UCRS Advisory Board

Meeting of November 10, 2011

AGENDA ITEM L

Proposed Defined Contribution Plan Contributions on Additional Negotiated Compensation Earned by Faculty

The Office of Academic Affairs has recently advanced two proposals for implementing employer and employee contributions to the Defined Contribution Plan (DC Plan) for faculty who exhibit a pattern of excellence, which includes generating extramural funding for research and teaching. The DC Plan contributions would be based on negotiated additional compensation that the faculty members currently earn or which is being considered for them. One proposal would apply to Health Sciences faculty and the other proposal would apply to ladder-rank faculty members who are not Health Sciences faculty.

Under both proposals, the DC plan contributions would be based on negotiated additional compensation that is not Covered Compensation for the University of California Retirement Plan (UCRP) or derived from state funds. The DC Plan contribution percentage for both UC and the eligible participating faculty member would be 3.5 percent (total 7%), subject to Internal Revenue Code (IRC) limits. The cost of the employer DC Plan contribution would be attributable to the funding source(s) of the negotiated additional compensation. The contributions could be invested in any of the investment options currently available under the Retirement Savings Program.

For Health Sciences faculty, such negotiated additional compensation already exists and is referred to as 'Y" pay. For the most part, Y pay is derived from the clinical income that many Health Sciences faculty members generate, although some is derived from federal contracts and grants or other sources. If approved, the DC plan contributions would be mandatory across all locations for Health Sciences faculty who earn Y pay. A copy of the letter that Provost Pitts recently sent to the applicable Executive Vice Chancellors, Vice Chancellors and Deans describing the proposed DC Plan contributions on Health Sciences Y pay is attached for the Board's reference.

Currently, no additional negotiated compensation equivalent to Y pay exists for non-Health Sciences faculty. Consequently, the proposal for ladder-rank faculty includes the creation of the "Negotiated Salary Program" (NSP), as described in the draft of Academic Personnel Manual Section 668. The draft of APM-668, which is currently out for system-wide review, can be accessed from the link below:

http://www.ucop.edu/acadpersonnel/apm/documents/apm-668.pdf.

A notable difference in the proposals is that the proposed NSP would be a voluntary program for ladder-rank faculty. If faculty members wish to participate, they must present a formal proposal for approval to their department head and Dean showing their ability to generate fiscal support for research or teaching through non-state funding sources. Furthermore, as proposed, not all departments at a campus may choose to implement the NSP and each Chancellor has the authority to determine whether or not a campus will participate in the program.

The Rationale behind the Proposed DC Plan Contributions for Faculty

Since only base pay is considered Covered Compensation for UCRP, a significant portion of the total pay (base pay and negotiated additional compensation) received by these faculty members would not be covered for retirement purposes. Consequently, they would retire with relatively low income replacement ratios. Their UCRP retirement benefit would only represent a fraction of their total preretirement pay.

The situation faced by Health Sciences and other ladder-rank faculty members is not unlike that formerly experienced by academic appointees who earned summer salary. Despite the fact that many academic appointees regularly taught or performed research during the summer and the income derived from such work represented roughly 25 percent of their annual income, it was not counted as Covered Compensation for UCRP. To rectify the situation, a mandatory 7 percent (3.5% employer & 3.5% employee) DC Plan contribution on their summer salary was implemented in July of 2001.

The proposed DC plan contributions for Health Sciences and other ladder-rank faculty were designed to mirror the contributions put in place for academic appointees earning summer salary. The 7 percent DC Plan contribution rate is being initially proposed because it is the same contribution made on academic appointee summer salary and approximates the 7.5 percent DC plan contribution made on income earned by part-time (Safe Harbor) employees who are not eligible for membership in UCRP. Thus, the percentage of the DC Plan contributions made on non-Covered Compensation is roughly the same across all employment categories.