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1111 Franklin Street
Oakland, California 94607-5200
Phone: (510) 987-9074
Fax:(510) 987-9086
http://www.ucop.edu

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CHANCELLORS

Dear Colleagues:

Based on the UC Budget as approved by The Regents and recommendations and analysis from Systemwide Human Resources and Compensation, I am asking you to move forward with plans to administer a 3 percent budget for the merit program for non-represented staff for fiscal year 2016-17.

The funding framework reached between the University and the Governor helps us budget for annual pay increases for policy covered (non-represented) staff with more certainty. Predictability in UC's salary program for policy covered staff is a welcome development for our employees and the University. This program targets all policy covered staff in career or partial year career appointments; it excludes student employees and anyone already covered by Academic Personnel Policies or a union contract.

As announced by my office last year, this program will be merit-based, with any salary increases based on the individual's performance and contribution. Recognizing and rewarding outstanding performance and differentiated pay practices based on employees' accomplishments will help motivate people to achieve superior results. Superior performance is difficult to achieve when everyone receives the same increase in compensation regardless of their contribution. The merit-based approach is also consistent with feedback we received from staff in the most recent Engagement Survey. Employee feedback urged us to make pay for performance a more prominent feature in our salary programs. With proper distribution of performance ratings, managers can differentiate merit awards and appropriately recognize the strongest contributors. A grid that provides differentiation guidance is attached. It also outlines areas of flexibility for your organization and offers advice on other best practices related to linking pay to performance.

The implementation of this salary program for policy covered staff is another step toward consistent delivery of our pay programs that reward individuals for their performance and contribution. Ultimately, predictable pay practices that are based on performance engage employees, maintain the University's competitive position for talent and help build an even higher performing organization where staff feel they can excel. Good compensation practices motivate to achieve at the highest levels. Clarity in performance communications is of the utmost importance along with simplicity.

Let me know how we can support you and your locations as you move forward with this important program.

Yours very truly,

Janet Napolitano
President

Attachment

cc: Executive Nava
Vice President Duckett

Areas of Flexibility, Merit Program Guidance and Best Practices

You have flexibility in the timing and administration of the budget along with establishing any additional program parameters or criteria that best suit your campus/local needs.

You may determine eligibility for employees who hold limited or floater appointments and for employees in contract appointments locally, based on the provisions of the person's contract.

If implemented at the beginning of the fiscal year, increases should be effective July 1, 2016 for monthly paid employees, and June 19, 2016 (or July 3, 2016 is the other option, but not recommended) for bi-weekly paid employees.

You may prioritize your funding including allocating more or less funding to address market, equity, or operational pressures unique to your campus/location. You should also recognize your actual compensation spend and budget for other types of increases that typically come in the form of promotions, equity adjustments, and/or market adjustments as allowed by UC policy. Other large employers regularly budget for and track their spending related to these types of increases, since the combined total can amount to an additional 1 to 1.5 percent of total salaries.

Most people, regardless of the words or range of numbers used, tend to rate things at the most basic level on a three point scale. We have found that UC organizations struggle somewhat with performance ratings, inflating the ratings and actually only using three points on a four or five point scale. The scale tends to start at good and tops out at great. As many of your organizations are using a four or five point scale, below are some techniques to consider using to provide clarity in performance communications along with corresponding monetary rewards by broadly categorizing performance ratings using a three point scale, and emphasizing relative performance using monetary rewards:

• **Poor** - No increase/requiring corrective action and immediate performance improvement or minimal increase for those whose performance and contributions need improvement (bottom 10% of the current year's performances)

• **Good** - An increase rewarding contribution and accomplishments relative to others who have performed well (approximately 75% of the current year's performances)

• **Great** - An increase rewarding contribution and accomplishments that are demonstrably /significantly beyond those of others who have performed well (the top 15% of the current year's performances)

This is a tool to help leaders better manage performance. It should not be used mechanically or to "force" any individual employees into preset performance ratings or increase amounts. It borrows from best practices and principles from organizations who have a reputation of out performing their competitors, employing the best people and managing performance well. The chart below provides an example of how differentiation in merit awards could be attained with a 3 percent budget. It also introduces a more simplified way of messaging while taking into account UC's commonly used 5 point scale.

	Poor		**Good**	**Great**	
Performance Rating	**Does Not Meet**	**Partially Meets**	**Fully Meets**	**Consistently Exceeds**	**Out-standing**
Increase %	0%	0.0 – 1.0%	2.0 to 3.0%	3.0 to 4.5%	4.5 to 6.0%
% of Population Receiving	5%	5%	75%	10%	5%
	Poor		**Good**	**Great**	

Using the scale, above, the proposed distribution results in an overall spend of 3.0%.

To avoid unnecessary compounding (freeing up more budget) and also to avoid dampening the effect of market increases or promotions (as hard cut offs could cause people to lose ground), we advise that you adopt a 12 month proration methodology based on when individuals received their last increase. For example, if someone received a market increase 6 months before the effective date of your merit program they would get 6/12ths of your recommended merit/budget amount for the 6 month performance period.

Apply performance ratings based on the specific fiscal year and/or performance period. This will help avoid labeling ("I'm always a 4" vs "I am being rated a 4 this year") it will also facilitate more productive calibration of ratings taking into account *relative performance and contribution* within your organizations.