ANNUAL REPORT ON EXECUTIVE COMPENSATION FOR CALENDAR YEAR 2010: INCUMBENTS IN CERTAIN SENIOR MANAGEMENT POSITIONS

EXECUTIVE SUMMARY AND BACKGROUND

As part of its commitment to transparency and public accountability, UC reports annually on compensation paid to the Senior Management Group (SMG), regardless of compensation amount. This report **(Attachment 1)** details all aspects of senior management compensation; it is posted on UC websites to provide public access to the information. This report also includes individuals who are not SMG members if their total potential cash compensation exceeds $218,000.

KEY POINTS ABOUT UC EXECUTIVE COMPENSATION FOR 2010

- **<u>UC health sciences personnel and coaches remain the highest paid</u>:** As in previous years, the top earning employees at UC in 2010 were world-renowned physicians paid predominately from their clinical practices and senior administrators paid from UC medical center revenues – as well as athletic coaches who are paid from non-state funds.

- **<u>No state funds used for incentive/bonus compensation:</u>** State funds were not used for UC incentive awards to or bonus payments for: clinical and health sciences personnel, Treasurer's Office personnel, coaches or other athletics personnel.

- **<u>Executive compensation remains a small percentage of payroll</u>:** Senior management salaries continue to represent <u>less than 1 percent</u> of UC's total payroll.

- **<u>Incentive compensation used to motivate excellent performance in support of University priorities:</u>** Like many employers nationwide, UC uses incentive compensation plans to encourage and reward sustained individual and group performance in support of key University objectives:
    - <u>Medical Centers</u>: Incentive compensation plans for UC medical centers cover employees at all levels – from clerical and custodial staff to senior hospital leaders – and reward individual as well as group efforts that further key priorities, such as improving patient care and safety, enhancing operational efficiency and maintaining sound financial management.
    - <u>Treasurer's Office</u>: Consistent with industry standards, the Treasurer's Office incentive compensation plan motivates and rewards employees responsible for maximizing long-term total investment returns while assuming appropriate levels of risk and promoting teamwork. Awards are paid out over three years to help retain strong performers, with unpaid amounts forfeited if the participant voluntarily leaves UC for reasons other than retirement.
    - <u>Coaches</u>: Coaches' compensation includes base salary, bonus and incentive compensation tied to revenue generated from television and radio contracts, marketing arrangements with equipment and clothing manufacturers, and summer sports camps. Other compensation is tied to specific goals, such as winning a national championship,

and is paid only if those goals are met. Additional compensation may include signing or retention bonuses.

By the numbers: The 163 incentive and bonus payments in this report total just under $15.5 million – approximately 0.1 percent of UC's $10 billion annual payroll. The $8.1 million in payments from the Clinical Enterprise Management Recognition Plan (CEMRP) and other clinical incentive plans represents 53 percent of all incentive and bonus payments. Payments under the Treasurer's Office Annual Incentive Plan (AIP), $5.3 million, represent 34 percent of the total. Coaches' bonus and incentive awards, $1.3 million, represent 8 percent of the total. Local incentive/bonus program payments of $800,000 make up the remaining 5 percent.

Salary Reduction and Furloughs: A number of cost-savings measures were taken to lessen the significant deficits caused by reduced state funding of the University. In June 2009, the President, Chancellors, Executive and Senior Vice Presidents, and certain Vice Presidents at the Office of the President volunteered to take a 5 percent salary reduction. Following that, the Regents approved a system-wide furlough plan to further offset the impact of state budget cuts. The plan, which applied to a large number of University employees, imposed a tiered salary reduction ranging from 4 percent for employees at the lowest salary levels up to 10 percent for the highest paid. These salary reductions began September 1, 2009, and continued through August 31, 2010. The furlough plan saved the University approximately $236 million received from all fund sources.

