Faculty Senate Seminar—May 12, 2021

Update on FY21 Budget and Financial Outlook

Questions and Responses

Questions covered in presentation

ECONOMIC OUTLOOK

1. Given that the market has performed so well, has Penn's projected $91M deficit been reduced as a result?
2. How has the pandemic affected budgets by school, particularly since some are more endowment-reliant than others?
3. Similarly, how has the pandemic affected expectations for admissions and tuition recovery next year? Are certain schools more affected than others, and if so, is central administration able to assist them?

INVESTMENTS AND INCENTIVES

4. Would the University consider establishing a "green bank" to facilitate University personnel with reducing their carbon footprints (e.g., weatherizing or solarizing their homes)?
5. When will Penn announce its plan (or process to develop a plan) for making the endowment net-zero for carbon emissions? Will this process involve faculty, staff, and/or students?
6. According to a recent New York Times report (https://www.nytimes.com/2021/04/24/climate/methane-leaks-united-nations.html), reducing methane emissions is a quicker and more efficient way to reduce near-term climate effects. Would the University consider working with the fossil fuel extraction companies in which it is invested to eliminate methane emissions immediately?

ENROLLMENT

7. How has the pandemic affected admissions and enrollment expectations for the coming year?
8. What is the future of graduate programs across the University following the one-year suspension of accepting doctoral students?
9. Will the University return to pre-pandemic levels of enrollment and graduate student funding?
10. Are we using need-blind admissions effectively? What do we know about the level of student debt at graduation and how long on average it takes students to repay that debt school-by-school at all educational levels?

FACULTY AND STAFF COMPENSATION

11. With the market doing well, why is the merit raise pool for faculty and staff limited to 2% this year?
12. What types of non-salary benefits are available to faculty, and what are their costs? (E.g., loan guarantees, summer buyouts, etc.) Are these benefits equitably distributed?

Questions not covered in presentation

RETIREMENT

13. What led the University to change our retirement investment options?

The changes resulted from a careful and thorough evaluation of the retirement plans' investment options. This evaluation was performed by an investment committee (the "Committee") that is responsible for making investment decisions for the University's retirement plan.

As background, the Committee consists of faculty and staff leaders who collectively have experience and knowledge with investment and retirement plan matters. The Committee is a "fiduciary" for purposes of applicable retirement plan laws and must carry out its duties and responsibilities prudently and for the exclusive purpose of providing retirement benefits to participants in the University's retirement plans. The Committee is assisted by Division of Human Resources, the Office of General Counsel, a third-party investment advisor and external counsel. None of the members of the Committee are compensated in any manner and serve on a voluntary basis.

In making investment decisions and as a "fiduciary" of the retirement plans, the Committee has the following duties:

- A duty of loyalty to make decisions that are in the best interests of the plans' participants and for the purpose of providing retirement benefits
- A duty of prudence to carefully select and monitor plan service providers, investment options, and plan-related fees and expenses.

In addition to its regular and ongoing oversight of the retirement plans, the Committee periodically conducts a top to bottom review of the plans' providers and investment options. Some faculty may recall that a similar top-to-bottom review of the plans was performed 8-10 years ago and that the review resulted in the streamlining of the plans' investment options and the introduction of a brokerage window.

Given the passage of time, changes in the provider market and industry, and advances in technology, the Committee undertook another top-to-bottom review starting in 2018. To assist with this review, the Committee retained a third-party investment advisor to serve as a co-fiduciary and to provide expert advice to the Committee.

As a result of this in-depth review, the Committee ultimately decided to move to TIAA as the sole recordkeeper and to further streamline the plans' investment menu to offer a carefully curated menu of investment funds that emphasized low-cost passively managed index funds.

