The following report and its recommendations were adopted by the UTK Faculty Senate on Monday November 21, 2005

Historical Review: Thoughts for Consideration and Recommendations Concerning the Development of Future Merit Pay Strategies at the University of Tennessee

Note: This report has been compiled by the UTK Faculty Affairs Committee and reflects input from Vice-Chancellor Anne Mayhew. Information on "across the board" (ATB) and merit raises over the past five years was provided by Vice Chancellor Denise Barlow. This report has been reviewed by the Senate Executive Committee and is for consideration at the November 21, 2005 meeting of the UTK Faculty Senate.

HISTORICAL REVIEW

Fiscal year 2006: For the 2006 fiscal year the State of Tennessee awarded regular and term state employees a 3% across the board (ATB) raise. A 3% pay-raise for an employee making $100,000 resulted in an additional $3,000. By comparison, an employee making $30,000 a year received an additional $900. In higher education, the state only funded 2% of the 3% raise, which required the university to make up the difference through tuition revenue. In an effort to reward meritorious faculty, President Petersen convinced the State Legislature to allow the university to pay all faculty (who met or exceeded expectations for rank) a 1.5% raise, and use the balance of the pool to reward the most productive faculty. Meanwhile, campus and system administrators all received 3% raises, as well as exempt and non-exempt staff and graduate students on assistantships. Mindful that the an across the board raise for the lowest paid staff can be consumed by employee contributions to health care, the university mandated $750 minimum for full-time employees earning $25,000 or less per year. The $750 was prorated for part time employees.

SALARY INCREASES 2000 - 2005

July 2000: 3.5% ATB for all employees (state funded)

August 2000: 3% merit pool for faculty and exempt staff, 1.5% ATB for non-exempt (UT Funded)

January 2002: 2.5% ATB for all employees (state funded); 1.5% ATB for nonexempt (minimum of $375 for $25K or less salary), 1.5% merit for exempt, and 3.5% merit for faculty (UT funded).

January 2003: 2% ATB for all employees with a $750 minimum for employees earning less than $37,500. (68% state funded, 32% funded by UT) additional 3% merit pool (funded by UT)

July 2004: 3% ATB with a minimum of $750 for employees earning less than $25,000, including regular and graduate assistants. (67% funded by UT from tuition, 33% funded by the state)

October 2004: One time bonus of $70/year of service up to 25 years. Minimum bonus of $210. (state funded)

THOUGHTS FOR CONSIDERATION

1. THE UNIVERSITY IS A "MERITOCRACY
Chancellor Crabtree has described the university as a meritocracy, which is strictly speaking, a system based on rule by ability (merit) rather than by wealth or social position. In this context, "merit" means roughly intelligence plus effort. In a meritocracy, is there a way to reward exemplary faculty achievement while making sure faculty morale is not adversely effected? As a great deal of faculty work in increasingly collaborative ways, does the concept of the meritocracy erode the formation of a learning community where innovative research and teaching results from sharing ideas? Are we sure that a system of merit pay is the best path to achieving our institutional mission? Are there other models we could emulate?

2. DEFINITIONS: MERIT, EQUITY AND COMPRESSION
Merit pay allows an employer to differentiate salaries of high performing employees. Equity pay may be based on merit, but it is a targeted effort to address salary disparities that may have resulted from a history of sexism, racism or some other form of discrimination. Salary compression is the narrowing of the pay differentials between people in the same job or between people in different (usually adjacent) jobs in an organizational hierarchy over time. Typically compression is created as growth in entry-level salaries increase due to market forces. Advocates of merit pay make the case that high performing faculty will be rewarded regardless of when they were initially hired.

3. PRESIDENT PETERSEN'S COMMITMENT TO MERIT PAY:
President Petersen believes that merit pay can serve to improve and guide the performance of faculty to better fulfill the mission of the institution. He believes the university has been poorly served by a salary plan in which the state legislature requires the university to give across the board raises rather than allowing the university to reward high performing faculty. It is expected that he will continue to argue for greater flexibility in awarding compensation for university faculty.

4. SALARY POOLS ARE TYPICALLY NOT FUNDED ENTIRELY BY THE STATE:
In the past the university has been forced to award across the board raises only a portion of which have usually been funded by tax dollars, with the balance coming from tuition revenues. In addition, the State Legislature has frequently limited the flexibility of the university by requiring "across the board" raises for all state employees. As the state shifts the costs of

higher education to tuition dollars, the university is negotiating for greater flexibility in its salary plan, stressing the use of merit pools rather than across the board (ATB) pay raises.

5. DOES THE INSTITUTION HAVE AN OBLIGATION TO KEEP SALARIES OF EMPLOYEES WHO MEET EXPECTATIONS UP TO THE COST OF LIVING ALLOWANCE (COLA)?
In each budget cycle the university needs increased revenues to maintain the same level of services due to increases in fixed costs (energy, transportation, etc.). In this way the university faces inflationary pressures in maintaining its operations. Likewise, employee contributions for health insurance benefits typically increase annually. This has guided the university 's own practice in setting minimum levels for across the board pay raises for the lowest paid employees. If the university does not keep salaries in line with the cost of living, some employees may face real dollar decreases in take-home pay. What commitment does the university have to making sure salaries do not erode in relation to the cost of living?