The majority of employees included in this report, including all Senior Management Group (SMG) members, were subject to the furlough plan. Coaches were not subject to the furlough plan because the terms and conditions of their employment are governed by their respective contracts; however, many coaches volunteered to participate and took a salary reduction. In order to preserve patient safety, medical center employees other than SMG members were not subject to the furloughs. Instead, the medical centers developed alternative plans to generate savings comparable to what the furlough plan achieved at the campuses. Non-SMG staff members in the Treasurer's Office were also exempt from the furloughs because their operations require trading and close management of the investments throughout the week; however, all SMG members in the Treasurer's Office were subject to the salary reductions. Academic and staff employees at the Lawrence Berkeley National Laboratory were excluded from the furlough plan because their compensation is entirely funded by research and extramural funds from sources such as the Office of Science and U.S. Department of Energy, as well as private contracts and corporate grants.

For each employee included in the report who participated in the furlough plan, the report reflects the percentage of their salary reduction. It should be noted that the annualized base salary figures in the report do not reflect those reductions.

INFORMATION ON INCENTIVE PLANS

Clinical Enterprise Management Recognition Plan (CEMRP) and Other Clinical Incentive Plans: Under the authority granted by The Board of Regents to the President in 1992, the purpose of CEMRP and other similar clinical incentive plans is to provide variable, non-base building awards to employees responsible for attaining or exceeding key medical center objectives consistent with University objectives. Achievement is measured based on specific financial, quality and strategic objectives that relate to the clinical enterprise's mission and goals. These plans focus participants on achieving local and systemwide institutional objectives, encourage teamwork, and recognize the joint effort required to meet challenging organizational goals. They also use individual performance measures to encourage participants to maximize their personal effort and demonstrate individual excellence. CEMRP is a key component of the overall competitive compensation for leadership at the medical centers. The program furthers important goals such as improving the quality of care, patient satisfaction and safety, as well as attaining or exceeding key financial objectives. All awards under CEMRP and the other clinical incentive plans this year were entirely funded through clinical revenues.

In January 2009, the Regents responded to the University's significant fiscal crisis by imposing certain restrictions on SMG compensation and both SMG and non-SMG participation in bonus, incentive, and variable pay programs for fiscal years 2007-08, 2008-09, and 2009-10. However, CEMRP and other similar locally-funded clinical incentive programs were allowed to continue as stated in item C1, "Proposal to Freeze Senior Management Group Salaries and Suspend Bonus and Certain Other Variable Pay Plans" approved by the Regents at the January 2009 Special Meeting. Subparagraph 4 of Item C1 pertaining to CEMRP and other similar locally-funded clinical incentive programs was later amended at the September 2009 Regents meeting to limit the individual awards from such programs for fiscal year 2009-10 as follows:

> i. For all CEMRP participants and SMG participants in substantially similar locally-funded clinical programs, the dollar amount of any award received by a participant will not exceed the dollar amount of any award received by that participant in 2008-09.
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> ii. For all non-SMG participants in substantially similar locally-funded clinical incentive programs in fiscal year 2009-10, the awards will be determined in accordance with the terms of the respective programs without the above limitation.

At their July 2010 meeting, the Regents adopted Regents' Policy 7712, which established stricter protocols governing incentive compensation for members of the Senior Management Group. The policy requires Regental approval of any incentive plan that includes SMG participants after such plans have been approved by the President. The policy further provides that, once such a plan has been approved, an Administrative Oversight Committee (AOC) will be responsible for plan administration. The AOC will review and approve the objectives for participants in the plan and will also approve awards consistent with the plan. The Chief Audit and Compliance Officer will assure that appropriate auditing and monitoring will occur. Once approved by the Regents, an incentive award plan will be implemented each year upon the approval of the AOC without changes. If, however, the AOC recommends substantive or material changes, the President and the Regents' Committee on Compensation – and other committees as appropriate – must first approve those changes prior to implementation.

