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California's Public University Employee Benefits: Challenges and Trade-Offs

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About College Futures Foundation Higher Education Finance Forum

There is a growing consensus in California about the need to increase access and degree attainment among this generation of California residents—but there is no comparable consensus about how to pay for it. College Futures Foundation is sponsoring the **Higher Education Finance Forum** to provide a neutral, analytically grounded discussion about how to pay for California's public higher education goals.

Current funding trends present one of the biggest barriers to increasing resident student access and baccalaureate degree completion. The Forum's goal is to develop a realistic framework for examining California public higher education finance that both defines the problem *and* identifies options to address it. The Forum will host four invitational conversations among a small group of experts in state budgeting, public higher education finance, demographic trends, social equity, and other facets of the topic. The Forum will synthesize a summary of the proceedings and white papers at the conclusion of the planned work, toward the end of 2016. College Futures Foundation and Forum leadership will then decide whether to transition the conversation into a larger public arena.

College Futures Foundation is a private foundation working statewide to improve baccalaureate degree attainment among California students who are low-income and underrepresented in higher education. College Futures operates on the beliefs that a vibrant future for our state requires more bachelor's degrees, and that every qualified student in California who wishes to should have the opportunity to succeed in college.

Established in 2005, the Foundation supports work in three areas: ensuring successful student transitions along the degree completion pathway; enabling cross-sector, intersegmental, and regional partnerships to drive improvements in bachelor's degree completion; and addressing gaps between policy and practice needed to increase college access and success.

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California's Public University Employee Benefits: Challenges and Trade-Offs

California spends more than \$375 million annually on pension and health care benefits for the faculty, staff, and other employees of the state's two university systems, the California State University (CSU) and the University of California (UC). Between 2008 and 2013, the institutional contributions to those health care and retirement benefits have risen significantly in both systems: overall, as a share of compensation, per employee, and relative to salaries.

California is not alone in witnessing increases in spending on employee benefits—similar patterns are occurring in both public and private non-profit institutions across the country. As is the case in California, spending on benefits is going up even as spending on salaries is flat or declining.

The governor, the legislature, and leaders at both university systems and individual campuses acknowledge many of the challenges—and indeed are acting to address some of them. But the fact remains that many of the university systems' employee benefit issues remain unresolved or are inadequately understood—and fully addressing them will require candid conversations among diverse stakeholders, and hard choices among difficult trade-offs.

As part of College Futures Foundation's effort to spur a neutral, analytically grounded discussion about how to pay for increasing access and degree attainment among this generation of California residents, its Higher Education Finance Forum offers this Policy Brief and the accompanying report, "Addressing the Rising Costs of Employee Benefits in California Public University Systems."¹ The purpose of this Policy Brief is to lay out the dimensions and complex policy components of the issue of employee benefit expenditures in the state's two public university systems.² It also addresses the state and system-level decision-making processes around employee benefits, and provides examples from across the country of emerging strategies to address benefits spending.

Fully addressing the university systems' employee benefit issues will require candid conversations among diverse stakeholders, and hard choices among difficult trade-offs.

Factors contributing to rising expenditures on employee benefits

The factors contributing to these increases are numerous and complex—including rising health care costs, a demographic wave of retiring baby boomers, investment losses resulting from the Great Recession, and evolving accounting standards. These pressures are being felt across the country and are not unique to California.

¹ A discussion draft of the source report is available on-line to Forum participants.

² The initial focus is on the public university systems, as the California Community Colleges' finances are covered under Proposition 98, and benefits are funded via the State Teachers Retirement System.

However, California's budget decision-making processes for employee benefits exacerbate the national trends and have contributed to the situation here, because of disjointed decision making with multiple actors and the absence of consistent measures for evaluating costs and looking at trade-offs between spending on benefits and other budget priorities.

Rising health care costs

Increased costs for health insurance are driven by the rising costs of health care, which has consistently increased about 2.4 percent faster than other areas of the economy. Expenditures for health care are up from just 7.2 percent of Gross Domestic Product (GDP) in 1970 to 17.6 percent of GDP now, and a projected 20.3 percent of GDP by 2018.³ Rising costs for health care are the single biggest area of growth in state spending, according to the National Association of State Budget Officers, driven both by increases in service costs and by the higher health care demands of an aging population. In California, the Department of Finance projects that continued increases in state spending on Medi-Cal will outstrip future growth in state revenues, and will continue to constrain funding for discretionary spending that otherwise might be available for higher education or other program areas.⁴

Post-employment benefits for a growing number of retirees

Many public institutions—including the UC and CSU systems—offer health care benefits to retired employees. Retiree health benefits are less common among non-profit private institutions. The rising number of retirees receiving such benefits is exacerbating health care costs for public institutions. Such “Other Post-employment Benefits” (OPEB, as they are labeled by accountants) are reported as liabilities or debt under the new accounting rules. Unlike pension benefits, retiree health benefits are discretionary expenditures that can be changed or even eliminated.

University of California employees hired before 1990 receive 100 percent of the UC contribution toward medical and dental premiums. Employees hired subsequently receive between 50 percent and 100 percent of premiums depending on years of service and retirement age. CSU retirees receive 100 percent of premium costs for themselves and dependent family members if they were eligible for health insurance at the time of their retirement from the CSU—regardless of years of service.⁵ The Legislative Analyst's Office (LAO) estimates that premiums for retiree health benefits are increasing 4.3 percent per year for most state workers, and 5.5 percent per year for University of California employees.⁶

Investment losses and changing actuarial assumptions in retirement funds

Public pension investment funds have gone through a roller coaster of highs and lows over the last 15 years, with significant growth in the 1990s and the early 2000s, followed by losses resulting from two recessions. In 2000, more than

³Kaiser Family Foundation, “Trends in Health Care Costs and Spending,” 2013, at bit.ly/kaiser-health-care-costs.

