

Report of the Joint Senate-Administration
Compensation Plan Steering Committee

June 16, 2010

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1. Background

During the past decade, faculty salaries at the University of California have fallen far behind our peer, benchmark institutions. Data indicate that we are now on average in excess of 11% behind the institutions with which we compete. The current budget crisis has exacerbated this disparity and thus has increased the University's vulnerability in the marketplace. Addressing the salary problem will require several, coordinated approaches, with each being important to returning the University to a competitive position. These include significant additional funds from the state, student fees, and private support, leading to systematic and consequential adjustments. Without concerted and significant attention, the salary problem is likely to be inadequately addressed in a piecemeal fashion through retention and recruitment, thereby creating disparities and further complicating long-term salary stability.

The University needs to move forward on several fronts simultaneously to address the salary crisis. This report describes one such effort in that direction: it provides a partial amelioration to the problem through the creation of a new compensation plan adapted from the existing Health Sciences Compensation Plan (HSCP). The new plan continues to use the base faculty scales and merit system, but allows eligible faculty to augment state support with grants, foundation and industry sources. We assume and expect, of course, that other concerted efforts to improve general faculty salaries will continue.

The Committee recognizes that any such compensation plan will be suitable for only a minority of UC faculty, and will therefore present considerable challenges to the campuses and the University at large. Therefore, this report concludes with a list of implementation challenges as well as some more general challenges faced in securing an adequate and more reliable financial future for the University of California.

The committee was of one mind on the imperative need for the University to succeed in the development of a feasible alternative approach to apply non-state funds to the competitive compensation of faculty and for this approach not to increase the burden on the University of California Retirement Plan (UCRP). The proposed scheme is seen as a relief valve on the pressures otherwise mounting through reliance on ad hoc use of retention requests, which would further consume constrained state funds and impinge on the UCRP. This overarching requirement for something to be done comes with the recognition that challenges will arise in the implementation and downstream management of this scheme and that the individual committee members might prioritize and approach the addressing of these challenges differently. These issues notwithstanding, the majority of the committee wholly supports the establishment of this compensation plan no matter that its initial impact might be small or that its administrative establishment might be challenging. It is too important in principle and in practice to develop a method for applying non-state funds to achieve competitiveness wherever we can.

The premise of the plan is that already academic-year research activities are funded from state funds and that, where feasible, this support might be transferred to non-state monies without compromising research direction or subverting concomitant teaching commitments. Participation in the plan would be voluntary and the plan should not jeopardize the underlying appointment and advancement systems. The central objective of the plan is to enable the payment of more competitive

salaries to a subset of faculty and thereby to reduce demand on the ad hoc and expensive retention system without creating new pressures for UCRP. While the plan returns some academic-year salary funding to campuses, the primary positive flow-on effect for campus members unable or hesitant to participate in the plan is envisaged as the relief of stress on the retention scheme, which presently is constrained to be fully state-funded and UCRP backed. Management and implementation of the plan would necessarily introduce challenges. However, by building on very significant system-wide experience with the Health Sciences Compensation Plan from which the plan is adapted, unintended consequences should largely be mitigated.

2. Summary of Provost's Charge to the Committee

Competitive faculty compensation is a core concern that is central to sustaining the University. In response to this concern, and in consultation with the Academic Council and the Council of Vice Chancellors, the Provost appointed a formal Joint Senate-Administration Compensation Plan Steering Committee, comprised of senior Senate faculty and administrative leaders (*Appendix 1*). The Provost charged the Committee to develop a new compensation plan that will allow sources of income outside the University to be used to supplement faculty salaries, without adversely affecting current benefit levels or introducing new unfunded liabilities to the benefits program. The Provost stated "{s}uch additional revenue sources could foster more competitive faculty compensation across multiple disciplines. A new Plan must balance state funding with diverse other revenue streams that will likely vary among disciplines..." (*Appendix 2*)

The Provost tasked the Committee to:

- Develop a policy framework within which salary and benefits support our current faculty, and enhance faculty recruitment and retention
- Structure the plan to retain the balance of shared teaching, research, and service responsibilities
- Consider arguments both in favor of, and opposed to, the introduction of a new plan
- Submit a narrative report to describe the Committee's method by which it reached its conclusions; the principles of a recommended policy framework; and transition guidelines for those disciplines that elect to adopt the plan

3. Committee Review Process

Committee Chair UC Irvine Executive Vice Chancellor and Provost Michael R. Gottfredson convened members by a series of conference calls and one in-person meeting for discussions beginning in February 2010 and continuing through June 2010.

