

QUESTIONS AND ANSWERS

PRELIMINARY REPORT ON 2005-06 EMPLOYEE COMPENSATION

University of California

November 2006

Q. This data looks a lot like the data that started the external and internal reviews of UC compensation a year ago. What does the data show, and how has it changed?

A. This data reflects compensation “above base pay” provided to UC employees, excluding those in the national laboratories. Many UC employees receive this kind of compensation in addition to their base salaries (see box at right).

Preliminary analysis shows that this kind of compensation at the University of California has increased from \$843 million in 2004-05 to \$916 million in 2005-06 for the entire University workforce, excluding national laboratory employees; taking UC senior managers alone, there has been an increase from \$7 million in 2004-05 to \$7.17 million in 2005-06. **Nearly 80% of the total compensation “above base pay” went to employees directly engaged in the academic mission – professors, clinical professors, other teaching faculty, research titles, and a variety of other academic titles. By fund source, nearly 50% of the funding for this compensation came from professional fees, clinical revenue, and other activities associated with the University’s teaching hospitals.** Only 9% of the funding came from State of California funds. Another 7% came from student fees, the majority of it from fees for summer sessions and University Extension courses.

Q. What is the relation of the \$843 million to the \$871 million figure reported last year?

A. The \$843 million figure is the \$871 million figure for 2004-05 without national laboratory employees. Because national lab employees have not yet been included in the 2005-06 payroll data set, an adjusted figure for 2004-05 is necessary for an accurate year-to-year comparison.

Understanding “above base pay” compensation

Compensation “above base pay” is a widely recognized category of pay that refers to various other kinds of compensation elements beyond base salary that contribute to an employee’s total compensation. Examples of this kind of additional compensation include:

- Compensation paid to doctors for the patient care they provide
- Shift differential pay for nurses and other employees at UC medical centers
- Payments to faculty for research and teaching they do in the summer beyond their normal 9-month academic-year appointments
- Temporary stipends for staff and administrators for assuming temporary additional job responsibilities
- Payments provided to faculty or senior administrators as part of a recruitment to the University
- Payout of accrued vacation when an employee leaves the University

As long as compensation “above base pay” is provided in a manner consistent with University policy and is appropriately disclosed, it should be viewed as an appropriate part of total compensation necessary to recruit, retain, and reward valuable employees in the competitive marketplace in which UC operates.

Q. Does the \$916 million represent compensation that was wrongly provided?

A. No; it would be inaccurate to characterize the \$916 million figure in that way. As long as compensation “above base pay” is consistent with policy and appropriately disclosed, it should be viewed as part of the total compensation package necessary to recruit, retain, and reward valuable employees in the competitive marketplace in which UC operates. While it is true that external and internal reviews of UC compensation identified some payments within the 2004-05 payroll database that had been provided inconsistent with policy or without proper approval, the University has been implementing a series of reforms to prevent those failures from reoccurring.

Q. Will there be more individual instances, within the 2005-06 payroll data, of compensation that was provided in a way that was inconsistent with University policy or lacking necessary approval?

A. Since this is fiscal-year data for the period that began on July 1, 2005, it could potentially include individual instances of compensation not approved by The Regents under the new compensation reform guidelines that were enacted earlier this year. However, for those in the Senior Management Group who were subject to the exhaustive external, internal, and state audits of the last year, we expect that virtually all possible violations identified by the audits have already been brought to The Regents. Any other violations uncovered by this data will be promptly addressed by The Regents.

Q. Why has \$843 million increased this year to \$916 million?

A. A fuller answer will require completion of a comprehensive analysis of the 2005-06 payroll data, an analysis now underway. But some likely factors are: **First**, UC’s employee workforce grew 1.4% (more than 2,000 employees) between fall 2004 and fall 2005. This increase was driven by increases in services provided by the University – for instance, student enrollments grew by 2% between 2004-05 and 2005-06; there was a 2.3% increase in federal research expenditures at UC during that period; and inpatient days at the UC medical centers grew 1%. **Second**, the University continued to operate in a marketplace in which multiple forms of compensation are, for many employee categories, required in order to recruit and retain the most talented faculty and staff. And **third**, base pay increased for UC employees between 2004-05 and 2005-06, and many forms of “above base pay” compensation are tied to base pay.

