

**The Critical Compensation Fund:
Evaluation and Recommendations for Improvement**

A report by the academic staff Critical Compensation Fund Evaluation Workgroup,
jointly sponsored by the Advisory Committee on Budget Issues, Policies, and
Strategies and the Compensation and Economics Benefit Committee

Table of Contents

Contents

Table of Contents	1
Executive Summary	2
Introduction	4
Issues and Recommendations	5
Topic #1: Quantity and Distribution of CCF Awards	5
Topic #2: Implementation of CCF by Units	8
Topic #3: Communication	11
Topic #4: Other CCF Requirements and Constraints	12
Topic #5: Future Compensation Exercises	14
Conclusion	15
Appendix 1: The Critical Compensation Fund	16
Appendix 2: Methodology	17
Appendix 3: Members of the CCF Evaluation Workgroup	18

Executive Summary

The Critical Compensation Fund (CCF) provided salary increases to 1,327 academic staff members (20.6% of all eligible academic staff), with an average award of \$4,695 or 7.75% of salary. Coming at the end of a decade in which pay plans fell behind inflation by approximately 12% and benefit cuts reduced take home pay for the median academic staff member by about 8%, these increases were very welcome. CCF sent a strong signal that the leadership of the University of Wisconsin-Madison sees uncompetitive compensation as a threat to the quality of the University, not a way to save money.

CCF offered targeted salary increases in 2012-13 for faculty and staff to address the growing gap in compensation between faculty and staff at the University of Wisconsin-Madison and their peers at other institutions. The academic staff Advisory Committee on Budget Issues, Policies, and Strategies and the Compensation and Economic Benefits Committee jointly sponsored this evaluation of CCF. While we consider CCF to be an overall success, this report describes issues we identified through analysis of CCF outcomes and interviews with CCF implementers and other employees and presents recommendations for improvement. We also believe the new HR Design should apply the lessons learned from CCF.

Our recommendations are:

- 1. Require that each school/college/division's proposed use of CCF meet or exceed the CCF target percent of payroll for academic staff, faculty, and limited employees separately unless they receive prior approval from the Academic Personnel Office.**
- 2. Require that total CCF awards as a percent of payroll be approximately the same for employees on GPR and non-GPR funding sources, for men and women, and for minorities and non-minorities. Any significant variance requires the prior approval of the Academic Personnel Office.**
- 3. Encourage human resources staff to be proactive in helping identify employees who are good candidates for CCF awards, particularly if an initial proposal falls short of the target for some categories.**
- 4. Allow for CCF awards that take effect at a future date.**
- 5. Require units that do not recommend any employees for CCF awards to provide a justification for this decision.**
- 6. Clarify the roles of central campus, schools/colleges/divisions, and departments/centers/units.**
- 7. Continue to encourage all supervisors to conduct regular performance evaluations.**
- 8. Encourage academic staff to present relevant information to their supervisors and advocate for themselves as part of the CCF process, and support them in doing so.**
- 9. Allow sufficient time for implementation of CCF.**
- 10. Develop a comprehensive communications plan.**
- 11. Continue the use of a minimum award and minimum percent of salary for academic staff.**
- 12. Develop and implement mechanisms which will ensure Category A maxima keep pace with both salaries and inflation. Consider whether the constraints created by Category A maxima are in the best interests of the University.**
- 13. Carry out a compensation exercise (pay plan, CCF, etc.) annually.**

Introduction

CCF offered targeted salary increases in 2012-13 for faculty and staff to address the growing gap in compensation between faculty and staff at the University of Wisconsin-Madison and their peers at other institutions. CCF provided funding equal to 2% of the fund 101 payroll for salary increases, with units expected to give similar increases to employees not paid from fund 101. Unlike a standard pay plan, no more than 30% of eligible employees within a school, college or division were expected to receive increases. CCF involved targeted pay adjustments aimed at recognizing equity, retention, market influences and, for classified staff, meritorious performance. Although performance could not be a basis for an increase under state law for faculty and academic staff, meritorious performance was necessary in addition to market, retention, or equity concerns.

