

COMMITTEE ON FACULTY WELFARE 2012-13 Annual Report

To: Academic Senate, Santa Cruz Division

The Committee on Faculty Welfare (CFW) met twice per month throughout the academic year; members also represented CFW on several other Senate and campus committees—the Transportation Advisory Committee (TAC), the Committee on Emeriti Relations, Senate Executive Committee (SEC), and the University Committee on Faculty Welfare (UCFW).

CFW's work in 2012-13 expanded last year's detailed analysis of faculty salary and promotion growth to include salary comparisons with other UC campuses, and focused attention on new changes and developments in retirement benefits and online education. CFW presented reports at both the winter and spring Senate meetings, intended to keep faculty updated on these critical issues.

Health Care

For most UCSC faculty medical care is provided by physicians from one of two groups, either the Physicians Medical Group (PMG) or the Palo Alto Medical Foundation (PAMF). In recent years CFW has been concerned about the growing cost differential in the health insurance for these two groups.

The employee cost for PAMF (via Health Net Full HMO) can be several thousand dollars more than the cost for PMG (via Health Net Blue & Gold HMO). As recently as four years ago most UCSC employees used PAMF physicians, but the expense of health insurance premiums have driven many to change their doctors.

This year the Office of the President (UCOP) proposed a major revamping of Health Care Plans, driven largely by a desire to institute a new option, a "self-insurance" plan in which the UC Medical Centers would effectively function as both the providers (physicians) and the insurance company. Much of the information regarding the detailed plans, the provider groups and the insurance companies has been confidential. Nevertheless, information we received indicated that one possible outcome was that the PAMF/ Health Net Full HMO option may not be available in the future. Furthermore, the "self-insurance" plan (named UC CARE) is almost certainly going to be offered. In principle, the UC CARE plan will be required to provide service at all campuses. At the five campuses without Medical Centers, UC CARE will presumably contract with local groups of physicians. As this report is written, there remains much uncertainty as to how this will be done. There is a high probability that a majority of UCSC employees will have to select a new health insurance plan this fall. CFW has been arguing for equitable treatment for UCSC. We also want to make sure that UCSC employees get full information regarding the costs, benefits, and limitations of each of the health insurance plans.

As a footnote, this major revamping of Health Care Plans does not appear to be linked or caused by the Affordable Care Act (Obamacare). It is the consequence of a longer-term trend in which many large companies have moved to self-insurance.

Faculty Salary

Last year, CFW performed a detailed analysis of the “promotion growth” of faculty salaries in each department on our campus. That analysis showed great variability among departments in the rate at which faculty were advanced and in the rate of salary growth. In 2012-13, CFW compared UCSC salaries with those of seven other UC campuses. The following conclusions of the data analysis were presented at the March 8, 2013 Senate Meeting:

- The salary gap between UCSC salaries and those of other campuses has shrunk by \$2,000 - \$3,000 in last five years. Thus the salary boost program is having a positive effect;
- The rate of advancement at UCSC is approximately 0.8 years slower than at other campuses (equivalent to \$1,500 - \$2,000);
- Because of lower off-scale amounts, UCSC salaries are \$3,200 below UCSD, UCSB and UCI and \$5,900 below the average of all seven campuses (UCSD, UCSB, UCI, UCR, UCD, UCB, and UCLA);
- Off-scale limits are rarely exceeded at UCSC, while other campuses are more flexible. Example – No Step 9 Professor at UCSC is above this limit. On other campuses 25% of Step 9 professors are above the limit;
- Differences grow larger at higher ranks and steps. (Except – Above Scale salaries are similar to all but UCLA);
- Providing salary data to faculty may help to address inequities within and between departments.

Based on this analysis, CFW made the following recommendations:

- Continue the salary boost program and apply it to all ranks and steps. A reasonable goal is to increase UCSC salaries to at least the level paid at UCSB, UCI and UCSD (campuses in areas with comparable cost of living to Santa Cruz);
- Recognize that off-scale salary limits are frequently exceeded at other campuses, and grant exceptions when needed to maintain competitive salaries;
- Department Chairs should make the data in the CFW report available to their faculty, so that faculty have comparative data which can be used in formulating recommendations for merit increases;
- The Committee on Academic Personnel should consider investigating why advancement through the ranks slows down near the Barrier Steps.

Child Care

In 2012, Campus Provost and Executive Vice Chancellor (CP/EVC) Alison Galloway agreed to allocate \$150,000 per year for up to five years, retroactive to 2010-2011, to support the development of childcare services for faculty and staff. In 2012-13, several meetings of administrative and faculty personnel, including a representative from CFW, took place to explore

options. Particular attention was focused on the possibility of a combined family resource center and faculty-staff childcare facility as a feasible starting point. Early Education Services and members of the Psychology Department collaborated in writing a proposal for a planning grant to develop the conception, organizational structure, and funding of such a combined facility. This spring, the Giannini Trust generously agreed to fund the family resource center aspect of this planning grant. CP/EVC Galloway has further agreed to fund analysis of the faculty-staff childcare portion of the project. CFW would like to see this planning grant lead to a commitment on the part of the administration to re-constitute a campus childcare program for faculty and staff.

