The Regents of the University of California

COMMITTEE ON COMPENSATION
July 15, 2010

The Committee on Compensation met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Hime, Johnson, Kieffer, Lozano, Ruiz, Varner, and Wachter; Ex officio members Gould and Yudof; Advisory member Powell

In attendance: Regents Blum, DeFreece, De La Peña, Island, Lansing, Makarechian, Maldonado, Marcus, Reiss, Schilling, and Zettel, Regents-designate Hallett, Mireles, and Pelliccioni, Faculty Representative Simmons, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice Presidents Brostrom and Taylor, Senior Vice President Stobo, Vice Presidents Beckwith, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Drake, Fox, Kang, Katehi, White, and Yang, and Recording Secretary Johns

The meeting convened at 11:25 a.m. with Committee Chair Varner presiding.

1. PUBLIC COMMENT

There were no speakers wishing to address the Committee.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 20 and June 3, 2010 were approved.

3. PROPOSED GOVERNANCE POLICY FOR INCENTIVE PROGRAMS FOR SENIOR MANAGEMENT GROUP MEMBERS

Background to Recommendation

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

In further response to these actions, the President directed the Department of Human Resources at the Office of the President to undertake a review of all incentive plans for
staff members at the campuses, Office of the President, and the medical centers for the purpose of aligning the framework, guidelines, accountability, and oversight. These reviews have led to an initiative to establish a consistent and rigorous process to review and amend the University’s incentive award programs, bringing consistent standards, accountability and oversight to the design, goal-setting, and administration of all variable pay plans for staff members regardless of funding source or level of staff participation.

This action item proposes an incentive awards policy applicable to Senior Management Group members (Attachment 1), which incorporates the governance framework presented to the Regents for discussion in March 2010. This proposed policy was submitted to the Regents for discussion in June 2010. The Department of Human Resources is also reviewing non-SMG staff policies and will recommend revisions for approval by the President to reflect the new governance framework.

**Recommendation**

The President recommended approval of the proposed Policy on Senior Management Group Incentive Awards effective July 1, 2010, as shown in Attachment 1.

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

Committee Chair Varner recalled that, consistent with the rules governing executive compensation programs, this new governance policy was discussed at the June special meeting of the Committee and was being presented now for approval. He reported that over the last few months, he and other Regents have worked closely with the Department of Human Resources at the Office of the President to expand on the governance principles described in the March Regents discussion item entitled *Governance of University of California Incentive Plans*.

The policy now presented reflects these essential governance elements and establishes a protocol for the Regents’ review of any incentive or variable pay plan for Senior Management Group (SMG) members. The two SMG incentive plans to be presented later, the Clinical Enterprise Management Recognition Plan and the Treasurer’s Annual Incentive Plan, have been amended to incorporate these governance components and to comport with the new policy.

Executive Vice President Brostrom explained that the new policy adopts and expands upon the governance elements discussed at the March and June meetings. It reflects a full and rigorous review of all incentive plans systemwide. The new process will engage the Regents up front to review and approve SMG incentive plans when they are created or revised. A key feature of the new governance criteria is the creation of independent Administrative Oversight Committees (AOCs) comprised of senior leadership and subject matter experts.
Once the Regents have approved a plan, the AOC administers the plan according to the approved document, reviewing objectives to ensure that they are measurable and require exceptional effort, providing centralized administrative guidance during the course of the year, and reviewing performance assessments and award calculations at the end of the year.

The revised policy and increased oversight are also consistent with the recommendations of the Task Force on UC Compensation, Accountability and Transparency, whose October 2009 report stated that “The compensation system should be simplified, wherever possible, without sacrificing rigorous review, approval and reporting mechanisms.”

Vice President Duckett stated that the University wished to ensure that it was moving toward a more consistent framework for this and other programs and aligning itself with market and industry standards. The policy also included monitoring and review by the Chief Compliance and Audit Officer. There will be an annual report of all incentive payments systemwide.

Executive Director Larsen provided a brief overview of the new policy. The policy governs incentive plans which provide for award opportunities that are “at risk,” meaning that awards are variable and dependent upon performance and accomplishments. If performance and contribution do not meet acceptable levels, there will not be an award.

The policy requires that an incentive plan document be established and approved by the President and the Regents if SMG members are included as eligible program participants. The plan document defines the key terms, conditions and design elements of the incentive award plan, including governance and oversight responsibilities; the process for obtaining plan approval by the Regents and for making changes to the plan; annual review of all incentive plans; eligibility criteria and award opportunity levels; criteria for establishing the annual performance objectives for each participant; funding and award formulas, including the protocol for the review and approval of awards; and any contingencies and administrative rules governing payouts, including any mechanism for the deferral of award payouts.

Language has been added to the policy that defines the role and responsibility of the AOCs. Substantive or material changes require the approval of the President and the Committee on Compensation. If non-material or technical corrections are required, these will require the President’s approval.

After performance has been measured and awards calculated, any individual awards for SMG members who report directly to the Regents will require approval by the Regents. Individual awards for all other SMG members will require approval by the AOC. The Chair of the Committee on Compensation will receive a listing of the award recommendations, with appropriate detail, prior to processing. All awards will be reported to the Regents and the public consistent with the reporting requirements in place at that time.
Incentive plans may be terminated or replaced at any time for any reason upon the recommendation of the President and with the approval of the Regents. The President, in consultation with the Chairman of the Board of Regents and other Chairs of the applicable Committees, may defer payments from an incentive award plan under certain circumstances.

Mr. Larsen noted that new language has been added to disallow awards for a participant who is found to have violated State or federal law or to have committed a serious violation of University policy. The University does not allow any guaranteed awards of any level or of any nature under any incentive award plan. Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year. Participants in an incentive award plan may not participate in any other University incentive award plan or bonus plan, except in the event of a mid-year transfer within the University.

Chairman Gould commended the work done in developing the policy. He referred to incentive program goals which require exceptional effort, so-called “stretch goals.” He asked for how many years participants would have to meet such goals in order to receive an award. Mr. Larsen responded that the Treasurer’s Annual Incentive Plan provided a good example. In this case, the plan document lays out investment performance objectives. It is a benchmark-driven incentive plan; payouts are relative to accomplishments against benchmarks. The entity target is to exceed the benchmark by 33 basis points; the threshold level is five basis points above the benchmark. In the last two years, threshold performance was not achieved and an award was not paid out for individuals whose awards were solely dependent on entity performance. Mr. Larsen described these goals as good stretch objectives. An independent analysis of the Treasurer’s Annual Incentive Plan has confirmed that these stretch goals are appropriate.

Regent Lozano emphasized the importance of goal-setting and rigor in measuring performance against goals. The Regents should not set these goals; rather, they rely on the University’s leadership to ensure that the stretch goals are adequate and that a disciplined approach is applied.

Committee Chair Varner observed that, if modifications became necessary in the future, they would be brought to the Regents. There will be ongoing discussion about the implementation of the policy. The present action concerns the fundamentals of the policy.

President Yudof stressed that this is not a new plan. It includes no new targets and makes no additional individuals eligible for incentive payments. He expressed his view that the Regents should be more involved in the initial review of incentive program policies; this kind of review is more difficult to carry out in the cases of individual awards. The Regents’ involvement is necessary earlier on in the process. This item is a governance proposal, not a substantive proposal determining the elements of compensation, and it should empower the Regents to become more active in this area. There will be an organized audit process for a certain percentage of all paying entities.
Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board.

4. **REVISIONS TO TREASURER’S ANNUAL INCENTIVE PLAN AND CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN**

**Background to Recommendation**

Seeking efficiency and oversight for what can be an easily misconstrued compensation practice, the President directed the Department of Human Resources at the Office of the President to conduct a full review of all incentive plans now in place across the system – on campuses, at medical centers and within the Office of the President. The purpose of the review was to determine whether the plans were effective, fair and in full alignment with UC policy and best industry practices, and also to recommend how they might be better designed and monitored going forward. In general, the University does not provide incentive plans. In those instances where market forces or standard industry practices require their implementation, the plans have proven to be a valuable management tool for driving performance toward strategic goals and retaining key personnel in competitive fields. Properly calibrated incentive plans put a percentage of an employee’s cash compensation at risk – only to be recovered by meeting specific performance targets. While some plans are applied to top levels of management, others are spread to a broader spectrum of employees. This is especially true in the medical centers, where thousands of represented employees participate.

