Iowa State University
Professional and Scientific Council

Council Motion:	To send the 2018 Compensation and Benefits Report and the Compensation and Benefits Recommendation for FY19 to University Administration
Submitted by:	Compensation and Benefits Committee January 4, 2018

Whereas:	Professional and Scientific employees comprise the largest employee group and are essential in fulfilling the mission of Iowa State University.
Whereas:	A competitive total compensation package is essential for the University to attract and retain high-quality and dedicated employees.
Whereas:	The Professional and Scientific Council and its Compensation and Benefits Committee are charged with informing the University's administration regarding the needs of P & S employees.
Whereas:	Competitive compensation tied to performance is a recurring request.
It is moved:	That the Compensation and Benefits Recommendation for FY19, along with the accompanying 2018 Compensation and Benefits Report, be sent to senior University administrators to inform decision-making regarding FY19 budget plans and revenue requests.
Distribution:	Wendy Wintersteen, President Jonathan Wickert, Senior Vice President and Provost Martino Harmon, Senior Vice President for Student Affairs Pam Cain, Interim Senior Vice President for University Services and Interim Chief Financial Officer Kristi Darr, Interim Vice President, University Human Resources

Compensation and Benefits Recommendations for FY 19

The Professional and Scientific Council hereby presents its Compensation and Benefits Recommendations for Fiscal Year 2019 (FY19). The intent of these recommendations is to provide input regarding the University's budget priorities and funding requests for FY19 and beyond.

The underlying premise is that competitive salaries are essential for the University to effectively carry out its mission on behalf of students and the people of Iowa. The accompanying Compensation and Benefits Report provides background information and reasoning.

1. The Council recognizes and strongly supports the University's stated policy that annual salary adjustments should be based on employee performance, and recommends that said policy be actively pursued to provide meaningful distinctions between employees while also ensuring that every employee performing at a satisfactory level receives at least an increase equivalent to the Consumer Price Index (CPI).

2. The Council urges University Human Resources to require universal compliance with the policy that every employee should have a meaningful annual performance appraisal. Council further urges UHR to enforce the policy by verifying that every supervisor has provided an appraisal form for every employee, and by holding supervisors accountable for failure to do so. In addition, Council recommends the development and uniform implementation of a more robust and objective rating system for employee performance.

3. The Council recommends an average salary increase of at least 3-5% for employees performing at or above satisfactory level, and that the minimum salary increase for satisfactory employees be at least equivalent to the CPI for the year.

4. The Council recommends, given the current trend of flat or declining government funding, that the University develop and clearly articulate a broad strategy for improving and developing new revenue streams, while continuing to advocate for meaningful increases in legislative appropriations.

5. The Council recommends that University administrators satisfy these salary needs before pursuing funding for other projects and new initiatives.

IOWA STATE UNIVERSITY
Professional and Scientific Council

2018 Compensation and Benefits Report

Introduction

The Compensation and Benefits Committee of the Professional and Scientific Council presents the following report for consideration by the senior administration of Iowa State University. The committee seeks to inform the Administration's decision-making in four significant areas to ensure that current Professional and Scientific (P&S) employees are appropriately rewarded for their efforts and the university can attract outstanding talent to expand and improve the current base of P&S employees. These areas include total compensation, adequate performance-based pay increases, annual and uniform employee evaluations to establish and support such increases, and the need for a larger salary pool, likely from new revenue streams, to support pay increases. These areas must be addressed to ensure the continuing effectiveness of the university.

Total Compensation

As this Report will demonstrate, salary level and consistent increases have a significant impact on several aspects of employee benefits. Total compensation consists of employee salary and benefits. Major benefits include retirement contributions, disability and life insurance, health benefits, paid leave, and tuition reimbursement. While the value of university benefits is significant, the primary component of employee compensation is salary and salary level has a direct effect on other key benefits such as retirement and disability/life insurance.

Table 1 quantifies the effect on cumulative gross salary and retirement earnings of just one year with no pay increase. In Scenario 1, cumulative gross salary, based on a starting salary of $30,000 and a consistent 3% annual salary increase, is calculated over a 40-year period. This cumulative salary is then adjusted to reflect no salary increase in the fourth year of employment in Scenario 2, with all other years held constant. By the 40th year, the cumulative loss given the lack of a salary increase in the fourth year is $63,184. It can be shown that this cumulative loss would be significantly higher when salary increases are lower than 3% or do not occur in other years.

