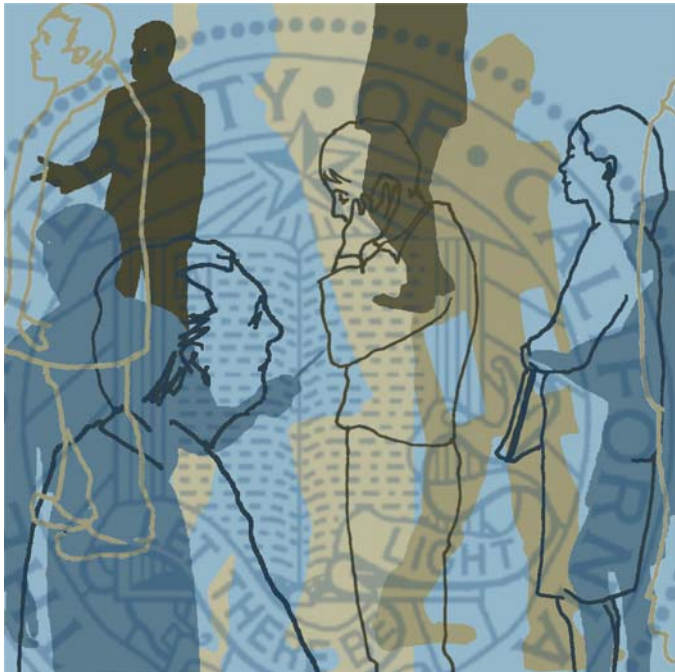


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May 17, 2005

Proposed Competitive Review Total Remuneration

Presentation to the Advisory Group on Compensation
Board of Regents



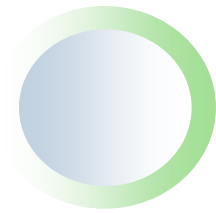
Marsh & McLennan Companies



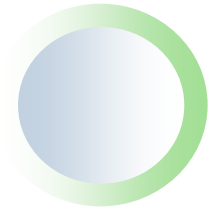
Agenda

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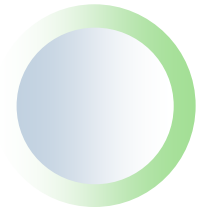
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- Objectives 4
- Scope 5



- Methodology 7
- Sample Deliverables 15



- Timing 20



Overview

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- **Background**
 - Supplemental salary increase budgets proposed to close gap in UC salaries vis-à-vis market
 - Initial data presented did not fully reflect value of benefits

- **Action requested**
 - Obtain competitive data on cash compensation and benefits
 - Analyze data and report findings to Regents

- **Outcome**
 - Competitive assessment of total remuneration



Objectives and Deliverable

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- Ascertain competitiveness of total remuneration for all segments of UC workforce
- Separately analyze campuses, medical centers and DOE labs
- Provide a basis for short-term salary actions and longer term re-assessment of total remuneration strategy
- Deliverable – Individual and aggregate competitiveness of:
 - cash compensation
 - group health and welfare benefits
 - retirement benefits



Scope of Study

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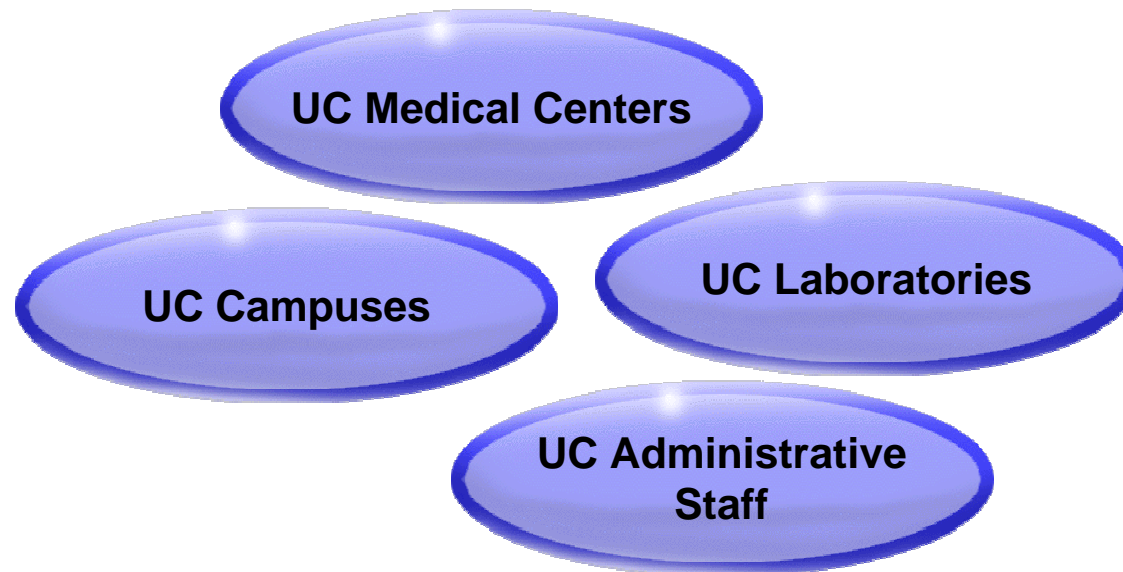