This item provides a forum to discuss the review findings as well as specific recommendations it generated. A key proposal calls for a new, independent governance structure – an Administrative Oversight Committee (AOC) for every incentive plan. This body of subject matter experts and top management staff at the Office of the President will oversee the design and regularly audit the execution of all incentive plans across the University system, making sure they are fairly applied and properly tailored to stretch performance toward goals that are relevant to the University mission. Moreover, it is proposed that all plans going forward must seek and receive the highest levels of approval, either by the President or the Regents, before they can be implemented. In addition, it is proposed that no plan can be altered in any material way without review by the AOC and final approval by the President or Regents. The goal is not only to make sure these plans are as effective as possible, but also to bring full transparency and accountability to this selectively offered but strategically valuable compensation practice.

These proposed plan documents were presented in June for discussion and are now being presented to the Regents for action. The Department of Human Resources is also reviewing non-Senior Management Group staff plans and policies and will recommend revisions for approval by the President that are consistent with the new governance framework.
Market Competitive Total Cash Compensation
In order to maintain the level of excellence for which UC is noted, as well as to recruit and retain top faculty and administrators, the University of California’s compensation strategy is targeted at the average of the market, with the market defined as those labor markets in which the University competes for talent. In some cases, total targeted cash compensation may be comprised completely of base salary. If, however, an incentive program is deemed the most viable compensation method, the program shall be devised to provide an incentive in addition to base salary, awarded upon performance against stated objectives. Incentive plans provide the opportunity (not guarantee) for participants to receive a set amount (or portion thereof) of an award based on how they meet or exceed stated objectives that elevate their performance above the norm. The incentive pay is at risk, meaning that, if the participant fails to achieve objectives, he/she would receive only a partial award or no award at all, depending on actual performance. Likewise, if the participant exceeds all expectations, the participant could receive an award up to a stated maximum award level that is greater than the stated target award.

Recommendation
The President recommended approval of the plan amendments contained in the plan documents for the Treasurer’s Annual Incentive Plan (Attachment 2) and the Clinical Enterprise Management Recognition Plan (Attachment 3).

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

Committee Chair Varner briefly introduced the item.

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

5. AMENDMENTS TO PRINCIPLES FOR REVIEW OF EXECUTIVE COMPENSATION AND OTHER ACTIONS ON REGENTS POLICIES RELATED TO EXECUTIVE COMPENSATION

Background to Recommendation
These policy changes are required in order to bring the Regents policies related to executive compensation into conformance with more recent Regents actions in this area, to eliminate policies that are outdated and superseded by policy or practice, and to codify the definition of total compensation adopted by the Regents in 2007.

These policies are part of the overall framework of policies related to executive compensation at the University that continues to be reviewed and revised in response to the findings of the April 2006 report of the Task Force on UC Compensation, Accountability and Transparency. While the Bylaws and Standing Orders of The Regents have already been amended to reflect current practice, and a number of new Senior
Management Group policies have been adopted by the Regents, the process of reviewing and recommending action on older Regents policies in this area is ongoing.

Recommendation

The President recommended:

A. The amendment of Regents Policy 7201: Principles for Review of Executive Compensation, as shown in Attachment 4.

B. The adoption of the Regents Policy on the Definition of Total Compensation, as shown in Attachment 5.


D. The rescission of the following Regents policies, as shown in Attachments 7 through 11: Policy on Special Benefits for the Executive Program, Compensation for Staff and Management Employees, Executive Program Severance Pay Plan, Salary Setting for the Executive Program, and Special Supplemental Retirement Program.

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

Committee Chair Varner briefly introduced the item.

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

The meeting adjourned at 11:40 a.m.

Attest:

Secretary and Chief of Staff
Senior Management Group
Incentive Awards

Responsible Officer: Vice President–Human Resources
Responsible Office: Human Resources
Effective Date: July 1, 2010

Next Review Date: The responsible officer will review the policy annually for update purposes, and will conduct a full review at least every three years.

Who is Covered: All employees whose position is designated to be in the Senior Management Group, inclusive of officers of the University per Regents Standing Order 100.1.a.

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I. POLICY SUMMARY

This policy provides direction and authority for the development and approval of incentive award plans that include Senior Management Group (SMG) participants. Incentive awards are intended to motivate individuals or teams to produce results that have been pre-defined and communicated to the participants in advance in accordance with an incentive award plan, and to reward them for achieving the stated performance objectives. Plan performance objectives should require participants to stretch their performance beyond their normal duties and responsibilities so that the incentive award plan rewards exemplary performance.

II. POLICY DEFINITIONS

**Exception to Policy:** An action that exceeds what is allowable under current policy or that is not expressly provided for under any policy. Any such action must be treated as an exception and must be reviewed and approved by the Regents.

**Executive Officer:** The University President, Chancellor, or Laboratory Director.

**Plan Document:** A document that provides specific detail and definitions governing the administration of the incentive award plan, including, but not limited to, defining the eligible population, the plan year, the award opportunity levels, the criteria for establishing the annual performance objectives for each participant, and the methodology for calculating award payouts.

**Top Business Officer:** Executive Vice President–Business Operations for the Office of the President, Vice Chancellor for Administration, or the position responsible for the location’s financial reporting and payroll as designated by the Executive Officer.

III. POLICY TEXT

A. **Plan Document**

Incentive award plans must be documented and approved prior to implementation and communication. An incentive award program Plan Document must be approved by the Regents if SMG members are included as eligible program participants. Incentive or bonus award plans that do not have SMG participants are subject to the President’s approval.

The Plan Document defines the key terms, conditions and design elements of the incentive award plan. The Plan Document will include the following elements:

- Plan purpose
- Governance and oversight responsibilities
Senior Management Group Incentive Awards

- The process for plan approval and for making changes to the plan
- The plan year (performance measurement period)
- Eligibility criteria
- Award opportunity levels (e.g., threshold, target and maximum), when appropriate
- The criteria for establishing the annual performance objectives for each participant and, when appropriate, the weightings to be given performance objectives
- Funding and award formulas, if applicable
- The protocol for the review and approval of awards, as well as the schedule for award payouts
- Any contingencies and administrative rules governing payouts, including any mechanism for the deferral of award payouts

Incentive awards are at risk, meaning that whether they will be paid depends on the plan participant’s achievement of predetermined objectives. Awards must be variable and directly correlate to each plan participant’s actual accomplishment of stated performance objectives. Award amounts should be appropriate for the level of each participant’s performance and contribution. Incentive awards are not a means of providing additional pay for performing normal duties and responsibilities, as described in the participants’ respective job descriptions. Nor are they meant to be a replacement or substitute for a merit, promotion, equity, or retention increase as described in the Senior Management Group Salary and Appointment Policy.

B. Plan Review and Approval

Independent Administrative Oversight Committees (AOCs), comprised of senior executives and subject matter experts, will be established to oversee the creation and annual review of each incentive award plan. Incentive award plans that include SMG participants are first subject to the review and approval of the President. After the President approves such plans, the Chair of the Regents’ Committee on Compensation may consult with other Chairs of the applicable Regents’ Committees, as appropriate, prior to presentation to the full Board for approval. Once such a plan has been approved by the Board, the applicable AOC will be responsible for its administration. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.

Once approved by the Regents, an incentive award plan will be implemented each year upon the approval of the AOC if the plan is being implemented without changes. If a plan with SMG participants has been approved as outlined above, and the AOC recommends substantive or material changes to the plan, the applicable AOC will obtain the approval of the President and the Regents’ Committee on Compensation and other Committees, as appropriate, before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay
implementing substantive or material plan changes until after the end of the current plan year. However, if changes are implemented during the plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President, the Chair of the Regents’ Committee on Compensation and the Chairs of other applicable Regents’ Committees, as appropriate, and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the plans.

All incentive award plans will be reviewed annually by the applicable AOC, generally in the spring, but dependent upon the appropriate review/plan cycle so that new or revised plans are in effect at the commencement of the applicable plan year, which will be the performance measurement period.

C. Plan Administration

Each SMG member who participates in an approved incentive award plan will receive an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives, (b) defines performance standards to be used to determine the level of performance achieved for each objective, and (c) when appropriate, assigns performance weightings to the participant’s objectives.

The AOC will review and approve plan participants’ performance objectives prior to the start of the plan year. The AOC will also review and approve all proposed awards. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives and award recommendations. Any award for an employee who reports directly to the Regents or who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will also require the approval of the Regents. The AOC will provide the Chair of the Regents’ Committee on Compensation with a listing of award recommendations before awards are scheduled to be paid.

D. Funding Sources

Funding for awards may be provided by University-wide program sources and/or by local resources.

E. Treatment for Benefit Purposes

Cash awards under this policy are not considered to be compensation for University benefit purposes, such as the University of California Retirement Plan or employee life insurance programs.

F. Tax Treatment and Reporting

Under Internal Revenue Service Regulations (IRS), payment of such cash awards must be included in the employee’s income as wages subject to withholding for federal and state income taxes and applicable FICA taxes. The payment is reportable on the employee’s Form W-2 in the year paid.
Any payments to SMG members under this policy will be reported annually to the President and the Regents with appropriate detail, such as the range of awards and the percentage and amount of the award granted for each plan participant.