Table 1

	Scenario 1*		Scenario 2**		Difference in Benefits	
	Cumulative Gross Salary	Retirement Earnings (8% Gain)	Cumulative Gross Salary	Retirement Earnings (8% Gain)	Difference In Cumulative Gross Salary	Difference in Retirement Earnings (8% Gain)
Year 5	$159,274	$30,137	$157,336	$29,811	$1,938	$326
Year 10	$343,916	$79,219	$336,600	$77,722	$7,316	$1,497
Year 25	$1,093,778	$462,157	$1,064,621	$451,266	$29,157	$10,891
Year 40	$2,262,038	$1,794,553	$2,198,854	$1,750,438	$63,184	$44,116

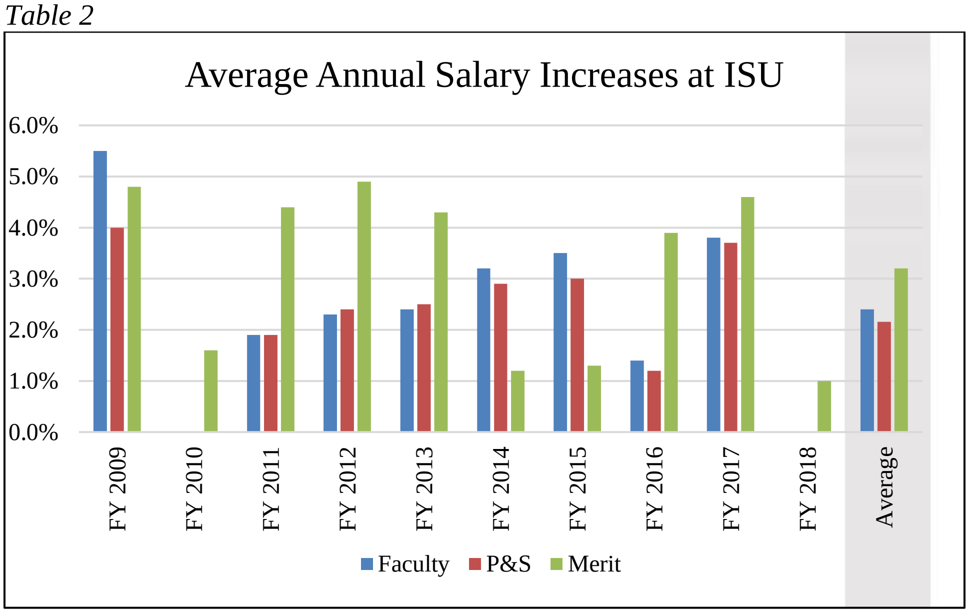
** Scenario 1, starting salary of $30,000 with an annual increase of 3% every year.*
*** Scenario 2, starting salary of $30,000 with an annual increase of 3% every year except year 4 has a 0% increase.*

When retirement benefits are taken into account, losses due to one missed annual increase become even more acute. The retirement-contribution calculations in the table are based upon employee and employer contributions totaling 15% of annual salary. Assuming an 8% average annual gain on retirement balances, the cumulative loss to retirement funds after 40 years would be $44,116. This value does not include commensurate reductions in Social Security benefits.

Data from the Iowa Board of Regents shows that, over the past 10 years, salary increases for Professional and Scientific employees have ranged from 0% to 4.0%, and have averaged only 2.2%. Notably, there were no salary increases in FY2010 and FY2018 and mandatory furloughs in FY2011. During this same period, P&S employees have received, on average, 0.2% less in salary increases than faculty members. Major contributors to this disparity are 5 years in which faculty received 0.1% to 1.5% greater increases than P&S staff.

The lack of consistent salary increases negatively affects employee morale and performance. Inadequate salary increases also influence employee retention as dissatisfied employees seek other opportunities. Additionally, low initial salaries and unpredictable salary increases diminish the university's ability to attract well-qualified or exceptional applicants for open positions.

Table 2



Data sourced from Iowa State Board of Regents, Comprehensive Human Resources Report
http://www.iowaregents.edu/reports/page-of-reports/

The Committee recognizes the stability of healthcare premiums over the last 5 years. This has allowed employees to better utilize increases in disposable income. Favorable health care premiums do not, however, outweigh the extensive impact of inadequate salary adjustments to employee income and retirement accounts.

Performance-Based Pay

The Salary Adjustment Policy mandates annual performance-based salary adjustments. Anecdotal evidence suggests that adherence to this policy is not consistently promoted or implemented (if at all) across university departments and units. Without performance-based salary increases, employees lack a material incentive to continuously improve performance and efficiency. Noncompliance related to this policy is connected to a lack of an adequate employee evaluation process.