Committee members reviewed current and historical documents essential to deliberations, including the Health Sciences Compensation Plan (APM-670) and corresponding campus Implementation Plans; and a proposal submitted to the Provost in 2008 for a Biological Sciences Faculty Compensation Plan. The Committee reviewed a General Campus Compensation Plan, a proposal resulting from efforts led by UCSD, UCI, and UCLA administrators, and submitted in draft to the Provost in February 2010.

The Committee also considered a proposal drafted in 2005, which assessed the feasibility of allowing the use of extramural funding to provide at least partial salary support for academic year faculty salaries. This proposal outlined a general campus compensation plan model, and explored modification of policy to allow more flexibility in the use of funding sources. After consultation in 2005 with the Council of Chancellors, the President decided not to make changes to current policy: the University would continue to require that state funds be the exclusive source for funding tenure-track faculty salaries, with the limited exceptions as outlined in Academic Personnel Policy 190, Appendix F.

Additionally, the Committee met with UCOP staff to identify matters of concern related to the OMB Circular A-21 regulations, and the UCRP guidelines and products, including the UC Defined Contribution Plans (DCP).

4. Methodology

The Committee's first task was to establish a set of principles to guide the development of a new policy framework. Those principles are as follows:

- Recruit and retain faculty on the basis of merit
- Compensate faculty at competitive levels
- Strongly support existing merit system
- Utilize appropriate state and non-State resources to support competitive faculty compensation
- Continue appropriate balance between teaching, research and service activities for faculty
- Offer consistent benefits and privileges to faculty, continuing to recognize that some compensation requirements and opportunities vary by discipline
- Maintain rank and step system to promote fairness and balance
- Provide common framework with adequate flexibility to respond to the diverse needs and interests of faculty in different disciplines
- Link appropriate retirement benefits to salary according to source – e.g., state and student non-professional degree – fee salary associated with UCRP, while other sources associated with DCP.

Issues and principles were drafted to outline sections of a new policy framework, covering these areas essential to drafting policy: purpose; responsibility; authority levels; eligibility and exception criteria; membership; salary components; benefits; outside professional activities; and reserve fund.

To clarify the purpose of a new policy, the Committee emphasizes that it would serve to:

- Provide a common administrative framework within which a school or academic discipline can compensate its faculty according to competitive standards, based on a shared set of principles
- Compensate UC faculty for their individual productivity in relation to competitive standards for their specific disciplines
- Permit the use of non-state funds to support faculty salaries
- Address vulnerability to uncertain state funding by providing ability to respond to funding shifts, without jeopardizing the viability of current faculty recruitment and retention efforts

Concepts were created following Committee discussions of the issues and principles. This report was then developed and is submitted herewith to the Provost to fulfill the charge to the Committee as the policy framework of a new compensation model.

5. Rationale

The Committee agreed with the views of the collaborative group from UCSD, UCI and UCLA that raising the salary scales is vital and all efforts in this regard should be continued. However, as the collaborative group made clear, raising the scales alone will not address the need for a competitive compensation plan, especially for faculty working in the most market sensitive and competitive areas. The following points paraphrase salient sections of the General Campus Compensation Plan as submitted previously to the Provost.

- The University lacks sufficient state funds (now and unfortunately, in the near future) to raise the current salary scales to a level that could realistically match market conditions.
- The University needs to raise the salary scales with additional state funding, but this action alone will likely not adequately address the compensation challenges faced in recruiting and retaining the most marketable faculty.
- Addressing the salary issue via the salary scales alone does not tap the many sources of non-state funds to which various disciplines or individual faculty may have access.
- The University has the ability to apply grant funding toward general campus faculty salaries in certain circumstances, and is not currently taking advantage of that opportunity.