The Critical Compensation Fund (CCF) provided salary increases to 1,327 academic staff members (20.6% of all eligible academic staff), with an average award of \$4,695 or 7.75% of salary. Coming at the end of a decade in which pay plans fell behind inflation by

“The Critical Compensation Fund made a big difference in my morale. It happened around the time that we had to start paying more for our benefits. I would have been in financial trouble if I hadn’t received the Critical Compensation Fund when I did.” —Wisconsin Center for Educational Research (WCER) Employee

approximately 12% and benefit cuts reduced take home pay for the median academic staff member by about 8%, these increases were very welcome. CCF sent a strong signal that the leadership of the University of Wisconsin-Madison sees uncompetitive compensation as a threat to the quality of the University, not a way to save money.

The academic staff Advisory Committee on Budget Issues, Policies, and Strategies and the Compensation and Economic Benefits Committee jointly sponsored this evaluation of CCF. The CCF evaluation workgroup analyzed CCF outcomes, interviewed CCF implementers and other employees across campus, and carried out a more detailed case study of CCF implementation in the Wisconsin Center for Educational Research (WCER). While we consider CCF to be an overall success, this report describes issues we identified and presents recommendations for improvement. Many of the recommendations are “best practices” that units found helpful in implementing CCF, and others are carried over from the standard implementation of pay plans.

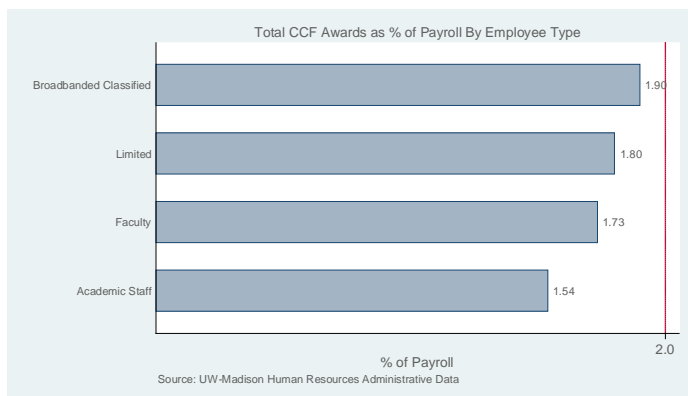
We believe our report and recommendations have value beyond improving future implementations of CCF. The primary feature of CCF was its flexibility. The new HR Design also envisions giving units and supervisors greater flexibility, so the new HR Design should apply the lessons learned from CCF.

Issues and Recommendations

Topic #1: Quantity and Distribution of CCF Awards

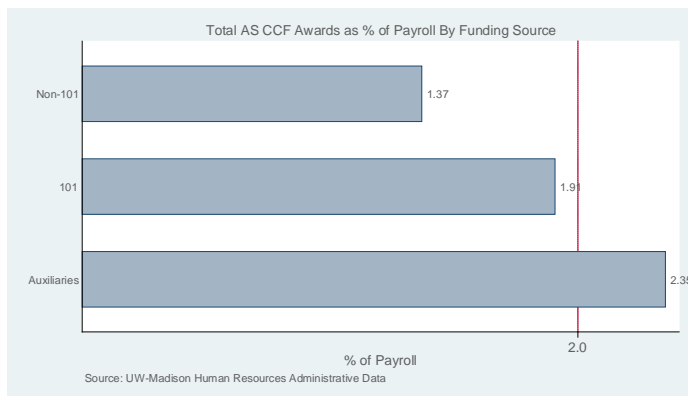
Issue: Total CCF awards were less than the program's target of 2% of payroll.

CCF allocated 2% of GPR payroll for salary increases (units could exceed this target by using their own funds). Units were expected to spend the same amount on salary increases for employees on non-GPR funding sources. However, total CCF awards were less than 2% of payroll for all employee types, with broadbanded classified staff coming closest, limited employees and faculty close behind, and academic staff fourth.



Issue: CCF awards varied significantly by funding source, school/college/division, and minority status.

