


LAURITA THOMAS
ASSOCIATE VICE PRESIDENT
FOR HUMAN RESOURCES
4006 WOLVERINE TOWER
3003 S. STATE STREET
ANN ARBOR, MI 48109-1281
734 647-5574 FAX: 734 764-1476
laurita@umich.edu

To: Kevin Hegarty
Executive Vice President and Chief Financial Officer

Martha Pollack
Provost and Executive Vice President for Academic Affairs

From: Laurita Thomas 
Associate Vice President for Human Resources

Date: September 25, 2015

Subject: Compensation Practices Review

As part of his first year in office, the President requested an assessment of UM's compensation practices, including: executive compensation levels; use of non-base pay for all employees; and practices on public disclosure of compensation for all employees. UM HR conducted a review taking into account multiple sources of institutional information. Sibson Consulting was also engaged to assist with the assessment, particularly around benchmarking external practices (summary attached). I have outlined below our findings and recommendations.

1. Executive Compensation Levels:

Key Findings:

In aggregate, UM's compensation levels for executives approximates the 75th percentile of peer institutions for base salary, total cash compensation and total remuneration (compensation and benefits). Compared to the public peer institutions in the Sibson benchmarking, the university is near the top of peer compensation levels. Compared to the private peer institutions in the benchmarking, the university is at the median of compensation levels.

Recommendation:

Continue to provide market competitive compensation packages that enable the recruitment and retention of key talent. Given the University of Michigan's scale and scope relative to peers, referencing the 75th percentile (or, top of the public market and median of the private market) for key executive positions is appropriate.

2. Use of Non-Base Pay for all employees:

Key Findings:

An internal analysis conducted by the Office of Budget and Planning and University Human Resources Information Services indicates non-base or variable pay as a percent of base over three fiscal years:

	2012	2013	2014
Exec Officers	12.9	10.1	10.3
Deans*	7.5	10.4	9.7
Faculty*	17.5	17.8	17.9
Staff	2.9	2.8	3.3

*includes incentive pay for Deans of Medicine and Nursing, and Med School faculty incentive pay

Use of non-base pay or variable pay (discretionary bonus, salary supplement, incentive pay, administrative differential, etc.) is common among our peers according to the Sibson benchmarking. Variable pay is often viewed by organizations as an effective tool for recruitment, retention and performance management purposes at all levels. Further, such payments can support fiscal stewardship, as their non-recurring and discretionary nature does not create recurring budget impact as does building of base pay.

Like UM, most peer institutions have a decentralized structure and these types of non-base payments and the practices surrounding them are in most cases not centrally tracked or administered. Through our review, we have identified opportunities to improve our administration of non-base pay particularly regarding bringing more coherence and consistency to how such payments are used and tracked.

Recommendation:

It is recommended that non-base pay options continue to be part of the compensation approach at University of Michigan. In addition, opportunities to improve guidance and processes around use of non-base pay should be further explored given the decentralized administration of such programs.

3. Public Disclosure of Compensation for all employees:

Key Findings:

Depending largely on state law requirements, the disclosure practices vary among public higher education institutions. Some institutions disclose total compensation with varying amounts of detail and some disclose only base salary (see Sibson summary attached). Like UM, other public universities in the State of Michigan regularly disclose on the base salaries of faculty and staff, consistent with state law requirements. In 2014, the state of Michigan disclosure requirement was, **“a list of all positions funded partially or wholly through institutional general fund revenue that includes the position title and annual salary or wage amount for each position.”** UM’s current disclosure practice meets the requirement and also includes employee name, appointing department, appointment fraction, and lists all faculty and staff, even those not paid with general funds.

Salary disclosure among private peer institutions is generally limited to the Federal form 990 disclosure rules which require detailed compensation disclosure for certain positions which include

executive officers, directors, key employees (specifically defined, often includes deans), and the 5 highest paid positions other than those previously mentioned. For those individuals the institutions are required to disclose base compensation, bonus/incentive, other, deferred compensation, non-taxable benefits, and total compensation. While this limited information is public, it is not as easily accessible as the compensation information provided by public institutions.