Scope of Study Labor Markets

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Methodology

Mercer's proposed approach:
a total remuneration analysis for
each segment of the workforce

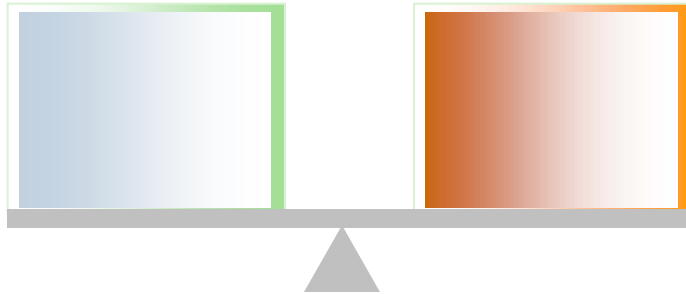
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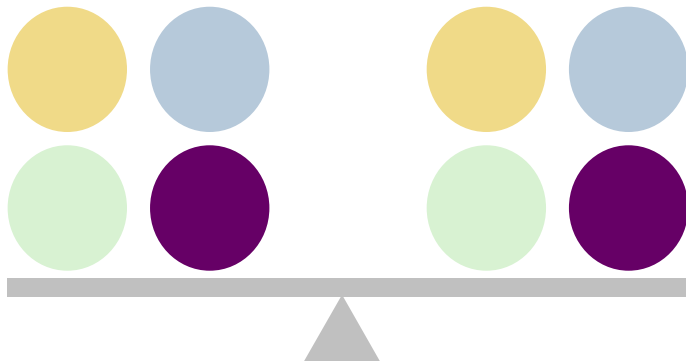
Benefit valuation analysis

*A competitive benefits comparison
relative to each set of peers*



Compensation analysis

Benchmark by comparing selected jobs



Total remuneration analysis

*A combination of
benefit and
compensation data,
showing competitive
position with respect to
each set of peers*



Perspective on Total Remuneration

What's Included

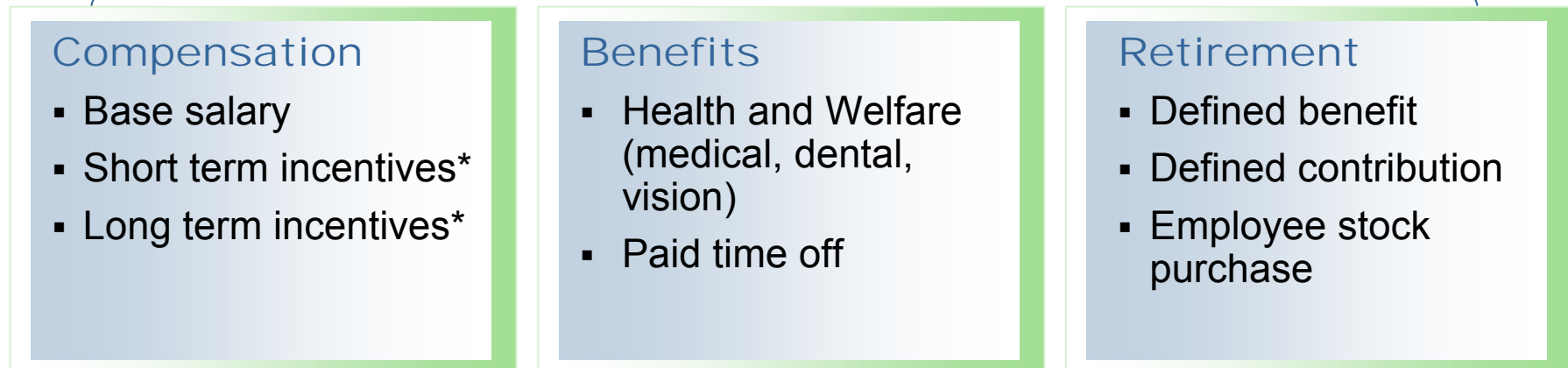
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Total remuneration includes all reward elements that are expressed in dollars (or can be converted to monetary value) and can be assessed in the marketplace (via an established methodology to gather and analyze relevant data).

