

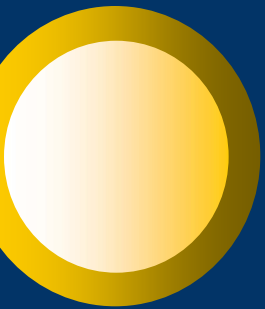
MERCER

Human Resource Consulting

September 19, 2005

**UC Total Remuneration:
Current Situation and
Planning for the Future**

Prepared for:
The Board of Regents Meeting
of September 22, 2005



Ten-Year Total Remuneration Projections

Current Situation

Total Population

FINDINGS

- At UC, total remuneration for the average employee is at market, but cash compensation is, on average, significantly below at -15%
- Additional cash compensation will be needed to offset potential reduction in the value of UC's benefits to maintain competitiveness



IMPLICATIONS

- Need to address overall compensation strategy for all UC employee groups
- Need to quantify cost of maintaining market competitiveness for total remuneration



ACTIONS

- Review estimates of ten-year total remuneration positioning
- Discuss funding sources for compensation increases

Ten-Year Budget Estimates

Overview

Purpose:

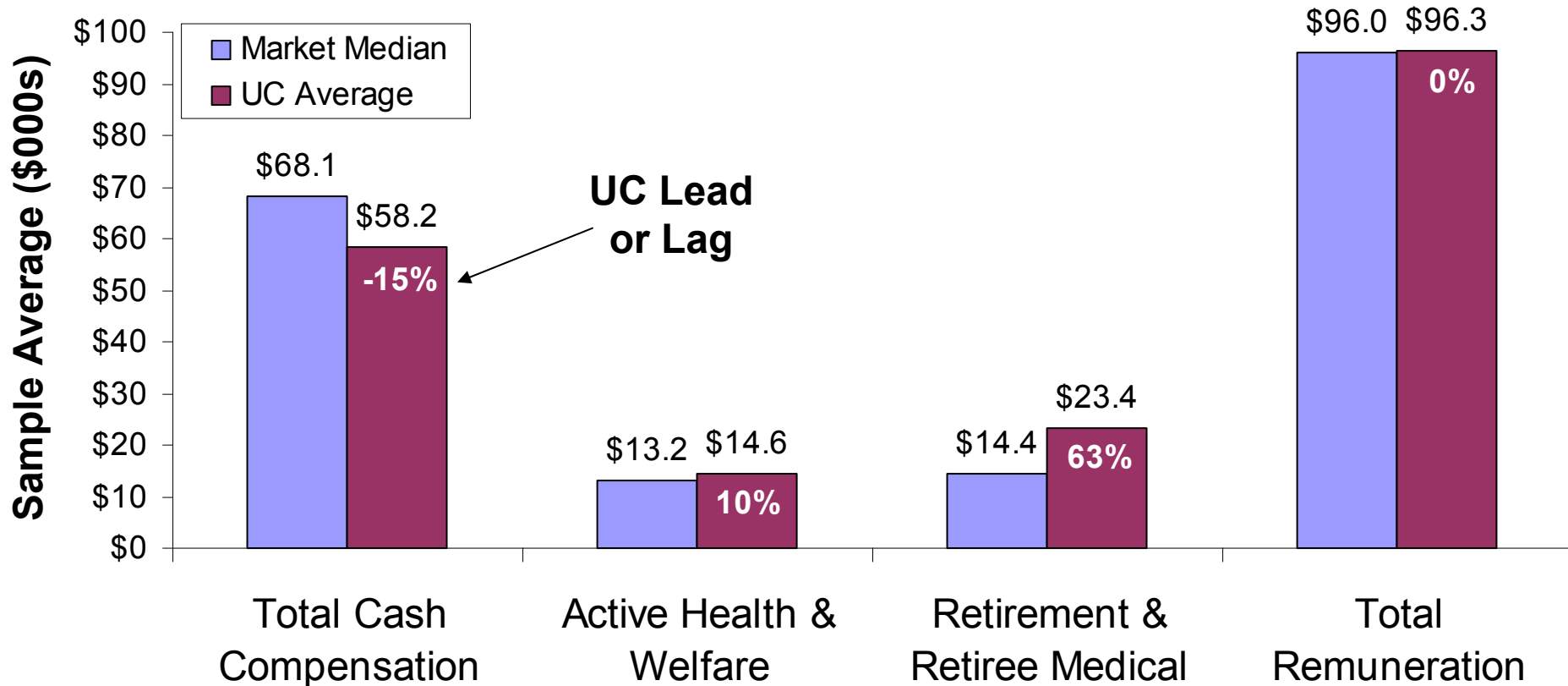
- Assess the impact of potential changes in benefit values and whether anticipated catch-up salary increases will offset them
- Estimate the additional amount of cash compensation, if any, required to keep UC at market for total remuneration

Assumptions:

- A stable population, static internal and external environment, regular pay increases, annual increase in health care costs declining from 12% in 2006 to 7.5% in 2015, and no change in health care or retirement benefit provisions
- Contributions to UCRP by employees and UC and a shift to more market competitive cost sharing for health care benefits

Current Situation: Total Remuneration Study Findings

Summary: Variance of Current UC Average from Market Median

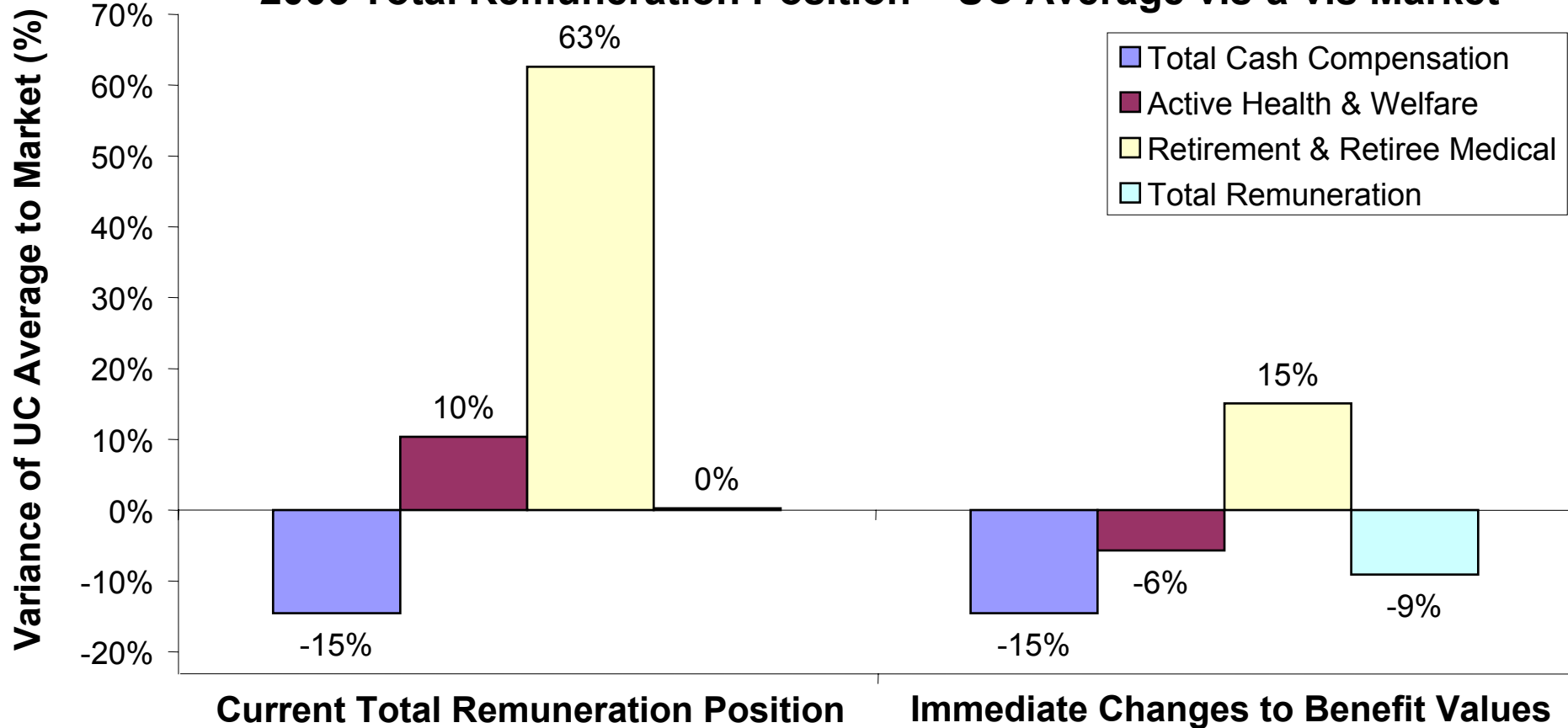


NOTES: Averages reflect the total remuneration study population only and not UC system-wide figures -study did not include labs or medical centers; individual employees fall significantly above and below the UC averages; totals are not additive due to market median variations and rounding