The potential implications, both pro and con, of changing a practice to more disclosure include:

- More consistency and accountability around compensation practices.
- Increased awareness and trust around compensation practices (although other research indicates that it harms morale internally).
- Challenges and limits unit autonomy and flexibility.
- Significant transition cost in terms of community and public scrutiny, anxiety and inquiry.
- Dissatisfaction among faculty and staff who support current disclosure practice.
- Increased compensation expenditures. The natural comparisons employees are likely to make with their peers, could lead to requests for additional pay, which may or may not be accommodated.

Recommendation:

Continue current disclosure practice, with release of annual salary disclosure report on the University of Michigan transparency reporting website. Aligning practice around state disclosure requirements is common for other public institutions, and far exceeds practices at private peers.

University of Michigan



Non-Base Compensation Pay Practices, Governance, and Public Disclosure Summary

September 8, 2015

 Sibson Consulting

Introduction and Methodology

Purpose

The University of Michigan (UM) retained Sibson Consulting to provide benchmarking of non-base salary compensation practices, and the governance and public disclosure of such programs at large public and private institutions.

Definition and Scope of the Study

Non-base compensation elements are defined as cash compensation not delivered through salary including; performance incentives, recognition awards / ad hoc bonuses, unrelated duties earnings / salary supplements, lump sum merit increases, and other like payments¹. The study examined the use of these elements across four employee groups; executives, deans, faculty, and staff.

Data Collection Process

Sibson took a multi-pronged approach to data collection and gathered information from the following sources:

- 1. Executive Interviews** conducted with 16 institutions, where senior administrators provided anecdotal information regarding non-base pay practices across the institution. In addition to providing data on their current institution's practices, many of these leaders have worked at other institutions and provided multi-institutional viewpoints
- 2. External Research** conducted on 20 large public institutions to understand publicly available information on pay policy and disclosure. Information came from different sources including university websites, periodicals, and state government program websites
- 3. A Custom Survey** benchmarking executive compensation pay levels and practices for senior administrator and dean roles. This study provided insight into competitive pay positioning and vehicles in the market for 39 positions

¹ The study did not include non-cash components such as benefits and perquisites.

Use of Non-Base Pay

Non-Base Compensation Practices

- When we queried the market to benchmark UM against other institutions, nearly all indicated they were unable to gather this information easily for an empirical comparison. The reasons provided include:
 - Due to decentralized administration, they are not familiar with all available non-base compensation programs among the different employee groups
 - The human resource and/or payroll systems do not allow for easy compilation and analysis of such data
- As such, we reverted to interviews and external research to elicit the following findings:
1. All institutions use non-base pay in varying degrees and amounts. Unrelated duties earnings (100%) followed by performance and recognition awards (81%), were the most prevalent types in both public and private institutions
 2. Formal incentive plans are more prevalent in private vs. public institutions
 3. While all institutions reported having decentralized decision governance/administration of non-base elements, privates were much more likely to also have decentralized budgets to fund them. Programs and decisions tended to be more centralized, and therefore consistent, for staff than for other employee groups. Conversely, faculty programs varied widely based on specific schools' funding and/or competitive pressures
 4. The custom study did provide some empirical data for executives and deans. Results show that while UM non-base pay prevalence for this group exceeds that of the peers (i.e., more receive it); award levels are consistent with the market (i.e., awards generally range from 5 - 25% of salary and vary based on role and institution)

¹ Data rounded to near one percent.

Pay Competitiveness: Aggregate Spend

39 Top Management, Vice President, and Dean Roles

The *Aggregate Spend* analysis examines total remuneration expenditures among 39 top management, vice president, and dean roles versus that of the peer group.

