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OFFICE OF THE PROVOST AND EXECUTIVE VICE PRESIDENT —
ACADEMIC AFFAIRS

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

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Re: Progress on the Proposed Retirement Savings Plan for Health Science Faculty

Dear Colleagues:

The proposed change to the retirement savings plan allowing Health Sciences faculty to make contributions to the Defined Contribution Plan (DCP) on the eligible negotiated component of salary (Y) is moving to the next stage of review and implementation.

You may recall that this proposal was developed in response to concerns raised in 2001, when the summer salary for general campus faculty became eligible for a DCP contribution. In response to on-going concerns, contributions similar to those implemented for academic appointees earning summer salary is being proposed for Health Sciences faculty members who earn additional negotiated (Y) pay.

The proposed change requires that both the University and the Health Sciences faculty members make mandatory pretax contributions of 3.5% to the UC Defined Contribution Plan (DC Plan) (or possibly the Tax-Deferred 403(b) Plan) based on a percentage of the additional negotiated Y pay. The proposed rate of the contribution would be 3.5% of the Y pay, up to the applicable Internal Revenue Code tax limit. The contributions would be charged against the external funding source (i.e., non-state-appropriated funds) of the faculty member's Y pay. The contributions could be invested in any of the investment options currently available under the Retirement Savings Program.

Background Information:

University of California Health Sciences faculty members receive compensation in the form of guaranteed base salary and additional negotiated and incentive pay. A faculty member's applicable rank, step and scale on the Health Sciences Compensation Plan (HSCP) generally determines the amount of his or her base salary, while additional compensation is negotiated annually and/or paid as an incentive or bonus. In general, both types of pay represent remuneration for performance of "regular and normal" duties. However, whereas additional compensation can represent a significant portion of a health sciences faculty member's total compensation, base salary is the only component considered to be Covered Compensation for determining benefits under the University of California Retirement Plan (UCRP). There is currently no retirement coverage on additional negotiated (Y) and incentive (Z) pay.

This type of tiered compensation structure is common among academic medical institutions, and will likely persist since there is an increasing trend in the health care industry to put more compensation for regular and normal duties "at risk" (i.e., promising less pay as "guaranteed" base salary). However, the compensation on which retirement benefits are based for faculty at other academic medical institutions generally includes all compensation, both base pay and additional compensation. Moreover, UC faculty members in other disciplines often have all their compensation for regular and normal duties coded as Covered Compensation for UCRP.

In other words, there are inherent inequities built into the HSCP structure that results in less of the faculty member's income being replaced at retirement. The disparity in retirement coverage was also apparent in the case of UC academic-year faculty who earn additional summer salary. But beginning in July 2001, eligible summer salary earned by academic-year appointees became eligible for an employer contribution to the University's Defined Contribution (DC) plan. Thus, these academic-year faculty members receive full UCRP coverage on their annual salaries for regular and normal duties, plus additional DC plan coverage on any summer salary.

These concerns developed into the proposal to establish a structure for Health Sciences faculty members to make contributions on their additional negotiated (Y) pay similar to those implemented for academic appointees earning summer salary.

I will keep you informed as the proposal moves forward in the consultative process with faculty committees, UCRP board, and the Regents. The goal is to implement this change on July 1, 2012.

Sincerely,

Lawrence H. Pitts
Provost and Executive Vice President
Academic Affairs

cc: Senior Vice President Stobo
Vice Provost Carlson
Executive Director Tanaka
Special Assistant Price
Director Schlimgen