Total Remuneration



* Where appropriate, such as for Medical Center & Treasury executive roles, the value of the University's remuneration elements will be compared to relevant for-profit organizations where a broader array of reward elements may be used, including short- and long-term incentives.



Perspective on Total Remuneration

What's *not* included

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Many organizations have adopted a “total rewards” perspective on the broad array of programs that help attract, develop, engage and retain employees.

- A total rewards perspective includes total remuneration (compensation, benefits and retirement) and other employee rewards such as:
 - Respected leadership
 - Challenging work assignments
 - Training and development opportunities
 - Work/life balance programs
- While these offerings are important to most employees, published data are limited and, where available, typically reflect program prevalence rather than providing a monetary value.

Mercer's total remuneration analysis does not attempt to value these factors.



Perspective on Total Remuneration

What's *not* included

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There are other extrinsic factors that affect employee attraction and retention.

- Among these extrinsic factors are:
 - Climate (sunshine factor)
 - Availability of cultural activities
 - Commute distance
 - Cost of living, including housing cost
- While these factors can affect employee's decisions to come to or stay with an organization, their importance varies significantly.

Mercer's total remuneration analysis does not attempt to value these factors.



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Several key issues need to be addressed in conducting this study:

1. **Sampling** – How many UC system jobs must be included in the study to ensure a representative sample that is credible to the Regents?
2. **Labor Markets** – How many disparate labor markets in which various segments of the University compete for talent must be analyzed separately?
3. **Total Remuneration Valuation** – What is the optimum way of combining salary data, which vary by job, with benefit valuations, which vary by demographics of the workforce?
4. **Existing Data** – How much existing cash compensation data, previously collected and analyzed by the individual campuses, medical centers, and labs, can be used in this study?

These issues are addressed individually in more depth on the following pages.



Issue Sampling

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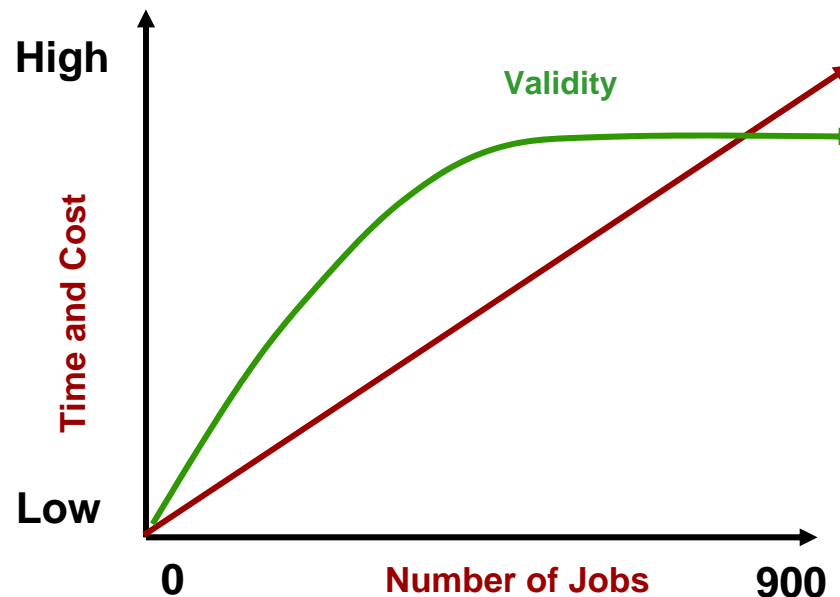
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A tradeoff exists between the size of the sample of jobs competitively priced in the study and the time and cost required to complete the study.

- The UC system has about 900 job classifications. Pricing all of them at each of the University's separate locations would be a complex, time-consuming, and costly undertaking.
- Pricing too few jobs could lead to concerns about the degree to which the resulting data adequately represent the University's competitive position.

Our Approach:
Mercer will work with UCOP to determine a sample of higher population jobs that will provide an optimum tradeoff between credibility of the results and study cost and duration.





Issue Labor Markets

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The individual units comprising the UC system compete for talent in different labor markets. There is a tradeoff between the granularity with which labor markets are addressed and the time/cost required to do so.