⁴See Mark Hill, “Prospects for State General Fund Revenues for Higher Education,” College Futures Foundation, January 2016.

⁵University of California “UCNet Retiree Health Eligibility Fact Sheet,” at bit.ly/UC-retiree-health; and California Legislative Analyst's Office, “Addressing California's Key Liabilities,” May 2014, at bit.ly/lao-liabilities.

⁶Legislative Analyst's Office, *op cit.*, page 24.

one-half of the states had fully funded state employee pension funds, according to the Council of State Governments. By 2008, only four states met that standard.

In California, the State Teachers Retirement System (CalSTRS), which provides retirement and other benefits for California public school educators and community college educators, went from being “fully funded” around 2000 to an unfunded liability of \$73.7 billion in June of 2013. The fund is projected to exhaust its assets within 30 years, in spite of improved investment returns. The LAO estimates that fully funding the CalSTRS pension liability over the next 30 years would cost the same amount each year as the entire general fund appropriations to the UC and the CSU combined.⁷

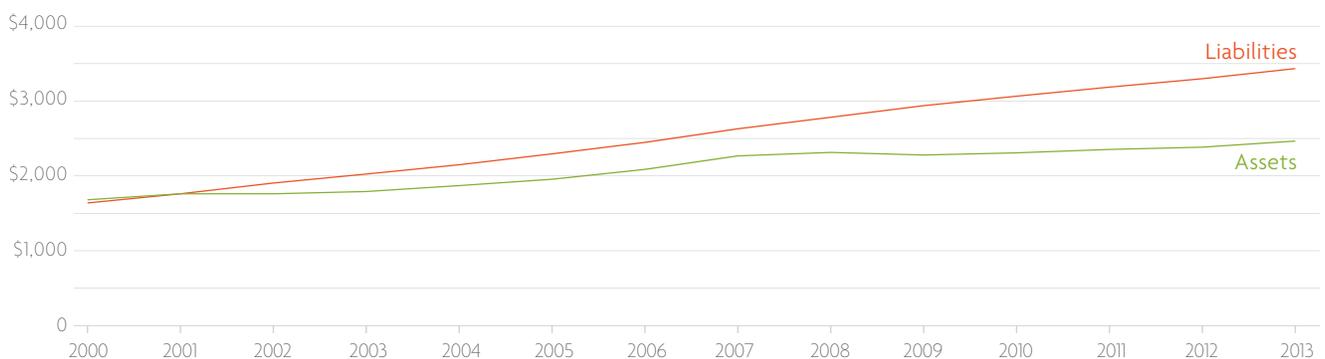
The Legislative Analyst’s Office estimates that fully funding the CalSTRS pension liability over the next 30 years would cost the same amount each year as the entire general fund appropriations to the UC and the CSU combined.

The University of California Retirement System (UCRS) is another case in point. Administered by the constitutionally autonomous University of California Board of Regents, the fund was historically “overfunded.” At its peak in 2000, the University of California Retirement Plan had assets totaling 154 percent of the amount needed to pay future benefits. The Regents declared a “pension holiday,” which began in the late 1980s and lasted nearly 20 years, during which time neither the institution nor the employees contributed to the plan. By 2013, the fund was found to have an unfunded liability of nearly \$20 billion.

Figure 1

State Pension Funding Gap, 2000-2013

In \$billions



Source: The Pew Charitable Trusts, “The State Pensions Funding Gap: Challenges Persist,” July 2015.

While in the aggregate, public pension fund investment results have improved in the years of recovery from the Great Recession, significant funding gaps persist. Collectively, as shown in **Figure 1**, state-run retirement systems in 2013 had a \$968 billion shortfall between pension benefits that governments had promised to their workers and the funding available to meet those obligations—a \$54 billion increase from the previous year, according to the Pew Charitable Trusts.

⁷ Legislative Analyst’s Office, *op cit.*, page 10.

Changes in accounting standards for reporting benefits expenditures

Public college and university accounting standards are governed by the Governmental Accounting Standards Board (GASB). In the past decade, GASB has required that public agencies report the long-term cost consequences of commitments for employee pension and health care benefits. This means these costs now show up as funding obligations on the institutional financial statements. If assets are not adequate to pay for these commitments, then the plan administrators (in this case the universities) are required to show those liabilities as institutional debt. Depending on how depletion expenses are calculated, this can significantly increase projected long-term expenses and has major implications for current operating funding obligations.⁸

Because private non-profit institutions previously had been required to reflect full amortization and reporting of debt obligations, public and private institutions are now reporting such expenses more comparably than they had in the past.

Budget process and decision making about benefits

In California, the budget decision-making process contributes to the problem of rising costs for benefits in several ways:

- Information about benefits is technical and typically framed in the context of an individual's compensation, with benefit “packages” and options explained in great detail. There is little translation of the budgetary costs on an annual or multi-year basis.
- The state budget and institutional budgets generally do not include measures of employee benefits as a share of all university spending. Neither do budget documents include benchmarks that are common in other industries—such as benefits as a share of compensation, or average costs of benefits per employee—or comparative information on other institutions or states.
- The California budget process treats benefits as a “fixed cost” rather than one of a number of budget priorities to be evaluated and adjusted based on competing policy goals. This approach effectively locks these commitments first in line in the budget queue for “new” incremental funds from year to year. Competing policy goals—paying for new faculty to meet growing enrollment demands, for example, moderating tuition increases, investing in infrastructure maintenance, or any other policy priority—take a back seat.

