

## REPORT OF THE SENATE BUDGET COMMITTEE MAY 11, 2005

### SUMMARY:

I. University Senate Budget Committee White Paper: A Plan for Sustained Competitive Parity in Instructional Faculty Compensation.

A. Progress towards 95% parity goal with our comparators. Due to the salary freeze, average faculty salary in Year 5 of the White Paper (2004-2005) was almost unchanged, at \$66.6k versus \$66.2k the previous year. The small increase is likely due primarily to promotion raises and new hires. Our total compensation (salary + benefits) decreased by 1.9% relative to our comparator institutions in the past year, to 86.2%. We lost ground towards the 95% parity goal this year as a result of the salary freeze. By rank, the total compensations of UO full, associate and assistant professors now stand at 82.5%, 87.3% and 92% relative to our comparators. Note that if salary alone is used as a comparator (see tables), the discrepancy is larger, with salary ratios of 77.3, 80.3, 85.6 percent versus our peer average.

Valuation of the benefits component of faculty compensation is important to understanding the parity situation. In the data provided here, the value of benefits is taken to be equal to the dollar expenditure of the institution to purchase those benefits. Whether this accurately describes the value provided by those benefits to an individual faculty member is a complex question. For example, in 2000-2001 the cost to UO of faculty benefits ranged from 27.65 to 31.91 percent of salary for the three ranks, or roughly 6 percent higher than the comparator average. In 2004-2005 this cost ranged from 31.94 to 37.46 percent of salary, or roughly 10 percent higher than the comparator average. Based on expenditures, UO benefits have increased relative to competitors, compensating somewhat for lagging salaries if total compensation is computed in this manner. However, if, for example, the relative increase in cost of benefits is due primarily to increased PERS costs, and will not be reflected in higher retirement pay outs in the future, their value to the individual faculty member is questionable. In this case the best comparator metric would be salary plus some renormalized value of benefits, and would lie in between the figures reported here for salary alone and total compensation.

B. Salary Compression. In Year 5, salary compression stayed about the same, similar to Year 4. The SBC had agreed to make rectification of the compression issue a high priority in future years. Salaries of full professors and associate professors remained almost unchanged, while those of assistant professors increased slightly from 52.9k to 54.4k. This was driven by higher salaries of new assistant professors.

C. Instructors. Accurate salary and compensation data for both tenure-related and non-

tenure-track instructors for the academic year 2001-2002 are not currently available from all of our comparator institutions. Using data from several (but not all) of our comparators, we find that UO instructors are compensated at 91.7% of comparator levels, using data available from U Michigan, U Virginia, U Colorado and U Washington. This is comparable to relative compensation of assistant professors, and superior to that of associate and full professors. If salary alone is used as a comparator, the ratio to comparator average is 80 percent, comparable to the ratio for tenure-line faculty.

II. Salary Improvements in 2005-2006. The budget situation of the State is improving. Although the OUS budget is not yet finalized, it seems likely that funds will be available for salary increases.

#### YEAR 5 (2004-2005) REPORT OF THE SENATE BUDGET COMMITTEE ON SALARY AUGMENTATION PLAN

This report is the fifth annual account of progress toward the goals of the salary augmentation plan, developed by the University of Oregon Senate Budget Committee in collaboration with the University Administration, and adopted by the University Senate in March, 2000. The plan consists of three documents: University Senate Budget Committee White Paper: A Plan for Sustained Competitive Parity in Instructional Faculty Compensation, Basic Principles of Compensation for Instructional Faculty at the University of Oregon, and the White Paper Implementation Guidelines. The annual reports have been presented to the University Senate in May of 2001-2004.

#### I. University Senate Budget Committee White Paper: A Plan for Sustained Competitive Parity in Instructional Faculty Compensation 15 March 2000

The White Paper highlighted that in 1998-1999, University of Oregon average faculty compensation was at 82.1% of the mean of our group of peer comparators. The University adopted as a long-range goal to achieve sustained competitive parity by bringing average instructional faculty compensation (salary + benefits) to 95% of parity relative to our comparator institutions. This increase was to be over and above cost of living allowances. The funds supporting this increase were to be devoted to significantly improving the compensation of the vast majority of faculty, with an emphasis on rectifying the problem of salary compression.

To accomplish this goal, the aim has been for the University to increase average faculty compensation a minimum of 2.5% per year over and above the performance of our comparators until we achieve the 95% goal. In the original White Paper it was estimated that it would take 5-7 years to reach 95% parity. As we are in the fifth year of the plan, and only at 86.2% parity, it does not appear likely that we will reach our goal within the original

timeframe.

In the following sections, we assess progress toward reaching our goals, using data from UO, the American Association of Universities (AAU), and 8 peer universities that share our educational mission and that have been adopted as our comparators by the Oregon University System: U. California at Santa Barbara, U. Colorado at Boulder, U. Indiana at Bloomington, U. Iowa, U. Michigan, U. North Carolina at Chapel Hill, U. Virginia, and U. Washington.

Progress toward parity. In the fifth year of the plan (2004-2005), average faculty salary of continuing faculty was almost unchanged at \$66.6k vs \$66.2k. By comparison, the inflation rate during this period was roughly 2%, so in real terms faculty salaries decreased.