Q. Shouldn’t this compensation figure be going down, not up?

A. That should not be the expectation. While some recent UC compensation reforms are designed to curtail certain uses of compensation “above base pay,” the total figure reflects how a large number of University of California employees are paid for the work they do, incorporating compensation elements beyond base salary. As the services provided by the University continue to expand and the University’s workforce of more than 170,000 continues to grow, dramatic reductions in the total amount of non-base pay compensation should not be expected.

Q: Didn’t the University adopt reforms to prevent growth in “above base pay”?

A. The University has adopted a variety of compensation reforms, including new approval requirements for exceptions to policy, new policies for public disclosure of compensation information, open-session committee votes of The Regents on compensation items, new policy compliance mechanisms and oversight positions at the Office of the President, and new requirements governing employee separation agreements, among other things. However, these reforms were not designed to end “above base pay” compensation which is necessary to attract and retain University employees in a highly competitive labor market.

Q. Unions representing UC employees have been seeking funding to improve pay for UC staff employees. Couldn't this funding have gone to that?

A. Much of the funding in the \$916 million category of compensation "above base pay" is tied to specific fund sources – for instance, nearly 50% of it came from medical compensation plans and other activities associated with the University's teaching hospitals. These funds are generated by patient care services, including physician fees; using such funds for salary support for employees who are not providing these services would violate terms of agreements with the revenue sources. As a result, they are not available for general University use. However, it is worth noting that within the \$916 million in compensation "above base pay" in 2005-06, \$192 million was paid to non-academic staff positions – and of that, nearly half, or \$93 million, was paid to union-represented employees.

Q. Why do the categories of Senior Management Group pay in the 2005-06 analysis differ from the categories contained in the 2004-05 analysis?

A. With the benefit of last year's experience, we were able to present a more refined analysis this year, including being able to breakdown some of the pay categories in greater detail, which resulted in three new categories of Senior Management Group pay for 2005-06. A new Human Resources Information System for the University is currently under development, which will allow for not only more timely collection and analysis of compensation data, but more standardized categorization and reporting as well. The first phase of the new system is expected to be completed in early 2007 and will focus on senior management.

Q. For those UC senior employees listed in Table 3, why aren't the same elements of compensation that were identified in the external and internal audits included in this table?

A. This data is derived from the existing UC payroll system, which, at this time of year, includes only data on *cash* compensation. Other elements of compensation, such as the value of executive life insurance that was included in the audits, are not available until the close of the calendar year 2006, when data from other accounting systems and the payroll system are merged and reconciled for the production of the employee's Form W-2. A few benefits and perquisites included in the audits, such as supplemental vacation accrual, are only captured in an employee's personnel file. Again, consistent with the Task Force recommendations adopted by The Regents, the University has committed to developing a modern, comprehensive Human Resources Information System that will ultimately capture all elements of an employee's compensation for monitoring, reporting, and analysis purposes.

Q. Why is the University releasing this information in this way?

A. The University is making this summary of the 2005-06 data and preliminary analysis of it broadly available consistent with the University's commitment to transparency and public accountability. The University had already committed to annual disclosures of compensation information to The Regents, the Legislature, and the public, consistent with the principles outlined by the Task Force on UC Compensation, Accountability, and Transparency. The University has been working to produce the first such disclosure in early 2007. However, the *San Francisco Chronicle* has requested, under the California Public Records Act, immediate access to this specific set of payroll data for the 2005-06 fiscal year. The University is complying with that request and making this summary and preliminary analysis available to all.