Additionally—and most importantly for the California State University—multiple agencies share responsibility for decision making on employee benefits. While final fiduciary responsibility for CSU employee compensation technically rests with the Board of Trustees for the system, the California Public Employees Retirement System (PERS) Board in reality is the primary decision maker over such costs for the CSU. CSU employees additionally have been successful in getting special legislation

⁸National Association of College and University Budget Officers, “GASB Releases New Pension Guidance,” July 2012, at bit.ly/NACUBO.

passed to give them higher health care benefits than those provided to other state workers. Neither the CSU Board of Trustees, PERS, nor the legislature has comprehensive information about the budgetary consequences of decisions about benefits, which are treated separately from decisions about enrollments, tuition levels, and employee salaries.

As an example of blurred authority and accountability, the governor's proposed budget for Fiscal Year 2016-2017 includes a special allocation of \$26 million to the CSU to phase in increased employer contributions to retiree health care, along with an increased \$51 million for CSU PERS pension contributions. Yet these funds do not appear in the CSU proposed budget; they are shown in a "general government" section of the budget. The governor's budget presentation of funding highlights for the CSU does not mention this additional \$77 million, nor the fact that it is a permanent adjustment to the base. The Legislative Analyst's evaluation of the higher education budget proposal similarly excludes these funds.

A Note on Methodology

In the pages that follow, the analysis of benefits spending examined aggregate data on institutional spending for employee benefits for the five-year period 2008–2013 for the California State University and the University of California, as well as for relevant public and (for the UC) private comparison institutions. All figures are shown in 2014 constant dollars using the U.S. Bureau of Labor Statistics Consumer Price Index (CPI) adjustor.

These measures represent only institutional spending on benefits; the costs of employee "co-pays" or employee contributions are not reflected in institutional expenditure data. If the employee share of costs were included, the figures would be higher. The data are derived from expenditure information reported to the federal Integrated Postsecondary Education Data Surveys (IPEDS) system, and reflect overall expenditures for all employees.

Benefits costs per student are calculated by dividing total expenditures by student enrollments; this figure is then evaluated as a percentage of average costs per student. Costs per student are calculated using the Delta Cost methodology: an average full-cost figure across all levels of instruction and levels of student (undergraduate and graduate). Cost in this case means expenditures or spending per student, not tuition costs to the student.

CSU systemwide spending is calculated as average spending across CSU campuses, excluding CSU Maritime, CSU Channel Islands, and CSU Naval Postgraduate School. UC systemwide spending is calculated as average spending across UC campuses, excluding UC San Francisco and Hastings College of Law. (See "Appendix: Definitions and Methodologies" for additional detail.)

Trends in benefits spending for the CSU and the UC

The purpose of this analysis is to provide some context for the magnitude of the trends in spending for employee benefits. These comparative data points include:

- Changes over time in total operating expenditures, and the share of such spending allocated to total compensation, i.e., salaries and benefits combined.
- Separate breakouts for the share of spending on salaries and on benefits.
- Changes over time in spending on benefits, both in the aggregate and relative to salaries.
- Average spending on employee benefits measured on a per-student basis, and how that has changed over time.
- Additional information on average spending on benefits per full-time employee for the CSU and the UC.
- Comparative information for other public (and in the case of the UC, private) institutions' spending patterns for benefits and compensation.

Table 1

Systemwide Spending on Compensation

In \$millions, 2014 constant dollars

	California State University				University of California			
	2008	2013	% change	Per year % change	2008	2013	% change	Per year % change
Salaries and wages	\$138.4	\$123.0	-11%	-2%	\$915.0	\$1,042.7	14%	3%
Employee benefits	\$48.0	\$52.9	10%	2%	\$180.6	\$323.1	79%	16%
Total compensation	\$186.4	\$175.9	-6%	-1%	\$1,095.7	\$1,365.8	25%	5%
Non-compensation expenditures	\$94.4	\$116.1	23%	5%	\$684.8	\$860.4	26%	5%
Total expenditures	\$280.8	\$292.0	4%	1%	\$1,780.5	\$2,226.2	25%	5%
Compensation as a % of expenditures	66%	60%	-9%	-2%	62%	61%	-0.3%	-0.1%
Benefits as a % of compensation	26%	30%	17%	3%	16%	24%	43%	9%
Benefits as a % of salaries and wages	35%	43%	24%	5%	20%	31%	57%	11%

Note: Total compensation for the UC in 2008 reflects rounding. CSU systemwide spending is calculated as average spending across CSU campuses, excluding CSU Maritime, CSU Channel Islands, and CSU Naval Postgraduate School. For UC systemwide spending, UCSF and Hastings College of Law are excluded.

Sources: Delta Cost Project analysis of data from U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

Patterns in the California State University

Expenditures, salaries, and benefits. Total operating expenditures across the California State University system increased by some \$11 million, or 4 percent, between 2008 and 2013, as shown in **Table 1** (at left). The share of spending on employee compensation declined by 6 percentage points, from 66 percent of all spending in 2008 to 60 percent in 2013.

- The biggest decline in spending was for employee salaries and wages, which dropped by an average of 2 percent per year.
- While spending on salaries declined, spending on benefits increased by 10 percent, an average of 2 percent per year. Between 2008 and 2013, the share of total compensation allocated for benefits jumped from 26 percent to 30 percent.
- The simultaneous cuts in salary spending and increases in benefits spending drove benefits as a share of salaries from 35 percent in 2008 to 43 percent in 2013.

The biggest decline in spending at the California State University was for employee salaries and wages, which dropped by an average of 2 percent per year. Meanwhile, spending on benefits increased by 10 percent, an average of 2 percent per year.