G. Conditions

Incentive award plans may be terminated or replaced at any time for any reason upon the recommendation of the President and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay plan termination until after the current plan year has concluded.

The President, in consultation with the Chair of the Board of Regents and other Chairs of the applicable Regents’ Committees, may defer payments from an incentive award plan for reasons specified in the applicable plan document. Once the contingency has been resolved, awards deferred for that reason will be processed as soon as possible thereafter.

A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under an incentive award plan.

The University may require repayment of an incentive award that was made as a result of inappropriate circumstances.

The University does not allow any guaranteed awards of any level or of any nature under any incentive award plan. Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year.

Participants in an incentive award plan may not participate in any other University incentive award plan or bonus plan, except in the event of a mid-year transfer within the University. Specifically, if a plan participant is eligible for only a partial year award under a plan because a mid-year transfer of position renders him or her eligible for plan participation for only a portion of the plan year, he or she may participate in a different University plan for the other portion of the plan year. Concurrent participation in more than one plan is not permitted.

IV. APPROVAL AUTHORITY

A. Implementation of the Policy

The Vice President–Human Resources is the Responsible Officer for this policy and has the authority to implement the policy. The Responsible Officer may apply appropriate interpretations to clarify policy provided that the interpretations do not result in substantive changes to the underlying policy.

B. Revisions to the Policy

The Regents is the Policy Approver for this policy and has the authority to approve any policy revisions upon recommendation by the President.
The Vice President–Human Resources has the authority to initiate revisions to the policy, consistent with approval authorities and applicable Bylaws and Standing Orders of the Regents.

The Executive Vice President–Business Operations has the authority to ensure that policies are regularly reviewed and updated, and are consistent with University governance policies.

C. Approval of Actions

Authority to approve incentive award plans and individual incentive awards is described in Section III.B and III.C of this policy.

All actions that exceed this policy or that are not expressly provided for under any policy must be approved by the Regents.

V. COMPLIANCE

A. Compliance with the Policy

The following roles are designated at each location to implement compliance monitoring responsibility for this policy:

The Top Business Officer and/or the Executive Officer at each location will designate the local office to be responsible for the ongoing reporting of policy compliance, including collecting information regarding all relevant compensation package activity and creating specified regular compliance reports for review by the location’s Top Business Officer.

The Top Business Officer establishes procedures to collect and report information, reviews the specified regular compliance reports for accuracy and completeness, reviews policy exceptions and/or anomalies to ensure appropriate approval has been obtained, and submits a copy of the compliance report to the Executive Officer for signature.

The Executive Officer is accountable for monitoring and enforcing compliance mechanisms, ensuring monitoring procedures are in place, approving the specified regular compliance reports, and sending notice of final approval for the reports to the Senior Management Compensation Office, Top Business Officer, and Local Resources.

The Vice President–Human Resources is accountable for reviewing the administration of this policy. The Senior Vice President–Chief Compliance and Audit Officer will periodically audit and monitor compliance with these policies, and results will be reported to senior management and the Regents.

B. Noncompliance with the Policy

Noncompliance with the policy is handled in accordance with the Regents’ Guidelines for Corrective Actions Related to Compensation Practices and Guidelines.

Noncompliance is reported in the monthly compliance report from each location as approved by the Executive Officer and reviewed by the Senior Vice President–Chief Compliance and Audit Officer and the Regents at each Regents’ meeting.

REVISION HISTORY

As a result of the issuance of this policy, the following policy is no longer applicable for SMG members:

- Personnel Policies for Staff Members 34 (Incentive Awards), dated July 1, 1996

IMPLEMENTATION PROCEDURES

The Responsible Officer may develop procedures or other supplementary information to support the implementation of this policy. Such supporting documentation does not require approval by the Regents.
The University of California
Office of the Treasurer
Annual Incentive Plan (AIP)
For Plan Year July 1, 2010 through June 30, 2011

Plan Purpose
Under the authority granted by The Board of Regents, the purpose of the University of California Office of the Treasurer Annual Incentive Plan (“Plan”) is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key objectives in the Treasurer’s Office which are consistent with University investment objectives. The Plan provides participants with an opportunity to receive an annual non-base building cash incentive based on the performance of the University’s investment portfolio, the assets and sectors/functional groups managed by the individual participant, and the individual participant’s performance. The incentive award is earned based on the achievement of specific financial, non-financial, and strategic objectives relative to the mission and goals of the Treasurer’s Office and the performance of the investment portfolio. The Plan focuses participants on maximizing returns in excess of stated performance benchmarks for all funds managed while assuming appropriate levels of risk. It is intended to support teamwork so that members of the Treasurer’s Office operate as a cohesive group.

Plan Year
The Plan year will correspond to the University’s fiscal year, beginning July 1 of each year and ending the following June 30.

Plan Oversight
Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- Executive Vice President and Chief Financial Officer
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Chief Investment Officer (CIO) or other key members of the CIO’s staff. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the CIO and other members of the CIO’s staff, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.
Plan Approval
The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents’ Committees on Compensation and Investments before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the current Plan year has ended. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Moreover, no changes will affect awards earned by Plan participants for performance in prior Plan years. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Investments and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

Plan Eligibility
Eligible participants include senior management, professional investment and trading staff and other key positions in the Treasurer’s Office as recommended by the CIO and subject to approval by the AOC. Eligibility is reviewed annually by the CIO and is subject to approval by the AOC, prior to the beginning of the Plan year. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Participants in the Plan are not eligible to receive an award under any other University of California incentive program, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chairs of the Regents’ Committees on Compensation and Investments with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Continuing participants must be full-time employees of the University of California Office of the Treasurer at the end of the Plan year (i.e., on June 30) to be eligible to receive an award for that Plan year. Eligible employees who are appointed after the start of the Plan year must have an employment start date no later than January 15, to be eligible to receive an award for that Plan year. Newly hired participants will receive a prorated award in the first year based on the actual...
salary received during the Plan year. Participants who were not working for a significant portion of the Plan year may receive a prorated award. For the purpose of this Plan leave of absence status will be determined by applicable University policies governing such leaves.

**Termination Provisions**
Participants must remain actively employed by the University of California at the end of each Plan year in order to receive previously deferred payments of a determined award. Participants who voluntarily separate or who are involuntarily terminated for cause from employment with the University of California will forfeit any previously deferred award amount and any associated interest that has not yet been paid as of the date of separation from University employment.

Participants who retire, become totally disabled, or involuntarily separate (due to reorganization or restructuring) are eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of separation of employment from the University. For the purpose of this Plan retirement and total disability status will be determined by applicable University policies. Lump sum payments as described above will be issued as soon as practicable following the date of separation. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Involuntary separation for any other reason will be handled on a case by case basis.

Participants whose employment terminates as a result of death are similarly eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of death. In this situation, lump sum award payments will be made to the estate of the deceased participant as soon as practicable following the date of death. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

**Incentive Award Opportunity Levels**
Plan participants are assigned award levels that serve to motivate individual, group and total entity performance as part of a competitive total cash compensation package. Participants are eligible to receive an incentive award, expressed as a percentage of their salary, which corresponds to predetermined target levels of performance. Actual incentive award levels may be greater or less than the target opportunity level, depending on performance relative to policy portfolio benchmarks and individual contribution. Award opportunity levels by position are as follows:
<table>
<thead>
<tr>
<th>Position</th>
<th>Threshold Opportunity (as % of Salary)</th>
<th>Target Opportunity (as % of Salary)</th>
<th>Maximum Opportunity (as % of Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer (CIO)</td>
<td>50%</td>
<td>100%</td>
<td>165%</td>
</tr>
<tr>
<td>Senior Managing Director &amp; Associate CIO</td>
<td>30%</td>
<td>60%</td>
<td>120%</td>
</tr>
<tr>
<td>Managing Director, Director, &amp; Sr. Portfolio Manager</td>
<td>22.5%</td>
<td>45%</td>
<td>90%</td>
</tr>
<tr>
<td>Investment Officer</td>
<td>17.5%</td>
<td>35%</td>
<td>70%</td>
</tr>
<tr>
<td>Analysts &amp; Jr. Portfolio Manager</td>
<td>10%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Other Participants</td>
<td>10%</td>
<td>20%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Performance Objectives**

Annual investment performance objectives will be reviewed by the Executive Director – Compensation Programs and Strategy in consultation with the CIO and an independent investment consultant. The investment performance objectives will be reviewed and approved by the AOC in consultation with the CIO, the President, and Chairs of the Regents’ Committees on Compensation and Investment prior to the beginning of the Plan year. Attachment A of this Plan Document contains the investment performance objectives approved by the AOC for the current Plan year.

Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC in consultation with the President and Chairs of the Regents’ Committees on Compensation and Investments prior to the beginning of the Plan year. The individual performance objectives of the CIO will be approved annually by the President and Chairs of the Regents’ Committees on Compensation and Investments, in consultation with the AOC, prior to the beginning of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives.

Performance objectives for each Plan participant must include both the Entity Performance and Individual/Qualitative Performance categories listed below. Asset Class Performance and Sector/Functional Group Performance objectives are incorporated for participants as appropriate. The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives applicable to the Plan, (b) defines the performance standards and metrics that will be used to measure threshold, target, and maximum performance for each objective, and (c) assigns performance weightings to the participant’s objectives.

Below are the four Performance Objective categories for the Plan:

1. Entity Performance (e.g., total investment portfolio performance)
2. Asset Class Performance (e.g., US equity, international equity, private equity, bonds & STIP)
3. Sector/Functional Group Performance (e.g., government, credit, etc.)
4. Individual/Qualitative Performance
Individual/Qualitative Performance objectives may be established in, but not limited to, the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

**Performance Standards**
Each performance objective will include standards of performance defined as follows:

- Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.
- Target Performance: This level represents full achievement of all performance expectations.
- Maximum Performance: This level represents results which clearly exceed expectations.

See the table in Attachment A for more detail on specific investment performance metrics.

**Performance Measures and Weightings**
A Plan participant’s performance against assigned qualitative goals will be assessed by the CIO in consultation with the participant’s supervisor, if the immediate supervisor is not the CIO.

Investment performance of both the University portfolios and the market indexes is measured using a three-year rolling average. This method provides for longer term focus on and accountability for sustainable performance results. Investment returns in a given year, whether positive or negative, affect the average, and thus the payout, over three separate Plan years. The lowest value of any award in a given year will be zero.

Individual awards are determined based on achievement of performance objectives relative to policy portfolio benchmarks and individual contribution, and in accordance with the payout curve established for each performance objective. Performance measures for participants in their third full Plan year or later are weighted as displayed in the table below.

<table>
<thead>
<tr>
<th>Position</th>
<th>Weighting for Entity Performance Objectives</th>
<th>Weighting for Asset Class and Sector/Functional Group Performance Objectives</th>
<th>Weighting for Individual/Qualitative Performance Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer</td>
<td>80%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Associate CIO</td>
<td>65%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Senior Managing Director (Risk Mgmt)</td>
<td>80%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Senior Managing Director (Asset Class)</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Managing Director</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Director</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Senior Portfolio Manager</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
</tr>
</tbody>
</table>
In recognition of a participant’s limited ability to affect attainment of goals in the Plan during the first two years of service, the following adjustments are made in the Weighting table for participants in their first three Plan years.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Weighting for Quantitative Performance Objectives (Entity, Asset Class, Sector/Functional Group)</th>
<th>Weighting for Individual/Qualitative Performance Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>First partial year</td>
<td>20% / 1 year performance</td>
<td>80%</td>
</tr>
<tr>
<td>Year 1</td>
<td>30% / 1 year performance</td>
<td>70%</td>
</tr>
<tr>
<td>Year 2</td>
<td>50% / 2 years performance</td>
<td>50%</td>
</tr>
</tbody>
</table>

For the new employee, the relevant investment returns achieved during the transition period (up to 18 months) may be excluded from the three year rolling average.

In special cases, such as for a new participant charged with the restructuring of an entire asset class or strategy, the above weights may be modified at the recommendation of the CIO, subject to approval by the AOC. In such a case, the participant will be required to meet specific objectives which contribute to long-term performance.

The phase-in of new asset classes will be handled in a similar way, that is, performance for the first year of a new asset class will be based on a single year’s return; performance for the second year of the class will be based on the first two years’ returns. See the Administrative Guidelines for more details of specific circumstances.

**Payout Determination**

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant’s total salary (including base salary, stipends, vacation pay, and sick pay, but excluding prior year incentive award payouts and disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation of the award payout. The current position held by the participant at the end of the Plan year will determine the award opportunity level in the calculation. For participants at or above the Investment Officer level (as reflected in the charts above), awards are payable in three annual payments comprised of 50 percent paid in the current Plan year, 25 percent paid in the next year and 25 percent paid in the year thereafter. Award payments will be made as soon as practicable following the end of the Plan year. The deferred portion of the award earns interest based on the Short-Term Investment Pool (STIP) rate of return. Payments of the deferred portions of awards are generally issued during the fall of each year. Accrued awards for participants on approved leave of absence will be paid according to the normal schedule. Awards for participants below
the Investment Officer level (as reflected in the charts above) are payable in one lump sum; there is no deferral of any portion of their awards.

A polynomial payout curve is used to determine actual award payouts for performance levels between threshold and maximum and relative to Entity, Asset Class, and Sector/Functional Group performance objectives. The chart below shows an example of the polynomial payout curve for the US Equity asset class. In this example, the Threshold is 15 bp, the Target is 75 bp, and the Maximum is 150 bp.

The primary advantage of the polynomial curve is that it supports the achievement of consistent and sustained performance over the longer term by encouraging participants to achieve target level or higher performance.

**Extraordinary Market Environments**
In periods of unusual market and economic stress, when the entity experiences negative investment returns, regardless of the entity’s relative performance, the portion of the current Plan year awards that would normally be paid at the end of the current Plan year may be deferred. If this deferral mechanism is invoked, awards will be reviewed and approved in the usual manner. But, in conjunction with that review and approval process, deferral will be recommended by the AOC and then approved by the President and the Chairs of the Regents’ Committees on Compensation and Investments. In such a case, the portion of the current Plan year awards that have been deferred will earn interest at the STIP rate. The portion of the current Plan year awards that have been deferred will be processed and distributed as soon as possible. However, in no event will they be deferred longer than one year.

**Plan Administration**
The Plan will be administered by the Executive Director – Compensation Programs and Strategy consistent with the specific design parameters approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary.
Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC in consultation with the President and Chairs of the Regents’ Committees on Compensation and Investments. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards. Evaluation of the CIO will be conducted by the Chair of the Regents’ Committee on Compensation with input from the President and the Chair of the Regents’ Committee on Investments. Any incentive award for the CIO, the Assistant Treasurer, or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will require the approval of the Board in addition to the AOC.

The AOC must convene to review all recommended awards within 60 days of the fiscal year-end. Payouts to individuals of approved awards must be made within 90 days of the fiscal year-end unless the provision above regarding Extraordinary Market Environments applies.

Award amounts for Plan participants in the Senior Management Group will be reported annually to the Regents by the Executive Director – Compensation Programs and Strategy. The reports will contain appropriate levels of detail, such as the range of awards and the percentage and amount of the award granted for each Plan participant.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents’ Committees on Compensation and Investments, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants’ performance during the portion of the Plan year prior to termination. Moreover, such termination will not affect awards earned by Plan participants for performance in prior Plan years.

The University may require repayment of an award that that was made as a result of inappropriate circumstances.
## Treasurer’s Office Annual Incentive Plan (AIP)

### Performance Objectives for FY 2010-11<sup>(1)</sup>

<table>
<thead>
<tr>
<th>Entity: UC Treasurer</th>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEP, UCRP, UCRSP&lt;sup&gt;(2)&lt;/sup&gt;, STIP &amp; TRIP</td>
<td>Asset Weighted Policy Benchmark</td>
<td>5 bp</td>
<td>33 bp</td>
<td>72 bp</td>
</tr>
</tbody>
</table>

### Asset Class:

#### Public Equity

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined Equity</td>
<td>Asset Weighted Policy Benchmark (Equity)</td>
<td>15 bp</td>
<td>80 bp</td>
</tr>
</tbody>
</table>

#### Fixed Income

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined Fixed Income</td>
<td>Asset Weighted Policy Benchmark (Fixed Income)</td>
<td>5 bp</td>
<td>40 bp</td>
</tr>
</tbody>
</table>

#### Private Equity

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity - Asset Class</td>
<td>Venture Economics Vintage Year Indices</td>
<td>50 bp</td>
<td>100 bp</td>
</tr>
</tbody>
</table>

#### Absolute Return

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute Return</td>
<td>50% HFRX AR Index + 50% HFRX MD Index</td>
<td>75 bp</td>
<td>200 bp</td>
</tr>
</tbody>
</table>

### Income Funds

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICC Fund</td>
<td>US 5-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
<tr>
<td>Short Term Investment Pool (STIP)</td>
<td>US 2-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
<tr>
<td>Savings Fund</td>
<td>US 2-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
</tbody>
</table>