At the end of the fifth year of the plan (2003-2004), UO total compensation (salary + benefits) was 86.2% of our comparators when a weighted average of assistant, associate, and full professors was contrasted with a similar average of our comparators. In 2003-2004, the corresponding figure was 88.1%, so we have lost ground by 1.9% in the last year. In 2002-2003, the total compensation figure was 87.9%, in 2001-2002 it was 89.0%; in 2000-2001, 87.6%; in 1999-2000, 85.0%, and in 1998-1999 it was 82.5%. Thus, we have made modest progress – a cumulative gain on our comparators of 3.7% in five years – in reaching the goal of 95% parity. We still have far to go to reach our goal.

The tables present both salary and total compensation. We believe that total compensation is the more appropriate number to use, although, as discussed, it is not perfect. The University of Oregon currently spends more on benefits as a percentage of total compensation than its peer schools, but determining the value of those benefits to individual faculty members is a complex question.

Salary compression. The definition of salary compression used by the SBC in the White Paper is the erosion of compensation as a factor distinguishing faculty ranks. Average salaries at UO are less and less competitive relative to our comparators with increasing academic rank. Compression remains a serious problem in 2004-2005, with relative total compensations of 82.5%, 87.3% and 92% respectively for full, associate and assistant professors. These percentages changed by  $-2.4\%$ ,  $-2\%$  and  $-0.7\%$  in the last year.

A simple explanation for this behavior is that UO is forced to remain somewhat competitive in new-hire salaries, which keeps assistant professor salaries closer to market levels. Anecdotal evidence from heads of several departments suggests that UO is beginning to become uncompetitive even in salaries for new assistant professors, which certainly bodes ill for our future as a research institution. Further, since prospective faculty members are forward looking, they may recognize the salary future that awaits them if they take an Oregon

offer vs. an alternative institution that does not exhibit the same degree of compression. In other words, the fact that compression is getting worse may ultimately limit our ability to hire new faculty.

The compression issue has been of great concern to the Senate Budget Committee, and we have sought to gain a better understanding and to encourage a focused effort to redress the problem. In the Fall, 2001, report to the Senate, we proposed that salary increases for the year beginning January 1, 2001, be divided among full, associate and assistant professors on a differential basis of approximately 5/4/3% in those units where compression is an issue.

It should be remembered that our comparisons are based on total compensation, i.e., salary + benefits. Since benefits (health insurance, pension, etc.) are a complicated matter, and vary from institution to institution, unavoidable uncertainty influences our ability to gauge the real situation regarding the compression issue from year to year, as evaluated in terms of total compensation. Nonetheless, we are fairly certain that the disparities in ranks relative to our comparators signal a real issue that is of importance to the long-term health and prospects of the University. We recommend that the University continue its focus on redress of the compression issue in future years and that the Senate Budget Committee continue to monitor the situation using the best yardsticks at its disposal. The data we have presented are the best yardstick currently available.

Instructors (Tenure-Related And Non-Tenure-Track). Nearly all academic institutions report salary and total compensation figures for instructors, but the definition of instructor used to compute these figures varies enormously between and even within institutions. The University of Oregon at present has about 10 tenure-related and 260 non-tenure-track instructors (includes instructors and senior instructors). The average salary increase of full-time instructors in 2004-2005 was about 2.6%, to \$38.4k from \$37.4k. Accurate salary and compensation data to address salary comparisons for tenure-related and non-tenure-track instructors are currently being developed. From our limited data, it appears that UO instructors are compensated at 91.7% of comparator levels, using data available from U Michigan, U Virginia, U Colorado and U Washington. (We did not use an anomalously high figure of \$106.5K reported by UNC, Chapel Hill in this years' data, which may change the results slightly relative to previous years. This observation alone should indicate the statistically tenuous nature of data on instructor compensation.) This is comparable to relative compensation of assistant professors, and superior to that of associate and full professors. Note that the ratio based on salary alone shows a larger discrepancy with peer institutions.

## II. Basic Principles of Compensation for Instructional Faculty at the University of Oregon

The Senate and administration also endorsed two additional documents: Basic Principles

of Compensation for Instructional Faculty at the University of Oregon (Basic Principles) and the White Paper Implementation Guidelines For 2000 (Implementation Guidelines).

We have made progress in implementing the seven Basic Principles. First, however, we must recognize that progress toward the overall goal of achieving 95% compensation parity has been disappointing in the latest years: as noted already, after gaining on our comparators in each of the first three years, the cumulative results are unimpressive.