Benefits per FTE (Full-Time Equivalent) student. Average education and related spending per FTE student in the California State University declined by nearly 8 percent per capita between 2008 and 2013, both because of budget cuts and because of enrollment increases. At the same time, average spending on employee benefits per student increased fairly modestly, by around 5 percent, as shown in **Table 2**.

Table 2

Systemwide Changes in Benefits per FTE Student

In 2014 constant dollars

	California State University			University of California		
	2008	2013	% change	2008	2013	% change
Average education and related (E&R) spending per FTE student	\$13,317	\$12,218	-8%	\$28,302	\$31,969	13%
Benefits per FTE student	\$2,796	\$2,930	5%	\$7,853	\$12,886	64%

CSU systemwide spending is calculated as average spending across CSU campuses, excluding CSU Maritime, CSU Channel Islands, and CSU Naval Postgraduate School. For UC systemwide spending, UCSF and Hastings College of Law are excluded.

Sources: Delta Cost Project analysis of data from U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

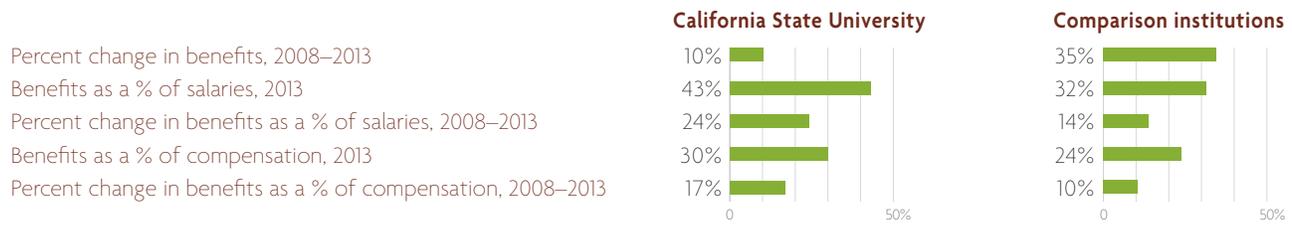
The CSU and comparison institutions

To put the CSU patterns into context, comparative data for public institutions used by the California Postsecondary Education Commission for faculty salary analyses are shown in **Table 3**. (See also *Appendix Table 1* on page 18 for detailed information on comparison institutions.)

Table 3

Benefits, Salaries, and Compensation at the CSU and Comparison Institutions, 2008–2013

In 2014 constant dollars



Note: CSU Maritime, CSU Channel Islands, and CSU Naval Postgraduate School are not included.

Sources: U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

Overall, benefits increased faster than salaries in comparable institutions in other states—some well ahead of the rate of growth in the CSU. Between 2008 and 2013, on average, total spending on CSU employee benefits increased by 10 percent, in comparison with a 35 percent increase at the 16 peer institutions nationally.

The national averages are skewed by the huge increases in spending in Illinois and Connecticut, two states that had pension systems on the edge of bankruptcy. The benefits/salary ratio of 43 percent at the CSU is considerably higher than the average of 32 percent across comparison institutions. Again, this could be attributable to low average salaries in the CSU as much as higher spending on benefits.

Although most of the peer institutions increased employee benefits over this time period, benefits were reduced in Wisconsin, Arizona, and Nevada. This shows that increased spending on benefits is not inevitable, it reflects political decisions and policy choices.

Between 2008 and 2013, benefits were reduced in Wisconsin, Arizona, and Nevada, indicating that increased spending on benefits is not inevitable, but reflects political decisions and policy choices.

Patterns in the University of California

The University of California compensation and benefit patterns are quite different from those in the California State University. The University of California's sponsored research and hospital functions comprise a much higher share of the

university's workforce—especially in comparison with the California State University—in turn driving compensation and benefit spending levels. In addition, between 2008 and 2013, most of the UC hiring increases were in the system's hospitals.

Another big cost driver at the University of California was the 2009 decision to end the system's 20-year “pension holiday,” resulting in spikes in spending as the system has ramped up benefit contributions from zero to the new phased-in rates. The recent rates of increase at the University of California reflect this anomaly; although benefits costs will continue to grow in the future, they should not be at the same rate as the recent past.

The recent rates of increase at the University of California reflect the 2009 decision to end the University of California's 20-year “pension holiday.” Although benefits costs will continue to grow in the future, they should not be at the same rate as the recent past.

Expenditures, salaries, and benefits. Total operating expenditures across the University of California increased by 25 percent between 2008 and 2013, as shown in **Table 1** (page 6). The share of spending on employee compensation was generally steady, between 62 and 61 percent in 2008 and 2013.

Spending for salaries and wages increased overall by \$127.7 million, or around 3 percent per year, in contrast to the CSU's \$15.4 million reduction of 2 percent per year.

Spending on employee benefits nearly doubled, as the institution ramped up its pension contributions. Benefits were 16 percent of compensation costs in 2008, but rose to 24 percent of compensation in 2013. In 2013, benefits averaged 31 percent of salaries.

Benefits per FTE student. Spending for education and related expenses per student in the University of California increased by 13 percent between 2008 and 2013, as can be seen in **Table 2** (page 7). Over the same time period, the benefits share of spending per student increased from \$7,853 in 2008 to \$12,886—a 64 percent increase.

Since the aggregate figures include spending on hospitals and research as well as instruction, the per-student figure is exaggerated; however no other workload measures are readily available, and the figure provides some context for the magnitude of the change between 2008 and 2013.