- Labor markets may vary by:
 - *industry*: e.g., other large universities for faculty and other Bay Area employers for IT personnel;
 - *geographic scope*: e.g., national market for executive staff and local area employers for clerical staff; and
 - *specialty area*: e.g., academic medical centers for teaching physicians at UC medical centers and other large universities for faculty at the other campuses.
- As competitive peer groups are differentiated, separate market pricings and benefit valuations are required to assess competitive total remuneration levels for each market.
- Cost of the study increases proportionately with each additional peer group.

Our Approach: Mercer will work with UCOP to determine which peer groups need to be addressed in the study to represent adequately UC's position in its major labor markets.



Issue Total Remuneration Valuation

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There are different approaches that can be taken to combine cash compensation data with benefits valuations to derive total remuneration values.

- Cash compensation levels are analyzed on a job-by-job basis without regard to the demographic characteristics of the people occupying the job.
- Benefit valuations are done on a plan design basis, and the values calculated are affected by the demographics of the workforce.
- Benefit values can be calculated separately for each job if the demographics of the employees in the job are known. Alternatively, benefit values can be calculated at representative salary levels using population-wide demographics.
- Given UC's decentralized compensation system, gathering demographic data by job may prove time consuming and difficult.

Our Approach: Mercer will work with UCOP to determine whether to value benefits by job or by representative pay level to provide an optimal picture of the competitiveness of UC's total remuneration.



Issue Use of Existing Data

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The cost of the study could be reduced by using cash compensation data previously collected and analyzed by UC.

- UCOP, some UC campuses and medical centers, and the labs recently have completed credible competitive cash compensation studies. In fact, Mercer conducted several of these studies.
- In other parts of the system, the reliability of such studies is less certain due to vagaries of job matches and data sources.
- To the extent that Mercer could use existing data and analyses, rather than having to start from scratch, the time and cost required to complete the study would be reduced.

Our Approach: Mercer will work with UCOP and the Compensation staffs in the field to determine where existing data and analyses can be used in this study and where they must be supplemented with additional competitive studies