### Sector

#### Fixed Income: Government Sector

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Inflation Protected Securities</td>
<td>Barclays Capital US TIPS Index</td>
<td>5 bp</td>
<td>12 bp</td>
</tr>
<tr>
<td>Gov’t Sponsored - UCRP / GEP / TRIP / UCRSP</td>
<td>Gov’t Sponsored Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
</tbody>
</table>

#### Fixed Income: Collateral Sector

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral - UCRP / GEP / TRIP / UCRSP</td>
<td>Collateral Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>25 bp</td>
</tr>
</tbody>
</table>

#### Fixed Income: Credit Sector

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit - UCRP / GEP / TRIP / UCRSP</td>
<td>Credit Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
<tr>
<td>High Yield Bonds - UCRP / GEP / TRIP</td>
<td>ML High Yield Cash Pay Index</td>
<td>12 bp</td>
<td>65 bp</td>
</tr>
<tr>
<td>Emerging Market Debt - UCRP / GEP</td>
<td>JP Morgan Emg Market Bond Index Plus</td>
<td>25 bp</td>
<td>125 bp</td>
</tr>
</tbody>
</table>

#### Real Estate Sector

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global REITS</td>
<td>50% FTSE/NAREIT Global ex US Index + 50% FTSE/NAREIT US Index</td>
<td>25 bp</td>
<td>125 bp</td>
</tr>
<tr>
<td>Open End Funds - Core</td>
<td>NFI-ODCE Index</td>
<td>5 bp</td>
<td>35 bp</td>
</tr>
<tr>
<td>Open End Funds - Value Add</td>
<td>NFI-ODCE Index</td>
<td>25 bp</td>
<td>100 bp</td>
</tr>
</tbody>
</table>

### Reference: Used in Weighted Public Equity and Fixed Income Calculations

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity - UCRP / GEP</td>
<td>Russell 3000 Tobacco-Free Index</td>
<td>15 bp</td>
<td>75 bp</td>
</tr>
<tr>
<td>Developed Non US Equity - UCRP / GEP</td>
<td>MSCI World ex US Net Tobacco Free Index</td>
<td>18 bp</td>
<td>100 bp</td>
</tr>
<tr>
<td>Emerging Markets Equity - UCRP / GEP</td>
<td>MSCI Emerging Markets Free Net Index</td>
<td>25 bp</td>
<td>125 bp</td>
</tr>
<tr>
<td>Bonds - UCRP / GEP</td>
<td>Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
<tr>
<td>403(b) Bonds</td>
<td>Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
</tr>
</tbody>
</table>

---

**Real Estate and Private Equity**

These asset classes are not marked to market and their performance is meaningfully measured only over a long period using Internal Rates of Return (IRRs), not the time-weighted returns of marketable assets. Thus, special procedures have been implemented to fairly measure their performance and award those responsible for managing the assets. See the Administrative Guidelines for these detailed procedures.
The University of California
Clinical Enterprise Management Recognition Plan (CEMRP)
For Plan Year July 1, 2010 through June 30, 2011

**Plan Purpose**
The purpose of the University of California Clinical Enterprise Management Recognition Plan ("Plan") is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key Clinical Enterprise objectives. Achievement is measured based on specific financial and/or non-financial objectives, e.g. quality of care or patient safety, and strategic objectives which relate to the Clinical Enterprise’s mission.

The Plan encourages the teamwork required to meet challenging organizational goals. The Plan also uses individual performance objectives to encourage participants to maximize their personal effort and to demonstrate individual excellence.

**Plan Oversight**
Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- The Chancellor of every campus with a medical center
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Senior Vice President – Health Sciences and Services, and representatives from the medical centers comprised of a Chief Medical Officer, a Chief Nursing Officer, and a Chief Human Resources Officer, each selected from a UC medical center. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the Senior Vice President – Health Sciences and Services, Chief Medical Officers, Chief Nursing Officers, and Chief Human Resources Officers, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.

**Plan Approval**
The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents’ Committees on Compensation and Health Services before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the end of the current Plan year. However, if
changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Health Services and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

**Plan Year**
The Plan year will correspond to the University’s fiscal year, beginning July 1 and ending the following June 30.

**Eligibility**
Eligible participants are defined as the senior leadership of the Clinical Enterprise who have significant strategic impact and a broad span of control with the ability to effect enterprise-wide change. Participants must be full-time employees of the University at the end of the Plan year to be eligible to receive an award for that Plan year, unless they have retired or involuntarily separated from the University as set forth in the Separation from the University provision below. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chair of the Regents’ Committee on Compensation with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Participants in this Plan may not participate in any other incentive or bonus plan during the Plan year, including the Health Sciences Compensation Plan, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

**Award Opportunity Levels**
As part of their competitive total cash compensation package, Plan participants are assigned threshold, target and maximum recognition award levels, expressed as a percentage of their salary. These award opportunity levels serve to motivate and drive individual and team performance toward annually established objectives. Target awards shall be calibrated to expected results while maximum awards shall only be granted for superior performance against established performance standards. Actual awards for any individual participant may not exceed the maximum award opportunity level assigned. Award opportunity levels are determined, in part, based on the participant’s level within the organization and the relative scope of responsibilities, impact of decisions, and long term strategic impact.
Performance Standards
Each Plan participant shall be assigned Performance Objectives which have standards of performance defined as Threshold, Target, and Maximum performance consistent with the following:

Threshold Performance – Represents the minimum acceptable performance standard for which a recognition award can be paid. This level represents satisfactory results, but less than full achievement of stretch objectives.

Target Performance – Represents successful attainment of expected level of performance against stretch objectives.

Maximum Performance – Represents results which clearly and significantly exceed all performance expectations for the year. This level of accomplishment should be rare.

Performance Objectives and Weightings
Prior to the beginning of each fiscal year, a series of financial and non-financial objectives will be established for each participant, consistent with the mission and goals of each medical center in the Clinical Enterprise. Objectives should fall into the categories below, with no single category accounting for more than 50 percent of the total incentive. It is recommended that no more than three objectives be established per category utilized, with no more than nine objectives in total per participant. Objectives should each relate to one of the following:

- Financial Performance
- Quality Improvements
- Patient Satisfaction
- Key Initiatives in Support of the Strategic Plan
- People and other Resource Management

In addition, the participants’ performance toward their assigned objectives will be measured across three organizational levels, when appropriate: Clinical Enterprise, Institutional (defined as the participant’s medical center) and Individual. Suggested weighting ranges are listed in the table below. Clinical Enterprise level objectives encourage medical centers to work together for the benefit of the entire Clinical Enterprise system. Institutional objectives encourage local teamwork and recognize the joint effort needed to meet challenging organizational goals.

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Threshold Opportunity (as % of Salary)</th>
<th>Target Opportunity (as % of Salary)</th>
<th>Maximum Opportunity (as % of Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Other Key Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Individual objectives are designed to encourage participants’ maximum effort and demonstration of individual excellence.

**Performance Weightings:**

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Clinical Enterprise Level</th>
<th>Institutional Level</th>
<th>Individual Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
<td>10% - 25%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>10% - 25%</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
</tr>
<tr>
<td>Other Clinical Participants</td>
<td>NA</td>
<td>25% - 50%</td>
<td>25% - 75%</td>
</tr>
</tbody>
</table>

Annual performance objectives for the Clinical Enterprise Level (system-wide), annual Institutional performance objectives for each medical center, and annual performance objectives for the individual CEOs of the medical centers will be established and administered by the Senior Vice President – Health Sciences and Services in consultation with the respective Chancellors. Annual performance objectives for the Senior Vice President – Health Sciences and Services will be established by the President in consultation with the Chairs of the Regents’ Committees on Compensation and Health Services in advance of the Plan year. Annual performance objectives for other participants will be established and administered by each participant’s supervisor in consultation with the CEO of that medical center.

Performance objectives must be specific, measureable, and stretch. Assessment of participants’ performance and contribution relative to these objectives will determine their actual award amount.

Objectives for participants in this Plan must be submitted to the AOC, which will review and approve the objectives in consultation with the President and the Chairs of the Regents’ Committees on Compensation and Health Services in advance of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives.

**Financial Standards and Plan Funding**

A financial target will be set by each medical center for the Plan year. These financial targets will be reviewed by the AOC in consultation with the Senior Vice President – Health Sciences and Services and the Executive Vice President and Chief Financial Officer, and approved by the President in advance of the beginning of the Plan year.

Full funding of awards for participants at a medical center in the Plan year is contingent upon that medical center’s ability to pay out the awards while maintaining a positive net cash flow from operations before intra-institutional transfers. In the event that the medical center cannot meet that financial standard for the Plan year, but the medical center attains key Institutional non-financial objectives, the AOC may consider and approve, in consultation with the Chancellor and Senior Vice President – Health Sciences and Services, partial award payouts for
some or all of that medical center’s Plan participants based on the Award Opportunity Levels
defined above and participants’ achievement of their assigned objectives for the Plan year.

