Campuswide Benefit Decentralization—Executive Summary

CURRENT
Current UC Davis policy funds benefits for “core funded salaries” through a central benefits pool. Under this policy, the budget for benefits associated with these salaries is held centrally and automatically allocated to campus units as benefit costs are incurred. As a result, the base budgets of campus units do not truly reflect the full operating cost of those units. This policy also provides campus units with an incentive to put as many salaries as possible on these funding sources. Three professional schools, Law, Management, and Veterinary Medicine, participated in a pilot that decentralized their benefit funding effective July 1, 2011.

RATIONALE FOR EMPLOYEE BENEFIT DECENTRALIZATION
Beginning in fiscal year 2012-13, campus will initiate implementation of an incentive-based budget model. Continuing to provide centralized benefits for some categories of funding seems inconsistent with the incentive-based budget model for several reasons:

1. The true level of support for each unit should also reflect all benefit costs, more clearly linking authority with accountability.
2. The incentive to keep salaries on (primarily) state funds in order to receive benefit funding is inconsistent with the effort to provide greater flexibility and accountability to use an “all funds” approach to managing unit resources.
3. As campus units have more autonomy and opportunity for creativity and responsible risk-taking, the full cost of decisions involving staff and faculty hiring and salary levels should be aligned and transparent at the unit level. The current system dampens the full impact of these decisions at the unit level while driving central costs that are mandatory based upon the unit-level decisions.

The recent shift to using composite benefit rates, changes in how the Office of the President distributes revenue to campuses, and the decline in state support for the University’s fixed cost increases make it technically viable and desirable to decentralize benefit funding.

IMPLEMENTATION
The decentralization of the benefits pool will provide units with spending power in 2012-13 comparable to the central support for benefits that would be expected from the pool if this change did not occur. Once benefit decentralization has occurred and the new budget model is implemented, the responsibility for funding benefit increases will be part of the annual campus budget process.

1. Base benefit funding will be allocated to Deans and Vice Chancellors in an amount comparable to the full year cost of pool-funded benefits at the 2012-13 rates and final salaries based on 2011-12 staffing levels.
2. Central benefits currently provided to OP funds that are derived from indirect cost recovery (ICR) will not be part of this allocation since the incentive-based budget model will decentralize and distribute ICR through a different process. (See the Incentive-Based Budget white paper for ICR.)

3. Currently, the central benefits pool mechanism also allocates funding for tuition remission for graduate students. Changes to this practice will require significant policy considerations that are different than those driving the decentralization of employee benefits. Decisions regarding changes to tuition remission will be made in the broader context of incorporating graduate student funding and support into the new budget model, which has been postponed until fiscal year 2013-14. Therefore, changes to tuition remission are not included in the decentralization of employee benefits.

4. The calculation of the amount benefit funds provided to each unit will be based on the final 2011-12 salaries that received pool-funded benefits adjusted to account for the full-year cost of 2011-12 and 2012-13 salary changes. These salaries will not be adjusted to account for existing vacancies or future hiring. The 2012-13 composite benefit rates will then be applied to these estimated salary expenditures resulting in the amount of benefit funding needed. The “pilot” professional schools will receive an adjustment to bring the level of central funding they received up to the 2012-13 rates.

5. In any given year, a department or operational unit may encounter factors that disproportionately affect salary expenditures which cannot be readily identified or controlled for at the campus level. In recognition of this, final allocations may include additional resources over the total benefit funding calculated for a unit. These resources will provide deans and vice chancellors with additional flexibility to address specific needs within their units.

6. Once central benefit funds are distributed to the units, deans and vice chancellors will have the flexibility to manage the allocation of benefit funds to departments and operational units in the manner that best meets the business needs of their unit. Central campus is committed to assisting units in making this transition by utilizing existing systems and providing technical support.

**ESTIMATED TIMELINE**

<table>
<thead>
<tr>
<th>Action</th>
<th>Timing</th>
<th>Unit Responsible</th>
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<tbody>
<tr>
<td>Stop automatic allocations of benefit funding from the central pool.</td>
<td>July 1, 2012</td>
<td>BIA will work with AFS</td>
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<tr>
<td>Finalize benefit allocation amounts and make allocations to units.</td>
<td>August-September 2012.</td>
<td>BIA</td>
</tr>
<tr>
<td>Allocate base benefit funding to appropriate accounts within units.</td>
<td>TBD by units</td>
<td>Schools, Colleges, and Admin. Units</td>
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<tr>
<td>Allocate any additional funding needed to address benefits associated with salary changes occurring in 2012-13 not known at the time of initial allocations.</td>
<td>Spring 2013</td>
<td>BIA</td>
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