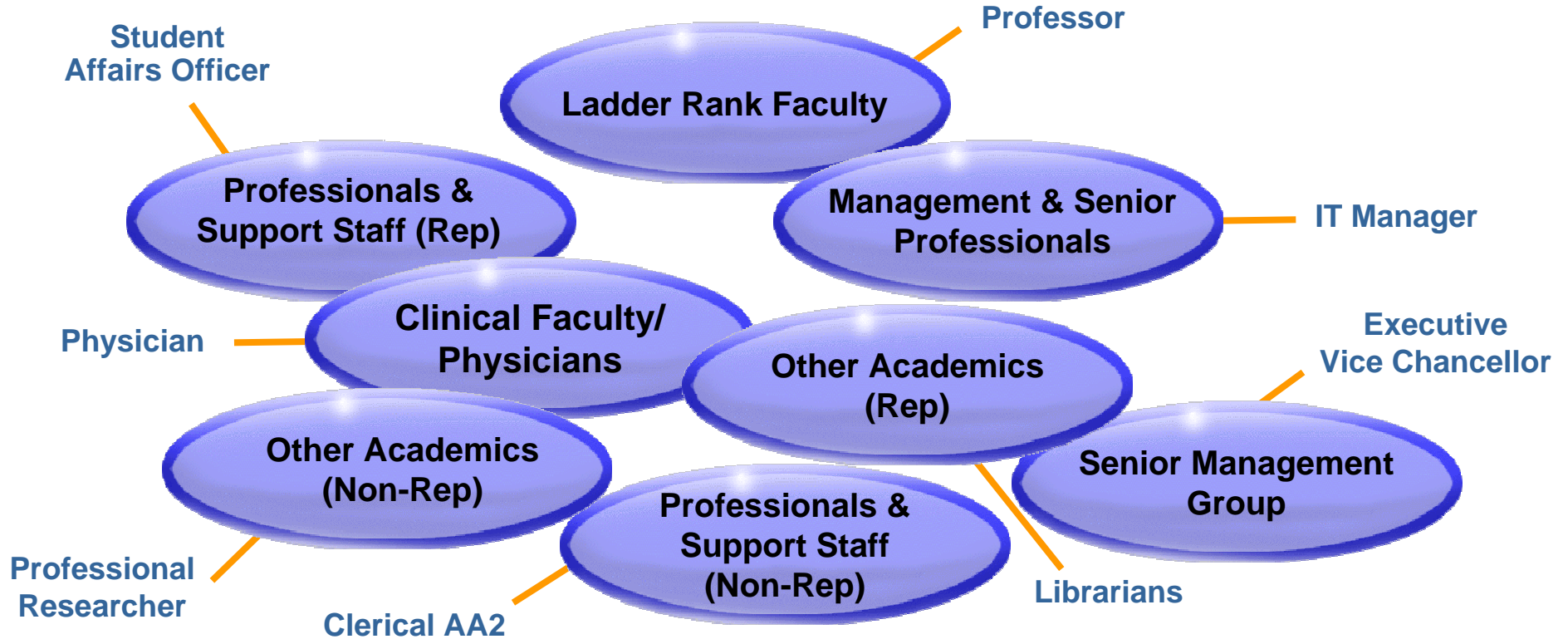
Sampling Methodology

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Examples of Positions



- High density population positions
- Key contributors
- “Hot Job” attraction & retention challenges

- Reflective of:
 - campuses
 - departments
 - multiple position levels



Sample Deliverable

Benefits charts: plan value comparisons

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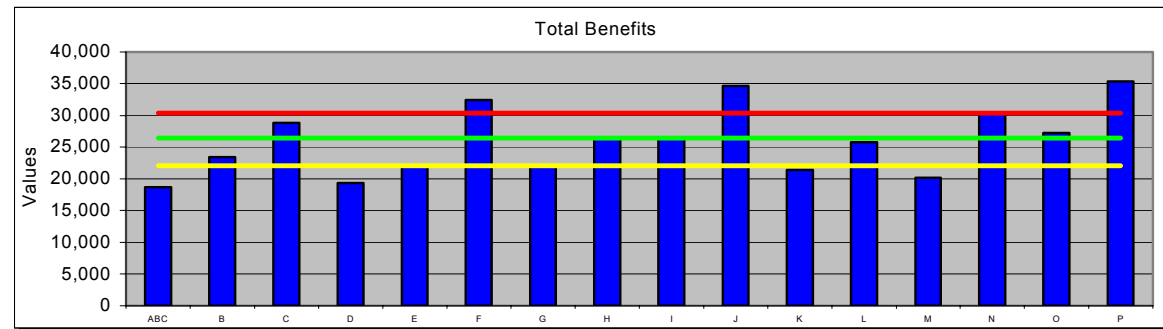
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Illustrative Data

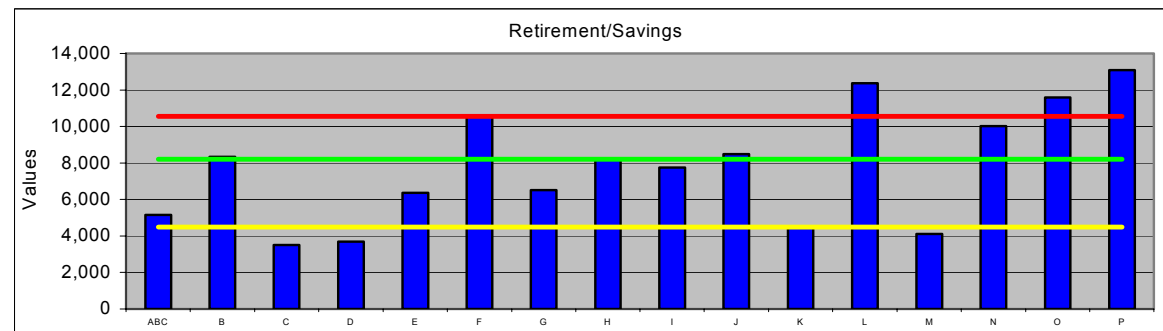
Plan Value Comparisons are based on an average of all entities, positions/job families included in a comparison, and they display values and competitive position for each organization.

Plan Value Comparisons Benefit Plan Groupings



Rank 16

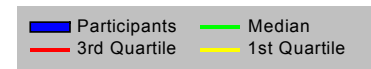
Index 71



Rank 12

Index 63

- # Your organization's Ranking: Rank 1 is the highest
- # Your organization's Index: % of the median value for the Peer Group



