UC BERKELEY BENEFITS DECENTRALIZATION

SUMMARY OF CAMPUS INPUT

Overview of feedback

We consulted with many people across the Berkeley campus over the last few months to solicit feedback and review the draft benefits decentralization plan. In addition, comments arrived via email, formal letter, and phone message, and were raised in discussions at campus meetings.

Many respondents expressed favor with the proposal, expressing appreciation for the increase in budgetary clarity and support for localizing responsibility for the total budgetary impact of employee salaries and benefits. However, many still had specific questions about the process and serious concerns about the implementation plan. One staff group called for a delay to the implementation, suggesting it might be optimal to wait until after Operational Excellence Organizational Simplification initiative is completed.

A summary of the questions and issues raised by our stakeholders, and possible responses, are provided below.

Basic questions

During the initial rollout, most questions related to how the proposed benefits allocations were calculated. The next-most-often question focused on what benefits accounts and expense types were included and excluded. The Campus Budget Office shared a detailed spreadsheet with control units and divisions that demonstrated the calculation methodology and explained the data source.

Since those issues were addressed, most questions have been more transaction-oriented, the most frequent being whether units may have input to the specific financial system chart-strings where benefits will be transferred. That input is now recommended in the revised plan.

The Frequently Asked Questions portion of the final plan has been supplemented with answers to several of the common questions.

Overarching issues and concerns

The following set of larger issues came from campus stakeholders.

Issue #1: Potential for Self-Funding Benefits

Several campus stakeholders were concerned about the stated possibility that at some point departments might need to self-fund a portion of benefits in a year when there were insufficient funds available centrally to cover costs, with one group going so far as to say it was "unacceptable" and that a failure on the part of UCOP to provide adequate funding for benefits would not be sufficient justification to pass along an unfunded liability to units.

Others voiced the concern that such a practice was in effect an across-the-board budget cut, a less-than-strategic mechanism for reducing campus funding.

There was a call for a more concrete commitment that funding benefits costs be the top priority for the campus.

Some campus stakeholders suggested that the Chancellor may wish to create a back-up benefits pool to prepare for times of need and that it might be a good idea to share in the creation of a "risk pool" that would be available to address local spikes and anomalies, especially in smaller units.

Response:
The language in the benefits decentralization document has been strengthened to make it clear that a fundamental principle of the model is that the Chancellor expects to provide annual allocations of necessary incremental funding, and does not intend to pass along unfunded liabilities to units as a routine practice.

Units should be reassured that in the event that there are insufficient funds centrally to provide supplemental funding, the Chancellor will look for incremental revenue as a first measure, and then implement strategic programmatic budget reductions. However, in drafting the plan, it was felt to be disingenuous to imply that the Chancellor would never look to units to help pay for increased benefits costs.

In regards to a back-up benefits pool and small unit risk pools, decentralization of benefits distributes the bulk of resources into the hands of the units, and it also places with them greater responsibility for long-range planning and avoidance of risk. Many campus units have accumulated moderate reserves to address funding shortfalls, and the plan has been adjusted to include advice to deans and divisional managers, particularly those with oversight of smaller units, that they should make sure such reserves are funded in a manner that can address local spikes and abnormalities. Those units without reserves may wish to use the 3% benefits supplement to help establish or enhance such accounts.

Issue #2: Adequate Funding for Individual Populations

The policy is designed to place accountability and responsibility at the department level where workforce decisions are being made. However, there was concern about the flexibility built in to the model, that providing benefits funding in one combined pool might cause managers to redirect funding from one individual population to another.

Ladder Faculty Benefits

The concern about redirection of funding was raised most frequently in the area of ladder faculty salaries, where it was asserted that unit managers have no decision-making authority on the size and composition of faculty in their units and there is concern that insufficiently-funded benefits increases for faculty might trigger academic program reductions or require staff layoffs.

It was recommended that either the Chancellor commit to funding the full cost of increases in faculty benefits each year, that benefits associated with ladder faculty continue to be managed by the Campus Budget Office, or that faculty funds be allocated in separate pools from the administrative staff pool to provide a measure of security about adequate fund support.

Graduate Student Fee Remissions

Similarly, there was concern about the lack of control over increased fee remission costs due to student fee increases that are outside the control of unit managers, as well as concern that decentralization of benefits was somehow meant to deliberately limit the use of 25% Graduate Student Instructor (GSI) appointments, perhaps punishing those units currently hiring academic student employees at that level.

Response:
The intention of the benefits decentralization plan is to continue to fully fund benefits for faculty and Graduate Student Instructors and to hold campus units harmless from the impact of student fee increases on Graduate Student Instructor fee remissions. There is no punishment built into the model. The plan provides benefits funding for positions at current levels, including those units that are currently paying 25% GSIs.

Some units were even concerned that the new system locks in rewards for those who may have advantaged from the past system, but adjusting for this would put at risk those units who have a programmatic need to sustain 25% GSIs. Department chairs who choose to consider whether the programmatic need for GSI appointments outweighs the use of those funds for other academic program-related purposes will now be have direct control over those funds. The model is designed to encourage such trade-off considerations at the department level. Rather than negatively impacting UC Berkeley's core teaching mission, the hope is that this type of funding flexibility will enhance our academic programs.