Ten-Year Total Remuneration Estimates

Changes to Benefits with no Phase-In

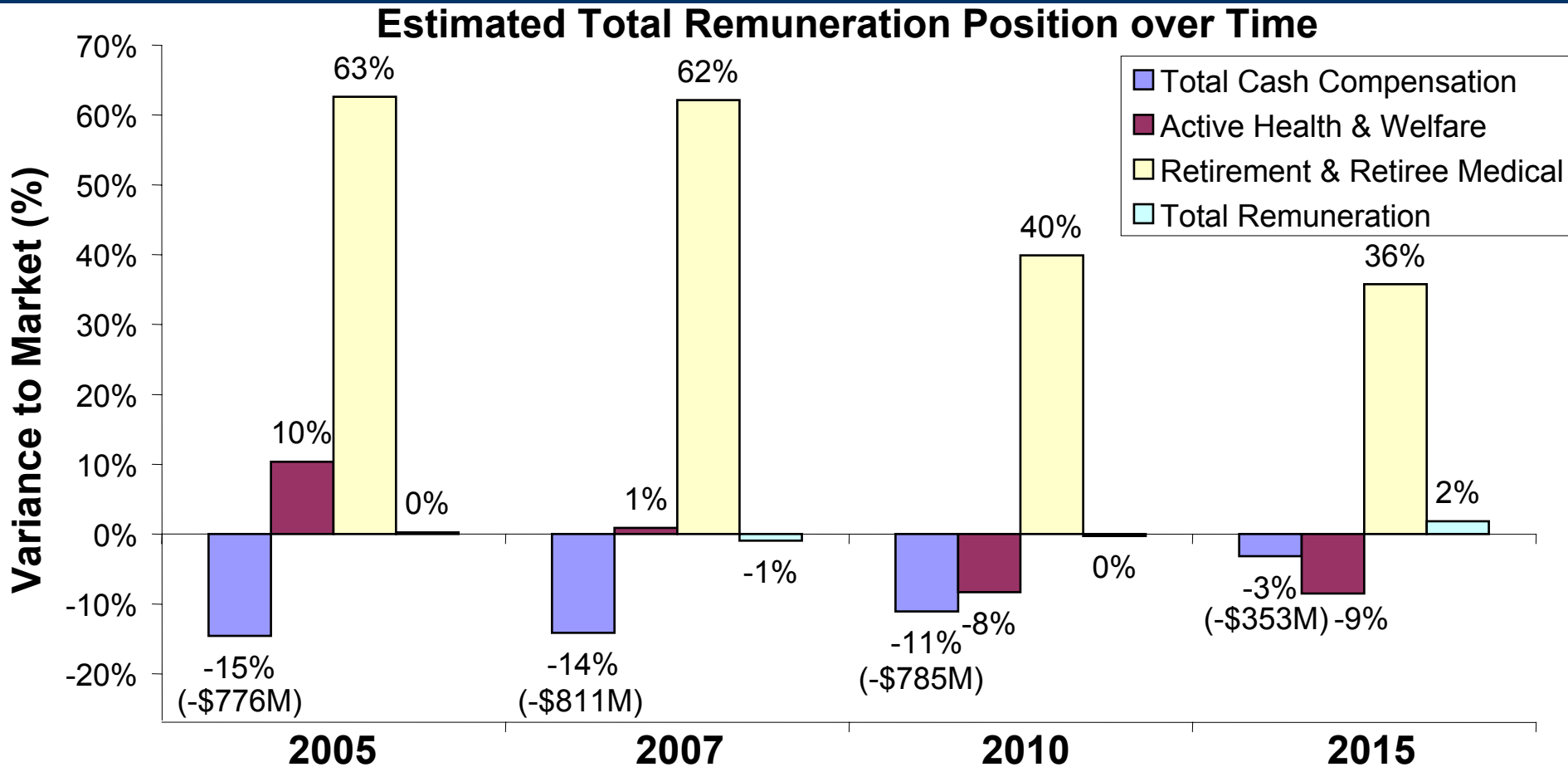
2005 Total Remuneration Position – UC Average vis-à-vis Market



NOTE: Full changes to benefit values include an immediate resumption of employee contributions to UCRP and a move to competitive cost sharing for healthcare; individual employees fall well above and below the UC average

Ten-Year Total Remuneration Estimate

Gradual Phase-In of Benefit Changes and Salary Increases



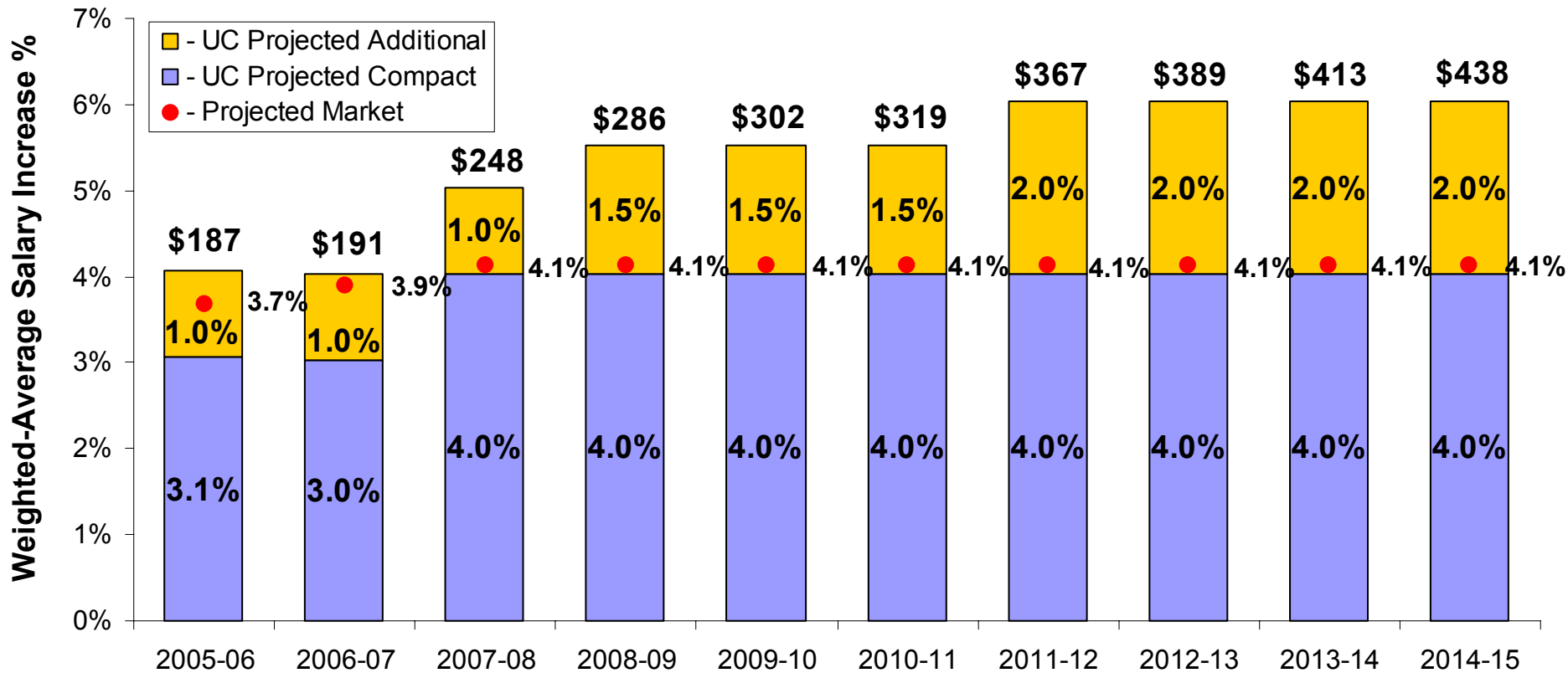
NOTE: Values beneath Total Cash Compensation lags represent additional payroll required to bring payroll to market median.

