

## **UC Health Sciences Faculty Retirement Proposal, October 2003**

### **Introduction**

In response to concerns raised by health sciences schools and faculty and after extensive discussions with a universitywide Task Force, campus deans, faculty, and the Academic Senate, the following proposal was developed to enhance the retirement of health sciences faculty by providing retirement benefits on base pay and additional compensation (“X” + “Y” + “Z” pay) up to allowable tax limits. This proposal calls for a new defined contribution plan benefit that will supplement the current defined benefit plan and is offered to ensure that UC remains competitive with other health sciences schools which generally base their retirement plans on total compensation, up to allowable tax limits.

### **Background**

The University of California employs approximately 4,350 health sciences faculty members in a variety of disciplines such as medicine, dentistry, pharmacy, and nursing. Most receive pay in the form of guaranteed base salary and negotiated additional compensation. A faculty member’s applicable rank, step, and scale within the Health Sciences Compensation Plan (HSCP) generally determines the amount of the base salary, while additional compensation is negotiated annually and/or paid as an incentive or bonus. However, although negotiated additional compensation can represent a significant portion of some faculty’s total annual compensation, base salary is the only component considered to be Covered Compensation for determining benefits under the University’s defined benefit plan, the University of California Retirement Plan (UCRP). Under UCRP, the University bears the investment risk and “guarantees” a level of retirement income based on salary, age, and service.

Most physicians at other leading academic medical institutions have all types of their pay covered for retirement purposes, whether it is paid as base salary or additional negotiated or incentive compensation, but elsewhere the norm is to provide only a defined contribution plan. The contributions for physicians at other institutions are generally derived from the same source that pays the physician’s salaries, such as grants or the clinical income that the physicians generate. The amount of income available to these physicians at retirement is determined, to a great extent, upon market performance and the investment choices that they make themselves. Thus, the physicians at these institutions bear the risk for their investments. See Attachment III for a reference to additional background reports and information about types of retirement plans and benefits at other academic institutions.

### **Proposal**

The proposal now being considered would provide retirement coverage for health sciences faculty on base pay and additional compensation (“X” + “Y” + “Z” pay). The University of California Retirement Plan, our defined benefit retirement plan, would

continue to be provided on the base salary (or Covered Compensation). A new defined contribution plan benefit would be introduced on the portion of salary above the base salary (or Covered Compensation) similar to the recent program for general campus faculty who now receive defined contribution retirement coverage on summer session earnings.

The proposed retirement benefit for health science faculty is as follows:

- Health sciences faculty will continue to have a UCRP Defined Benefit retirement plan on their base salary (or Covered Compensation). Faculty would continue to pay Reserve Fund contributions on all UCRP Covered Compensation in excess of salary scale 1.3. However, UCRP Administration is currently reviewing the appropriate level for health sciences reserve fund contributions and until the review is completed, contributions to the reserve fund will continue to be suspended.
- An annual Defined Contribution (DC) Plan contribution of 7% will be provided on all Y & Z compensation, up to the tax limits (see Attachment III). This Defined Contribution Plan would be paid for from the same fund sources that pay the additional negotiated Y & Z compensation. Participation would be mandatory (i.e., there is no “opting-out” of the contributions), and health sciences faculty will have a choice of funds in which to invest the DC Plan contributions.
- There would be no change to the definition of UCRP Covered Compensation and no change to the current structure of Academic Programmatic Units.

NOTE: Health sciences faculty members whose required DC Plan contributions would be funded from clinical income could elect to reduce voluntary contributions to the UC 403(b) Plan, if any, to offset the cost of such DC Plan contributions.

## **Attachment I: Definitions**

### **Academic Programmatic Unit:**

A group of faculty with similar clinical and/or teaching and research responsibilities. To prevent manipulation of compensation by arbitrary creation or assignment of faculty to academic programmatic units (APU's), all members in a given APU are assigned to a specific scale on the Health Sciences Compensation Plan.

### **Additional Compensation (Y and Z pay):**

Additional compensation is any compensation, other than an administrative stipend, paid to an appointee by the University in excess of the appointee's full-time salary. Many health sciences faculty earn two types of additional compensation; [1] additional "negotiated" compensation which is negotiated at the beginning of the year and paid monthly ("Y" compensation), and [2] incentive or bonus compensation ("Z" compensation) which may be paid quarterly, semi-annually or annually, depending upon circumstances and/or location.

### **Base Salary - Covered Compensation:**

The gross monthly pay that an Active UCRP Member receives from the University for a regular and normal appointment, including pay while on sabbatical or other approved leave of absence with pay. For health sciences faculty base pay is defined by their rank, step, and approved salary scale. (See UCRP Article 2, Section 2.13 for a list of compensation that is NOT Covered Compensation.)

### **Defined Benefit Plan:**

A retirement plan, like UCRP, in which benefits are determined according to a specific formula, rather than by contributions. For UCRP the formula for determining benefits is a product of the employee's age, service and pay.

### **Defined Contribution Plan:**

A retirement plan in which benefits are based on specified contributions and the interest or earnings on such contributions.

