The Regents of the University of California

COMMITTEE ON COMPENSATION
June 3, 2010

The Committee on Compensation met on the above date by teleconference at the following locations: 1111 Franklin Street, Room 5320, Oakland; West Coast Room, Covel Commons, Los Angeles Campus; 4127 Hinderaker Hall, Riverside Campus; 2121 Avenue of the Stars, Los Angeles; 1130 K Street, Suite 340, Sacramento.

Members Present:	Regents Johnson, Lozano, Stovitz, and Varner; Ex officio member Yudof; Advisory member Hime
In attendance:	Regents Lansing and Wachter, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Executive Vice Presidents Brostrom and Taylor, Vice President Duckett, and Recording Secretary Johns

The meeting convened at 4:00 p.m. with Committee Chair Varner presiding.

1. **PUBLIC COMMENT**

There were no speakers wishing to address the Committee.

2. **PROPOSED GOVERNANCE POLICY FOR INCENTIVE PROGRAMS FOR SENIOR MANAGEMENT GROUP MEMBERS**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Varner observed that the two items on the agenda were for discussion, with possible action at the July meeting.

Consistent with the standard practice governing executive compensation programs, the first item, a proposed governance policy for incentive programs for Senior Management Group (SMG) members, was being presented for discussion. Committee Chair Varner reported that over the last few months, he and other Regents had worked closely with the Department of Human Resources at the Office of the President to expand on the governance principles described in "Governance of University of California Incentive Plans," a discussion item at the March 2010 meeting.

The policy currently presented incorporates these essential governance elements and establishes a protocol for the Regents' review of all incentive and variable pay plans for SMG members. The two SMG incentive plans that would be addressed in the following item, the Clinical Enterprise Management Recognition Plan and the Treasurer's Annual Incentive Plan, are proposed to be amended to incorporate these governance components and to comport with the new policy. Committee Chair Varner noted that concerns and comments had been incorporated and that there would be continuing refinements prior to Board approval.

Executive Director Larsen emphasized that the incentive plans under discussion provide for award opportunities that are "at risk," meaning that awards are variable and dependent upon performance and accomplishments. Awards under incentive plans are not guaranteed, and as such, it is important to document clearly how these plans would be administered. The proposed policy delineates those governance and administrative requirements.

Mr. Larsen explained that the new policy adopts and expands upon the governance elements described in the March discussion item. This policy embodies the principles inherent in the general SMG policy framework, designating accountable officers and their responsibilities, and, particular to this case, establishing an independent Administrative Oversight Committee (AOC) comprised of senior leadership and subject matter experts to oversee the establishment of clear, measureable objectives, administration of the incentive plans, and any award payouts.

Under the proposed policy, an incentive plan document would have to be established and approved by the President and the Regents if SMG members are included as eligible program participants. The plan document defines key terms, conditions, and design elements of the incentive award plan, including governance and oversight responsibilities; the process for plan approval and for making changes to the plan; eligibility criteria; award opportunities; criteria for establishing the annual performance objectives for each participant and, when appropriate, the weightings to be given performance objectives; funding and award formulas; protocol for the review and approval of awards, as well as the schedule for award payouts; and any contingencies and administrative rules governing payouts, including any mechanism for the deferral of award payouts.

If a plan with SMG participants has been approved as outlined above and, during the course of the AOC's annual review of the plan, substantive or material changes are recommended, the AOC would obtain the approval of the President and the Committee on Compensation before implementing such changes. Under such circumstances every effort will be made to delay implementing substantive or material plan changes until after the end of the current plan year. Plan changes recommended by an AOC that are not material or substantive, or are deemed to be technical corrections, would be subject to approval by the AOC after consultation with the President and the Chairs of the applicable Regents' Committees and implemented at the appropriate time. All incentive plans will be reviewed annually.