The recommendation of separate pools of funding for different purposes does not guarantee that the funds will be used for those purposes. Unit managers will be free to move funds from one pool to another, so the maintenance of separate pools adds to the complexity of the model and in fact, might introduce pool-management behavior designed to maximize future receipt of benefits allocations. What is most important is that sufficient funding is allocated in order to meet the benefits-funding needs of units. The benefits decentralization plan has been clarified to help insure adequate support is available ladder faculty and GSI populations. The subset of campus units with on-going ladder faculty and graduate student instructor costs will have a separate benefits augmentation level from the remainder of campus units.

Issue #3: Incentives to Avoid Discriminatory Behavior

There was broad concern that managers may favor candidates with perceived lower benefit costs when making hiring decisions. It was noted that not all Berkeley supervisors and faculty may be aware that it is illegal to bias a hiring decision based on the benefits burden due to an employee's family benefits costs. There was also feedback that existing evidence of compliant hiring behavior of employees paid on other fund sources, including research, discretionary funds, auxiliary enterprises, and recharge funding might be attributed to other factors, and is insufficient to suggest that established hiring behaviors for managers using currently decentralized non-central funds would be consistent with decentralized central funds. There is great interest in making sure that that no such discriminatory practices arise.

Response:
A simple mechanism to address this concern is to move the campus to a benefits fringe rate model where departmental benefits costs are a fixed percentage of salary instead of the per-individual benefits charge that is a function of characteristics of individual employees. The plan now reflects a recommendation to move to such a model. UC Davis is in the process of moving to fringe rates during the current fiscal year, and can serve as a good test case for the model. Such a model has the secondary advantage that it greatly eases financial management calculations, for both planning and transfers. Note that once the campus moves to a fringe rate, units may be over-funded or under-funded; we may wish to consider a second round of re-budgeting at the time the fringe rate model goes into effect.

Issue #4: Impact of Incentives on Staff Hiring Behavior

It was noted that the model builds in disincentives to the hiring of fractional employees whose benefits form a disproportionate financial obligation for the campus, a burden that has heretofore remained largely invisible for certain classes of employees. One group stated that the assumption that building in incentives will change behavior to reduce costs has not been adequately tested, and that there is lack of evidence that managers would behave differently under the proposed policy.

Response:
Decentralizing benefits will create the best possible test of whether accounting for the total costs and benefitting from reducing expenses will inspire managers to control staff benefits costs.

Issue #5: Workload and Administration

There is a concern that the plan underestimates the workload the change imposes on departmental staff, as evidenced by an apparent shifting of workload from central campus units to local departments, and a warning that the plan may fail at the implementation step if the workload overwhelms local staffing capabilities and competencies. There is particular concern that this is taking place during a time when departments are consolidating work in the areas of HR and finance as part of operational excellence. One group recommended that the Operational Excellence (OE) Organizational Simplification finish its work prior to the decentralization.

Response:
Decentralization of Benefits should take place prior to the completion of the Operational Excellence efforts, so true levels of workload are understood and taken into account as shared service clusters are created. Still, there is a clear expectation of training, guidance, and assistance for departmental staff. In response to campus requests, the Campus Budget Office has been charged with working with representatives of campus departments, Campus Human Resources, the Graduate Division, and the Controller's office to develop a description of the procedures involved, including clear documentation of how to effectively project employee benefits and to assist units in calculating and managing GSI fee remission costs.

Issue #6: Impact of Model on Funding of In-Year and One-Time Commitments

There were concerns that benefits decentralization will reduce available funding for several in-year, one-time, and recurring commitments, including temporary academic salaries (TAS) allocations, executive salary increases, and ad hoc commitments such as faculty start-up.

Response:
Going forward, deans and directors will be asked to report on their total salaries and benefits needs when they request any allocation, including temporary academic salaries (TAS) funds, in order to ensure that adequate funds are awarded. Existing benefits and fee remissions are built into the current TAS model, but for increments, it is important to include the benefits need so that adequate funding will be provided. Requests for funding faculty start-up will also need to account for the cost of benefits when the request is made. Benefits supplements will be made available for certain already-approved commitments. If there are existing central-funds commitments from the Chancellor made before 4/1/2011, and if it is reasonable to have expected that benefits would have been provided, the receiving unit should work with their Campus Budget Office coordinator to arrange for a review of the commitment to determine eligibility for a benefits supplement. Benefits associated with executive positions may also need to be topped up when salary increase budget augmentations from the central campus take place.

Issue #7: Insufficient Funding for Special Conditions

There was concern that the methodology used for calculating the allocations might not be robust enough to take into account every possible variable. Many units pointed out that they kept positions vacant, and under the new model would have insufficient funds to pay for benefits once those positions were filled. Units also expressed concern about a loss in value of central funds carry-forward balances that would have carried benefits.

Response:
The plan provides an initial 3% supplement on the grand total expected benefits need, designed specifically to provide benefits funding for anomalies such as carry-forwards and vacant positions. In many cases, however, the base allocation may be sufficient to fund the benefits for vacancies, because units may have been using salary savings from long-term vacant positions for other temporary salaries needs, and the benefits for those temporary expenditures are reflected in the base allocation. In one case, however, the 3% supplement appears to be insufficient to meet campus needs. The Letters and Science Dean's Office provides annual allocations to schools and colleges to pay for teaching support for Discovery Courses, primarily Graduate Student Instructor support. The recipient units vary by year. Rather than underfunding future Discovery Course awards, or deducting small amounts from numerous proposed unit allocations, the plan reflects a recommendation that the L&S Dean's Office receive a separate $250,000 benefits supplement to pay for the benefits associated with Discovery Courses.