Housing

The main issue that CFW focused on this year in relation to housing was affordability. Last year's committee had a sense that university-owned housing for faculty and staff was becoming unaffordable for reasons that were not entirely clear. In order to receive an update on campus housing, CFW reviewed quarterly program reports and met with Steve Houser of Colleges, Housing, and Educational Services (CHES) and John Thompson of Faculty and Staff Housing in February, 2013.

One of the reports reviewed, the "Employee Housing Accounts: Repricing Program Financial Report" (9/28/2012), showed a recent pattern in which home sales to faculty and staff were in the red. The committee's concern, which reflected some concerns voiced by last year's committee, was that the university had a pricing formula that was putting the prices of homes out of reach, especially for incoming assistant professors.

The University determines the price of a home based on a formula that, in contrast to the open market, constrains how much equity accrues on most university homes. Equity accrues more or less at the rate of inflation for these homes, which is a very modest growth in equity compared to the market. On top of equity, there may be value added to the home, through, e.g., HOA approved improvements or remodeling paid for by the owner. The university therefore buys at a relatively low price compared to the market. Faculty Housing's role as main arbiter keeps the process of pricing within the constraints set, and judgments about the value of improvements and need for repair are made by the university rather than by ordinary market bargaining or haggling. In meeting, Steve Houser informed CFW that the apparent slowdown in housing sales in recent years can be accounted for by the halt in hiring by the university during the recent recession. Now that hiring is back up, housing waiting lists are growing at a good pace. All the homes that were unsold as of fall 2012, and that appear to be contributing to the university's being in the red in the "Employee Housing Accounts: Repricing Program Financial Report", have been sold, or will be sold in the near future (if they have not already been sold by the date of this report). In fact, there is an expected increase in the need to build new homes in Ranch View or elsewhere in the near future due to the increase in hiring.

The formula for repricing involves taking the median salary of incoming Assistant Professors into consideration. The UCSC Repricing Program Recommendation 2012-13¹ argues that the

¹ UCSC Re-Pricing Program Recommendation (2012-2013), Prepared by Colleges, Housing, and Educational Services, February 24, 2012.

median income is an appropriate standard given the cost of MOP loans, interest rates, down payments, etc. The committee notes that no cost of living factors, such as those associated with the high cost of living in Santa Cruz (including food, gas, etc), were considered in the computations of affordability. Nor were there any realistic assumptions made about the typical Assistant Professor (in terms of school debt, etc.). What might be done to include these considerations is unclear.

Still, CFW questions certain aspects of the formula now in place for determining resale price. For example, part of the formula is based on the square footage cost of a home in comparable areas of Santa Cruz County: basically, the westside of the city. The University sets the maximum, in this part of the formula, at 60% of the square foot cost of comparable homes.² Committee members are not certain that using the Westside Santa Cruz market as the standard, which is the highest in the county, and focusing on square footage, are the best variables in a formula for affordable housing.

Online Education

During the winter quarter, CFW began discussing the implications of online education in general, and of the University's agreement with Coursera in particular. This ongoing discussion concerns five fundamental questions:

- Is online teaching effective?
- Does the administration have clear goals for online education at UCSC?
- How should we analyze and compensate the labor involved in developing and maintaining a quality online course?
- What is the role of the Senate in scrutinizing the University's agreement with Coursera?
- What are the terms of the University's agreement with Coursera?
- What should be done to address the lack of consensus among the faculty about the University's experiment with online education?

As a partial answer to the last question, in its report to the Senate on May 29, 2013, CFW called upon the Senate leadership to continue a thoughtful and deliberate conversation about online education next fall.

Retirement

The Committee investigated several issues this year affecting the status of the UC Retirement Plan (UCRP) for retired, current, and future UCSC faculty (and staff) and reported their findings at the May 2013 Senate Meeting. The UC Regents have adopted several related changes that became effective July 1, 2013—each of which reduces overall UCSC faculty compensation:

1. All UC employees (faculty and staff) hired after June 30, 2013 will be part of Tier 2013 under UCRP, which will receive lower retirement benefits and later eligibility ages that will significantly reduce the overall value of UCRP benefits, and may affect faculty recruitment competitiveness.

² UCSC Re-Pricing Program Recommendations (2012-21013), Prepared by Colleges, Housing, and Educational Services, February 24, 2012.

2. All UC employees (faculty and staff) whose combined age and service credit are less than 50 on June 30, 2013 will receive lower UC contributions toward retiree health premiums upon retirement than those whose combined age and service credit are at least 50. The original calculation of the sum was set to be based on “whole years” for each of the factors, but was later changed to the combined total of the factors truncated down following a request from the University Committee on Faculty Welfare (UCFW). Note that this change will apply to many existing employees NOT subject to Tier 2013: at UCSC, an estimated 116 of the 433 current ladder-rank faculty (27%) were NOT grandfathered in.
3. All UC employees (faculty and staff) who remain in Tier 1 under UCRP saw an increase in employee contributions to UCRP effective July 1, 2013 (from 5% in 2012-2013 to 6.5% in 2013-2014). In July the Regents voted to increase employee contributions to 8% in 2014-2015. The total increase in employee contributions from 2010-2014 will be 6% (from 2% to 8%). The University’s contribution toward UCRP will also have increased during this period by a total of 10% (from 4% in 2010-2011; 7% in 2011-2012; 10% in 2012-2013; 12% in 2013-2014 and a proposed 14% in 2014-2015). Combined contributions will then total 22%.