6. Foundation of a New Plan

The Committee concluded that there was a need for a new Plan to provide a common administrative framework within which a school or academic discipline could compensate its faculty according to competitive standards, based on a shared set of principles. The Plan should utilize non-State resources such as endowment income, professional course fees, and extramural research funding to augment faculty salaries. Of particular strategic concern is extramural research funding. Currently, extramural grants and contracts are not being charged for faculty research on sponsored projects during the academic year, despite faculty devoting a significant proportion of the academic year activity to research, often sponsored extramurally. This practice is commonplace at many universities throughout the United States. The proposed Plan would enable the use of extramural funds, when permitted by funding agencies or private sources, to supplement state funds for financing academic-year as well as summer salaries. The Plan would allow the University to charge research time spent on sponsored projects to non-state sources and allow campuses to offer more competitive compensation packages for faculty with access to such sources of funding. The proposed changes will allow the University to use the released state funding for the collective benefit of the departments, schools, and campuses while retaining a necessary reserve fund in support of any fiscal emergency.

This Plan requires the teaching commitment to remain unchanged for faculty included in the plan. Specifically, the plan seeks to allow the use of extramural grants to pay for research effort but not to fund course reductions. It supports maintaining our historic balance for excellent teaching, research,

and service for all faculty. Should some schools or colleges now permit modest “buyouts”, the plan proposes no changes to those policies and practices. It recognizes that research activities and professional teaching are part of the normal academic-year portfolio of duties and activities of all faculty. The plan seeks to permit but not require the application of extra-mural grant funds to pay faculty salary in support of academic-year research activities; it must not constrain the use of extra-mural grant funds to support such activities for faculty who are not plan participants. This does not detract from regular duties but opens the prospect of garnering external funding and addressing salary competitiveness.

The creation of a more flexible compensation model should not interfere with the maintenance of uniform scales to recognize regular progression through the faculty ranks, and continued periodic cost-of-living adjustments to base salary scales. Access to these extramural funding sources will not be uniform across campuses and, for some faculty, attention to the salary scales remains the only way to address competitiveness. The Committee emphasizes that the UC rank and step system should be retained to continue capitalizing on the strengths of a structure that integrates advancement with scholarly achievement and peer review. The Plan is intended to supplement the current compensation system, allowing faculty for whom recurrent funding of academic-year salary from non-state sources is available to receive competitive compensation through a standard compensation system. The express intent of the plan is to supplement state funds by discontinuing the historical practice of refusing grant, and other, funds for which the faculty member would be eligible if not for University policy. Resultant savings would then be available for deployment in support of the mission and vision of UC.

7. Proposed New Compensation Plan

The following presents a Plan outline, based in large part on the current Health Science Compensation Plan (HSCP) used routinely and historically in our medical schools. The outline is in the form of a new APM policy framework. Sections are organized to conform to APM structure, and to conform generally to the structure and subject areas contained in the HSCP, APM-670.

I. Responsibility

- The **President** approves, amends, and/or repeals the Plan
- The **Provost**:
 - Develops, amends, and/or approves the Plan
 - Establishes guidelines for the campuses
 - Approves campus exceptions to limits of the Plan
 - Issues administrative regulations, guidelines, and procedures
 - Consults with the Academic Senate committees as required for all academic personnel policy
- The **Divisional Academic Senate** reviews and comments on the Plan, Plan revisions, and proposed exceptions to campus procedures
- The **Chancellor** has overall operational authority to:
 - Elect whether to adopt the Plan for the campus
 - Develop, implement, and monitor on behalf of the campus the

- Implementation Procedures
- Implementation Guidelines
- Assure that participants and Divisional Senate committees have the opportunity to review and comment on the proposed implementation procedures

II. Authority levels (approval levels)

- **President/Provost Approval**
 - General Plan and Salary Components
 - Revisions to the Plan
 - APM – Policy development, issuance, and revisions
 - Benefits implications
 - Annual salary threshold
- **Chancellorial Approval**
 - Discretion to Adopt the Plan
 - Campus Implementation Procedures
 - Campus Implementation Guidelines
 - Transition Plans
 - Ensuring consultation requirements with Senate
 - Monitoring implementation
 - Exceptions to Procedures and to Guidelines
 - Criteria and methodology to determine eligibility
- **Dean's Approval**
 - Inclusion or exclusion of School/Discipline in the Plan
 - School/Discipline Implementation Procedures and Guidelines
 - Development of transition plan
 - Implementation of plan
 - Annual salary negotiations
 - Establishment and funding of reserve account to cover two years.
- **Senate Consultation**
 - Required for inclusion/exclusion of school/discipline in the Plan; Plan revisions; proposed exceptions to School/Discipline procedures; transition plans

III. Eligibility Criteria

- Faculty: Senate and non-Senate professorial and equivalent title series
- Appointment = 50% or more of full-time
- Funding source is derived from an approved School/Discipline