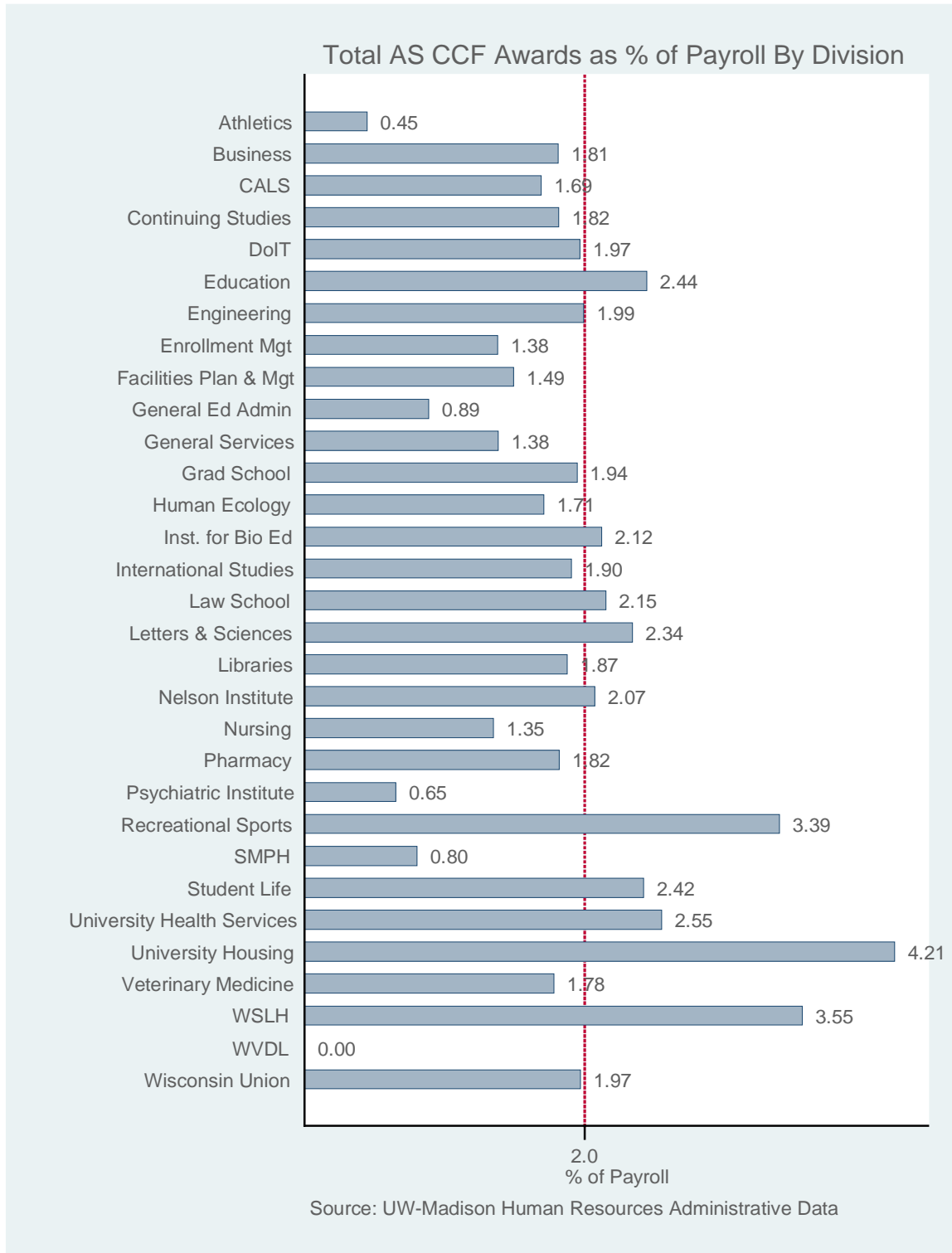
Total academic staff CCF awards as a percent of payroll varied significantly by funding source. As a group, self-funded auxiliaries (Athletics, Wisconsin Union, Recreational Sports, University Health Services, and University Housing) exceeded the 2% target. However, total awards to academic staff on non-GPR funds other than auxiliaries were substantially below the target. Many groups funded by grants reported that their budgets were already set and they simply did not have money available for CCF awards.



The proportions of classified staff and faculty paid from fund 101 are much larger than the proportion of academic staff paid from fund 101, so differences in CCF awards by funding source explain much of the variation between employee types.

We acknowledge the timing of the exercise and the limited funding for those on gifts and grants contributed to the differential participation in CCF. However, we note that units are not allowed to avoid giving out standard pay plan increases due to lack of funds and recommend that it not be allowed in future CCF exercises.