### **Health Sciences Compensation Plan:**

A uniform policy to govern the compensation arrangements and to account for the Compensation Plan income of the majority of health sciences faculty. Under the Compensation Plan, specialized health sciences salary scales (which range from scale 1.0 to 1.9) are used to establish base pay for the Compensation Plan members and associated covered compensation for UCRP. Faculty members are eligible for optional additional compensation (Y and Z) and are permitted to retain other types of miscellaneous income,

in accordance with the Compensation Plan and established University policies. (*see*: <http://www.ucop.edu/acadadv/acadpers/tab0102/table5-1.html> and <http://www.ucop.edu/acadadv/acadpers/tab0102/table5-2.html>)

Currently some or all faculty in the following schools are members of the Health Sciences Compensation Plan: School of Optometry at Berkeley; School of Medicine at Davis; College of Medicine at Irvine; Schools of Dentistry, Medicine, and Nursing at UCLA; Biomedical Sciences Program at Riverside; School of Medicine at San Diego; Schools of Dentistry, Medicine, Nursing and Pharmacy at San Francisco.

Health Sciences Reserve Fund:

A Fund/escrow account established and maintained to partially offset the increased liability to UCRP that resulted from an increase in Covered Compensation when The Regents approved revisions to health sciences compensation in 1993. (See Attachment II).

Internal Revenue Code Covered Compensation Limit – Section 401(a)(17) Limit)

Internal Revenue Code (IRC) §401(a)(17) limits the recognizable compensation on which retirement benefits under a qualified plan can be determined, whether it be a defined benefit plan or a defined contribution plan. Currently, the annual Covered Compensation Limit is \$200,000. The limit is reviewed/adjusted annually for increases in cost-of-living in multiples of \$5000. Any increase, which is not a multiple of \$5000, shall be rounded to the next lowest multiple of \$5,000.

## **Attachment II: Health Sciences Reserve Fund**

In 1993, The Regents approved a revised Medical School Clinical Compensation Plan (MSCCP). The MSCCP allowed for the creation of new, higher salary scales so that health sciences faculty could receive increased base salaries and, therefore, increased Covered Compensation for the University of California Retirement Plan (UCRP). A new Health Sciences Compensation Plan (HSCP) superseded the MSCCP in July 1999. However, the HSCP retained all the MSCCP provisions concerning the higher health sciences salary scales.

Under the new salary scales, base salaries can increase (or decrease) between 10% and 25% as a health sciences faculty member moves on the salary scale. In contrast, the average annual actuarial salary increase assumption for UCRP is only 5.4%.

The Health Sciences Reserve Fund (Reserve Fund) was established to offset the increased liability to UCRP caused by the Covered Compensation differential. Currently each health sciences location is required to make a monthly contribution to the Reserve Fund on Covered Compensation paid to their faculty in excess of HSCP scale 1.3. The amount of each location's monthly Reserve Fund contribution is equal to the product of the Allocation Factor times the Covered Compensation above HSCP scale 1.3 for each HSCP member. The Allocation Factor is equal to the UCRP Normal Cost percentage.

In response to concerns expressed by the health sciences schools, contributions to the Reserve Fund have temporarily been suspended for the period from July 1, 2001 through June 30, 2004.

### **Attachment III: Tax Limits**

#### **Internal Revenue Code Covered Compensation Limit – Section 401(a)(17) Tax Limits**

Section 401(a)(17) of the Internal Revenue Code sets limits on the amount of compensation that can be taken into account in calculating benefits under a tax qualified retirement plan such as UCRP or the Defined Contribution Plan. The current limit is \$200,000 per year, or \$300,000 for persons employed by UC before July 1, 1994 (the “grandfather” limit).

This means that if a faculty member hired after July 1, 1994 has base salary (or Covered Compensation) of \$210,000 per year, only \$200,000 of that amount can be used in the UCRP formula that determines his or her retirement benefits. No benefits may be provided by UCRP on the extra \$10,000 of base salary. If the same faculty member has an additional over base salary (Y and/or Z pay), an additional amount up to \$200,000 can be taken into account for the proposed contributions to the Defined Contribution Plan. Since UCRP and the Defined Contribution Plan are separate plans, the compensation on which benefits are determined are separately defined and, therefore, subject to separate tax limits.

## **Attachment IV: Sites for Reports and Additional Background Information**

### **1. All of the following are located on this Website:**

- <http://www.ucop.edu/acadadv/acadpers/taskforce.html>**
- Background on the retirement benefits currently available to UC health sciences faculty (*see Physician Retirement Benefits Survey Report and Addendum - <http://www.ucop.edu/acadadv/acadpers/taskforce.html>*);
  - Types of retirement plans/benefits available at other academic medical institutions (*see Physician Retirement Benefits Survey Report and Addendum - <http://www.ucop.edu/acadadv/acadpers/taskforce.html>*);
  - Comparison of the competitiveness of the current and proposed UC health sciences faculty retirement benefits with the physician/faculty retirement benefits provided by other academic medical institutions (*see Health Sciences Task Force - Comprehensive Analysis on Recommended Options. January 2003. <http://www.ucop.edu/acadadv/acadpers/task-force-analysis.pdf>*);
  - Health Sciences Task Force – Comprehensive Analysis of Recommended Options (*see UC Health Sciences Task Force Report - Recommendations for Improving Retirement Benefits for UC Health Sciences Faculty. February 2003. <http://www.ucop.edu/acadadv/acadpers/task-force-report.pdf>*);