University of California and Comparison Institutions

As was the case for the CSU comparative benefit analysis, this analysis selected institutions from the list previously used by the California Postsecondary Education Commission for faculty salary comparisons, adding several institutions that the UC has also included in its accountability report. Over five years, benefits increased 15 percent in the UC's comparison public research institutions in other

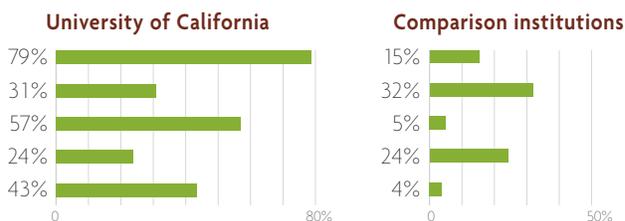
states, or 3 percent per year, as shown in **Table 4** (see also *Appendix Table 2* on page 19 for detailed information on comparison institutions.)

Table 4

Benefits, Salaries, and Compensation at the UC and Comparison Public Institutions, 2008–2013

In 2014 constant dollars

Percent change in benefits, 2008–2013
 Benefits as a % of salaries, 2013
 Percent change in benefits as a % of salaries, 2008–2013
 Benefits as a % of compensation, 2013
 Percent change in benefits as a % of compensation, 2008–2013



Note: UCSF and Hastings College of Law are not included.

Sources: U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

After the end of the pension holiday, in 2013 the University of California’s benefits spending levels came in almost precisely at the comparison institutions’ averages: 31 percent of salaries, and 24 percent of total compensation at public comparison institutions.

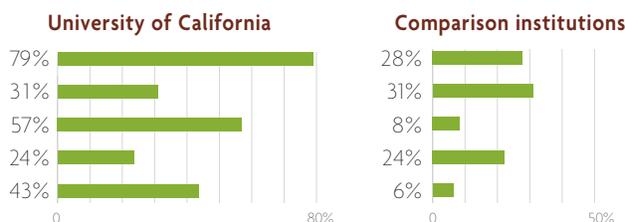
Because of its mission as California’s selective research university system, the UC also compares itself to a number of highly selective, private, non-profit universities, including Cal Tech, Stanford University, and the University of Southern California, as well as Harvard, Princeton, and Yale Universities. Although the percent change for the UC is skewed because of the pension holiday, the comparisons in **Table 5** (below) again show that UC benefits spending in 2013 is roughly comparable to that of the private institutions. (See *Appendix Table 3* on page 20 for detailed information on comparison institutions.)

Table 5

Benefits, Salaries, and Compensation at the UC and Comparison Private Institutions, 2008–2013

In 2014 constant dollars

Percent change in benefits, 2008–2013
 Benefits as a % of salaries, 2013
 Percent change in benefits as a % of salaries, 2008–2013
 Benefits as a % of compensation, 2013
 Percent change in benefits as a % of compensation, 2008–2013



Sources: U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

Comparing benefits per FTE position across systems

The final analysis examined changes in spending for benefits per Full-Time Employee. On average, between 2008 and 2013, expenditures on benefits per employee rose \$5,279 or 17 percent at the CSU, and \$18,042 or 67 percent at the UC. Before the end of the pension holiday in 2008, average UC spending on benefits per employee was \$26,976—below comparable CSU spending at that time. As shown in **Table 6**, as the pension holiday ended and the reinvestments began, benefits per employee increased to \$45,019 per position in 2013—now well ahead of the CSU.

Table 6

Benefits per Full-Time Employee

In 2014 constant dollars

	2008	2013	% change
California State University	\$30,947	\$36,226	17%
University of California	\$26,976	\$45,019	67%

Note: CSU Maritime, CSU Channel Islands, and CSU Naval Postgraduate School are not included. UCSF and Hastings College of Law are not included. Table reflects total number of full-time employees, as defined by the institution.

Sources: Delta Cost Project analysis of U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

A Note on Methodology

The measure for this was developed using IPEDS data on the number of full-time employees, as defined by the institution—including faculty and staff members—and averages benefits across all of the institutions in the system. This is an aggregate figure of employees in all job categories, and not meant to be a surrogate for faculty salaries or any other salary category.

Managing costs through greater transparency, better decision making, and improving program sustainability

California is already taking important steps to address the long-term liabilities associated with pension and retiree health care benefits. The Public Employee Pension Reform Act of 2013 increased the state contribution to PERS to eliminate that system’s unfunded liability within 30 years. A new tier of benefits was added for employees hired after 2013, to increase the maximum salary for calculating retirement benefits and to increase requirements for years of service for calculating benefits.

In addition, in the 2016-17 budget, Governor Brown proposed to begin to address the long-term costs of retiree health benefits for state employees by phasing in a “pay-as-you-go” system that would increase both employee and employer contributions on an ongoing basis. The governor also has recommended funding to begin to reduce the UCRS deficit, but conditioned those funds on the Regents adopting changes to UC benefits similar to those in place for other state employees.

These changes will help to reduce the unfunded liabilities in the retirement systems, and will reduce the rate of growth in benefits for new hires. But they do not address the growing costs of health benefits for retirees, nor do they address the problem of decision making and transparency about benefits.

So, despite some forward movement, policy makers and educational leaders have yet to tackle the trade-off that is occurring between spending on benefits and spending on salaries—and ensuing impacts on student tuition, affordability, and access. The problem isn't just that benefits are rising—it's that nobody actually weighed options and decided that it was better to invest in benefits as contrasted to investing in salaries, or lower tuitions, or any other higher educational spending priorities.

The problem isn't just that benefits are rising—it's that nobody actually weighed options and decided that it was better to invest in benefits rather than salaries, or lower tuitions, or any other spending priorities.

The structural deficit between revenues and expenditures will not go away if the trajectory of benefits spending continues. Better decisions require better information and a more fully engaged and transparent decision-making process. Toward that end, the following suggestions reflect real-world examples of steps that are being taken in other sectors and in colleges and universities in other states.