Employee Annual Evaluation

Accurate performance-based salary increases can only be determined through an effective evaluation process. The University, as described in the Salary Adjustment Policy, already recognizes this, at least in part: "The adjustment must be documented by a written performance evaluation and will be effective on July 1." However, written performance evaluations are not consistently completed, tracked or retained. Moreover, the current one-page evaluation form provided by University Human Resources (P&S Performance Appraisal Compensation Form) is insufficient, with only a "meets or exceeds expectations/does not meet expectations" rating for overall job performance. Therefore, even when it is used, the form does not adequately support performance-based salary adjustments.

Many departments currently use a more comprehensive evaluation process to determine salary increases and as a tool to increase employee effectiveness. An evaluation form that addresses job competencies and employee performance in meeting job goals, and which includes a rating system that allows for a distinction between varying levels of performance–beyond simply "meets or exceeds expectations/does not meet expectations"–would allow supervisors to demonstrate that annual performance appraisals serve as a determining factor in performance-based compensation adjustments. Therefore, the Committee strongly recommends that the University develop a standardized multi-level rating system and evaluation process to be implemented across all university departments.

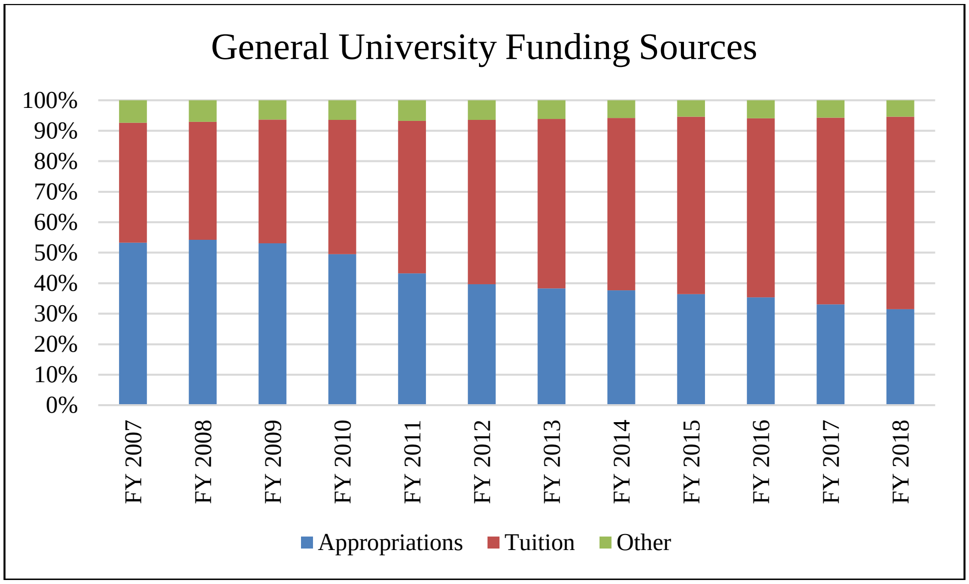
Supervisors must also be required to implement the revised evaluation process with their employees. University Human Resources must develop a new and mandatory training protocol for supervisory personnel to ensure that all departments have the proper tools and knowledge to adequately evaluate employee performance. UHR must monitor compliance by collecting all evaluation forms and following-up with supervisors that fail to complete the process.

University Revenue

Despite the Salary Adjustment Policy that salary increases should reflect employee performance, the reality in the last decade or more of "lean budget times" has been that salary increases are almost totally determined by University revenues. With average annual increases ranging from zero to four percent in the past ten years, virtually no distinction has been made between average and highly-effective employees. To make meaningful performance-based increases possible, the University must have a larger pool of funds.

The University has been largely unable to draw on adequate legislative appropriations for salary increases. As Table 3 outlines, the percentage of University funding coming from legislative appropriations has declined over the past ten years. After several years without tuition increases, the University has submitted a plan for tuition increases over the next five years, which the Committee views as a positive step toward greater revenues. Given the range of budget pressures, however, there is no certainty that proposed tuition increases will take effect, let alone be adequate to ensure competitive salary increases. Ongoing and even increased attention to improving and developing adequate revenue streams will therefore be necessary if the University is to achieve its goal of competitive performance-based salary adjustments and ensure employee retention.

Table 3



Data sourced from Iowa State Board of Regents, Budgets
http://www.iowaregents.edu/reports/page-of-reports/

Summary

Professional and Scientific staff–more than 3,000 strong–represent the largest employee group at Iowa State University. P&S employees are dedicated to their work and are critical to the University's fulfillment of its mission to students and the people of Iowa. Given the current fiscal and economic outlook, the University will only be able to provide adequate financial incentives to retain and attract exceptional personnel if it makes a concerted effort to expand revenues and prioritize salaries. Without such efforts, inadequate performance-based salary adjustments will likely diminish the talent pool of P&S employees and, by extension, the effectiveness of programs and projects across the University.