Ten-Year Total Remuneration Estimate

Total Cost of Cash Compensation Catch-Up

UC's Projections of Cash Compensation Increases

Cost of Compact and Additional Increases (Employee weighted averages)

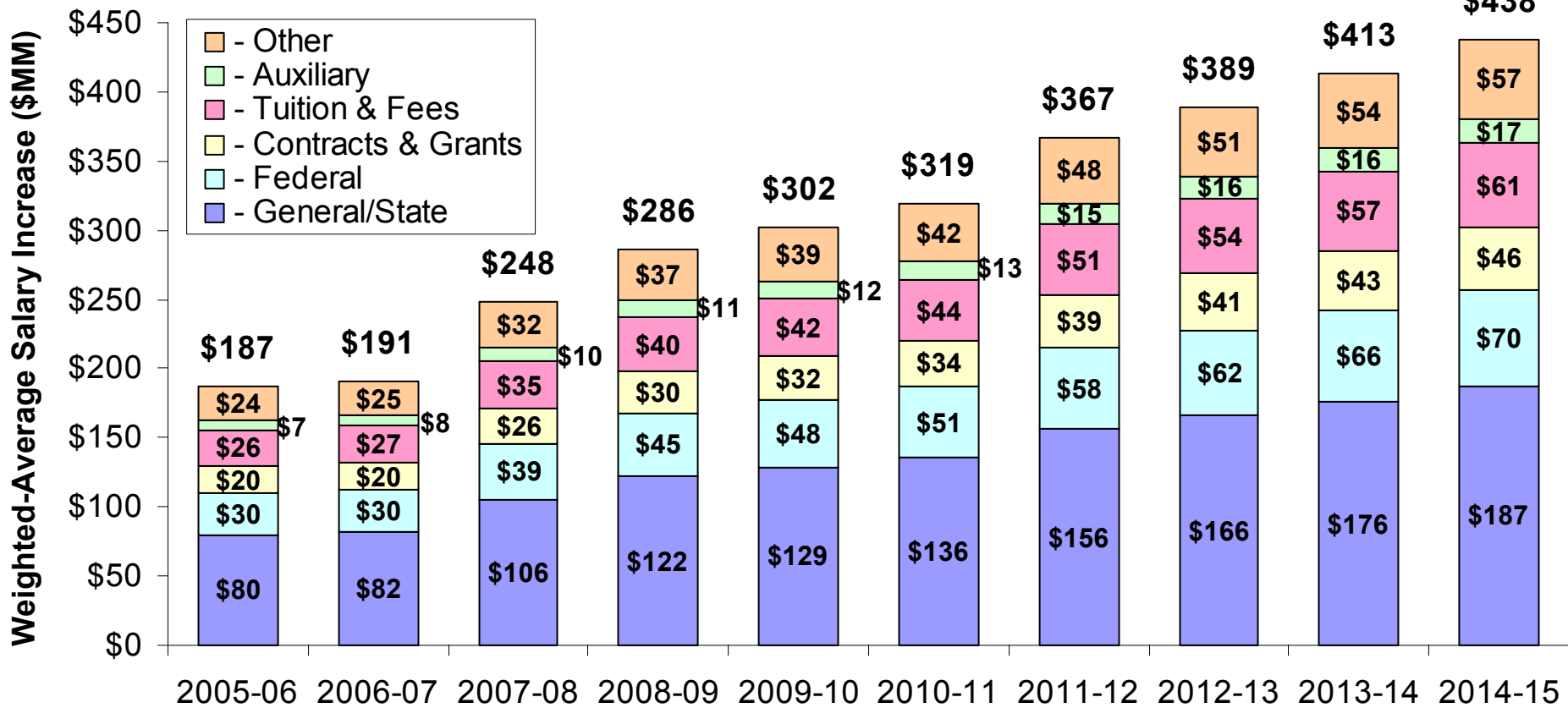


NOTE: Salary increase percentages provided by UCOP; total cost based on payroll at Campuses and UCOP as of March, 2005

Ten-Year Total Remuneration Estimate

Total Cost of Cash Catch-Up by Funding Source

Total Cost of Cash Compensation Increases
Compact and Additional Increases by Funding Source



NOTE: Percent breakdown of funding sources provided by UCOP and remain constant over time

Ten-Year Total Remuneration Estimate

Budget Implications

- Catch-up pay increases will be provided in the same timeframe as reductions in value of benefits are phased in
 - Projected pay increases total \$3.1B over the 10 year period.
 - Resulting total remuneration remains near market for most groups
- Additional benefit costs would be incurred with UCRP employer contributions
 - Projected costs are \$155M in 2008 increasing to \$614M in 2015 and totaling \$3.0B over the 10 year period
 - Pay increases will cause further reduction in the funded status of UCRP
- Projected additional costs associated with medical inflation in excess of UC budgeted increases total \$603M over the 10 year period

Ten-Year Total Remuneration Estimate

Total State Funding Required over 10 Years

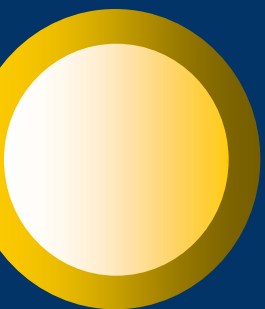
	(in millions)
■ Cash Compensation for Compact and Additional Increases:	\$1,340
■ Additional Cost for UCRP:	\$1,287
■ Additional Cost for Active and Retiree Medical:	\$257
■ Total Additional State Funded Cost:	\$2,883

NOTE: Assumptions:

- Stable employee population during entire time period
- Future salary increases were provided by UC and capped at 6%
- Contributions to UCRP were provided by UC
- Additional cost estimates for health benefits assumes budgeted increase is constant year over year
- State funding percentage for additional salary increases and benefits costs is assumed to be 42.5%

Today's Action

- It is recommended that the Committee on Finance recommends to the Board of Regents the establishment of goals to obtain, prioritize and direct 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



Senior Leadership Compensation Strategy

Current Situation

Senior Leadership Personnel

FINDINGS

- Average total remuneration for SMG is at market
- Cash compensation is 17% below market (approx. \$10M)
- Current cash comp approval process for senior positions is ineffective and based on limited information



IMPLICATIONS

- UC may have difficulty recruiting and retaining top academic and managerial talent
- New hire pension values are lower than for existing employees
- Need new process to review and adjust base salaries for senior positions



ACTIONS

- Develop new compensation philosophy for senior leadership
- Develop new policy and program to manage senior leadership pay that is:
 - internally equitable
 - externally competitive, consistent, and flexible
 - under the continuing purview of the Regents

Proposed Philosophy

The quality of our academic, management and staff personnel is essential to maintain the excellence of the University of California and its ability to contribute to the health and vitality of the State of California. Our strategy is to attract and retain the highest quality academic, managerial, and staff talent by offering competitive total remuneration.

New Program Overview

CURRENT ADMINISTRATIVE PROCEDURES

- Salary increases for all 800 employees earning over the Indexed Compensation Level (“ICL” – currently \$168,000) are approved one-by-one by the Regents, with limited information
- Bylaws provide that the ICL is indexed to changes in the consumer price index

NEW ADMINISTRATIVE PROCEDURES

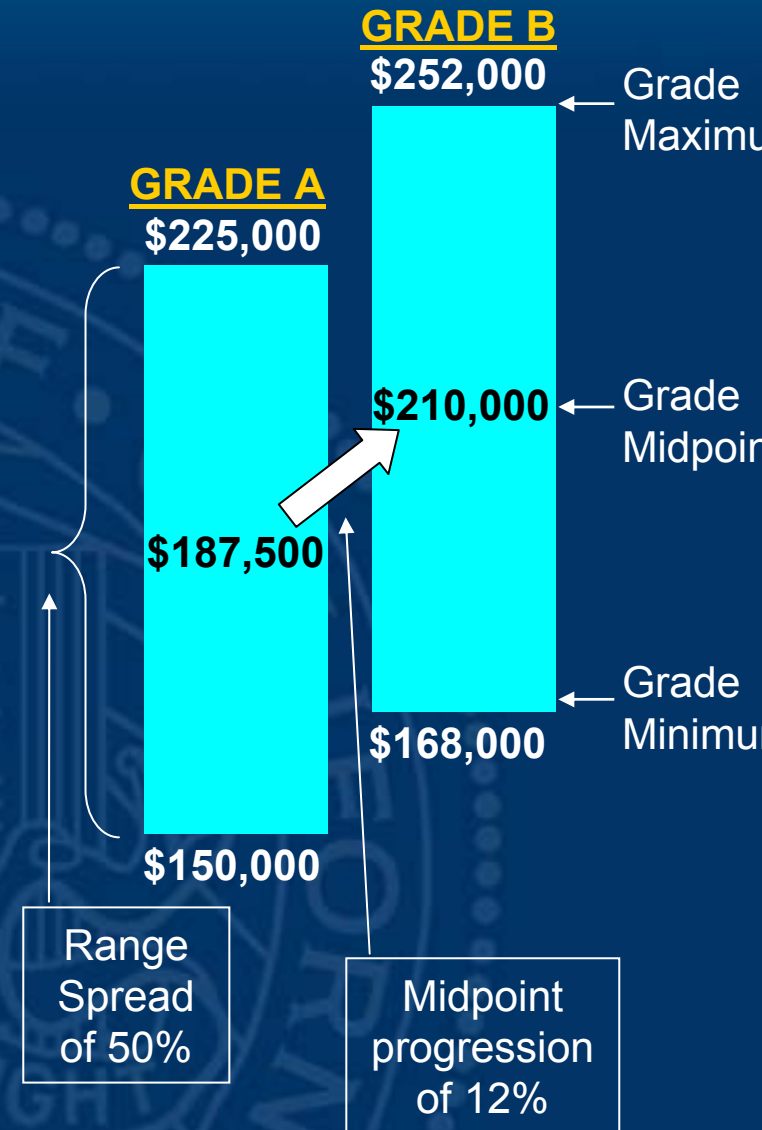
- Salaries for top 30 or so positions continue to be approved individually by the Regents
- Salary increases for most other employees earning over the ICL are made within the Regent-approved salary structure and procedures
- Regents approve all salary increases that fall outside guidelines they establish