Strengthen transparency, accountability, decision making, and communication

1. **Improve transparency about spending on benefits**, through common measures that put spending into context. Budget documents should routinely include information about benefits spending as a percentage of compensation, as a percentage of salaries, and on an average per employee basis. More sophisticated measures can be developed, including ones that better show the range of benefits and salary levels, benefits for part-time as well as full-time employees, and benefits adjusted for California's cost of living. Comparisons with private sector employers as well as with more traditional comparison institutions within higher education should be easily available.

All stakeholders should have access to the same measures to ensure valid comparisons and a common understanding of the issues—from state policy makers and taxpayers to Regents and Trustees as well as faculty, administrators, and other employees of both university systems.

2. **Treat benefits as a budgetary cost center**, as is the common practice now in private non-profit higher education. In the private sector, employee benefits are typically treated as a cost center, and changes in budgets are viewed within the context of other cost centers such as class size or number of faculty, salaries and wages, and supplies and equipment.

3. **Clarify accountability and fiduciary responsibility for benefits**. Decision-making authority for employee benefits needs to be clarified, particularly in the California State University, where both the Public Employment Relations Board and the CSU Board of Trustees share fiduciary responsibility for the resources.

Recognizing that different actors can play different roles, some entity needs to be designated as the ultimate fiduciary.

The fiduciary role goes beyond financial management. In a public or non-profit private institution, it requires the authority to demonstrate that decisions balance institutional and employee interests with the long-term needs of the state, with priorities for students and families, and with the public need for an educated citizenry. The Public Employment Relations Board is not in a position to make those judgments; that responsibility has to reside with the CSU Board of Trustees.

4. Strengthen the decision-making process for benefits, through better integration of benefits budget proposals and legislative oversight over the postsecondary budget. The legislative budget subcommittees that address postsecondary education need to know the consequences of budget proposals for compensation and benefits within the context of their decisions about general fund revenues, tuitions, and student access and degree attainment. Even if the ultimate decisions are made elsewhere (by the PERS board or in collective bargaining, for instance), these decision makers need to understand the full picture.

5. Contextualize spending on benefits. Information about benefits costs is far too technical, and rarely put into a context to allow decision makers or others to understand the trade-offs inherent in spending decisions. One strategy to address this that has helped in other states is to begin to bring benefits decisions more fully into the decision-making process about other state priorities, and to put benefits spending into a context about what that means for other priorities.

One strategy that has helped in other states is to bring benefits decisions more fully into the decision-making process about other state priorities, so that trade-offs are apparent.

As an example, in dealing with a significant unfunded liability in the Utah State Retirement Program, then-State Senator Dan Liljenquist believed that it was important to get information out to all affected parties—from plan participants to state policy makers and citizens. Since the analysis of the plan and its future prospect were largely driven by complicated formulas and data, convincing the public meant translating the problem into a series of trade-offs. A breakthrough occurred when state officials “translated what those numbers meant for actual services in our community,” said Liljenquist. For example, the cost of inactivity on pension reform was estimated to be 8,000 lost teacher positions. “And once people understood what the trade-off was—what the opportunity costs were—they woke up.” Editorial boards across the state wrote that something had to be done. “Another year like this we’re off a cliff.”⁹

6. Engage in sustained dialogue with employees on issues and options related to their health care and retirement benefits. The costs of benefits are not just opaque to state decision makers, they aren’t readily transparent to employees either, because of the generous subsidies that mask the true cost of the

⁹ TIAA-CREF Institute and the Nelson Rockefeller Institute of Government. “Public Sector Pension Reform: Addressing Pressing Fiscal Realities from a Long-Term Perspective,” 2013, at bit.ly/tiaa-cref-rockefeller.

programs. Both the University of Maine and the University of Missouri systems instituted comprehensive programs to deepen employees' understanding of their benefits, and to engage them in decisions about ways to ensure fair and equitable programs despite resource constraints. The University of Missouri Total Rewards Ad Hoc Task Force was charged in 2013 with assisting the vice president for human resources in developing and communicating recommendations to improve the university's Total Rewards Program offerings. The Task Force recommended the following strategies:

- Treat pay and benefits as interrelated parts of the overall Total Rewards strategy.
- Establish a benefits rate cap.
- Increase flexibility within the Total Rewards programs.
- Utilize medical plan options to encourage healthy behavior and efficient use of healthcare services.
- Leverage marketplace opportunities for retiree medical benefits.
- Evaluate additional retirement plan options.
- Evaluate staff time-off plans.
- Invest in communication and education about Total Rewards that promotes informed decision making.¹⁰

What began as a review of retirement plans has now come to encompass strategies to improve employee benefits and to enhance the university's financial viability. The University of Maine System also created a task force on benefits as part of a systemwide initiative called "Bend the Trends," designed to address changing revenues and the need for new cost models in the University.¹¹

Consider new employee benefit models that improve mobility and financial sustainability

7. **Increase options that advance employee mobility**, including hybrid and defined contribution pension plans. The changing demographics and growing career mobility of the public sector workforce are driving new opportunities as well as challenges for constructing portable benefit structures. "While many [defined benefit] plans were premised on a career employment model," according to a recent report from the TIAA-CREF Institute and the Nelson A. Rockefeller Institute of Government, "that model does not fit the experience of many current employees in the public sector and is even less likely to apply in the future. The average tenure, for example, in a state job is 6.4 years."¹²

Employee benefit programs, particularly retirement and medical programs, should be designed to meet the needs of a highly mobile workforce and provide benefits comparable to those offered in the private sector. In some cases,

¹⁰ University of Maine System, "Total Rewards Task Force: Reimagining our University Experience," 2013, at bit.ly/total-rewards.

¹¹ University of Maine System, "Bend the Trends Report," 2011, at bit.ly/bend-the-trends.