In this report, CEMRP awards for SMG participants may include awards for both fiscal year 2008-09 and fiscal year 2009-10. For fiscal year 2008-09, CEMRP awards for 38 SMG members totaled $3,115,519. The awards were approved at the January 2010 Regents' meeting and paid shortly thereafter. At the September 2010 Regents' meeting, CEMRP awards for fiscal year 2009-10 were approved for 37 SMG members. The awards totaled $3,131,582. In September 2010, the President and the CEMRP AOC approved incentive payouts for the non-SMG participants for fiscal year 2009-10. The total incentive awards under all clinical plans, including CEMRP, totaled approximately $32.7 million, with the $3,131,582 in SMG incentive awards accounting for 9.5 percent of the total. It should be noted that non-SMG individuals that received payouts under CEMRP or a similar clinical incentive plan are included in the report if their total cash compensation for 2010 exceeds $218,000.

Treasurer's Annual Incentive Plan (AIP): Under the authority granted by The Board of Regents, the purpose of the AIP is to provide variable, non-base building financial awards to employees responsible for attaining or exceeding key objectives in the Treasurer's Office that are consistent with University investment goals. Award amounts are based on achieving specific investment, non-financial, and strategic objectives relative to the mission and goals of the Treasurer's Office. The plan focuses participants on maximizing long-term total returns for all funds managed while assuming appropriate levels of risk. Payouts under this plan do not use state funds.

The Regents authorized this plan, like CEMRP and other clinical incentive plans, to continue in fiscal years 2008-09 and 2009-10. At the September 2009 meeting, however, the Regents deferred consideration of the 2008-09 AIP awards due to the ongoing fiscal crisis. Those awards were not approved until the March 2010 Regents' meeting. The 2008-09 awards for SMG participants totaled $372,500. On February 26, 2010, the President approved 2008-09 award payouts for 34 eligible non-SMG participants, which totaled $1,634,440. AIP awards for SMG participants for fiscal year 2009-10 were approved at the September 2010 Regents' meeting. The awards for the eligible SMG participants totaled $1,859,056. Subsequently, the President and AOC for the Treasurer's AIP approved the 2009-10 awards for the non-SMG participants. The 2009-10 awards for eligible non-SMG participants totaled $2,379,722. Not all non-SMG participants that received payout in 2010 appear in the report. The non-SMG participants whose total cash compensation for calendar year 2010 exceeds $218,000 are included in the report.

The AIP awards are reported in the year in which they were approved even though only one third of the award is paid in the current year; one third is paid the second year, and the final third is paid in year three. The first third payments for fiscal year 2008-09 fiscal year were processed and paid in April 2010. For fiscal year 2009-10, the first third payments were processed and paid in October 2010. Incentive awards approved prior to 2010 are not included in the report.

REPORT FORMAT AND CONTENT

The Regents approved the content and layout of the Annual Report on Executive Compensation, compliant with legislative reporting requirements, at their January 2007 meeting. This report presents the following information for calendar year 2010:

Population covered: This report includes all incumbents in the "senior officials" listing as referenced in the Budget Act. This report also includes the population for which Regental approval of any compensation actions is currently required. This includes administrators whose positions are slotted in the Senior Leadership Compensation Group (SLCG) grade and those not slotted in SLCG grade who are non-academic, non-represented exempt employees whose potential total cash compensation exceeds the current reporting threshold of $218,000.

The attached report displays compensation details on 411 University employees who were active in calendar year 2010. These employees include those in acting capacities who are former members of the Senior Management Group and remain affiliated with the University. The report does not include employees who separated from the University prior to December 31, 2009. If an employee held more than one position during 2010 (e.g., he was acting vice chancellor and then was appointed vice chancellor), each position is reported.

Cash compensation: The report presents compensation using the following categories: annualized base salary, annualized stipends, actual payments received under incentive or bonus programs (see next section for more detail), Health Sciences Compensation Plan (HSCP) payments (see below for more detail) and other cash compensation or cash payments. A subtotal of these elements is provided for each employee listed. This information is a combination of data that represents actual payments and annualized figures. The annualized figures for base salary and stipends are used instead of actual compensation to provide comparable information, regardless of partial year appointments. For example, actual 2010 compensation for an employee who starts employment with the University in November with an annualized base salary of $240,000 would be only $40,000. Annualized stipend figures are reported even for situations where the total stipend period was less than a full year. This results in the overstatement of stipend amounts received for partial year appointments.