Exceptions to Eligibility Criteria

- Chancellorial approval

IV. Membership in the Plan

- Eligible faculty appointed to a Department within the School/Discipline approved for inclusion
- Annual membership based on annual negotiation

- Opt in/opt out annually
- Base salary (termed "X") is set by rank and step, plus any existing off-scale salary; the negotiated component (termed "Y") is negotiated annually for all members
- No guarantee or presumption of supplement continuation beyond annual negotiation

V. Salary

Components of Salary

- Base (X)
Scale 0 = UC Academic Year; state funded salary (scale plus any off-scale)
Base = Scale 0 for Rank and Step; state funded
- Supplement (Y)
 - Annual negotiated additional compensation which are non-state funded and are eligible for DCP contribution supported by the identified non-state source.
- Faculty member retains miscellaneous income from allowable compensated outside professional activities from non-state funds – e.g. consulting according to APM 025.
- No loss of current total state salary for any faculty member, although the funding source(s) may vary in the new plan and need not include state funds only.

VI. Benefits

- Health, welfare, and UCRP benefits are calculated only on the base X component.
- Optional life and disability benefits are calculated only on the base X component.
- Y Component eligible for DCP contribution

VII. Leaves

Negotiated salaries (X+Y) should remain in place during approved leaves.

- Per current terms of APM 700 series which covers:
 - Sick leave
 - Family and medical leave
 - Holidays
 - Vacation
 - Sabbatical
 - Service for government agencies
 - Military
 - Professional meeting attendance
 - Administrative leaves with pay, and without pay

VIII. Compensated Outside Professional Activities: Compensation above Base and Y

- Consulting and other compensated activities are permitted in accordance with APM-025
- Types of income that may be retained by Plan members:
 - Occasional outside professional activity
 - Prizes, defined as gifts and not for services rendered

- Royalties, per terms of University policy
- Honoraria, defined as payments for occasional lectures or other services performed externally to the University, or on a UC campus other than the home campus
- Campus implementing procedures establish requirements; School/discipline implementing guidelines provide direction

IX. Reserve fund

- Chancellor to establish business plan within campus to address any potential funding shortfalls

Dean to identify fund sources within School/Discipline and reserve funds necessary to cover any hiatus in identified and anticipated extramural funding.

8. Challenges

Provost Pitts charged the Committee to address arguments in favor of, as well as opposed to, the implementation of a new compensation plan. The Committee is aware of several campus and Office of the President groups devoting effort to correcting deficient funding for faculty salaries. Here are the challenges that the Committee has identified:

- The Plan will not be applicable to all faculty: some faculty in some academic disciplines can raise non-State revenue, and others have only minimal opportunity. The ability to release State funds to the campus as a result of enacting this plan may help mitigate issues of fairness and equity.
- The Committee is aware that this Plan will not address all faculty concerns about compensation generally, and, therefore, expects that there will remain an ongoing requirement for continued diligence in addressing the salary scales, state funding, and student fees.
- Teaching effort cannot be compromised, nor can the Plan disrupt the current balance between teaching, research, and service responsibilities.
- The plan will require careful promulgation to the legislature and public at large so that the impression is not given that UC is able to cope with less state support. Rather, in this Plan, UC has developed a method for leveraging more per state dollars and in moving to hold off inevitable future student fee increases.
- There is considerable variation among disciplines in access to the types of funding suitable for this plan. Some federal funding agencies support salaries in this way (e.g., NIH) while others do not (e.g., NSF). While common in our health sciences disciplines, use would be limited on general campuses to some grant-supported fields in biology and engineering and, more limited in the physical and social and behavioral sciences. The Committee understands that because the plan was formulated subject to external constraints discussed above, only a small minority of faculty is likely to participate. To the extent that this plan contributes to a competitive salary level for any faculty it has to be viewed positively. However, the Committee cautions that the overall impact on a gap of 11.2% between UC faculty salaries and those provided by competitive

institutions is expected to be quite modest. Consequently, this or any other alternative compensation that relies on non-state income sources should be considered only one element in a larger plan to address the salary gap. In other words, some limited number will benefit and others will not—but due to the minimal cost and current discipline-based salary differences, as well as some prospect for the return of some salary dollars to more general benefit, the Plan's benefits exceed the costs.