**Administrative Provisions and Award Approval**
The Plan shall be administered under the purview of the Executive Director – Compensation
Programs and Strategy, at the Office of the President, consistent with the Plan features outlined
above, and as approved by the President and the Regents. The Plan features and provisions
outlined in this document shall supersede any other Plan summary.

The supervisor of each Plan participant will provide him/her with an annual Terms and
Conditions document that (a) identifies the participant’s individual performance objectives for
the Plan year, (b) defines the standards that will be used to measure threshold, target, and
maximum performance for each objective, and (c) assigns performance weightings to the
participant’s objectives.

At the end of each fiscal year, proposed awards will be submitted to the Executive Director -
Compensation Programs and Strategy. Except as set forth below, review and approval of all
awards under the Plan will be the responsibility of the AOC, which will review recommended
awards within 60 days of the end of the Plan Year. Any award for the Senior Vice President –
Health Sciences and Services or any other Plan participant who holds one of the executive
offices identified in section 92032(b)(7)(B)(i) of the California Education Code, including, but
not limited to, any vice president of the University, will require the approval of the Regents in
addition to the approval of the AOC. Approved awards will be processed as soon as possible
unless they have been deferred pursuant to the provision set forth below. The AOC will consult
the Chief Audit and Compliance Officer in an independent advisory capacity during its review of
proposed awards.

The Executive Director – Compensation Programs and Strategy will provide the President and
Chairs of the Regents’ Committees on Compensation and Health Services with a listing of the
award recommendations before the awards are scheduled to be paid. The awards will be
reported annually to the Regents, with appropriate detail, such as the range of awards and the
percentage and amount of the award granted for each Plan participant.

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to
normal University payroll procedures. The participant’s total University salary (including base
salary, stipends, and PTO pay, but excluding any prior year incentive award payouts and
disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation
of the award payout.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of
the President, in consultation with the Chairs of the Regents’ Committees on Compensation and
Health Services, and with the approval of the Regents. Reasonable efforts, given all
circumstances, will be made to delay Plan termination until after the current Plan year has
concluded. However, if the Plan is terminated during the Plan year, awards for the current year
will still be processed based on participants’ performance during the portion of the Plan year
prior to termination.
Notwithstanding any other term in the Plan, current year awards may be deferred if the Regents issue a declaration of extreme financial emergency upon the recommendation of the President or if the Clinical Enterprise experiences a system-wide negative cash flow. In such situations, the deferral would be made upon the recommendation of the AOC and require the approval of the President and the Chairs of the Regents’ Committees on Compensation and Health Services. In such a case the current year deferred awards will earn interest at the STIP rate. Award payments that have been approved, but deferred, will be processed and distributed as soon as possible. In no event will awards be deferred longer than one year.

The University may require repayment of an award that has been made as a result of inappropriate circumstances.

**Separation from the University**
Participants who retire or who involuntarily separate due to reorganization, restructuring, or total disability during the current Plan year are eligible to receive a prorated incentive award for the current Plan year based on the date of separation of employment from the University. Retirement and total disability status will be determined based upon applicable University policies. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Participants whose employment terminates as a result of death during the current Plan year are similarly eligible to receive a prorated incentive award for the current Plan year based on the date of death. In this situation, award payments will be made to the estate of the deceased participant. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

Involuntary separation during the current Plan year for any other reason will be handled on a case by case basis.

**Partial Year Awards**
Participants must have a minimum of six months of service to participate in the Plan and will receive a prorated award in their first year of participation. Similarly, participants who were not working for a significant portion of the Plan year may receive a prorated award. Participants who transfer within the University to a position that would not be eligible for participation in the Plan are eligible to receive a prorated award for that Plan year.
WHEREAS, the Regents recognize that the people of California have entrusted them with the responsibility for careful stewardship of the resources of the University of California; and

WHEREAS, the Regents are committed to public access, awareness, knowledge, and understanding of The Regents' decision-making processes; and

WHEREAS, public concerns about the openness of Regents' deliberations with regard to executive compensation require a response;

NOW, THEREFORE, BE IT RESOLVED that the following principles shall obtain with regard to activities involving executive compensation:

1. **Executive** compensation shall include all elements of compensation identified in the Regents Policy on the Definition of Total Compensation, including all salary and other cash payments, all one-time payments/reimbursements, and all benefits and perquisites, that are applicable to members of the Senior Management Group (SMG) be defined as including base salary, retirement and other benefits, perquisites, severance payments (except those made in connection with a dismissal or a litigation settlement), all forms of deferred compensation, supplemental retirement, all components of housing allowances or any other form of compensation applicable to the Officers of the University and the Principal Officers of The Regents, as currently and as may subsequently be described in the Bylaws and Standing Orders of The Regents. Pursuant to Standing Order 100.1, the Officers of the University are the President, Senior Vice Presidents, Vice Presidents, Associate Vice Presidents, Assistant Vice Presidents, University Controller, Chancellors, Vice Chancellors, Directors and Deputy Directors of Lawrence Berkeley Laboratory, the Lawrence Livermore National Laboratory, and the Los Alamos National Scientific Laboratory, and Directors of University hospitals. The Principal Officers of The Regents, as consistent with Bylaw 20, are the Secretary, Treasurer and General Counsel; and

2. Discussions of and actions on executive compensation programs shall occur in open session of the Committee on Compensation Subcommittee on Officers’ Salaries and Administrative Funds and/or the Committee on Finance. All members of the Board shall be invited to attend such meetings. Final action regarding such programs shall occur in open session of the Board at a meeting held no sooner than twenty days following the meeting at which a recommendation requiring Board approval shall have been considered approved by the Committee on Compensation Finance. Information and background materials shall fully and clearly disclose all relevant and material facts related to executive compensation programs, such as annual reviews of market data and comparison studies that form the analytical bases for the
establishment of executive compensation levels. These materials shall be provided in advance of the meeting in such a manner as to afford sufficient opportunity for review and understanding of the contents; and

3(a). Except as provided in section 3(b) below, discussions concerning appointment, status of employment, performance, evaluations and compensation, or dismissal of SMG members of individual officers specifically discussed in conjunction with such evaluations, and actions with respect to recommendations concerning such matters, shall occur in closed sessions of the Committee on Compensation Subcommittee on Officers’ Salaries and Administrative Funds and/or the Committee on Finance, consistent with the Education Code and the Bagley-Keene Open Meeting Act. All members of the Board shall be invited to attend.

3(b). Notwithstanding section 3(a), action taken by a committee of the Regents, and final action by the full Board of Regents, on a proposal adopting or modifying the Total Compensation of any member of the SMG shall occur in an open session of each of those bodies, and shall include a disclosure of the compensation package and rationale for the action. Final action regarding such matters shall occur in closed session of the Board, except that final action regarding compensation for the President, Vice Presidents, Chancellors, Treasurer, Associate Treasurer, General Counsel, and Secretary shall occur in open session of the Board as the last action item on the agenda. The specific proposal will be made available to members of the public in attendance, prior to the commencement of the open session at which it will be voted upon.

Agendas for such meetings shall be provided to all Regents in advance of the meeting and shall contain information and background materials sufficient to lead to a full understanding of the matters under discussion, including all compensation elements relevant to each individual officer under consideration. All members of the Board shall be invited to attend.

The meeting notice for any meeting at which compensation for a member of the SMG the Principal Officers of The Regents, President, Vice Presidents, Chancellors, and Associate Treasurer shall be voted upon shall include the title of the SMG member so state; and

4. Any paid leave of absence for Officers of the University, as defined above, granted by the President pursuant to Standing Order 100.4(e), shall be reported to the Board by the President. Any paid leave of absence for the President, or for Principal Officers of The Regents, as defined above, shall be approved by The Regents. Any paid leave of absence that exceeds ninety days for Chancellors, the Ernest Orlando Lawrence Berkeley National Laboratory Director, Executive Vice Presidents, Senior Vice Presidents, and other Vice Presidents shall be subject to approval by the Board of Regents; and

5. All actions affecting executive compensation and paid leaves of absence for members of the SMG Officers of the University and Principal Officers of The Regents shall be released to the public in a timely manner consistent with Bylaw 14.7. It is the intention of The Regents that administrative mechanisms to implement this provision shall be coordinated, strengthened and refined; and
6. Effective July 1, 1992, and thereafter, Annual reports on the level of compensation and funding sources for Officers of the University and Principal Officers of The Regents shall be approved by The Regents and submitted by the President to the Regents and to the California Postsecondary Education Commission, the Joint Legislative Budget Committee, and the relevant policy and fiscal committees of the Legislature and the Governor.
REGENTS POLICY ON THE DEFINITION OF TOTAL COMPENSATION

Approved July 15, 2010

TOTAL COMPENSATION shall be defined as:

1. All salary and other cash payments made to the employee or on behalf of the employee including but not limited to: base salary, stipends, incentive payments, bonuses, cash awards, automobile allowances, or any other cash payments that would be considered W-2 income to the employee.