¹² TIAA-CREF Institute and Rockefeller Institute, op cit, page 5.

defined contribution retirement benefit programs may be more attractive than defined benefit programs, because they are portable and not tied to any particular employer’s pension plan.

Some public employers are giving employees the option of evaluating trade-offs and choosing between high- and low-cost options that could boost an employee’s take-home pay. Increasing employee contributions or providing lower-cost benefit programs such as retirement or medical may also allow employers to allocate more funds to employee compensation. In this case, the millennial generation may prefer increased compensation to a broad array of benefit programs.

8. Evaluate the costs and benefits of transitioning from defined benefit to defined contribution or hybrid programs. A number of states and public colleges and universities have started to shift from defined benefit to defined contribution plans, or to hybrids of the two, e.g., Michigan, Utah, Missouri, and Rhode Island. This limits the state’s future obligation to an annual fixed contribution to employees (e.g., 10 percent) rather than an open-ended commitment to fund a certain percentage of salary upon the employee’s retirement from state service. The state of Rhode Island also limited annual cost-of-living allowances to retirees based on the percentage of unfunded liability in their respective retirement plans. The University of Missouri transitioned from a defined benefit plan to a hybrid defined benefit/defined contribution plan, which resulted in a new retirement plan for new employees.¹³

9. Set costs of retiree health benefits based on actuarial cost analysis, and potentially adjust the employee co-pay to reflect those costs. One of the reasons health care costs are going up so quickly is that retiree health care costs are much higher than those of younger workers, and the ratio of current workers to retirees is changing as workers move into retirement. Maintaining a single pool for benefits for both categories of workers means that current employees (and the state budget and students who fund them) are subsidizing the higher costs for retirees.

The University of Nebraska, when faced with decisions about how to pay for the costs of health care under the new GASB accounting rules, decided to split the health care pools between current employees and retired employees, and then to recalibrate rates for each group based on actuarial estimates of the costs for each group. This meant a substantial increase in the co-pay for retirees. But premiums for current employees were actually reduced as a result and, by taking that action, the university eliminated the unfunded deficit for retiree health care. The university’s estimate was that, had it not acted, the costs for retiree health care alone would consume virtually all of the projected increases in general fund appropriations from the state to the university.¹⁴

¹³ Missouri Board of Curators, “Advancing Missouri: New Retirement Plan,” October 2011, page 6, at: bit.ly/missouri-retirement.

¹⁴ Lumina Foundation for Education, “Productivity Conference 2010,” 2010, at bit.ly/productivity-conference.

Appendix: Definitions and Methodologies

Employee Benefits: Employee benefits include various forms of non-wage compensation in addition to base salaries or wages. For purposes of this analysis, the data on employee benefits are derived from nationally reported expenditure information to the federal Integrated Postsecondary Education Data Survey (IPEDS), which defines total employee benefits as: the sum of operating and non-operating benefits expenses.

Total Compensation: This metric was also calculated from IPEDS data and equals the sum of employee benefits (defined above) and employee salaries and wages, defined as the sum of operating and non-operating salary and wage expenses.

Benefits/Compensation Ratio: The percent share of total compensation that is spent on employee benefits. This metric demonstrates how benefits are growing as a share of total employee compensation.

Benefits/Salary Ratio: This ratio, which is also called the Fringe Benefit Rate, equals the amount of employee benefits divided by salaries and wages. An amount of 100 percent would indicate that the amount paid in employee benefits is equal to the amount paid in salary. This ratio provides a guide to the size of the institution's benefit package relative to salaries and wages and also allows comparisons to industry averages.

Education and Related Costs (E&R): This metric was created by the Delta Cost Project using data from IPEDS to estimate total spending on educational and related costs. It approximates an average full-cost-of-education measure, including both direct and indirect costs. E&R includes spending on instruction, student services, and an estimate of the student educational share of overhead spending (on central academic and administrative support, and operations and maintenance).

Benefits per FTE (Full-Time Equivalent) Student: This is calculated by dividing average systemwide spending on benefits by average systemwide FTE student enrollment. It is a gross comparison to put benefits spending into a per-student context. As is true for other revenue and expenditure trends in higher education, it is not meant to imply that this share of benefits is funded exclusively by student tuition revenues.

UC and CSU Averages: All tables including UC and CSU revenues and expenditures are based on the systemwide averages.

Within the UC, two institutions were excluded from the average. UC San Francisco, a medical school, and UC Hastings College of Law are both specialty graduate and

professional schools, and therefore their spending and revenue patterns are not consistent with the other UC institutions, which have both undergraduate- and graduate-level programs.

Within the CSU, several institutions were also excluded from the average: CSU Maritime Academy, CSU Channel Islands, and CSU Naval Postgraduate School. The Maritime Academy was excluded because its small size produced results that were inconsistent with the other CSU campuses. The Naval Academy was excluded because it is a graduate-only school. CSU Channel Islands was excluded because it is a relatively new program—its expenses over the five-year period were inconsistent with general trends and were most likely due to the accelerated growth rate of a new school.

Comparison Institutions: Comparison institutions were drawn from past California Postsecondary Education Commission reports and the UC accountability report.