Incentive and Bonus Compensation: The incentive and bonus payments represented in the report can be categorized into one of the following: Awards to coaches and awards from the Clinical Enterprise Management Recognition Plan (CEMRP), other clinical incentive plans, the Treasurer's Annual Incentive Plan (AIP) and local bonus and incentive plans.

The report includes 163 incentive and bonus payments that totaled approximately $15.5 million. Payments from CEMRP and other clinical incentive plans accounted for 53 percent of the total incentive and bonus payments.

> *Awards paid to coaches or other athletics personnel*: The compensation for coaches is comprised of base salary plus various types of bonuses and incentives. These bonuses and incentives are recognition awards tied to revenue streams from contracts with television and radio, marketing arrangements with equipment and clothing manufacturers, and summer sports camps. Other awards are based on specific performance goals and are only paid if those goals are attained (e.g., winning the national championship). Other forms of bonuses may include signing or retention bonuses.
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> The bonuses and incentive payments for the coaches included in this report came from non-state funds, generally from specific gifts and donations or sports-related revenue sources. There were 18 payments (approved by the Regents or under their delegated authority) reported in this category, totaling $1,281,007.

The compensation for coaches is tied directly to market demand, with a coach's success driving the demand. As winning records increase, national attention brings employment opportunities, which may require adjusting compensation terms in order to retain successful coaches. When hiring a new coach or retaining an existing coach, the market demand for their services necessarily plays a role in determining the compensation offered by the University. In addition, the compensation offered to UC coaches is aligned with other coaches in the PAC-10 with comparable win/loss records.

<u>*Other local incentive and bonus plans*</u>**:** Local incentive and bonus plans were impacted by the *Proposal to Freeze Senior Management Group Salaries and Suspend Bonus and Certain Other Variable Pay Plans* (Item C1) approved by the Regents at the Special Meeting of January 14, 2009. That item was subsequently amended by Item C8 at the March 2009 meeting and Item C3 at the September 2009 meeting. Collectively, these items not only imposed a salary freeze on members of the Senior Management Group (SMG) for the 2008-09 and 2009-10 fiscal years but also imposed certain restrictions on SMG and non-SMG participation in bonus, incentive, and variable pay programs for those years, as well as for the 2007-08 fiscal year. With regard to variable and incentive pay programs, the Regents deferred paying such awards for non-clinical incentive plans for the 2007-08, 2008-09, and 2009-10 fiscal years until the end of the 2009-10 fiscal year; they indicated that this suspension would be reviewed at that time. With regard to bonus programs, the Regents cancelled all pending bonus payments for the 2007-08 fiscal year for SMG members and non-SMG members whose total potential cash compensation exceeded $205,000, the applicable Indexed Compensation Level (ICL) at that time. They also restricted eligibility for bonus awards for the 2008-09 and 2009-10 fiscal years to those non-SMG staff with annual base salaries of less than $100,000 and also capped such awards at $1,000 per year.

Employees affected by these restrictions on bonus, incentive, and variable pay programs subsequently challenged the deferral or cancellation of their awards. A special complaint resolution (SCR) policy was developed to provide these employees with a process through which they could demonstrate whether payout of their awards was required because of a legal or contractual obligation. The SCR policy required that an outside hearing officer conduct hearings and then issue factual findings and a recommendation for consideration by the Special Complaint Resolution Committee (SCR Committee). The SCR Committee would then deliberate and decide whether to uphold, modify, or reverse the treatment of each complainant's award.

Richard L. Gilbert, a retired Sacramento Superior Court judge, served as the outside hearing officer with regard to complaints filed under the SCR Policy concerning 2007-08 fiscal year awards. After conducting hearings on complaints filed by 25 employees, he recommended payment for 22 of them. As indicated in the *Delegation of Authority to Pay Certain Incentive Awards Deferred by the Regents' 2009 Actions*, which the Regents approved at their September 2010 meeting, Judge Gilbert's findings and recommendations are relevant and instructive with regard to all of the incentive awards deferred by the Regents' 2009 actions.