“Normal” Cost and UCRP’s Unfunded Liability

Based on a series of actuarial and financial models, UCRP’s “normal” cost is 17.6%—in other words, the combined University and employee contributions must be 17.6% of covered compensation each year to maintain the UCRP in a position to pay all of its liabilities fully. However, UCRP has an unfunded liability that has been estimated by the University as roughly \$12.1 billion. This unfunded liability reflects a combination of three factors: (1) a 20-year “holiday” in contributions from 1990 (when UCRP had a surplus) to 2010, (2) the accelerated payments associated with the Voluntary Early Retirement Incentive Program (VERIP) of the mid-1990s, and (3) reductions in both asset values and rates of returns during the economic downturn over the past five years. We have not seen a good analysis of UCRP that accurately allocates the respective contribution of these factors, but there is widespread agreement that increased contributions are necessary to reduce the liability.

Despite that agreement, however, UC staff unions, including the American Federation of State, County and Municipal Employees (AFSME), California Nurses Association (CAN), and the University Professional and Technical Employees (UPTE), have hired an actuary who argues that two UC policies are more conservative than mainstream methods used by others:

1. The University amortizes the unfunded liability as a fixed dollar amount rather than as a level percentage of pay; this increases the cost of paying off the unfunded liability by over \$1 billion over the next four years alone—while also increasing the apparent level of combined contributions necessary in the near term (see Figure 1 from UC Union Actuarial Briefing on November 1, 2012, showing annual amortization payments).

2. The University uses a 7.5% discount rate in estimating UCRP's future liabilities, whereas most defined benefit public pension plans use a higher rate over a 20-25 year period (see Figure 2, from UC Union Actuarial Briefing on November 1, 2012). According to the staff unions' actuary, a "more conventional 7.75% rate" would lower the annual costs of paying off the unfunded liability (if combined with using a level % rather than a fixed dollar amount) from 25-30% (according to UC) to around 22% (see Figure 3 from UC Union Actuarial Briefing on November 1, 2012).

Without these two changes, however, even the 22% combined contributions of the University (14%) and employees (8%) proposed for 2014-2015 appear inadequate. Additional pressure to increase University contributions (which directly compete with other campus priorities, including faculty salaries, staff salaries, health care premiums, and myriad necessary expenses) and employee contributions (which directly reduce take-home pay unless faculty salaries are increased accordingly) is therefore likely to continue (and the unfunded liability to grow) under the actuarial and financial models that the University is using to estimate the costs of maintaining UCRP. The University's choices regarding amortization method (fixed dollar amount rather than a fixed percentage of pay) and discount rate (7.5% rather than 7.75%) therefore result in a political climate of crisis over apparent increases in unfunded liability even after combined UCRP contributions would total 22% (4.4% more than "normal" cost) if adopted for 2014-2015.

Despite efforts by the UC unions to enlist faculty support for the use of a different amortization method and a higher discount rate when estimating liabilities, neither the UCRS Advisory Board nor the UC system-wide CFW have pressed for these changes. Instead, system-wide faculty leaders appear to believe that the battle over these issues was already fought when the Post-Employment Benefits (PEB) Task Force rendered its recommendations to UCOP in 2010. At that time, the faculty representatives to the PEB Task Force wrote a powerful dissenting opinion that was adopted in part by UCOP. We therefore do not see much traction among system-wide faculty representatives for pushing for these changes at the system-wide level.

There is a third issue raised by the UC unions' actuary that is directly relevant to the link between UCRP contributions and faculty salaries: the UCRP actuarial and financial models assume higher rates of faculty salary growth in the future (thereby increasing UCRP liability) than actual rates of faculty salary growth in the past. Therefore, the UCRP actuarial assumptions themselves make a case for linking higher faculty salaries to increased UCRP contributions. This is also the position of UCFW for 2014-2015. We support this position but also believe that the other changes are also necessary: increased contributions should be coupled to salary increases, but the actuarial methods in the UC union proposal should also be considered.

Transportation and Parking

The TAPS fee review and approval process was a recurrent topic for the Transportation Advisory Committee during 2012-2013. One of the issues was faculty representation in the approval process. Pending decisions, including potential price increases, remained unimplemented through the spring. Given tensions between competing transportation programs, diverse needs of faculty and staff constituencies, and financial pressures faced on all sides, CFW suggests that the

Senate recruit a member to work closely with TAPS for multiple years in succession to build up institutional memory and strongly represent faculty concerns.

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Respectfully submitted;

COMMITTEE ON FACULTY WELFARE

Noriko Aso

Samit Dasgupta

Tim Duane

Daniel Guevara

Michael Isaacson (*F&W*)

Sean Keilen (*W&S*)

Roger Anderson, *ex officio*

Barry Bowman, Chair

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