Appendix Table 1

Benefits, Salaries, and Compensation at CSU and Comparison Institutions, 2008–2013

In 2014 constant dollars

	% change in benefits, 2008–2013	Benefits/salaries, 2013	% change in benefits/salaries, 2008–2013	Benefits/ compensation, 2013	% change in benefits/ compensation, 2008–2013
CSU average	10%	43%	24%	30%	17%
Comparison institutions					
Cleveland State University	3%	34%	9%	25%	7%
George Mason University	17%	26%	-2%	20%	-2%
Georgia State University	24%	25%	9%	20%	8%
Illinois State University	121%	62%	111%	38%	69%
North Carolina State University at Raleigh	28%	27%	22%	21%	18%
Northern Arizona University	-4%	31%	-11%	24%	-8%
Portland State University	29%	44%	3%	31%	2%
Southern Oregon University	6%	50%	1%	33%	1%
SUNY at Binghamton	6%	57%	2%	36%	1%
The University of Texas at Arlington	28%	26%	14%	20%	11%
University of Colorado Denver	57%	26%	19%	21%	15%
University of Connecticut	109%	37%	8%	27%	6%
University of Maryland–Baltimore	30%	28%	17%	22%	13%
University of Nevada–Reno	-4%	24%	6%	20%	5%
University of Wisconsin–Milwaukee	-2%	32%	-10%	25%	-7%
Wayne State University	5%	25%	4%	20%	3%
Average of CSU comparison institutions	35%	32%	14%	24%	10%

Note: CSU Maritime, CSU Channel Islands, and CSU Naval Postgraduate School are not included.

Sources: U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

Appendix Table 2

Benefits, Salaries, and Compensation at UC and Comparison Institutions, 2008–2013

In 2014 constant dollars

	% change in benefits, 2008–2013	Benefits/salaries, 2013	% change in benefits/salaries, 2008–2013	Benefits/ compensation, 2013	% change in benefits/ compensation, 2008–2013
UC average	79%	31%	57%	24%	43%
Comparison institutions					
Georgia Inst. of Technology–Main Campus	24%	22%	7%	18%	6%
Indiana State University	-15%	30%	-10%	23%	-8%
Indiana University–Bloomington	3%	33%	-4%	25%	-3%
Iowa State University	13%	31%	9%	24%	7%
Ohio State University–Main Campus	17%	33%	2%	25%	2%
Purdue University–Main Campus	19%	40%	13%	29%	9%
Rutgers University–New Brunswick	26%	29%	11%	23%	8%
Texas A & M University–College Station	-37%	21%	-38%	18%	-32%
The University of Texas at Austin	13%	26%	8%	21%	6%
University at Buffalo	5%	57%	4%	36%	2%
University of Arizona	13%	35%	13%	26%	9%
University of Colorado Boulder	34%	34%	17%	26%	12%
University of Florida	13%	21%	-10%	17%	-9%
University of Illinois at Urbana-Champaign	77%	64%	84%	39%	51%
University of Iowa	30%	32%	6%	24%	5%
University of Kansas	14%	26%	3%	21%	2%
University of Maryland–College Park	36%	31%	28%	24%	21%
University of Michigan–Ann Arbor	7%	31%	-9%	24%	-7%
University of Minnesota–Twin Cities	4%	34%	4%	25%	3%
University of Missouri–Columbia	20%	28%	11%	22%	8%
University of North Carolina at Chapel Hill	23%	28%	16%	22%	12%
University of Oregon	31%	52%	3%	34%	2%
University of Virginia–Main Campus	10%	27%	2%	22%	2%
University of Washington–Seattle Campus	24%	32%	12%	24%	9%
University of Wisconsin-Madison	-6%	30%	-10%	23%	-8%
Average of UC comparison institutions	15%	32%	5%	24%	4%

Note: UCSF and Hastings College of Law are not included.

Sources: U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

Appendix Table 3**Benefits, Salaries, and Compensation at UC and Comparison Private Institutions, 2008–2013**

In 2014 constant dollars

	% change in benefits, 2008–2013	Benefits/salaries, 2013	% change in benefits/salaries, 2008–2013	Benefits/ compensation, 2013	% change in benefits/ compensation, 2008–2013
UC average	79%	31%	57%	24%	43%
Private comparison institutions					
California Institute of Technology	10%	31%	4%	24%	3%
Duke University	44%	25%	26%	20%	21%
Emory University	32%	22%	-1%	18%	-1%
Harvard University	29%	33%	17%	25%	13%
Princeton University	14%	29%	5%	23%	4%
Stanford University	26%	52%	5%	34%	3%
University of Southern California	40%	26%	-8%	20%	-6%
Yale University	51%	35%	24%	26%	18%
Average of CSU comparison privates	28%	31%	8%	24%	6%

Sources: U.S. Department of Education, IPEDS, inflation adjustments per U.S. Bureau of Labor Statistics, Consumer Price Index.

About the Author

James A. Hyatt, Associate Director, Center For Studies in Higher Education. James A. Hyatt has extensive experience as a senior-level executive at a number of the nation's major research universities, including the University of California, Berkeley; the University of Maryland, College Park; and Virginia Tech. He also has extensive experience as a principal investigator on externally funded research projects in the areas of higher education financial management, financial reporting, and campus safety and security. From 2008-2010, Mr. Hyatt served as the President of the World Institute for Disaster Recovery Management. He is a recipient of the Berkeley Citation for distinguished achievement and service to the University of California, Berkeley, and is Vice Chancellor for Budget and Finance and CFO Emeritus there.

During his tenure as Vice Chancellor for Budget and Finance at UC Berkeley, Mr. Hyatt implemented a new campus-wide financial management system and an interactive campus resource management reporting system. While serving as Executive Vice President at Virginia Tech, Mr. Hyatt was actively involved in the passage of the Commonwealth of Virginia's Higher Education Restructuring Act, which provided enhanced operating flexibility to Virginia's public colleges and universities.

Mr. Hyatt received both his Bachelor's degree in English and his Master of Business Administration degree in accounting and operations and systems analysis from the University of Washington. He is the author of a number of books on higher education financial management and is a recognized authority on college and university budgeting, financial management, and cost accounting.



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