Adjustment to ICL

- ICL was last adjusted in 2001 to \$168k
- Bylaw 12.3.m.3 provides that the ICL be indexed annually based on changes in the consumer price index (CPI) and reported to the Regents
- The CPI increased by 2.8 in 2001, 1.6% in 2002, 2.3% in 2003, and 2.7% in 2004
- Applying these CPI adjustments to the ICL would bring it to a 2005 level of \$184k

Salary Structure Overview

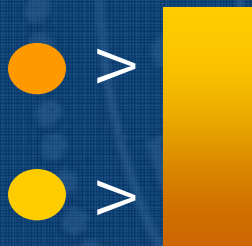
- Structures are comprised of *grades*, made up of a group of jobs approximately equal in value as determined by a market pricing/job slotting process
- Each salary grade has a *salary range spread*, which is the percent increase from the grade's *minimum* salary to the grade's *maximum* salary
- A salary grade's *midpoint* falls halfway between the range minimum and maximum. Jobs whose market median salaries most closely approximates the midpoint are assigned to that grade
- The midpoints of a structure's grades increase by an increment (e.g., 12%), which is called the *midpoint progression*



Objectives of New Salary Program

Create flexible ranges to accommodate unique hiring needs, a performance management system and variations in:

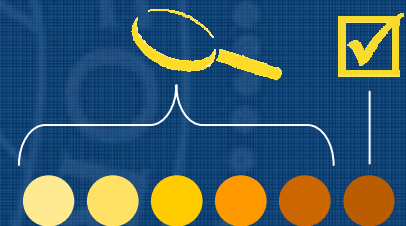
- experience
- skills
- credentials
- performance



Recognize the unique attributes of jobs, including the following “*compensable factors*”:

- job size and complexity
- academic reputation of campus or discipline, if applicable
- priority of discipline, if applicable

Focus Regents’ efforts on overall program monitoring, with individual review for highest-level positions and exceptions only



New Program Overview

Initial Approval Step

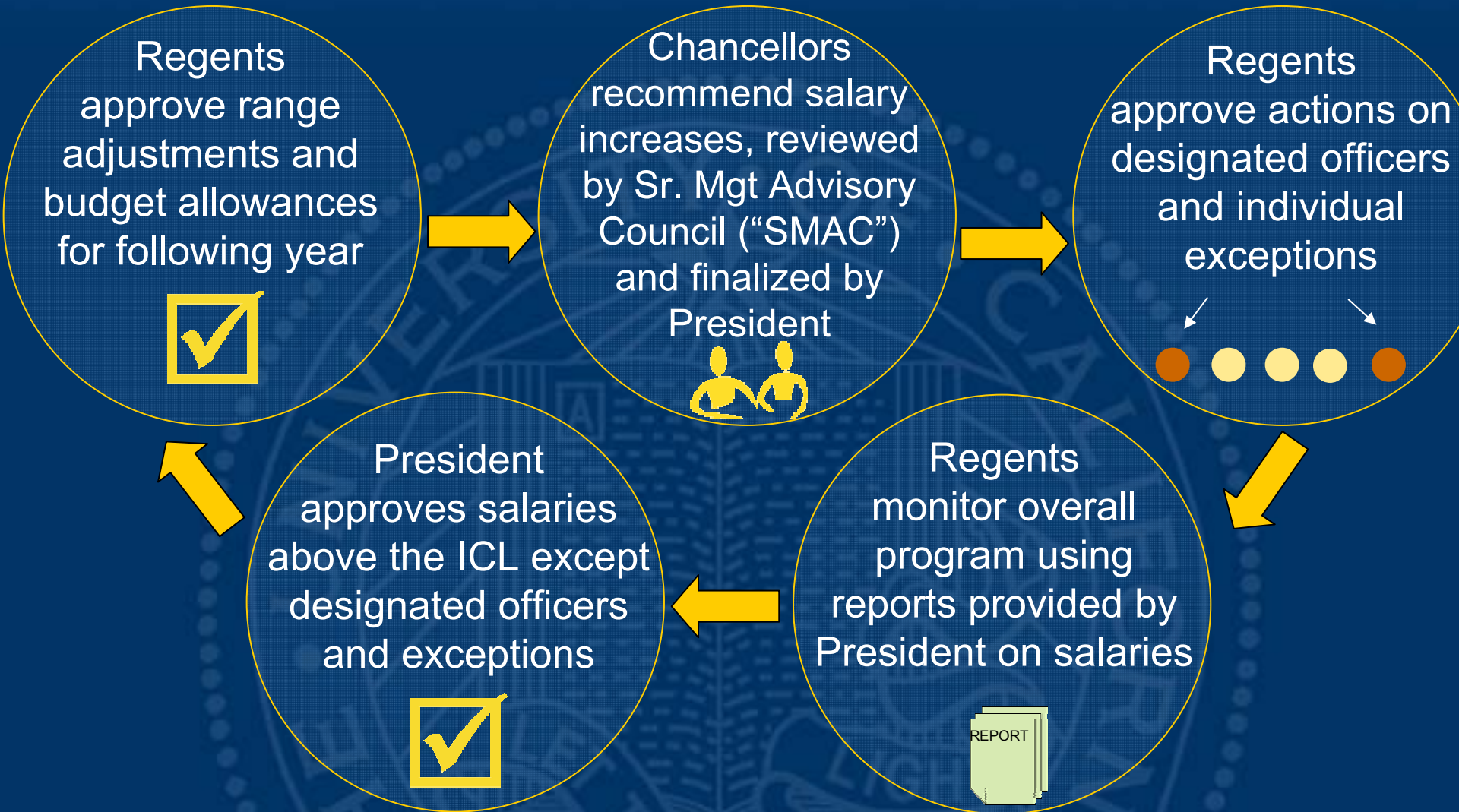
Regents approve:

- new salary structure and ranges
- compensable factors to be used to compute projected market medians
- salary grade assignments based on market data and compensable factors
- new salary administration procedures