AGGREGATE SPEND VERSUS MARKET

	Base Salary	Total Cash Compensation	Total Remuneration
% of Median	116%	126%	120%
% of 75 th Percentile	97%	101%	97%

+ variable compensation + retirement and deferred compensation

Findings

- In aggregate, UM's compensation spend approximates the 75th percentile of the market for base salary, total cash compensation, and total remuneration
- UM uses variable pay slightly more aggressively than peers, and retirement and deferred compensation slightly less aggressively, as reflected in total cash compensation and total remuneration positioning
- Consistent with our experience, private institutions pay significantly more than public institutions. UM's total compensation spend is at the top of the market when compared to public institutions and approximates the median of top private institutions

Public Disclosure

- A study of 20 large public institution compensation transparency practices indicated:
 - 30% of institutions disclose base salary only
 - 50% of institutions disclose base salary and total compensation
 - 15% of institutions disclose total compensation only
 - 5% do not report compensation broadly
- Public institution compensation disclosures are generally dictated by state regulations and are subject to Freedom of Information Act requests
- Only four institutions provided data directly on their university webpage. All other data was sourced from state government websites or news periodicals, who likely received the information through a Freedom of Information Act request
- Private institution compensation data is disclosed in IRS Form 990 tax filings and is limited to the top five highest compensated employees and “disqualified” individuals. Disqualified persons include “anyone in a position to exercise substantial influence over the affairs of the organization” and include officers, trustees, directors, and key employees
- Interviewees generally felt that moderate pay transparency (i.e., base salary only) was preferred. They also indicated that increasing transparency was far more likely to have no or a negative impact, than a positive impact on the institution

Transparency and Disclosure

Detail of Findings

Institution	Base Comp	Total Comp	Breakdown of Non-Base ¹	All Employees ²	Date of Release (Fiscal /Calendar Yr.)	Incumbent Data <i>Online Only/ Downloadable</i>
Indiana University—Bloomington	N	Y	N	Y	2013	Online Only
Iowa State University	Y	Y	Y	Y	2014 FY	Online Only
Michigan State University	Y	N	N	Y	2014 FY	Downloadable
Ohio State University—Main Campus	Y	Y	Y	Y	2015 FY	Online Only
Oregon State University	Y	N	N	Y	2015	Downloadable
Pennsylvania State University ³	N	N	N	N	N/A	N/A
Purdue University	Y	Y	N	Y	2014 FY	Online Only
Rutgers University—New Brunswick	Y	Y	N	Y	2014	Online Only
University of California—Berkeley	Y	Y	Y	Y	2013 CY	Online Only
University of California—Los Angeles	Y	Y	Y	Y	2013 CY	Online Only
University of California—San Francisco	Y	Y	Y	Y	2013 CY	Online Only
University of Illinois at Urbana—Champaign	Y	Y	Y	Y	2014 FY	Downloadable
University of Maryland—College Park	Y	N	N	Y	2015	Downloadable
University of Minnesota—Twin Cities	Y	Y	Y	Y	2014 FY	Online Only
University of Nebraska—Lincoln	Y	N	N	Y	2015 FY	Downloadable
University of North Carolina at Chapel Hill	Y	N	N	Y	2015	Downloadable
University of Texas at Austin	N	Y	N	Y	2014 FY	Downloadable
University of Virginia—Main Campus	Y	N	N	Y	2014 FY	Downloadable
University of Washington—Seattle Campus	N	Y	N	Y	2014 CY	Online Only
University of Wisconsin—Madison	Y	Y	Y	Y	2014 FY	Online Only
# of Institutions with Information	16	13	8	19		
# of Institutions without Information	4	7	12	1		
% with Information	80%	65%	40%	95%		