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ABC Organization



Sample Deliverable

Total remuneration assessment - summary

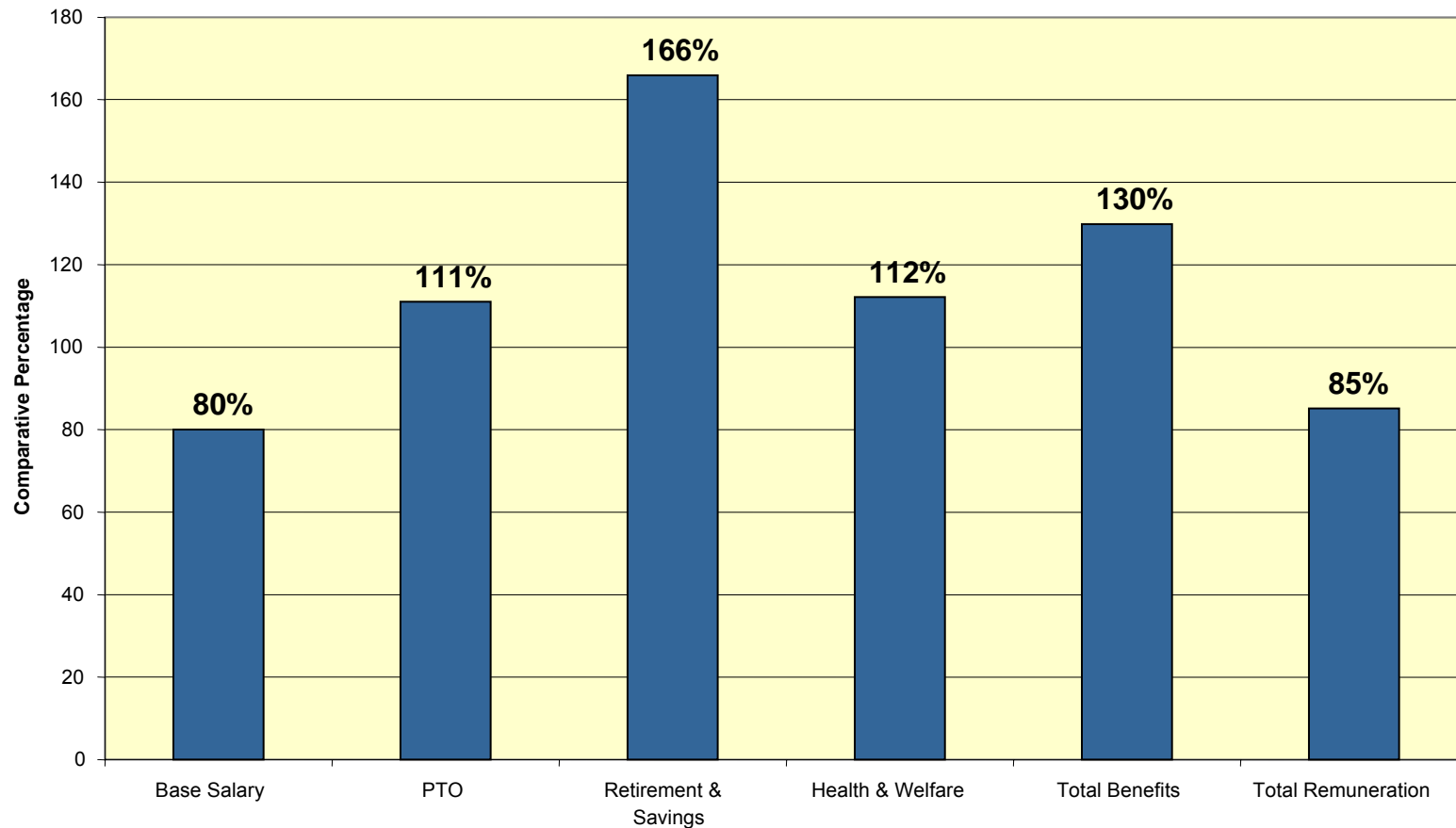
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Illustrative Data