2. One-time payments/reimbursements made to the employee or on behalf of the employee including but not limited to: relocation allowance, temporary housing reimbursements or allowances, moving expense reimbursements, payments pursuant to post-retirement agreement, payments pursuant to severance/separation agreements, or any other reimbursements made to the employee that would be considered W-2 income and are not considered business-related expenses.

3. Any benefits and perquisites including but not limited to: health & welfare benefits including retirement available to all career employees, senior manager life insurance, executive business travel insurance, executive salary continuation for disability, any home mortgage loans, senior management supplemental benefit program contributions, University provided housing, vacation and sick leave accrual, leased automobiles, post-retirement employment agreements, special or supplemental health or retirement benefits, severance or separation agreement benefits, any cash payment in connection with any severance or separation agreement, special sabbatical or other leave arrangements, or any other benefits or perquisites provided to the employee for services rendered to the University of California.
Additions shown by underscoring; deletions shown by strikethrough

Regents Policy 7203: **POLICY POLICIES ON UNIVERSITYWIDE AND SENIOR LEADERSHIP COMPENSATION, AND PROCEDURES FOR SENIOR LEADERSHIP COMPENSATION**

Approved November 16, 2005; Amended July 15, 2010

A. To adopt the goals of obtaining, prioritizing, and directing funds, to the extent they are available, to increase salaries to achieve market comparability for all groups of employees over the ten year period from 2006-2007 through 2015-2016, as described in Attachment 1.

B. To adopt procedures for determining and setting compensation levels for senior leadership that are clear, comprehensive, and accountable, as described in Attachment 2.
**Attachment 1**

**RECOMMENDATION A:** TO ESTABLISH GOALS TO OBTAIN, PRIORITIZE, AND ALLOCATE FUNDS, TO THE EXTENT THEY ARE AVAILABLE, TO INCREASE SALARIES TO ACHIEVE MARKET COMPARABILITY FOR ALL GROUPS OF EMPLOYEES OVER THE TEN-YEAR PERIOD FROM 2006-2007 THROUGH 2015-2016.

The following tables show the proposed goals for *cash* compensation and sources of funds over the next ten years to achieve market comparability. The *total* cost of achieving comparability (in current dollars) is $2.5 billion using a 4.0 percent growth rate.

**UC’s Projections of Cash Compensation Increases**

*Cost of Compact and Additional Increases (Employee weighted averages)*

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<th>Year</th>
<th>UC Projected Additional</th>
<th>UC Projected Compact</th>
<th>Projected Market</th>
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**Total Cost of Cash Compensation Increases**

*Compact and Additional Increases by Funding Source*

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<th>Year</th>
<th>Other</th>
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<th>Tuition &amp; Fees</th>
<th>Contracts &amp; Grants</th>
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**NOTE:** Salary increase percentages provided by UCOP; total cost based on payroll at Campuses and UCOP as of March, 2005
In summary, the recommendations will result in the following actions, which are described in more detail in the policies, priorities, and process for senior leadership discussed in Recommendation B below and Appendix 1.

The University will actively pursue obtaining additional funds from State and all other resources.

The Regents will determine annually the amount of funds available for this purpose to be allocated to each campus and to the Office of the President.

The Regents will set annually Universitywide and campus-specific funding levels and priorities for the use of funds, as recommended by the President, for all groups of employees, considering such factors as total compensation discrepancies, retention, recruitment, performance, and other matters.
RECOMMENDATION B: TO ADOPT PROCEDURES FOR DETERMINING AND SETTING COMPENSATION LEVELS FOR SENIOR LEADERSHIP THAT ARE CLEAR, COMPREHENSIVE, AND ACCOUNTABLE IN ACCORDANCE WITH THE PRINCIPLES IN APPENDIX I.

The Regents and Senior Management have recognized for some time that the salary review process is ineffective.

- The current process of individual salary review does not provide for a systematic framework in which The Regents can assess Senior Leadership salaries.
- The comparability data currently provided to The Regents do not provide sufficient information to judge the individual positions and appropriate placement within the comparability range.
- An individual approval of salaries does not provide an effective process for assessing overall compensation.
- Failure to adjust the approval levels to reflect the effects of inflation has resulted in an excessive number of individual actions that require Board approval.
- While the Board has benefited from ad hoc compensation studies, routine external salary survey data, and CPEC analyses, there has not been a systemic, continuous external review procedure for individual positions.

Therefore, the Advisory Group on University Compensation recommends that:

- A salary range structure shall be approved by the Board of Regents for all campus and OP positions and shall be established based on recommendations of an external consultant.
- The Board of Regents will approve annual adjustments to the salary ranges based on an external consultant review and recommendations of the ranges and the placement of all targeted positions within this grade structure.
- For all positions of the Senior Leadership Compensation Group whose compensation exceeds the Indexed Compensation Level (ICL), the procedures described in Appendix I shall be used. Briefly, these procedures are:

The Indexed Compensation Level (ICL) that was used for 2004-2005 was $168,000. The ICL shall be adjusted annually based on the CPI and shall be reported annually to the Regents in accordance with Regental Bylaw 12.3(m)(2).

(1) The salaries for 32 positions specifically listed on Appendix I shall be directly approved by The Regents, with advice and recommendations as detailed in Appendix I.
(2) The President, for all positions in the Senior Leadership Compensation Group except for the 32 directly approved by The Regents, will, with the advice of the Senior Management Advisory Committee, determine specific salaries for each position within the grade structure approved by The Regents and consistent with the budget funding levels approved for each campus and for the Office of the President, by The Regents.

(3) All salary increases in any one year that result in any salary over the maximum of the salary range for the position or an increase in excess of 15 percent that places the salary above the midpoint of the salary range for the position shall be individually approved by The Regents.

(4) An annual report shall be made to The Regents on all positions and salaries for all whose compensation is in the Senior Leadership Compensation Group (i.e., in excess of the Indexed Compensation Level).
Appendix 1

SENIOR LEADERSHIP COMPENSATION POLICY

1. POSITIONS INCLUDED UNDER THIS POLICY SHALL INCLUDE all positions of the University whose compensation is in excess of the Indexed Compensation Level (ICL), and this group of positions shall be called the Senior Leadership Compensation Group, or SLCG.

2. APPROVAL OF COMPENSATION shall be as follows:

   a) Compensation of the President and Secretary of The Regents shall be determined by the Board of Regents upon recommendation of the Committee on Finance.

   b) Compensation of the General Counsel shall be determined by the Board of Regents upon recommendation of the Committee on Finance after consultation with the Office of the President.

   c) Compensation of the Treasurer shall be determined by the Board of Regents upon recommendation of the Committee on Finance after consultation with the Office of the President, the Committee on Investments, and the Investment Advisory Committee.

   d) Compensation of the Chancellors, Senior Vice Presidents and Vice Presidents, Medical Center Heads, and the Laboratory Directors, including compensation upon appointment and subsequent changes in compensation, shall be determined by the Board of Regents upon recommendation of the President through the Committee on Finance.

   e) Compensation of other Officers of the University with annual rates above the Indexed Compensation Level shall be established within the ranges set by the Board of Regents and determined by the President and shall be reported annually to the Board of Regents.

   f) Compensation of all other Officers of the University with annual rates below the Indexed Compensation Level shall be determined by the President and reported annually to the Board.

3. As provided in The Regents' Bylaws, the Indexed Compensation Level (ICL) shall be adjusted annually in accordance with changes in the Consumer Price Index and shall be reported annually to the Board. The base ICL used for 2004-2005 was $168,000.

4. For all positions in the Senior Leadership Compensation Group, The Regents shall approve salary ranges annually upon recommendation of the President and/or in accordance with the process specified in item 2a through 2e above. Such recommendations shall be based on comparisons to the Full Comparison Group, the New Comparison Group, the Comparison Eight, the Private Peers, and the Public Peers, and on equity within the University of California. A cash compensation study shall be conducted annually and shall provide the basis for setting the salary ranges.
5. The methodology for setting the Salary Ranges shall reflect the relationship of the UC campuses to the comparison institutions and to other UC campuses.

6. All salaries for the SLCG except for those 32 requiring direct Regental approval (2a through 2d above) shall be determined by the President within the Salary Ranges and budget levels approved by The Board of Regents and funding levels available from State funds and other University sources, including private funds available, in accordance with Appendix 2. The Board of Regents shall set priorities annually for the use of available funds as recommended by the President, considering factors such as total compensation discrepancies, retention, recruitment, performance, and other matters.

