The Regents of the University of California

COMMITTEE ON COMPENSATION
COMMITTEE ON EDUCATIONAL POLICY
July 19, 2007

The Committees on Compensation and Educational Policy met on the above date at University Center, Santa Barbara campus.

Members present:	<u>Representing the Committee on Compensation</u>: Regents Blum, Dynes, Hopkinson, Lozano, Moores, Parsky, and Varner; Advisory member Oakley <u>Representing the Committee on Educational Policy</u>: Regents Allen, Blum, Dynes, Garamendi, Island, Lozano, Marcus, Parsky, Ruiz, and Varner; Advisory member Brown; Staff Advisors Brewer and Johansen
In attendance:	Regents Brewer, Bugay, and Wachter, Regents-designate Scorza and Shewmake, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice President Sakaki, Assistant Vice President Casey representing Acting Vice President Standiford, Chancellors Fox, Kang, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 1:30 p.m. with Committee on Educational Policy Chair Marcus presiding.

PLANNING FOR A MARKET ADJUSTMENT TO FACULTY SALARY SCALES

It was recalled that Provost Hume and Faculty Representative Oakley had reported to the Regents in March 2007 that UC has been severely challenged in recruiting and retaining faculty over recent years as the faculty salary scales have failed to keep pace with rising national and international competition. Increasingly, campuses are using "off-scale" salaries in order to recruit and retain faculty. The widespread use of off-scale salaries places at risk the relevance and effectiveness of the University's rank-and-step system, in which rigorous review of performance both before and after tenure is directly linked to faculty compensation.

Provost Hume discussed a plan for new ladder-rank faculty salary scales that will preserve the University of California's rigorous system of merit review and restore faculty salaries to market levels over the next four years. The plan for the new salary scales will address important principles, derived from a report of the Academic Senate's Committee on Academic Personnel and endorsed by a work group on faculty salary scales created by the President and chaired by the Provost.

The ladder-rank system of faculty salaries keyed to academic rank and step as determined by the merit-based, peer-reviewed academic personnel process, must be fair, defensible, and transparent. To accomplish this, the new scales must bring the majority of faculty salaries back on-scale. The revised plan includes a multi-year increase in faculty salaries to catch up with increases in the cost of living and to begin closing the gap in overall faculty compensation relative to the University's comparison institutions. A two-part increase will be proposed for each of the first two years, featuring both an across-the-board cost-of-living (COLA) adjustment applicable to all faculty salaries, and a competitive "market adjustment" applicable only to those faculty salaries that are set below market by the current salary scale. The salary increases proposed for the third and fourth years will be limited to COLAs.

As recommended by the work group on faculty salary scales, the plan also includes proposed amendments to the Academic Personnel Manual policy governing off-scale salaries so that off-scale salaries needed to meet competitive conditions would not be deemed exceptional. The proposed policy amendments also would change the salary scales from a "point" system to a "range" system, and would define "off-scale" salaries as only those that exceed the upper limit of the salary range set by the scale for a particular rank and step.

It is anticipated that a recommendation for action to amend all faculty salary scales, including those for general campus faculty and for faculty in the fields of engineering, business/economics, law, veterinary medicine, and health sciences, will be prepared subsequent to the meeting, for action by the President and endorsement by The Regents at the September meeting, with a proposed effective date of October 1, 2007.

Provost Hume emphasized the importance of the rank and step system of faculty advancement that is at the core of the University's academic excellence. UC faculty salaries have fallen to about 10 percent below the competition. During the early part of the decade, the University was unable to provide cost-of-living adjustments. In November 2005, The Regents endorsed the establishment of goals to obtain and allocate funds to increase salaries to market comparability over the ten years from 2006 to 2016. The previous plan for 2007 was to provide a 5 percent compensation package for faculty which would narrow the faculty salary gap by approximately 1 percent, notwithstanding that the rate of inflation is 4 percent. The plan was to continue to work to bring the average back to market over that decade. In recent months, it has become clear that more urgent action than this is needed both to address the severity of the faculty lag and the severe threat to the merit-based rank and step system.

The first component of the proposed plan includes an annual cost-of-living adjustment for four years. These increases would raise the salary of every faculty member and also raise the scale as a whole. The second component includes market adjustments to raise the scales above the COLA level amount in the first two years of the four-year program. These adjustments would raise the scale but the salaries only of those currently on scale or very close to scale. The on-scale salaries are below market and reflect salary compression that has had a negative impact on productive long-term faculty. Off-scale salaries, which reflect more recent recruitment and retention efforts and thus are closer to current market conditions, would not be raised by these market level adjustments.

In addition to changing the scales, the plan includes continuing funding of merit increases at the same levels as in the past. Faculty are reviewed for merit increases once every two to four years depending on their rank and step and advance up the scale through this process. Merits are awarded only on the demonstration of high achievement at the expected level.

Provost Hume reiterated that only 16 percent of salaries are on-scale. Above-scale salaries reflect promotions beyond the highest level of the scale for the most distinguished faculty, only a small proportion of which reach that level. The proposed plan will not affect these, but the market adjustment proposed in the first two years of the proposed four-year plan is projected to reduce the proportion of off-scale salaries to 22 percent by 2008-09. Although cost-of-living adjustments proposed for the third and fourth years would continue to restore faculty salaries to market level, some proportion of off-scale salaries will remain necessary, as extraordinary recruitment and retention efforts continue.

In addition to adjusting the level of the regular professorial scales, the proposed changes will include changes to the other salary scales to reflect the specialist fields embraced. It is proposed that the business/engineering scale be split into two scales and the economics faculty be removed from the regular professorial scale and added to the business scale to reflect the competitive market in that field. There are other specialty scales such as law, health sciences, and veterinary medicine that are under review and will be addressed through a parallel process.

Executive Vice President Lapp reported that the impact to the budget in the first year of the proposal would be $46 million. Assuming success in receiving a base budget adjustment at 4 percent this year, there will be sufficient monies from that and the student fee increase to fund $40 million of the cost in the first year. Sources are being identified to target for the remaining $6 million. In the second and third years, costs will be significantly higher because of market adjustments affecting more people. The projection for the second and third years is $60 million each. At the September meeting, the budget will be presented in more detail.

Regent Hopkinson expressed support overall for the program, but she noted that she would like to know how the money has been spent on faculty salaries with respect to The Regents' previous policies and also the extent of the impact on the pension plan when salaries have been brought to market comparability and how it will be mitigated, if necessary.

Regent Moores advised forming a contingency plan for sustaining the program if State funding for the University decreases in future years.

Staff Adviser Brewer agreed that it was critical to make significant progress to close the salary gaps for faculty. She urged the Regents to employ the same creativity in developing a robust, accelerated plan to address the staff salary gap and include in it the benchmarks necessary for measuring its success over time.

The meeting adjourned at 1:45 p.m.

Attest:

Secretary and Chief of Staff