Factors important to the Committee in making their decision included:

- Consolidating to TIAA as a single recordkeeper simplified the plans' administration and will make it easier for participants to engage with the plans.
- Streamlining the plans' investment lineup will eliminate overlapping investment choices and simplify the investment election process for many participants.
- Retaining the brokerage window feature will provide participants with unique investment needs and interests with access to a broad universe of thousands of additional funds.
- Recognition of the increased scrutiny of retirement plans and a very litigious environment that has resulted in many organizations (including Penn) being sued for matters related to their retirement plans.

14. Were there advantages and/or cost savings to updating our retirement funds custodian and related changes?

Yes. As noted in the prior reply, moving to TIAA as a single recordkeeper will streamline plan administration and simplify the participant experience. For example, participants will have access to all of the plans' investment choices through a single recordkeeper. Similarly, consolidating all of the plans' participants and assets with a single recordkeeper and among a smaller menu of investment funds resulted in significant cost savings. The Committee was able to leverage the larger number of participants and larger pool of assets to negotiate lower recordkeeping fees and to access lower cost share classes of certain investments. Further, moving to an investment menu that emphasized low-cost passively managed index funds significantly reduced the average level of investment fees across the plans.

While these changes resulted in aggregate reductions in recordkeeping and investment fees across the plans, it's important to note that the impact of the changes on any individual participant will vary depending on a number of factors – e.g., a participant's individual investment elections, size of their account, etc.

15. Is the University developing “fossil free” investment options for faculty and staff retirement accounts to which we may “opt in”?

No, not specifically. There is an independent investment committee that is responsible for selecting investment options for the University’s retirement plans. In making investment decisions for the plans, the Committee is obligated to emphasize employees’ retirement income and benefits and has limited ability to consider outside factors.

Consistent with these obligations, in designing the plans' investment menu, the committee selected a streamlined menu of investment options in certain well-defined asset classes (fixed income, domestic and international equities, real estate, etc.) and generally did not select investment funds that favored (or disfavored) specific sectors or industries.

However, the streamlined menu does include a broadly diversified environmental, social, governance (ESG) investment fund option – the CREF Social Choice fund. The CREF Social Choice is a "balanced" fund that invests in both equities and fixed income investments. The fund's managers consider a range of ESG factors in selecting investments, including environmental and climate change factors. While the CREF Social Choice fund does not specifically prohibit fossil fuel investments, the fund's prospectus indicates that the fund generally will not invest in businesses significantly involved in nuclear power and thermal coal.

Although the Committee favored a streamlined investment menu and has limited ability to consider outside factors, the Committee appreciated that some participants may have investment needs and interests not directly addressed by the investment menu. For this reason, the Committee decided to retain a self-directed brokerage window feature in the plans' investment menu. The brokerage window provides participants with the ability to make their own investment choices from among a broader universe of thousands of additional funds.

16. How many faculty took early retirement incentive options offered to them last year? Are there plans in place to replace those lines? Why or why not?

148 new participants accepted the Special Incentive Plan and agreed to retire by 6/30/2021. Decisions about faculty hiring are made by each School in consultation with the Provost.

17. Are there any other circumstances in which retirement incentives would be offered to increase retirement and open lines?

Prior to the implementation of the Special Incentive Plan, the University offered the Faculty Income Allowance Plan (FIAP) program. While the opportunity to participate in the Special Incentive Plan has ended, the University will continue to offer the FIAP program.

18. Is a retirement-age bulge on the horizon for any Penn faculty categories?

There were 206 faculty over the age of 70 who were eligible and 85 accepted the offer. There were 506 who were over age 60 and under 69 who were eligible and 63 accepted the offer.

19. Given that retiring faculty have increasingly longer life expectancy, what new consideration has been given as to how to use the larger emeritus faculty pool?

The Penn Association of Senior and Emeritus Faculty (PASEF) and the Association of Senior and Emeritus Faculty in the Perelman School of Medicine (ASEF) provide opportunities and mechanisms for members to maintain connections with each other and with the intellectual and social life of the University.