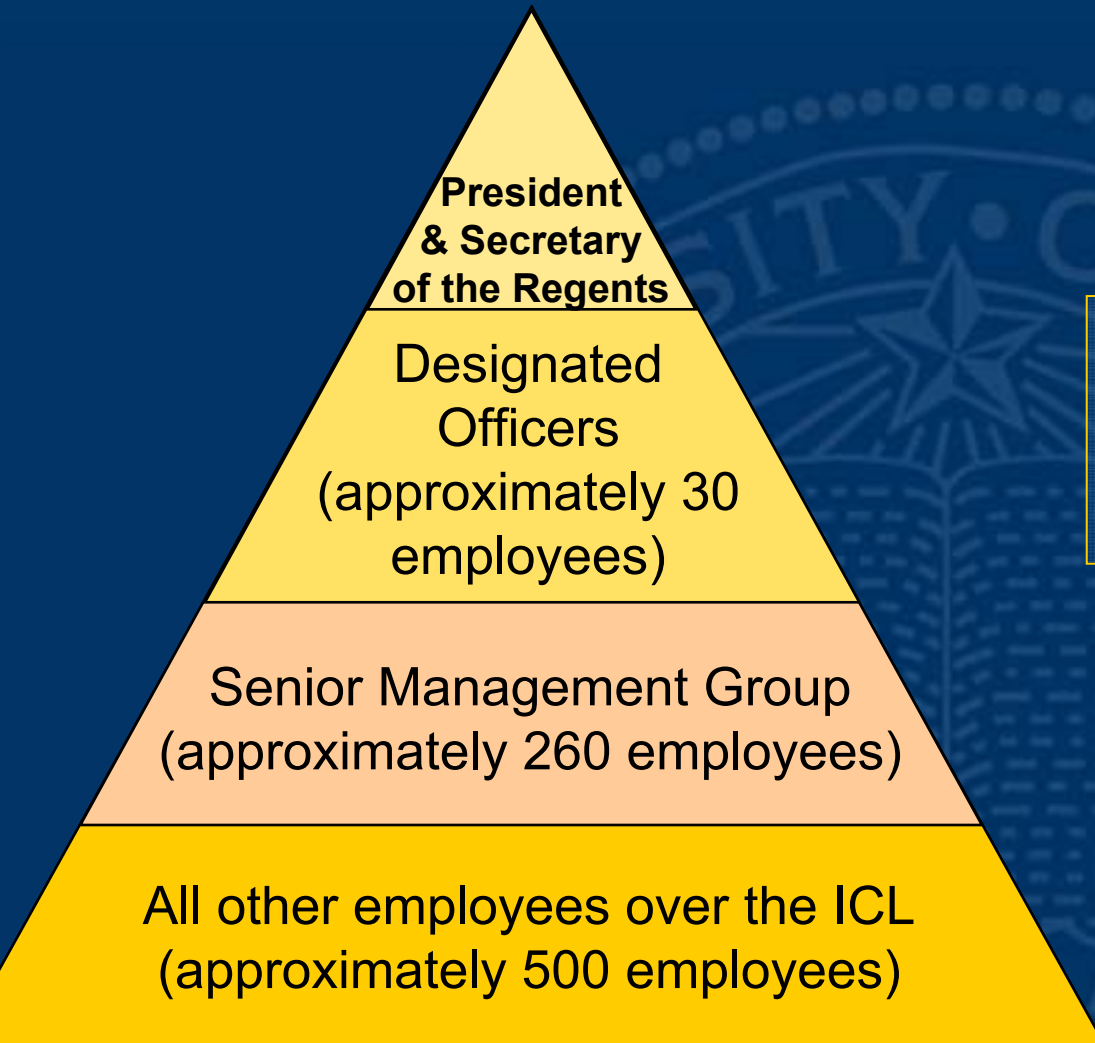
New Program Overview

Salary Administration - Ongoing Annual Cycle



New Program Overview

Assignment of Responsibility

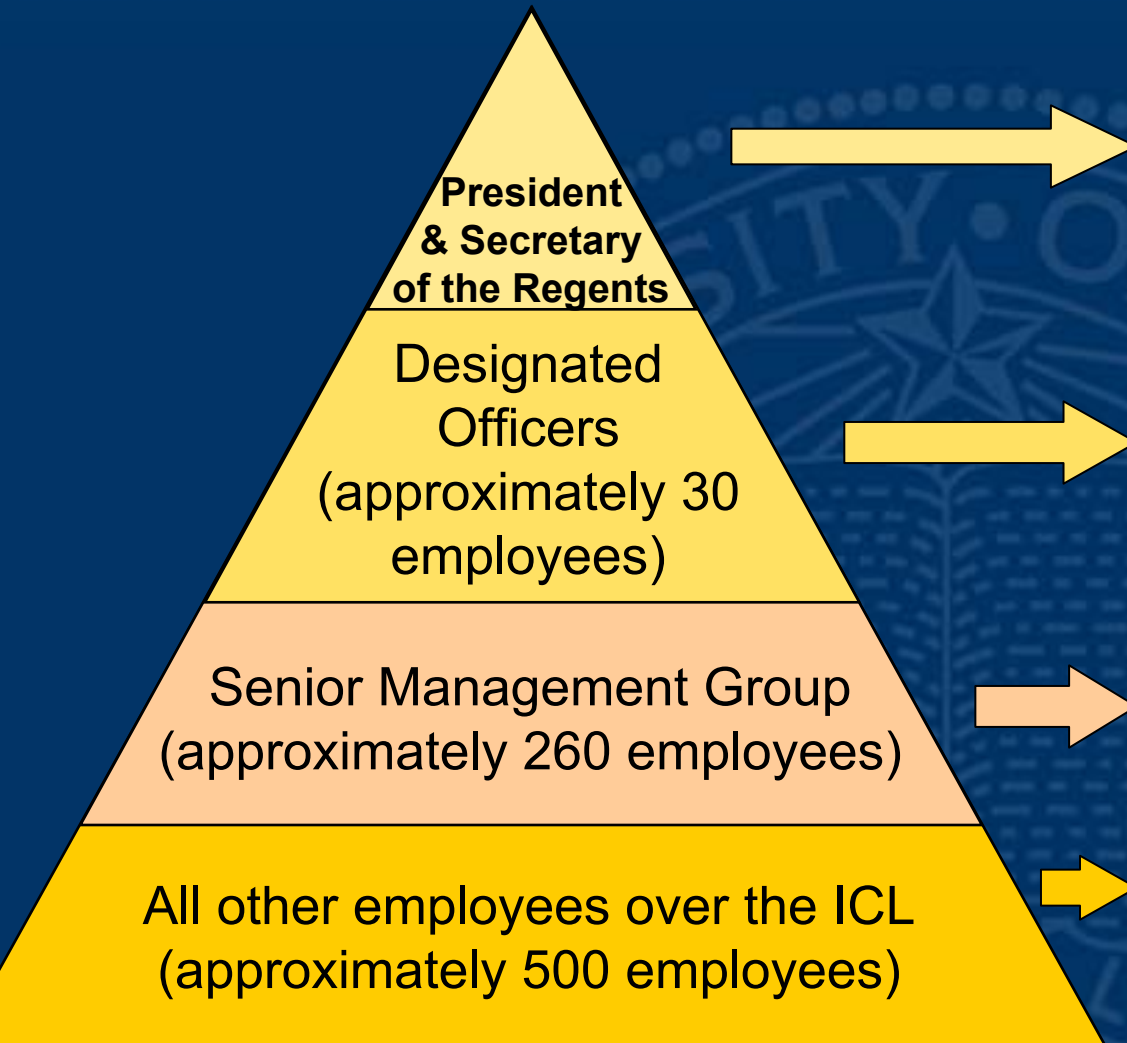


Salary Structure and Job Slotting

- For all levels, the Regents review and approve the salary structure and all job slotting within the structure

New Program Overview

Assignment of Responsibility

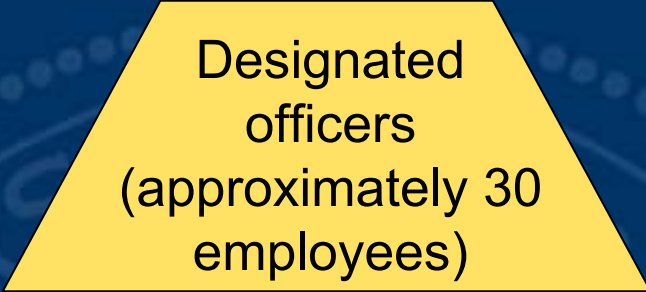


Salary Actions

- Evaluation and salary actions initiated and approved by Regents
- Salary recommendations made by President
- Individual salary actions approved by Regents
- Salary actions within guidelines approved by President and reported to Regents
- Exceptions to guidelines approved by Regents


New Program Overview

Regents Approve Salary Structure, Job Slotting and Individual Salaries for:



Designated
officers
(approximately 30
employees)

INCLUDES:

- 
- Chancellors (10)
 - SVPs & VPs (10)
 - Lab Directors (3)
 - Medical Center CEOs (5)
 - General Counsel (1)
 - Treasurer (1)

NOTE: General Counsel has dual reporting relationships to the President and the Board of Regents; Treasurer has dual reporting relationships to the Chief Administrative Officer and the Board of Regents

New Program Overview

Regents Approve Salary Structure, Job Slotting and Salary Exceptions for:

Senior Management Group
(approximately 260 employees)

INCLUDES:

- Executive Vice Chancellors (10)
- Vice Chancellors (45)
- Associate Vice Presidents (10)
- Assistant Vice Presidents (10)
- University Librarians (3)
- Deans (120)
- Provosts (7)
- Executive Vice Provosts (2)
- Vice Provosts (5)
- Associate Provosts (3)
- Managing Directors (5)
- Medical Center Chiefs (30)
- Medical Center Directors (3)
- Medical Center Executive Directors (4)

New Program Overview

Regents Approve Salary Structure, Job Slotting and Salary Exceptions for:

All other employees over the ICL
(approximately 500 employees)

INCLUDES:

- Department of Energy Contract Employees at the National Labs (approx. 330)
- Employees of the Regents (approx. 10)
- Coaches and Athletic Directors (approx. 2)
- Health Sciences and Clinical Faculty (approx. 100)
- Campus Administrative Employees (approx. 20)
- Ladder Rank Faculty (approx. 50)

New Program Overview

Method for Slotting Jobs into Salary Structure

Conduct market assessment of jobs targeted to relevant labor markets

- Academic (e.g., Deans, Vice Chancellors)
- General Industry (e.g., Human Resources, Information Technology)
- Health Care & Hospitals – including Academic Medical Centers (e.g., medical center employees)

Establish market competitive salary ranges

- Define salary grade levels based on market medians
- Apply discount or premium to market median based on compensable factors
- Assign individual jobs to range with nearest midpoints

Preliminary Compensable Factors - Overview

Relative academic reputation of campus or discipline, if applicable

- Specific campus national rank for positions with direct line-of-sight to the entire campus (e.g., Chancellors, Vice Chancellors)
- Specific discipline national rank for positions with direct line-of-sight to a particular discipline (e.g., Dean of Engineering)
- Normally not applicable for administrative positions

Relative size and complexity of job

- As applicable: relative operating budget, capital budget, scope of oversight (number of staff, faculty and students, hospital beds, etc.), degrees conferred, and breadth and depth of program offerings

Priority of discipline, if applicable

- UCOP approved strategy for near-term development of a particular discipline (e.g. Engineering) at a campus where salary grade exception is necessary for recruiting or retention
- Not applicable for administrative positions (e.g., Finance and HR)

New Program Overview

Market Assessment Comparators

Academic Labor Market

- Brown University
- California Institute of Technology
- Columbia University
- Cornell University
- Harvard University*
- Johns Hopkins University
- MIT*
- Northwestern University
- Stanford University*
- SUNY – Buffalo*
- SUNY – Stony Brook
- University of Chicago
- University of Colorado
- University of Colorado – Boulder
- University of Illinois – Chicago
- University of Illinois – Urbana-Champaign
- University of Michigan*
- University of Minnesota
- University of Minnesota – Duluth
- University of Minnesota – Twin Cities
- University of Pennsylvania
- University of Texas – Austin
- University of Virginia*
- University of Washington
- University of Wisconsin – Madison
- Yale University*