University as a Percentage of Peer Group
Management Job Family





Sample Deliverable

Total remuneration assessment - summary

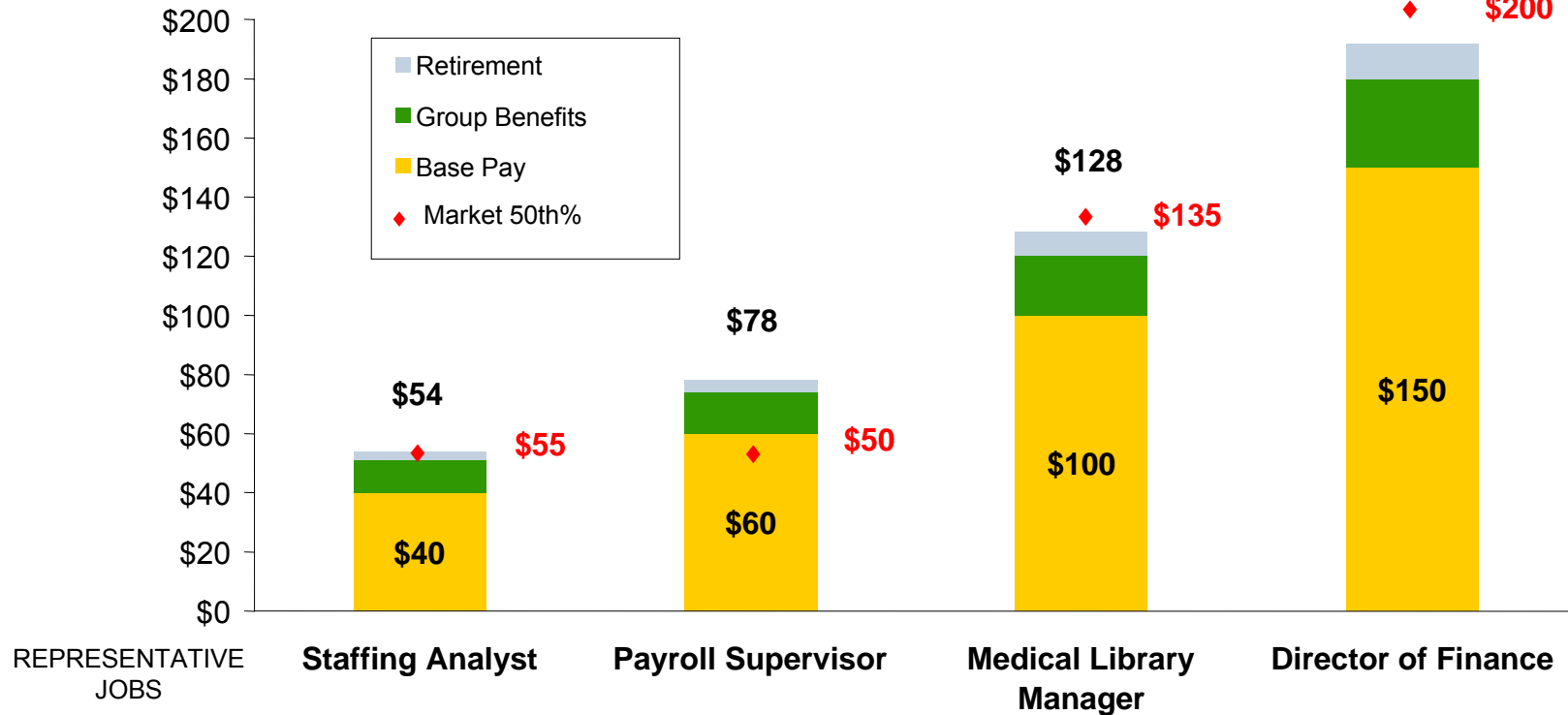
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Illustrative Data

Total Remuneration University vs. Market Survey Data (\$000)





Sample Deliverable

Total remuneration assessment - summary

We will summarize in charts and tables the total remuneration findings for all relevant comparisons including:

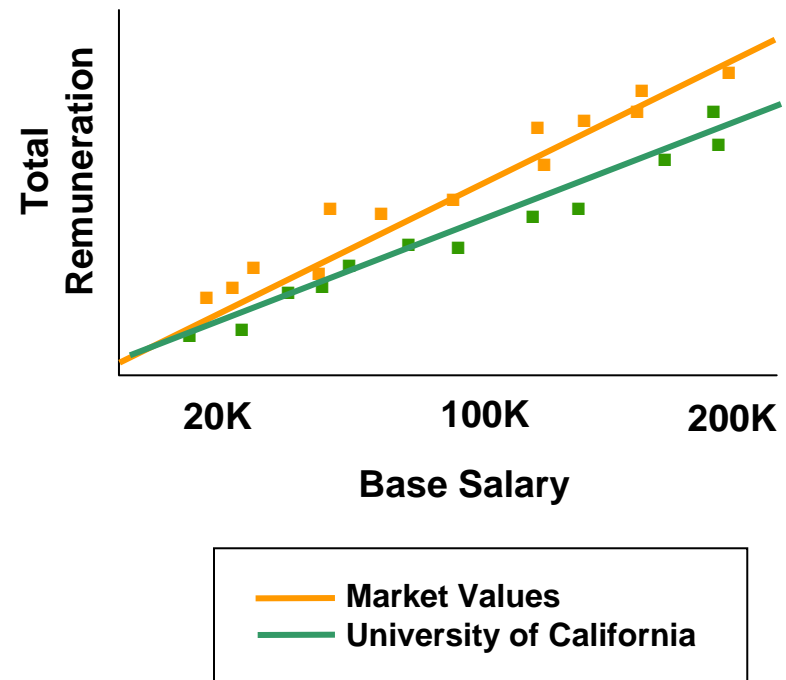
- Professional & Support Staff – Represented
- Professional & Support Staff – Non-Represented
- Management & Senior Professionals
- Senior Management Group
- Academics