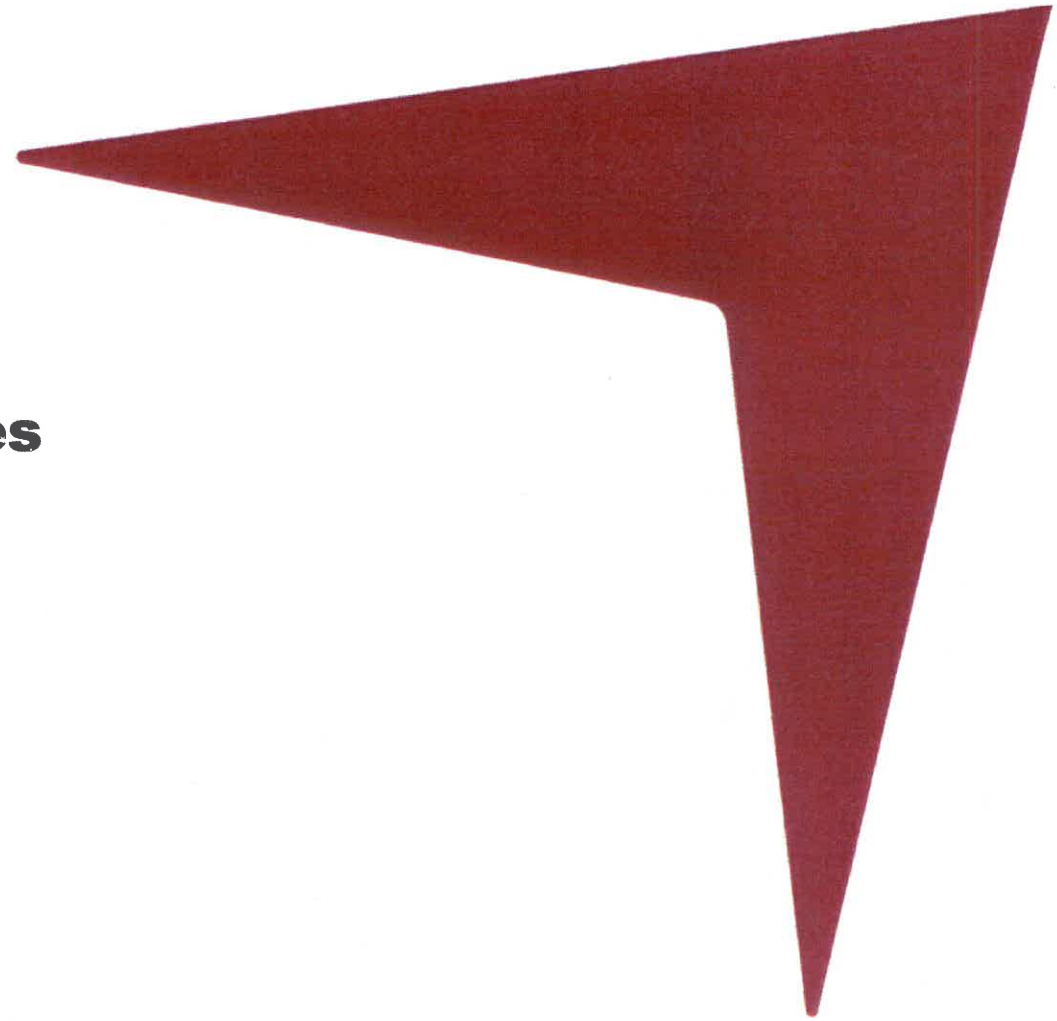
¹ Breakdown of non-base compensation includes delineation of one or more additional pay elements such as recognition awards, incentives, housing etc.

² "All Employees" includes executive officers, deans, faculty, coaches and staff

³ Executive data disclosed only through state mandated Form 990

Appendix

> Peer Institution Data Sources



Peer Information Sources

Arizona State University	University of Arizona
Boston College	University of California, Berkeley
Boston University	University of California, Los Angeles
Carnegie Mellon University	University of California, San Francisco
Columbia University	University of Chicago
Cornell University	University of Colorado Boulder
Dartmouth College	University of Florida
Duke University	University of Illinois
George Washington University	University of Kentucky
Harvard University	University of Maryland
Indiana University	University of Minnesota
Iowa State University	University of Missouri
Johns Hopkins University	University of Nebraska—Lincoln
Massachusetts Institute of Technology	University of North Carolina
Michigan State University	University of Pennsylvania
New York University	University of Pittsburgh
North Carolina State University	University of Southern California
Northeastern University	University of Tennessee, Knoxville
Northwestern University	University of Utah
Oregon State University	University of Virginia
Pennsylvania State University	University of Washington
Princeton University	University of Wisconsin
Purdue University	Vanderbilt University
Rutgers	Virginia Polytechnic Institute
Stanford University	Washington University in St. Louis
Syracuse University	West Virginia University
The Ohio State University	Yale University
The University of Texas at Austin	