

# THE FACTS: EMPLOYEE INCENTIVE & RECOGNITION PAY

## INFORMATION ABOUT THE CEMRP2 & STAR PLANS

For years UC has used incentive compensation and recognition awards to encourage and reward superior employee performance. This is consistent with practices in higher education, as well as public and private sector organizations with which UC competes for talent.

To date, UC campuses and medical centers have employed individual (local) incentive compensation and recognition award plans for lower-level staff (employees below the level of senior management). UC is revising its policy in order to create a unified systemwide approach for the management of incentive compensation and recognition awards for staff below the executive level.

For the past several years, UC has worked to clarify and standardize its policies and practices for senior management compensation. UC is now doing the same for the policy that affects incentive compensation and recognition awards for lower-level staff.

This policy revision does not generate any new payments to staff. It is simply intended to replace local programs with a unified systemwide approach to managing incentive compensation and recognition awards for non-senior management staff.

### About the two systemwide plans

The Clinical Enterprise Management Recognition Plan 2 (CEMRP2) will provide incentive compensation to UC medical center staff employees (non-senior management) if they attain or exceed key clinical enterprise goals. Achievement is measured based on specific quality of care, patient safety, and strategic operational objectives as well as critical financial and/or other business objectives. These incentive awards are completely at risk: if objectives are not attained, awards are not paid out.

The Staff Appreciation and Recognition (STAR) plan allows managers to give one-time cash awards to staff below the executive level in recognition of exemplary performance and contributions. This plan will be used to recognize exceptional performance that contributes to operational and administrative improvements within the University.

### Explanation of incentive compensation vs. recognition award plans

The essential difference between these two types of compensation plans has to do with employees' expectations for, and the university's promise of, compensation under certain circumstances. Under an incentive compensation plan, a certain portion of an employee's compensation depends on achieving specific performance goals (sometimes referred to as "at-risk" pay). If performance goals aren't met, the employee does not receive the incentive compensation. Under a recognition plan, there is no advance promise of additional compensation. Recognition awards are discretionary and given after the fact to recognize superior individual or team performance. In both types of plans compensation is based on performance results.

## FREQUENTLY ASKED QUESTIONS ABOUT THE CEMRP2 & STAR PLANS

### Q. What are these plans about, and how do they differ?

A. The Clinical Enterprise Management Recognition Plan 2 (CEMRP2) is an incentive compensation plan for UC medical center employees. The Staff Appreciation and Recognition plan (STAR) provides for one-time recognition awards for employees at all UC locations (campuses, medical centers, the Office of the President, etc.). Under an incentive compensation plan, a certain portion of an employee's compensation depends on achieving specific performance goals (sometimes referred to as "at-risk" pay). If performance goals aren't met, the employee does not receive incentive compensation. Under a recognition plan, there is no advance promise of additional compensation. Recognition awards are given after the fact and used to recognize superior individual or team performance.

### Q. How are these plans funded and how much might be given out in total?

A. Each individual campus and medical center will determine the fund source(s) for their respective location. It should be noted that medical centers are self-supporting and do not rely on state funding for their operational costs,

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including the costs associated with recognition or incentive plans. The total amount will depend on which locations choose to participate, as well as award decisions made by each participating campus and medical center.

### **Q. Are all UC locations required to participate in these plans?**

A. No, participation in these plans is voluntary. Some locations may choose not to participate. However, under the proposed policy, only incentive compensation and recognition plans that have been approved under the policy will be allowed. CEMRP2 is the only incentive compensation plan contemplated at this time, and it can only be implemented at the medical centers. Likewise, STAR is the only recognition plan contemplated at this time; locations that choose not to implement STAR will not be able to give cash recognition awards to their employees.

### **Q. Who is eligible for awards under these two plans?**

A. Both of these plans apply to staff employees below the executive level (i.e., non-senior management) -- senior management group members and faculty are not eligible. The STAR plan applies to all UC policy covered career employees (locations have the option to include non-career employees as well). The CEMRP2 plan is not restricted to career employees, although local leadership will have the option of restricting participation to just career employees at their locations. Participation of union-represented employees in these plans is subject to the collective bargaining process and the terms of the applicable collective bargaining agreements, and the relevant plan (STAR or CEMRP2). Details about eligibility and the criteria for payments under each plan are detailed in the proposed plans.

### **Q. What is the maximum award someone can receive under each plan?**

A. For the STAR plan, the maximum award is \$10,000 or 10% of base salary, whichever is lower – unless the location decides to adopt more restrictive limits. For CEMRP2, the maximum award is 5% for participants in the lowest tier, 10% in the middle tier, and 15% of a participant's base salary for participants in the highest tier – unless the location decides to adopt lower award ceilings.

### **Q. When are these awards given?**

A. The CEMRP2 plan is based on fiscal year results so incentive awards are given after fiscal year results are determined and upon AOC approval. Because STAR awards are discretionary and meant to provide immediate recognition, they can be paid at any time during the year, aiming for as soon as possible after the event.

### **Q. What controls exist to ensure that payments under these plans comply with policy?**

A. Similar to the new oversight structure for senior management compensation, an independent administrative oversight committee (AOC) will oversee the implementation and use of these systemwide plans. For CEMRP2, the AOC will review and approve all awards. The committee will provide the President with an analysis of the award recommendations before they are scheduled to be paid. Finally, the awards will be reported to the President and the Regents consistent with applicable reporting requirements. For STAR, the UCOP systemwide HR office will monitor the locations' payouts under the plan using payroll codes designated specifically to track such awards. Additionally, the top business officer and/or executive officer at each location is responsible for compliance with the policy.

### **Q. Why is UC doing this now?**

A. To date, UC campuses and medical centers have employed individual (local) incentive compensation and recognition award programs for non-senior management staff. UC is creating a unified systemwide approach to managing incentive compensation and recognition award plans for non-senior management staff. This is part of our ongoing, proactive effort to ensure our compensation policies and practices are appropriate, clear and consistent.

### **Q. How can UC offer staff incentive compensation and recognition awards given the current budget crisis?**

A. The quality of UC's faculty and staff – and their performance – determines the overall excellence of the university and its benefits to students, patients and the public. We are attempting to strengthen the performance elements of our culture by providing reward mechanisms that allow managers to highlight exemplary performance and contributions. Therefore, it is critically important that UC reward excellent employee performance, at all times and especially during tough times when we need to engage staff in finding ways to reduce expenses, work more efficiently, identify new or better ways of performing work, etc. Recognition awards are intended only to be used to reward truly exceptional performance, particularly given the current budget crisis. On the incentive side, CEMRP2 is designed to ensure that employees receive awards only if they make meaningful contributions towards significant operational objectives like achieving cost savings and improving the quality and delivery of medical care. Moreover, the CEMRP2 incentive awards would be entirely funded by medical center revenue. It's also important to remember that no new concepts are being introduced here -- the STAR and CEMRP2 plans are replacing existing local programs in order to provide greater rigor, accountability, and systemwide consistency.