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Illustrative Data





Sample Deliverable

Total remuneration assessment - summary

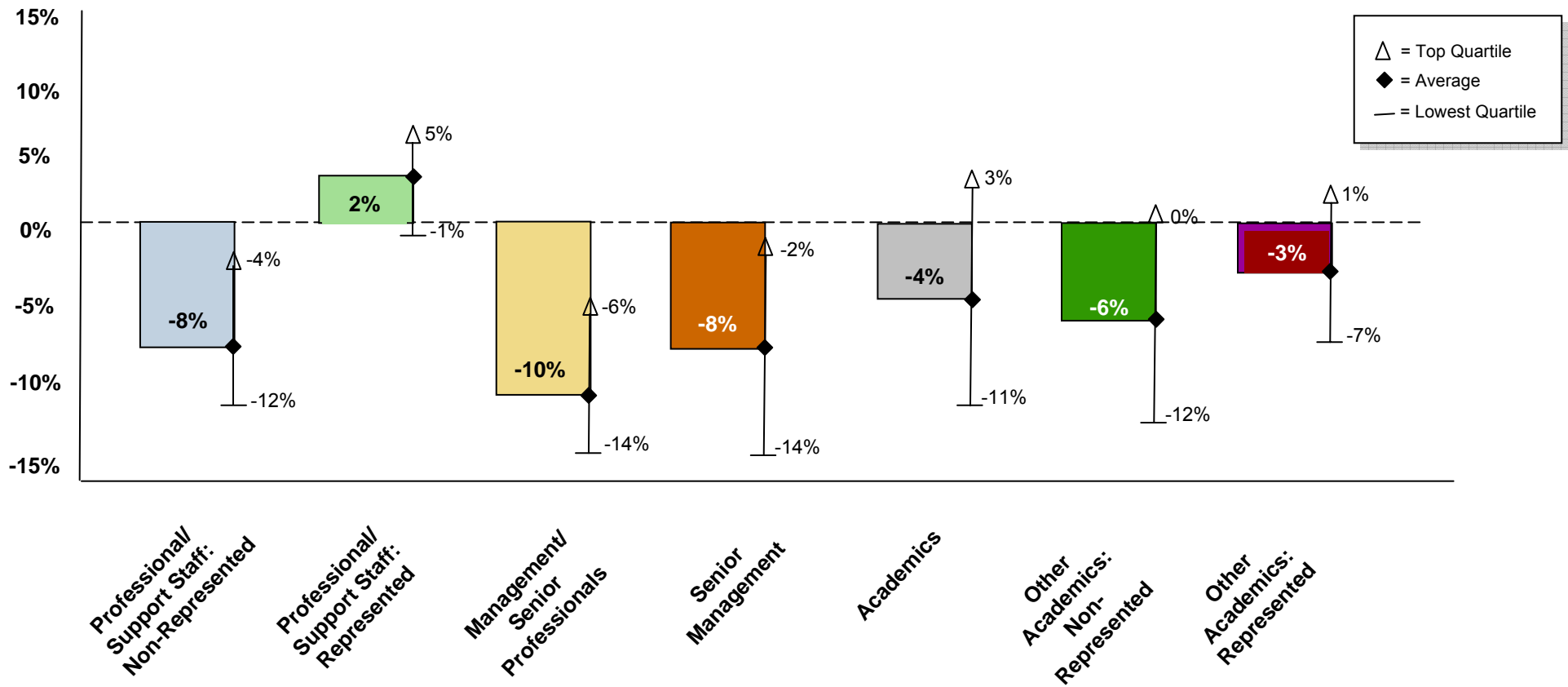
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Illustrative Data

Variance from Market





Proposed Timeframe

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Mercer will prepare a detailed project plan following the project kick-off meeting

	April		May					June				July			
Project Steps	18	25	2	9	16	23	30	6	13	20	27	4	11	18	25
Phase 1 Planning	█														
Phase 2 Data Collection and Analysis				█											
Phase 3 Total Remuneration Assessment								█							
Phase 4 Regents Presentation										█					