- The plan must be compliant with regulations governing the use of contract and grant funding to support faculty salaries, specifically with OMB Circular A-21. The Committee conducted preliminary review of A-21 compliance matters; however, more in-depth analysis is required than the following observations import. A-21 permits charging faculty effort to contracts and grants, as long as the rates are reasonable, and allocable to the project. Further, A-21 compliance rests on the established policy of the University regarding salary rates, uniformly and consistently applied. The Committee understands that key components of A-21 compliance are establishing a formal, authorized policy regarding faculty efforts and salaries; negotiating annual salaries in advance of grant and contract award; and assuring the salaries are based on the individual faculty member's regular compensation for the continuous period, which under the University's policy, constitutes the basis of salary. Charges to sponsored agreements may not exceed the proportionate share of base salary for that period.
- If A-21 compliance requirements result in the constraint of grant funded activity of faculty who are not participating in this compensation plan, it would be unacceptable to this committee to move forward with the plan's implementation.

9. Next steps

The following actions are recommended as "next steps":

- Develop a precise and clear communication plan, including a method to introduce the Plan's concepts, to inform the State and the Regents regarding the scope of the crisis, and to articulate the urgent need for action without risking further erosion of State support.
- Draft new APM policy and circulate for management consultation and system-wide review. Existing policies should be reviewed to identify any policies related to salary that may require modification.
- Request Senate and Administrative review and comment.

10. Salary Example

The Committee created the following illustration to indicate how the new compensation plan would work for an eligible faculty member. In this model, the faculty member’s 9-month state salary (including any off-scale amount), or X, is \$100,000. Through the annual salary process in the department, the faculty member negotiated a Y component of \$20,000, since this member is continuously funded by a participating agency. Thus, the total negotiated salary (TNS) for this year is \$120,000. In this example, \$96,000 of the TNS is funded by the campus and \$24,000 by the grant.

The faculty member receives a higher salary; there is a return of some funds to the campus.

The salary eligible for UCRP remains \$100,000, and the faculty member receives DCP benefits on the \$26,667 supplement. The UCRP employer contributions will fall to traditional sources, while those for DCP will fall to the Y-component source. Employee contributions will be deducted from the total salary.

Sample Salary Model:

Component	9-month Salary	Supplement	Total Negotiated Salary (TNS)
Current rank and step plus off-scale	100,000	20% or 20,000	120,000
	<i>20% TNS grant-funded = 24,000 80% TNS UC-funded = 96,000</i>		
9-month salary <i>Less 80% TNS UC-funded</i>	100,000 -96,000		
Return to campus	4,000		
Summer salary calculated on TNS (at 2/9)	22,222		26,667
Total Negotiated Salary (TNS)	\$ 122,222		\$146,667

APPENDIX 1

Joint Senate-Administration Compensation Plan Steering Committee February – June 2010

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APPENDIX 2

University of California Joint Senate-Administration Compensation Plan Steering Committee Charge to Committee

The charge to the Committee is to develop a new compensation Plan that will allow sources of income outside the University, beyond those currently available, to be used to supplement faculty salaries. Such additional revenue sources could foster more competitive faculty compensation across multiple disciplines. A new Plan must balance state funding with diverse other revenue streams that will likely vary among disciplines (e.g. grants for biosciences; self-funded educational programs for business; clinical care for veterinary medicine) and be coordinated with benefits such as the University of California Retirement Plan. Some of these ideas have been in development on several campuses and the Steering Committee is encouraged to examine such work to help its deliberations. The Health Sciences Compensation Plan and Guidelines on Outside Professional Activities (APM 670) has achieved the goal of combining state funding with other income (grants and clinical revenue among others) reasonably well over the past 15 years. Some of its features and philosophy might be applicable to a new compensation Plan for other UC faculty.

The Committee will develop a policy framework within which benefits and levels of compensation are established to support our current faculty, and to enhance faculty recruitment and retention efforts. Essential to the Plan will be balance among the shared responsibilities of teaching, research and other university and public service responsibilities. The policy framework should include a Plan, Implementation Procedures, and Guidelines for Outside Professional Activities. Such a new Plan will be attractive and useful for some disciplines, but not particularly applicable to others. Thus the current UC compensation plan will continue for many faculty.

Additionally, I will ask that the group consider review and approval methods by which the new Plan framework may be adapted by individual disciplines and campuses. It might be useful for the Steering Committee to convene subgroups to recommend Plan features most appropriate for particular disciplines.