** Indicates comparison 8 university*

New Program Overview

Market Assessment Comparators

General Industry Comparators

Participants in:

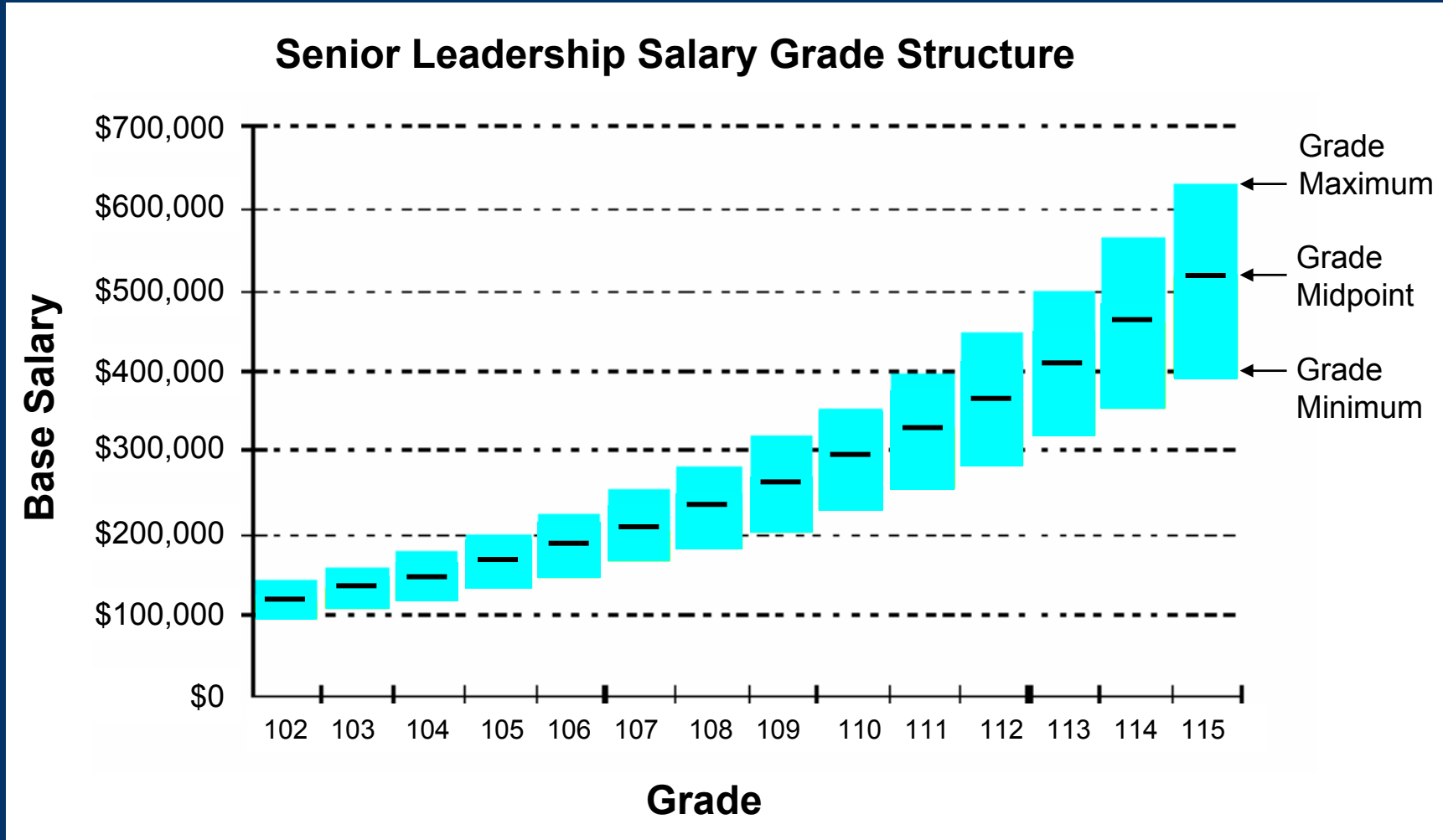
- College and University Personnel Associates (CUPA)'s Administrative Compensation Survey
- Mercer's Executive Pay and Performance Survey
- Watson Wyatt's Report on Top Management Compensation
- Western Management Group's Educomp Compensation Survey

Healthcare and Hospital Comparators

Participants in:

- Association of Academic Medical Center's Compensation Study
- Clark's Healthcare Executive Compensation Survey - (Academic Medical Centers)
- Mercer's Integrated Health Networks Compensation Survey
- Sullivan, Cotter & Associates Survey of Executive Compensation in Hospitals and Healthcare
- Watson Wyatt's Hospital and Health Care Management Compensation Report

Preliminary Salary Structure



Salary Structure

Slotting Example: Deans of Engineering

- Overall market median: \$240,000 per published survey data
- Adjustments by compensable factors to establish projected medians:
 - **Discipline reputation:** +10%, no adjustment, -10%
 - **Size:** +10%, no adjustment, -10%
 - **Priority of discipline:** grade adjustment, if applicable

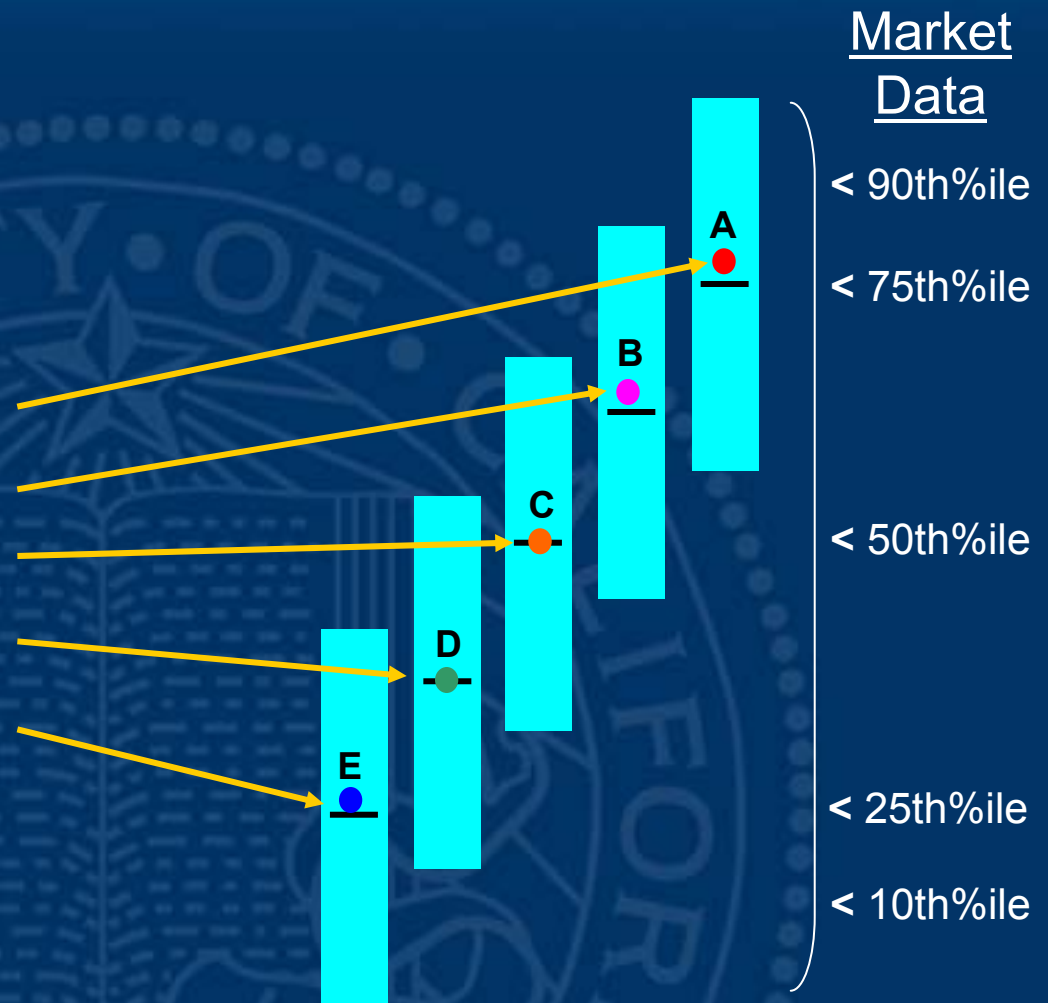
Campus	Market Median (000's)	Rel. Disc. Rep	Rel. Size	Projected Market Median (000's)	Grade
A	\$240	+10%	+10%	\$288	110
B	\$240	0%	+10%	\$264	109
C	\$240	0%	0%	\$240	108
D	\$240	0%	-10%	\$216	107
E	\$240	-10%	-10%	\$192	106

NOTE: Adjustments and grades are illustrative only; actual factors and weights to be determined

Salary Structure

Slotting Example: Deans of Engineering

Campus	Rel. Disc. Rep	Rel. Size
A	+10%	+10%
B	0%	+10%
C	0%	0%
D	0%	-10%
E	-10%	-10%