6. NEGATIVE EMPLOYEE MORALE CAN RESULT WHEN SALARIES ERODE IN RELATION TO THE
COST OF LIVING:
In an August 30, 2005 memorandum to President Petersen, UTC Faculty Senate President and Faculty Trustee Richard Rice asserted that merit should be above the cost-of-living raises awarded to all other state employees. He wrote "this year's compensation structure will serve to deplete the morale of faculty because it rewards some at the expense of others: merit raises should be above cost of living adjustments." If the University wants to avoid morale problems that result from reductions in real cost of living they should try to make sure that wage increases at least equal the increase in the consumer price index for Tennessee.

7. FACULTY OFTEN DO NOT TRUST THE PROCESS OF AWARDING MERIT:
The UTK Faculty Handbook (1.4.3) states that "department bylaws should address the application of faculty evaluations to salary adjustments, ultimate decisions regarding the evaluation of an individual faculty member's performance typically rests with the department head." Two different department heads may interpret the criteria in different ways. For the system to work, faculty members need have input into the merit criteria and to trust the process.

8. FACULTY SALARIES IN A LARGER CONTEXT:
For the past five years the Faculty Senate Budget and Planning Committee has conducted annual studies of faculty salaries. The studies compare faculty salaries by rank and discipline to the Southern University Group of 30 institutions, Tennessee Higher Education Commission peer institutions and the top 25 public universities. These studies show that UTK salaries are consistently below our peers. In many disciplines, the university

is around 90% of our THEC peers. Many faculty perceive that the system administration should focus its efforts on improving overall compensation rates for faculty so as to improve the mean and median faculty salaries in relation to the academic job market. Efforts to implement a merit pay plan will foster improved morale if this broader need is also addressed.

9. THE TIMETABLE FOR AWARDING RAISES IS TOO SHORT:
Typically the university's budget is approved in late June, and decisions have to be made to award any merit raises by early July. The UTK Faculty Handbook (3.9) states: "Recommendations for salary adjustments are reviewed and approved, altered, or rejected by each of the following officers: dean or director and chief academic officer. Alteration or rejection of salary adjustments at any level will be communicated through the administrative line to the head. The Board of Trustees must give final approval. Faculty members will be notified of their salary adjustments in a timely manner.

The process of awarding the 2006 merit raises at UTK varied widely by college, from 100% of faculty in the Library receiving raises to as low as 39% in the College of Social Work. In addition, Vice-Chancellor Anne Mayhew acknowledged at the October 10th Faculty Affairs meeting that none of the merit raise proposals were rescinded and that in general there was not enough time to properly review the salary adjustments. To honor the UTK Faculty Handbook, a better system needs to be in place to review and approve salary adjustments by the Deans and the Chancellor's level in a timely manner.

10. MERIT RAISES FOR 2005-2006 WERE LIMITED TO (AND FUNDED BY) TENURE-TRACK FACULTY SALARY POOLS:
Faculty members have a better-established process of annual assessment than most other university employees. Since there is not a good system to date to assure there is objective assessment of the performance of non-exempt (hourly) or even exempt (salaried) staff, it is harder to apply merit criteria to these employees. Anne Mayhew has indicated that the university is in the process of establishing an evaluation mechanism for these employees for next year. It is also possible for a supervisor to improve the compensation of a meritorious staff member through change of pay grade of job classification. On the other hand, system and campus administrators, most of whom make over $100,000 (and for whom there should be regular and well-established systems of annual assessment) received 3% across the board raises in the 2006 budget. Faculty members will be more forgiving of a merit raise system if merit pay also applied to campus and system administrators.

11. FINDING THE RIGHT BALANCE:

Is there an appropriate balance between merit raises for exceptional faculty and making sure the salaries of faculty who “meet expectations for rank” are not sacrificed to fund a merit pool? Is this balance the same for every department, college or campus? Is there a way to assure that criteria for merit include excellence in teaching and service, as well as research/ scholarship/creative activity? Can the institution achieve excellence if it fosters morale problems for the middle third of its faculty? Some faculty members who received a merit raise are uncomfortable with a system that leaves many valued colleagues behind. Would faculty morale be maintained if more faculty members received smaller merit raises instead of limiting the raise pools to the top 50 or 40%?

RECOMMENDATIONS:

1. Colleges and department bylaws should reflect faculty input into how annual reviews will be reflected in salary adjustments.

2. The process of annual reviews should be accompanied by justification based on department/college bylaws and a salary compensation plan that reflects faculty input as appropriate. The annual review process should be completed at the department, college and campus level earlier in the budget and planning cycle to allow deans and the chancellor greater oversight.

3. Imposed percentages of faculty eligible for merit raises should be avoided to allow department heads and deans to work with faculty to determine a reward system that fosters improved employee morale. However, no merit system should allow for merit to be used for across the board raises.

4. Department Heads, Deans, Campus Administrators and System level administrators who hold faculty titles should all be subjected to the same merit pay system used for faculty.

5. The university should strive to ensure all employees who meet or exceed expectations for rank receive across the board raises equal to other state employees with equivalent job rankings.