At the end of the plan year, after performance has been assessed and awards calculated, individual awards for participating 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 applicable AOC. The Chair of the Committee on Compensation will receive a listing of the award recommendations, with appropriate detail, prior to processing of payments. 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 in the event that a fiscal emergency is declared by the President or for other reasons specified in the applicable plan document. Once the fiscal emergency or other contingency has been resolved, awards deferred for that reason will be processed within a reasonable period of time thereafter. The University may require repayment of an incentive award that has been secured through fraudulent means.

The proposed policy would 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 would not be permitted to participate in any other University incentive award plan or bonus plan, except in the event of a mid-year transfer within the University.

Committee Chair Varner praised the work done by the Department of Human Resources and by Secretary and Chief of Staff Griffiths in reviewing this policy, which assigns responsibility for incentive programs to the proper parties and includes appropriate review by the Regents.

Regent Stovitz called attention to the second sentence of the first paragraph in Section III B of the proposed policy, “Plan Review and Approval.” This sentence states that, following the President’s approval of incentive award plans, “the Chair of the Regents’ Committee on Compensation may consult with other Chairs…” Regent Stovitz observed that this language does not state whether or not the Chair of the Committee on Compensation has approval authority. He suggested that the role of the Chair be clarified.

Regent Stovitz further noted that the term Administrative Oversight Committee (AOC) appears in the following paragraph. He suggested that a definition of this term be included in Section II, “Policy Definitions.”

Referring to Section III G, “Conditions,” Regent Stovitz suggested that the Office of the General Counsel might wish to recommend that this language be incorporated in every new plan adopted for SMG members or be expressly incorporated by reference. This language includes important provisions. He emphasized that it prevents an employee from asserting that the individual plan for that employee is a self-contained contract or not subject to the overriding terms of these policies. General Counsel Robinson stated that this was a good suggestion and would help to avoid any misunderstandings regarding adequate notice to plan participants. Mr. Larsen added that the Section III G “Conditions” language was incorporated in the two plan documents to be discussed in the following item. In the Treasurer's Annual Incentive Plan, the language was modified slightly to address the financial environment particular to that plan. Mr. Robinson added that his office has advised that participants be given a copy of the plan document, so that they are on notice of the specific terms of their participation.

Regent Lansing expressed her satisfaction with the policy.

President Yudof noted that the following item, "Discussion of Governance Revisions to the Treasurer's Annual Incentive Plan and the Clinical Enterprise Management Recognition Plan," includes a statement that there will be periodic auditing. He asked that similar language be included in this policy, so that Regents will see how the incentive plans are operating and to ensure that plan criteria are being observed. Committee Chair Varner stated that this was a good observation and that such language would be included in the policy.

3. **DISCUSSION OF GOVERNANCE REVISIONS TO TREASURER'S ANNUAL INCENTIVE PLAN AND CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Varner introduced the item, which presented for discussion revised plan documents for two incentive plans with Senior Management Group (SMG) participants and therefore subject to Regental approval, the Treasurer's Annual Incentive Plan (AIP) and the Clinical Enterprise Management Recognition Plan (CEMRP). These two plans are proposed to be amended to incorporate appropriate standards, consistency, and oversight with respect to the design, goal-setting, and administration requirements in the policy document discussed in the previous item. Committee Chair Varner stressed that the two incentive plans provide an essential and competitive element of "at risk" compensation to participants. He reiterated that this was an item for discussion, with possible action at the July meeting.

Executive Director Larsen explained that this item addressed in detail proposed changes to the two existing incentive plans. He outlined some significant governance elements. Consistent with the proposed new governance policy, once these incentive plans have been approved by the Regents they will be overseen and administered by independent Administrative Oversight Committees (AOCs).