In other respects, we have been more successful. As the second aim the White Paper and Principles documents set forth the goal that the vast majority of instructional faculty should receive salary increases. In 2002-2003, the vast majority of tenured and tenure-track faculty received salary increases. The salary freeze prevented any additional progress in the last two years. The administration did make noteworthy efforts to provide generous research and instructional support, but these efforts do not show up in the data reported here. Third, as directed by the Principles document, each unit has continued to make progress toward the promulgation of systematic principles and procedures and, to various degrees, shared them with the faculty. The Vice President for Academic Affairs provided evidence that the Deans had taken this charge seriously. We encourage department and unit heads to attempt to achieve this goal fully in the forthcoming years. Very few instructional faculty (out of a total of more than 600 tenured and tenure-track faculty) fall below 80% of the average salary of their peers in their home unit at the same rank, and all appear to have a clear justification for their salaries, according to the Vice-President for Academic Affairs. Finally, from our vantage point, the administration continues to make a good-faith collaborative effort to implement these principles, in spite of severe restrictions from the Legislature.

### III. White Paper Implementation Guidelines

The administration and academic units generally adhered to the Implementation Guidelines, which were based on the values set forth in the Principles document. These two documents have helped to promote a better understanding of the budget process. At the same time, the Senate Budget Committee will need to continue to promote the visibility of the White Paper, the Basic Principles, and Implementation Guidelines. While we are satisfied that the Administration and the Deans understand the vision outlined in the White Paper, continuing efforts are needed to insure that faculty members in general and other University of Oregon community members are as aware as they need to be of these documents. The Senate Budget Committee plans to continue discussion of the three documents with Deans, Department Heads, and the Senate to enhance prospects that the plan outlined in the White Paper is fully and successfully implemented in future years.

### IV. Salary Improvement Plan for Year 6 (2005-2006)

Clearly, the financial situation of the University as an institution within the State of Oregon must improve if there is to be continued progress toward the vision of sustained competitive parity relative to our comparators, which was set forth in the original White Paper. We can only hope that, with the freeze lifted, money will be available to correct our long-term problems.

We are hopeful that the newly strengthened OUS Board will focus attention on the appropriate problems. In his recent speeches on higher education the Governor has set the following four priorities: access, excellence, economic development, and reinvestment. These priorities in combination set the stage for a brighter future for the University of Oregon. But the political situation within the Legislature, which reflects the views of the voters (as evidenced by the defeat of Measure 30), does not generate optimism.

The SBC will continue to evaluate the components of compensation to ascertain the relative worth of compensation level. For example, if OUS contributions to PEBB increase but the relative benefits to OUS employees decrease because of how benefits are distributed among classes of employees (as opposed to rising health care costs), that may not be considered an advancement. Likewise, if university contributions to PERS increase but actual benefits decrease due to a legislative mandate, that increase may not represent progress. In some cases the calculations of benefits may be quite complicated and require careful scrutiny.

The measure of compensation we use at present is the University's contribution. Sometimes the contribution may decline without a decline in benefits, as when the voters decided to refinance the debt on PERS. This change resulted in a lower contribution for PERS employees without a reduction in benefits. The consequences of those changes for ORP employees are not yet clear. Conversely, as health care costs spiral ever higher, an increased contribution by the university may simply counter inflation without providing additional actual benefits.

## FINAL COMMENTS

The University of Oregon is facing a faculty compensation crisis. Not only are senior faculty salaries no longer competitive with those at comparator institutions, but department heads are reporting difficulty in hiring new assistant professors at current UO salary levels.

The Deans and Provost may respond that funds are available to offer new assistant professor salaries at AAU-average levels. However, the problem is more complex than this. Many heads are justifiably unwilling to distort their department's salary structure by paying beginning assistant professors more than associate professors. Further, prospective faculty are forward looking and will understand the difficult salary future awaiting them if they accept a position at Oregon. In short, the salary problem has to be addressed at all ranks in order to maintain morale and competitiveness.

We can roughly estimate the cost of improving the current salary situation. An increase in average total faculty compensation of \$10k would bring us close to our goal of 95 percent parity. Assuming 600 total UO faculty, this would require an extra \$6 million per annum. A combination of funds from increased state support, endowment income and possibly re-allocation of resources from other programs could be used to cover this cost. To take a concrete example, an endowment of \$150 million would provide this income, based on the usual assumption of four percent return after inflation. Faculty members should ask whether resources from the ongoing capital campaign (which has already raised half of the targeted \$600 million) will be used to improve the salary situation.

The high quality of our research and teaching programs is jeopardized by the dramatic salary gap between UO and our peer institutions. Our identity as a leading research institution is at stake. Improving faculty salaries and restoring UO competitiveness in the market for faculty talent should be the single *highest priority* of our administration.

Respectfully submitted to the University Senate on May 11, 2005. 2004-2005 SBC members: Stephen Hsu, Physics (Chair); Bob Bussel, LERC; Larry Dann, Business Administration; Frances Dyke, Associate Vice President for Resource Management; Jamie Moffitt, Law; Sandra Morgen, Anthropology and CSWS; Larry Singell, Economics; John Moseley (or Lorraine Davis in his absence), Provost (Ex-Officio), W. Andrew Marcus, Senate President (Ex-Officio).

## REFERENCES

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4. Year 1 (2000-2001) Report of the Senate Budget Committee on Salary Augmentation Plan,  
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8. SBC Letter on Measure 30,  
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9. Weighting of full, associate, and assistant professors is 35:30:30, respectively. This weighting was used to determine average salary and average total compensation figures for each of the 8 comparator institutions.