Salary Administration

Sample Report to Regents

Sample Report: Regent Approval of Individual Exceptions

Salaries for Approval

Job Title	Current Base Pay (\$000s)	Projected Market Median (\$000s)	Grade	Salary Range			Base to Midpoint Positioning	Recommended Increase	Salary after Increase	Salary to Midpoint Positioning
				Grade Minimum	Grade Midpoint	Grade Maximum				
Dean - Engineering E	\$177.6	\$192.0	106	\$146.1	\$184.9	\$223.7	96.1	15%	\$204	110.5
Dean - Engineering I	\$320.0	\$240.0	108	\$182.2	\$231.9	\$281.7	138.0	3%	\$330	142.1

Comparable Salaries for Context

Job Title	Current Base Pay (\$000s)	Projected Market Median (\$000s)	Base to Midpoint Positioning (pre-increase)	Base to Midpoint Positioning (post-increase)
Dean - Engineering A	\$250.0	\$288.0	0.9	89.4
Dean - Engineering B	\$225.0	\$264.0	86.6	89.6
Dean - Engineering C	\$200.0	\$240.0	86.2	94.9
Dean - Engineering D	VACANT	\$216.0	N/A	N/A
Dean - Engineering F	\$218.2	\$216.0	105.4	109.6
Dean - Engineering G	\$265.0	\$216.0	128.0	133.1
Dean - Engineering H	\$212.5	\$216.0	102.6	109.8

Regent approval required for salary increases of 15% or more for employees whose increases take them over their salary grade midpoint and for salary increases that place employees salaries above their salary grade maximums

NOTE: Recommended increases are illustrative only

Salary Administration

Sample Report to Regents (cont'd)

Sample Report: Regents Monitoring Program

Senior Leadership Compensation Group (“SLCG”) Salary Increase Summary

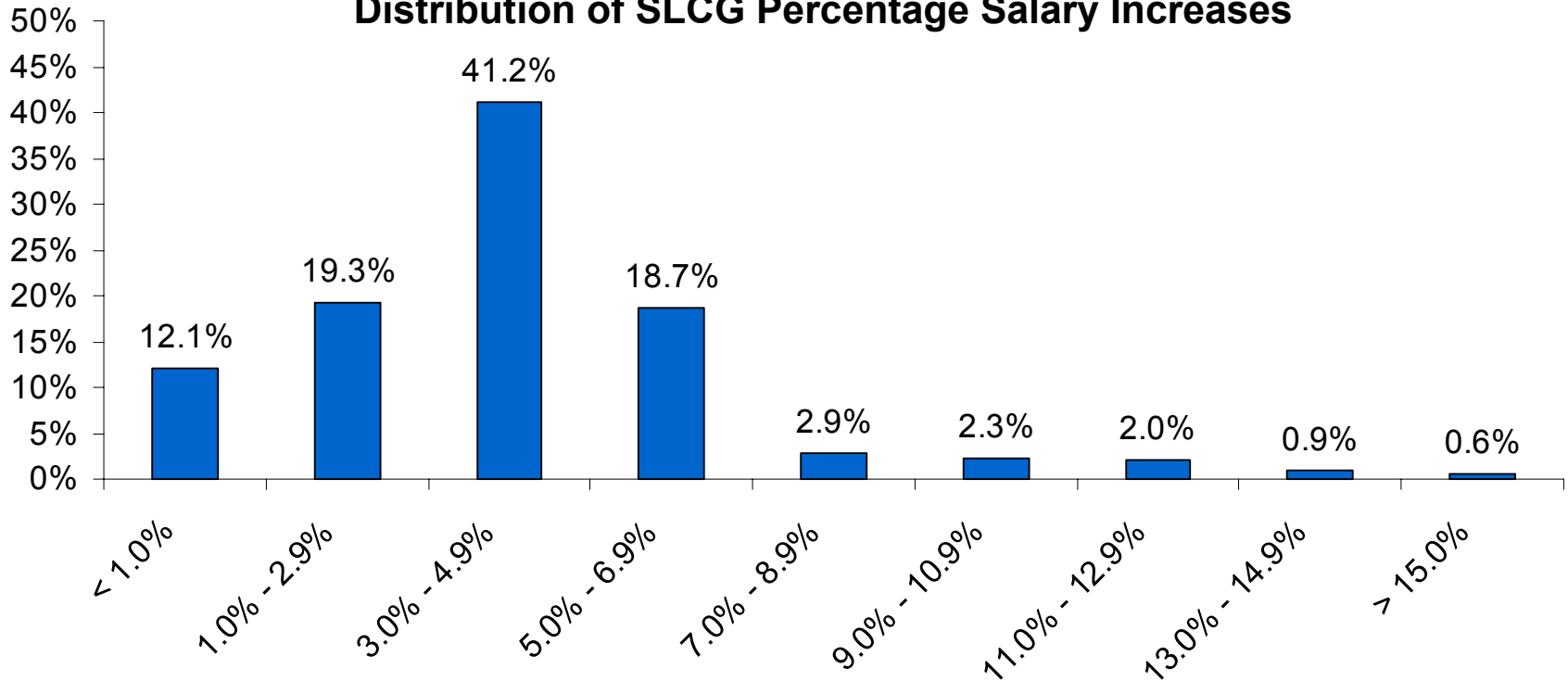
Campus	Employees over \$168K	Salary Increase Budget		Recommended Increase	
		(\$000s)	(%)	(\$000s)	(%)
A	45	\$98	4.1%	\$98	4.1%
B	30	\$180	4.2%	\$180	4.2%
C	28	\$178	3.9%	\$178	3.9%
D	57	\$350	3.9%	\$350	3.9%
E	15	\$82	3.8%	\$82	3.8%
F	32	\$172	4.0%	\$172	4.0%
G	38	\$163	4.0%	\$163	4.0%
H	41	\$210	4.2%	\$210	4.2%
I	34	\$134	4.0%	\$134	4.0%
J	27	\$146	3.8%	\$146	3.8%
TOTAL:	347	\$1,713	4.0%	\$1,713	4.0%

NOTE: Recommended budgets and increases are illustrative only

Salary Administration

Sample Report to Regents (cont'd)

**Sample Report: Regents Monitoring Program
Distribution of SLCG Percentage Salary Increases**



Regent approval required for salary increases of 15% or more for employees whose increases will take them over their salary grade midpoint and for salary increases that place employees salaries above their salary grade maximums

NOTE: Recommended increases are illustrative only; totals by campus also will be provided

Salary Administration Responsibility

REGENTS

Final authority on all issues, including:

- salary ranges and slotting of jobs
- changes to salary ranges
- changes in slotting of new and revised jobs
- aggregate salary increase budget
- actual overall salary adjustments
- salary increases of 15% or more for employees whose increases will take them over their midpoints
- salary increases that place employees' salaries above their salary grade maximums

Regents receive annual report on all SLCG salaries

PRESIDENT, SMAC, CHANCELLORS

Salary recommendations and ongoing administration of the salary program

Actions

Today's Actions

- Approve administrative procedures
- Approve concept of salary structure and job slotting for all employees under the Regent's purview

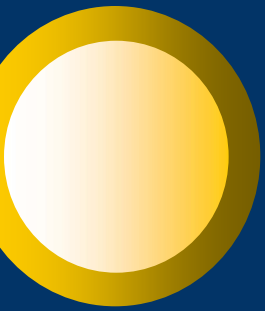
Future Actions

- Approve initial salary structure and subsequent adjustments
- Approve initial job slotting and subsequent adjustments
- Approve individual salaries of Designated Officers
- Approve salary exceptions for others, as required

NOTE: Ranges already exist for National Lab employees, the Treasurer's office, and coaches/athletic directors.