7. Any salary for a member of the SLCG above the approved Salary Range shall be presented to The Board of Regents for approval through the Committee on Finance.

8. Any salary increase in excess of 15 percent of base salary for a member of the SLCG that will result in a salary above the salary grade midpoint for the position must be approved by The Board of Regents.

9. The President may establish procedures and delegate to each of the Chancellors the ability to set salaries for the SLCG within approved ranges for:
   - Non-represented Professional and Support Staff;
   - Management and Senior Professional Staff whose salaries are under the Indexed Compensation Level.

10. The President may establish procedures and delegate to each of the Chancellors the ability to set salaries in accordance with Universitywide guidelines established by the President for certain other non-SLCG employees.

11. All salaries for each position in the SLCG shall be reported to The Regents annually following the annual merit process. The report shall include the methodology used to set salaries within the ranges and shall provide comparisons within campus and Universitywide for the positions and salaries reported.

12. On recommendation of the respective Principal Officer of The Regents, compensation for the Office of the Treasurer, the Office of the General Counsel, and the Office of the Secretary (excluding the Treasurer, the General Counsel, and the Secretary, whose compensation shall be approved by the Board of Regents in accordance with paragraph 2 above) shall be determined by the President, the Chair of the Board of Regents, and the respective Committee Chair of The Regents. In the event that the parties do not concur, compensation shall be determined by the Board of Regents. If such salaries are in excess of the current Regental ICL threshold, then the Board of Regents shall determine the ranges for such salaries in accordance with item 3 above.
Deletions shown by strikethrough

Regents Policy 7202: POLICY ON SPECIAL BENEFITS FOR THE EXECUTIVE PROGRAM

Approved December 10, 1992

The Regents approved the following recommendation:

A. Establish as policy the general guideline that any special benefits provided to senior executives be determined on the basis of their prevalence among comparable public and private universities and the extent to which they are beneficial to the University in recruiting and retaining key personnel.

B. Amend the Policy on University-Provided Housing for application prospectively to require the President and Chancellors to live in a University house, with the alternative of a housing allowance provided only if suitable University housing is not available; and to provide for either a house or a housing allowance, but not both; and approve the President's intent to discontinue the inclusion of the value of the house or housing allowance in the definition of covered compensation for the UCRP pension plan, effective January 1, 1994, to be phased out as the base salary increases occur as a result of the NDIP phase out.

C. Approve the President's intent to discontinue the Executive Tax and Financial Planning Program, effective January 1, 1993.

D. Approve the suspension of the special augmentation to the severance pay plan for Associates of the President/Chancellors, effective January 1, 1993.

E. Approve a reduction in the coverage of the Executive Life Insurance Program from three times salary to two times salary for Executive grades C, D and E, to be consistent with grades A and B, effective April 1, 1993.

F. Approve the elimination of supplemental vacation for executives, effective January 1, 1993.
POLICY ON COMPENSATION FOR STAFF AND MANAGEMENT EMPLOYEES

1) That, subject to the availability of appropriate funding, staff and management employee salaries and benefits be based on prevailing total compensation for employees performing comparable work in private and public employment.

2) That the President be instructed to determine prevailing total compensation appropriate to University jobs and the salary and benefit adjustments required to bring University staff and management total compensation into alignment with prevailing total compensation.

3) That the President be instructed to request funds from the Governor and the Legislature the state funds necessary to implement this policy.
POLICY ON EXECUTIVE PROGRAM SEVERANCE PAY PLAN

1. The University establishes an Executive Program Severance Pay Plan effective January 1, 1990, with implementation in various phases from January 1, 1990 through July 1, 1990, within the following guidelines:

   A. Executive Program members shall be eligible for severance pay benefits upon termination of the Executive’s full-time (100%) employment, except as described in 2. below;

   B. Permanently appointed members of the Executive Program, grades A through E, shall be credited each calendar quarter with amounts based upon their annual salaries and appointed grade levels as follows:

      | Grade  | Percentage |
      |--------|------------|
      | A      | 3%         |
      | B, C, D| 5%         |
      | E      | individually determined, to a maximum of 10%, with the understanding that any changes in such percentage amounts shall be approved by the Board;

   C. Accrued amounts calculated for severance credit shall be increased quarterly at the rate of interest equal to the return for such quarter on the University’s general fund account (Short-Term Investment Pool) rate.

2. Severance pay benefits shall not be payable if the Executive is involuntarily discharged for cause.

3. In the event an Executive no longer holds an eligible Executive Program position, the accrued credit shall remain on account until termination of the University employment, subject to the forfeiture provisions described in 2. above.

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1 In September 1990, the Regents approved a special augmentation to the severance pay plan rate of accrual for those Executive Program members for whom an approved Associate of the President/Chancellor appointment had been made, in an amount equal to from 0.5 percent of the respective monthly salary. This provision was suspended by The Regents on December 10, 1992, effective January 1, 1993.

2 Policy was first adopted March 1990.
POLICY ON SALARY SETTING FOR THE EXECUTIVE PROGRAM

A. Total cash compensation shall serve to maintain a competitive market position and recognize individual performance.

B. Executive compensation programs shall be clear and simple to enhance internal and external understanding of the basis for and components of the compensation.

C. The methodology for establishing executive pay levels shall continue to be parallel to that utilized for faculty and staff and, therefore, shall include the following elements: use of market surveys of similar positions at comparable public and private universities; review of internal relationships; and consideration of recruitment and retention experience. The methodology to be implemented is as follows:

1. The University shall adopt the UC/CPEC common methodology for market surveys for Chancellors’ compensation, which utilizes the All University Set of 26 public and private universities\(^2\) and calculates comparisons to the market average, expressed in terms of leads and lags.

2. The University shall establish the target for the average total cash compensation of Chancellors as being approximately the mean of the All University Set, with actual distribution based on scope, size, complexity, and quality of each campus; performance and experience of each individual; and recruitment and retention experience.

3. The University shall use internal relationships, coupled with the performance and experience of the individual, and recruitment and retention experience, to determine compensation for other executives, supplemented by specialized surveys for positions not adequately represented in the All University Set.

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POLICY ON THE UNIVERSITY OF CALIFORNIA SPECIAL SUPPLEMENTAL RETIREMENT PROGRAM

1. The President is authorized to implement a University of California Special Supplemental Retirement (SSR) Program within the following general guidelines:

   A. Eligibility for the SSR Program shall be limited to Principal Officers of The Regents and the following Officers of the University: the President, Vice Presidents, Chancellors, and Directors of the three major Department of Energy Laboratories.

   B. Selection of individuals to participate in the SSR Program shall be recommended by the President and approved pursuant to 1.E. below, and shall be contingent upon acceptance by the proposed recipient of a University-determined period of employment, said acceptance to be indicated by an agreement signed by the President and the proposed recipient which shall include, but not limited to:

      1) the agreed term of employment of the individual, including an effective retirement date;

      2) the percentage rate which will be used to calculate the amount of the SSR benefit; and

      3) the maximum number of months of SSR benefit payments for which the individual would be eligible.

   C. Maximum annual benefit under the SSR program shall be up to 15 percent of the recipient’s highest average paid compensation for any three years of the period of employment under the SSR agreement.

   D. The maximum number of months of potential benefit shall be 180 (15 years), provided, however, that in no instance shall the number of months of SSR benefit payments exceed the actual agreed term of employment under the agreement.

   E. Amount and conditions of the SSR benefit shall be recommended by the President and shall be approved by the Board.

   F. All rights to the special supplemental benefit described in the SSR agreement shall be contingent upon satisfactory completion of the specified employment requirements by the potential recipient.

2. Existing compensation arrangements for Principal Officers of The Regents and eligible Officers of the University, approved by prior separate actions of The Regents, shall remain
unchanged unless amended as provided in 1.E. above, to include the opportunity to receive an SSR benefit.

3. The President is authorized to implement a further SSR Program (Special Supplemental Retirement Program II), with the following general guidelines:

   A. Eligibility shall be the same as in 1.A. above.

   B. Maximum annual benefit under this further Program shall be the difference between (1) the benefits as calculated by the applicable University basic defined benefit retirement plan for which the employee is eligible without applying the limits imposed by §415 of the Internal Revenue Code, and (2) the maximum benefits permitted to be paid from the basic plan by §415.

   C. The specific amount and conditions of the SSR II benefit, including the alternative of lump-sum rather than periodic payment, shall be recommended by the President and shall be approved by the Board.

   D. The cost of the SSR II benefit shall be paid from discretionary funds available to the President and shall not be either General Funds or Basic Retirement Plan funds.