SUPPORT FOR NEW FACULTY

20. Has housing support availability for new faculty changed across time? If so, what is currently available, how widely available is it (i.e., across schools), and is competitive relative to the national market?

There is limited housing support for strategic recruitment and retention of faculty. This is available on an exception basis with the support of the Dean and Provost.

Questions from the chat

21. The slide you showed that compared categories of COVID-related risks to the operations of Penn across a two-year period is excellent and very useful. What can you say about how you plan for dealing with these identified contingencies? Could you please indicate approximate courses of action or at least alternatives should these risks materialize? In short, having identified the risks, how is this reflected in your plans going forward?

The primary risk that is highlighted in the current (May 2021) risk assessment relates to Other Revenue which includes retail and clinical operations as well as hotels. Clinical operations in the Vet School and the Dental School, as well as Real Estate, are recovering more quickly and employed strong cost control and cash flow optimization to reduce their risk. Hotels are taking a longer path to recovery in line with both local and national trends. The University is working closely with Business Services to support the hotels through this trough.

22. SAS decided not to admit a graduate class this coming year, which came across as an admission that the administration could not successfully pursue the school's academic mission. Why could the central administration not offer the (small) financial support that SAS needed?

SAS initiated a pause in school-funded admissions in order to fulfill the school's academic mission. The pause enabled the School to provide funding extensions to current students who were in the final year of support in 2020-21, as long as they were in good standing and had no external funding sources. This was a difficult but critical decision that has provided enormous support for students whose degree progress was slowed due to the pandemic, and it will enable us to continue to offer further support in future years.

Moreover, although SAS paused school-funded PhD admissions for 2020-21, many graduate groups—Applied Math & Computational Science, Biology, Chemistry, Economics, Math, Physics, and Psychology—did admit students for fall 2021, relying on external funding. In fact, Chemistry will likely have a full cohort. Some dual degree programs have also admitted students. In sum, the School admitted a smaller cohort in select graduate groups while rising to meet challenge of current students. While successful thus far, this will be an ongoing effort.

a. A follow-up comment in the chat was noted: "In that case, SAS appears to have largely abrogated their responsibility to provide the same quality of education to undergraduates; there will be much larger classes and/or significant reductions in course enrollment caps."

The decision to pause school-funded admissions included a detailed budgeting process that has designated funds to pay for additional teaching assistants for the two-year period that will be impacted by the pause. SAS remains fully committed to providing the same high quality of education to undergraduates and has made that mission a fundamental part of our planning.

23. Grad students supported by grants is a great thing, but reducing the number of teaching stipends will have a very negative effect on undergraduate education in many departments in SAS. Given the large % of revenue from tuition, how can we justify these cuts to incoming students and their parents?

Answered in prior follow-up question.

24. How much does the health system contribute to the University's budget annually?

The Health System contributes roughly $170M to the University's budget annually which represents 4% of the total revenue supporting the academic component. These funds are predominately to support operating expenses, capital projects, and strategic investments in the Perelman Schools of Medicine. The Health System also is assessed its share of allocated costs for the University services it consumes.

The published Operating Budget is available here and may provide some insight: https://apps.budget.upenn.edu:44303/secure/budgetbooks/PDFs/FY21-University-Operating-Budget.pdf."

25.Is there any planned tuition increase for undergraduate students? If so, how much?

Penn's undergraduate tuition and fees charges will increase by 2.8% in FY22 which is the lowest percentage increase since the 1960's.

26. Don't see environmental risks on your list. Given increased severity and perhaps frequency of extreme weather events, should these kinds of factors be included in the future? Also does climate risk figure at all in your deliberations and plans? Many big firms see now climate as a material risk.

Penn recognizes the risk of extreme weather events and builds-in contingencies to help smooth unanticipated swings in utilities costs and focuses on strategies to help reduce consumption at peak periods. In addition, recognizing the material risk, Penn has maintained environmental liability insurance for many years and is cognizant of the impact of climate change on University insurance coverage.