In his recommendations, Judge Gilbert concluded that the University had properly distinguished incentive plans from bonus plans. He said the University was legally obligated to pay the deferred incentive awards as there was no legal basis for deferring them. He made this recommendation with regard to the awards of 18 complainants. He also recommended that the University pay the awards of four other complainants whose awards had been categorized as bonuses and therefore cancelled. He concluded that, although the University had properly categorized the plan in which these four complainants participated as a bonus plan, the complainants had demonstrated that the plan had been administered, for them, like an incentive arrangement, and, as a result, the University was legally obligated to pay their awards. With regard to the remaining three complaints, which were filed by employees whose awards had been categorized as bonuses and cancelled, Judge Gilbert concluded that the University did not have a legal obligation; he recommended that these cancellations be upheld.

Given Judge Gilbert's recommendations, the Regents delegated authority to the President to review and pay any other awards for the 2007-08, 2008-09, and 2009-10 fiscal years that were affected by the Regents' 2009 actions but not the subject of SCR complaints. Provisions for payments made under local incentive plans vary by plan. Please refer to the report comments and addendum, which is provided as **Attachment 2**, for details regarding each payment. In 2010, there were 24 individuals included in the report who received award payments totaling $800,000. This includes deferred local award payments for 2007-08, 2008-09, and 2009-10. Payments in this category that were made under the Staff Recognition and Development Program (SRDP), or other similar locally funded programs, may use state funds.

There were other individuals that received payouts under this category, but because their total cash compensation for 2010 is below $218,000, they are not included in this report.

Health Sciences Compensation Plan: Health Sciences Compensation Plan (HSCP) payments are displayed in a separate column for those Senior Management Group employees with faculty appointments who participate in this program. The amounts listed in this column reflect actual payments to the employees and include income processed through the HSCP, per policy, from qualified outside activities, such as clinical services, research and other professional activities. Because an employee's outside activities fluctuate from year to year, the HSCP payments may fluctuate accordingly. This report reflects 13 Senior Management Group employees receiving payments under the HSCP totaling $1.3 million.

This program is under the authority of the Regents of the University of California and was established to create a mechanism by which UC faculty and certain SMG members in health sciences schools can be paid from revenues derived from the delivery of health services or research, thereby making their compensation more competitive with wages paid by other institutions in the healthcare market in and outside of California. The HSCP is designed to apply across a wide spectrum of faculty and administrators. Because income from services varies considerably among healthcare disciplines (e.g., medicine, nursing, dentistry, pharmacy, etc.), the payments from HSCP can vary widely. The funds distributed from the HSCP are not derived from state sources.

One-time payments/reimbursements: These payments are made to the employee or to a third party vendor on behalf of the employee. They include relocation allowances, temporary housing reimbursements or allowances, and moving expense reimbursements. Some of the information displayed in this section is described in more detail in the addendum, which is provided as **Attachment 2**.

Benefits and perquisites: This category includes leased auto expenses, auto allowances, senior management benefits (including some or all of the following: life insurance and executive salary continuation for disability), University-provided housing, severance benefits, senior management supplemental benefit program contributions, additional post-retirement benefits (including medical coverage, enhanced retirement income benefits, and enhanced retirement vesting schedules), and home mortgage loans provided under University programs. For home mortgage loans, the original loan amount is reported. Auto allowances are reported as annualized figures, even though, in some cases, employees received the allowance for less than the full year.

DATA COLLECTION, REVIEW, AUDIT AND CERTIFICATION PROCESS

The Annual Report on Executive Compensation was produced from data collected by each campus, medical center and laboratory using a variety of sources, such as payroll, accounts payable and personnel records, to populate a data warehouse, the Senior Leadership Information System (SLIS). Multiple data quality reviews were conducted by the Office of the President (OP) and local entities. The first certification occurred at the individual level when each person received a report from SLIS displaying his or her data and was asked to certify that the information was accurate and complete. In addition, campus and OP auditors reviewed the population and data to validate the accuracy and completeness of the data. Each Chancellor, Lab Director, and Executive Vice President reviewed his or her location's data and certified it to be accurate and complete. Thereafter, the President certified the contents of the report.

(Attachments)