For the AIP, the AOC will be comprised of the Executive Vice President and Chief Financial Officer, the Executive Vice President – Business Operations, the Vice President – Human Resources, and the Executive Director – Compensation Programs and Strategy. The Treasurer and Chief Investment Officer will be consulted on certain issues, but will not be a participant on the AOC. The CEMRP will be overseen by an AOC comprised of the Executive Vice President – Business Operations, the chancellor of every campus with a medical center, the Vice President – Human Resources, and the Executive

Director – Compensation Programs and Strategy. The AOC will consult with the Senior Vice President – Health Sciences and Services and with one chief medical officer, one chief human resources officer, and one chief nursing officer, each selected from a UC medical center. These individuals will not serve on the AOC.

Initially, CEMRP will be presented to the Committee on Compensation in consultation with the Committee on Health Services before being presented to the full Board for approval. The AIP will be presented to the Committee on Compensation in consultation with the Committee on Investments before being presented to the full Board for approval.

Plans will be reviewed annually by the appropriate AOC, according to policy, and submitted to the President and Regents, as appropriate, depending on whether or not any proposed amendments were substantive. With limited exception, review and approval of all awards under these Regentally-approved plans will be the responsibility of the AOCs regardless of whether the participant's total compensation is above or below the Indexed Compensation Level or subject to other policy distinctions. Awards for direct reports to the Regents as well as certain statutorily designated positions will still be subject to Regental approval.

The Chair of the Committee on Compensation will be consulted prior to awards being approved or processed. For CEMRP, the listing will also be provided to the Chair of the Committee on Health Services, and for the AIP, the Chair of the Committee on Investments will receive the award list. Awards under both plans will be reported annually to the Regents, with appropriate levels of detail, such as the range of potential awards and the percentage of the award granted for each plan participant.

Mr. Larsen emphasized that the current proposals would not change incentive targets and maximums for participants in either plan. In addition, there were very few changes made to the CEMRP except for the incorporation of the governance elements just discussed. The AIP was amended to better align with current market practices. Award opportunities under the AIP are characterized by a threshold, target, and maximum for each participant. In a few situations, the thresholds were modified slightly to provide a more uniform range of award opportunity.

In addition, consistent with common market practices, the contingencies were removed that previously required asset class or entity performance at threshold levels in order for certain participants to receive any individual/qualitative awards.

Also consistent with market practices, the current practice of spreading payouts equally over three years is recommended to be adjusted such that 50 percent of each year's earned award would be paid in that year, instead of 33 percent, and the remaining 50 percent would be deferred and paid out in equal installments of 25 percent each year over the following two years. In addition, for those participants below the investment officer level – the two lowest levels of participants – the entire award will be paid in the year earned.

Finally, a provision was added that would allow the President, in consultation with the Chairman of the Board of Regents, to defer the payout of awards in years with unusual market and economic stress if the entity experiences negative investment returns.

Regent Stovitz asked if it would be possible to include some information on comparator institutions, such as the California Public Employees' Retirement System (CalPERS), other universities, hospitals, or financial management entities, in the item. Information on comparator institutions could help clarify the item for UC constituents.

Committee Chair Varner expressed agreement and noted that some of this information had already been developed. Chairman Gould and Regent Wachter have provided suggestions about appropriate comparators for the AIP. This information would be available, and the University would examine how best to present it when this item was brought forward for approval.

Regent Lansing praised the item for its clarity.

Committee Chair Varner anticipated further work on the development of this item before the July meeting. He observed that the incentive plans have built-in protections. The Chairs of the appropriate Committees will have the opportunity to be consulted. He referred to Regent Stovitz's earlier question about the role of the Chair of the Committee on Compensation and stated that this matter would be clarified.

General Counsel Robinson noted that these policies are still subject to discussion and approval by the Regents. Plan participants should not assume that these incentive plans are in place at this time.

Committee Chair Varner reiterated that the current items were for discussion only. There will be further revisions between the present moment and the July meeting, when it is anticipated that these items would be presented for approval.

The meeting adjourned at 4:25 p.m.

Attest:

Secretary and Chief of Staff