum Age Factor	2.5 percent; same as current UCRP
Reduction for Early Retirement	5.6 percent per year; same as current UCRP
Highest Average Plan Compensation	36 consecutive months; same as current UCRP
Maximum Benefit	Included, 100 percent of HAPC or IRC limit, whichever is less; same as current UCRP
Vesting Requirement	5 years; same as current UCRP
Post-Retirement COLA	Included, same as current UCRP
Disability Benefits	Included; similar to current UCRP (subject to comprehensive review by administration)
CalPERS Reciprocity	Included; same as current UCRP

ATTACHMENT 2

Provision	Current UCRP Features NOT included in the New Tier Design
Lump Sum Cashout	No choice of a Lump Sum Cashout; retirees must take the pension as monthly income.
Inactive Member COLA	No Inactive Member COLA, which provides an inflation adjustment to the HAPC for vested individuals who leave UC employment but retire at a later point.
Subsidized Survivor Benefits	Currently, UCRP provides a partial survivor benefit to eligible survivors, including spouses, domestic partners, children, and dependent parents, who survive the retiree, without an actuarial reduction in the pension paid to the retiree. Under the new tier, a retiree may still choose to provide a survivor benefit, subject to an actuarial reduction in the pension paid to the retiree.
Social Security Supplement	Under the current UCRP terms, employees with Social Security who retire before age 65 receive a temporary supplement from UCRP, paid through the month of their 65th birthday (or through the month of death, if earlier). This supplement temporarily restores the $133 reduction applied to a member's HAPC to account for the University's contributions to Social Security. The new tier will not include the temporary Social Security supplement for retirees under age 65 or the $133 offset to HAPC.
Retirement Age	Currently UC members can retire starting at age 50, and the maximum age factor is available at age 60. For future employees, the President recommends shifting the early retirement age to 55 and making the maximum age factor apply at age 65. An employee would be eligible for minimum benefits at age 55 with 5 years of service.
Estimated Long-Term Normal Cost	15.1 percent of covered compensation
Employee Contribution	7.0 percent of covered compensation; does not include the $19 per month offset to member contributions.
Estimated University Portion of Normal Cost	8.1 percent of covered compensation

ATTACHMENT 3

Recommended Retiree Health Eligibility

The following chart shows the eligibility factors derived by multiplying the age factor times the service credit factor:

Recommended Graduated Eligibility based on Age and Service
Age at Retirement

		Current Minimum Age 50	50-55	56	57	58	59	60	61	62	63	64	65
Years of UCRP Service Credit at Retirement	10	50%	0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%
	11	55%	0%	5.5%	11.0%	16.5%	22.0%	27.5%	33.0%	35.0%	44.0%	49.5%	55.0%
	12	60%	0%	6.0%	12.0%	18.0%	24.0%	30.0%	36.0%	38.5%	48.0%	54.0%	60.0%
	13	65%	0%	6.5%	13.0%	19.5%	26.0%	32.5%	39.0%	42.0%	52.0%	58.5%	65.0%
	14	70%	0%	7.0%	14.0%	21.0%	28.0%	35.0%	42.0%	49.0%	56.0%	63.0%	70.0%
	15	75%	0%	7.5%	15.0%	22.5%	30.0%	37.5%	45.0%	52.5%	60.0%	67.5%	75.0%
	16	80%	0%	8.0%	16.0%	24.0%	32.0%	40.0%	48.0%	56.0%	64.0%	72.0%	80.0%
	17	85%	0%	8.5%	17.0%	25.5%	34.0%	42.7%	51.0%	59.5%	68.0%	76.5%	85.0%
	18	90%	0%	9.0%	18.0%	27.0%	36.0%	45.0%	54.0%	63.0%	72.0%	81.0%	90.0%
	19	95%	0%	9.5%	19.0%	28.5%	28.0%	47.5%	57.0%	66.5%	76.0%	85.5%	95.0%
	20	100%	0%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%

To find the University contribution for a particular age and number of years UCRP service credit, look down the far left column for the number of years UCRP service credit; then look across that row to the appropriate age. That will show the amount of the University contribution. Example: with 15 years of UCRP service credit at age 60, the retiree receives 37.5% of the University contribution.

Note:

- An eligible employee hired prior to July 1, 2013, who did not have a minimum of 5 years of UCRP service credit and whose age in whole years and UCRP service credit were less than 50 as of June 30, 2013, is considered a "non-grandfathered" employee. A non-grandfathered employee who retires between the ages of 50 and 55 years of age with 10 or more years of UCRP service credit is eligible for "access only" retiree health coverage (no employer subsidy).
- A new eligible employee (i.e. an eligible employee hired on or after July 1, 2013) is not eligible to retire until 55 years of age. A new eligible employee who retires at age 55 with 10 or more years of UCRP service credit is eligible for "access only" retiree health coverage (no employer subsidy).