Today's Action

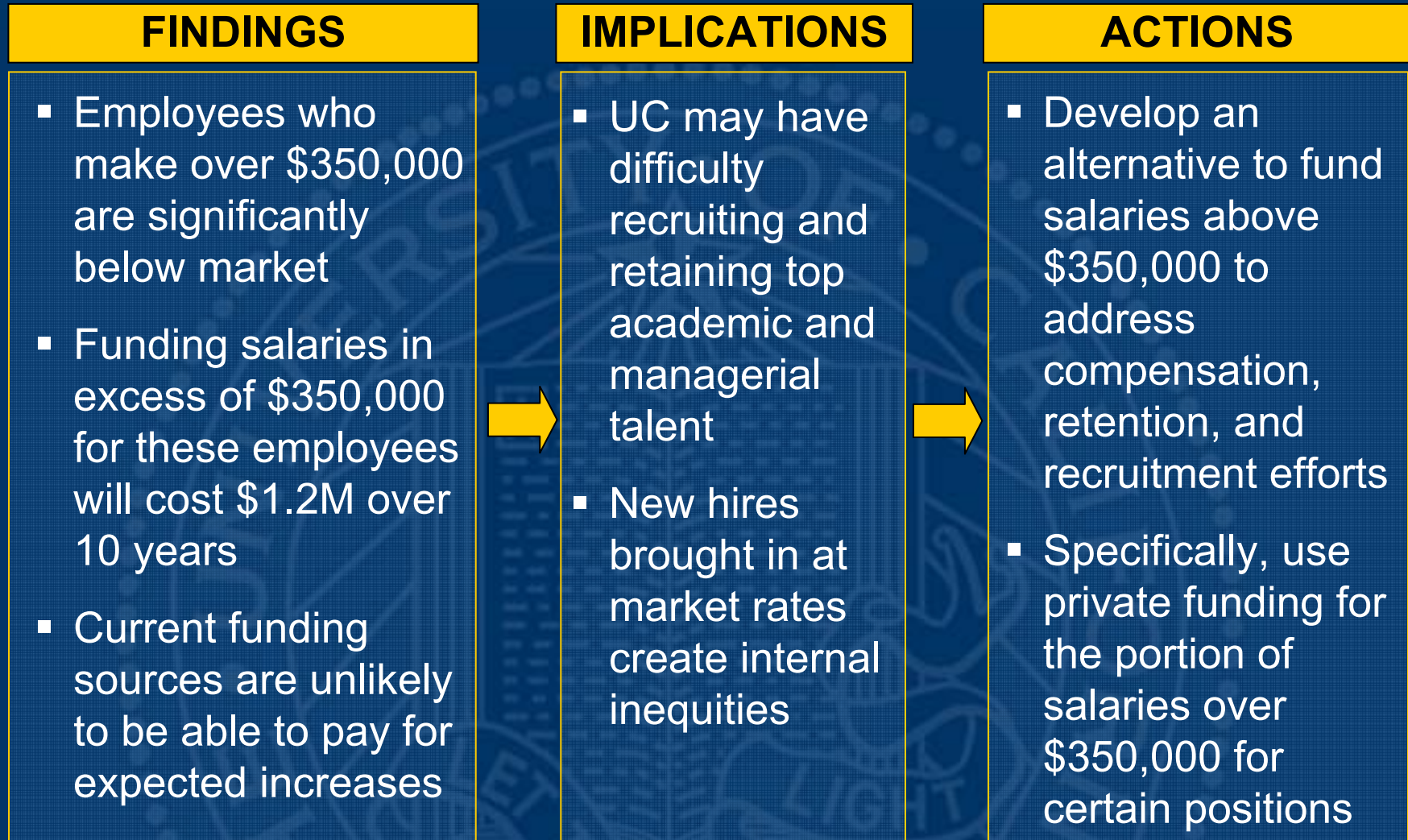
- It is recommended that the Committee on Finance recommends to the Board of Regents the adoption of procedures for determining and setting compensation levels for senior leadership that are clear, comprehensive and accountable



Private Funding for the Portion of Salaries over \$350,000 for Approved Employees

Current Situation

Additional Funding



Securing Additional Funding Process

INITIAL STEP

Regents approve proposal to use private funds for the portion of salaries over \$350,000 (indexed)



ANNUAL PROCESS

Regents:

- review and approve positions eligible to receive private funds



University:

- Obtains funds from individuals and organizations for specific purpose of making critical salary adjustments



Regents:

- approve salary increases for individuals in designated positions

Next Year



Securing Additional Funding Guidelines

Donations:

- can be designated to specific positions
- are administered by the President for the designated positions
- must be reported to Regents annually

Securing Additional Funding

Positions Included

- President (1 / 1)
- Chancellors (6 / 10)
- Deans of Business / Management (0 / 6)
- Deans of Engineering (0 / 9)
- Deans of Law (0 / 3)

May be included at a later date:

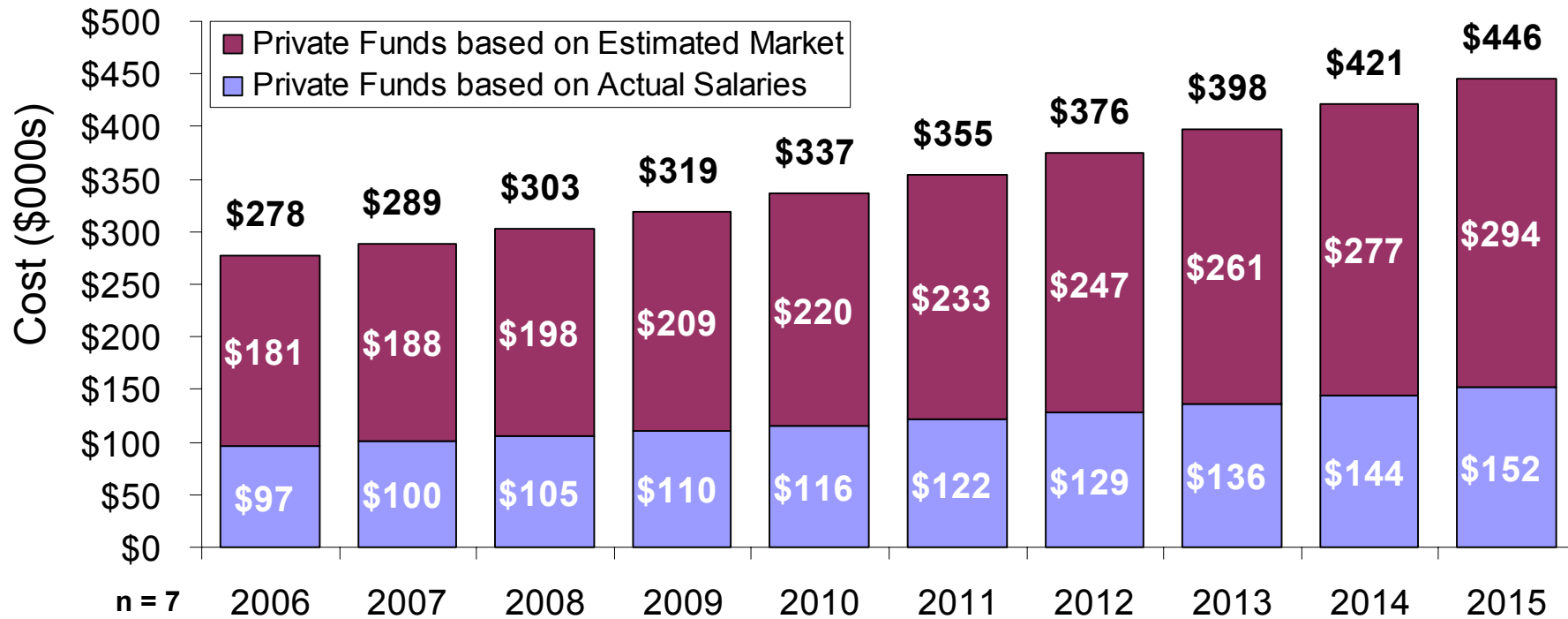
- Senior Vice Presidents (2 / 3)
- Executive/Senior Vice Chancellors (0 / 10)

NOTE: Numbers in parentheses indicate incumbents whose salaries, or the projected market median of their positions, are above the threshold of \$350,000 (indexed) within the ten year projections, as a proportion of the total number of incumbents in the job

Securing Additional Funding

10-Year Projections

Ten-Year Projections of Private Funds Needed



NOTE: Assumes all incumbents and market medians currently over \$350,000 remain the same throughout the period and that incumbents receive the same annual salary increases (compact and additional). Also assumes the \$350,000 is indexed annually by UC's projected weighted average rate of salary increases for all UC employees

Securing Additional Funding

Summary of Costs

- The amount of salaries plus future increases that exceed \$350,000 (indexed) is \$3.5M over ten years
 - \$1.2M based on actual current salaries and an additional \$2.3M based on projected market medians over \$350k
- Adopting a proposal for private funding of salaries for positions with market medians over \$350,000 will require funding ranging from \$278,000 in 2006 to \$446,000 in 2015
- If salary rates increase faster than projected, other employees with market medians not currently over \$350,000 (e.g. Deans of Engineering) may become eligible for private funding

Proposal Administration

Sample Reporting

Regent Review: Distribution of Private Funds

Position	Current Salary	Budget Increase (%)	Current Salary Range (000's)	Proposed Salary	Proposed Private Funding for:		Total Private Funding Needed
					Existing Salary	Salary Increase	
Chancellor A	\$390,000	4.0%	\$316.3 - \$408.7 - \$501.2	\$405,600	\$40,000	\$15,600	\$55,600
Chancellor B	\$350,000	4.0%	\$283.2 - \$364.9 - \$446.6	\$364,000	\$0	\$14,000	\$14,000
Chancellor C	\$350,000	4.0%	\$283.2 - \$364.9 - \$446.6	\$364,000	\$0	\$14,000	\$14,000
Chancellor D	\$358,900	4.0%	\$283.2 - \$364.9 - \$446.6	\$373,256	\$8,900	\$14,356	\$23,256

NOTE: Example chart and data values are illustrative only

Today's Action

- It is recommended that the Committee on Finance recommends to the Board of Regents augmented funding of salaries for amounts in excess of \$350,000 with private funds for 42 senior leadership positions so that market parity is achieved over the next ten years