Total academic staff awards as a percent of payroll varied significantly between schools, colleges, and divisions, with some going well above the 2% target and others well below. Units that exceeded the 2% target did so by reallocating funds within the unit.

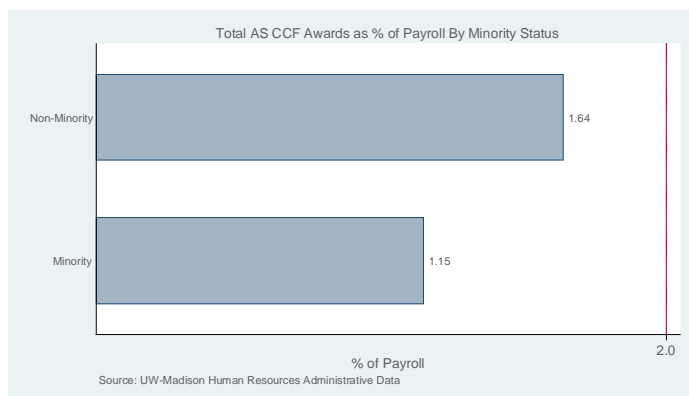


Due to their unique budget situations, the Wisconsin State Hygiene Lab (WSHL) and the Wisconsin Veterinary Diagnostic Lab (WVDL) were not given CCF targets.

The School of Medicine and Public Health (SMPH) is a particular concern because more than one-third of academic staff work in SMPH and its total CCF awards to academic staff were just 0.8% of payroll. We examined two theories for why SMPH was so far below the target. First, a higher proportion of SMPH academic staff is funded with gift and grant funds and, for the University as a whole, individuals paid with non-GPR funds were less likely to receive a CCF adjustment. However, in SMPH the results by funding source were very similar, with total awards to academic staff on GPR funds at 0.77% of payroll and total awards to academic staff on non-GPR funds at 0.81% of payroll.

Second, most Clinical Track and Clinical Health Sciences (CHS) Track professors in SMPH are compensated according to a plan that specifies total compensation including UW Medical Foundation pay for clinical work. Because of this funding model, SMPH reported that most Clinical and CHS positions were not considered for CCF because there would be no net salary gain. When these positions are excluded, approximately 15% of academic staff in SMPH received a CCF adjustment and CCF adjustments as a percent of payroll increases to 1.13%. (Note that Clinical Track and CHS Track professors are officially classified as academic staff.) Since this is still well below the 2% target, there may be other factors at work we did not identify.

Results by gender were very similar. However, we found significant disparities by minority status¹. Award sizes as a percent of salary were similar; however, just 15.8% of eligible minority academic staff received CCF awards vs. 22.0% of eligible non-minorities. This difference remains after controlling for other variables (see the forthcoming Appendix 4).



Recommendation 1: Require that each school/college/division's proposed use of CCF meet or exceed the CCF target percent of payroll for academic staff, faculty, and limited employees separately unless they receive prior approval from the Academic Personnel Office.

Recommendation 2: Require that total CCF awards as a percent of payroll be approximately the same for employees on GPR and non-GPR funding sources, for men and women, and for minorities and non-minorities. Any significant variance requires the prior approval of the Academic Personnel Office.

¹ Minority status is determined through self-report and is defined as those individuals who identified as Black, African American, Hispanic, Latino/Latina, American Indian, Asian, Asian American, Native Hawaiian or other Pacific Islander. Minority status is independent of citizenship or residency status – both minority and non-minority staff include citizens and non-citizens.

A standard pay plan requires schools, colleges, and divisions to provide average increases equal to the pay plan increase. They are also required to give similar increases to employees regardless of funding source, and to give similar increases to men and women. Exceptions must be approved by the Academic Personnel Office. Our recommendation applies the basic standards for distributing a pay plan to CCF, with the additional requirement of similar increases for minorities and non-minorities. We believe the outcomes of the recent CCF exercise justify the additional scrutiny.

Recommendation 3: Encourage human resources staff to be proactive in helping identify employees who are good candidates for CCF awards, particularly if an initial proposal falls short of the target for some categories.

In the School of Education, HR staff suggested individuals who would be good candidates for CCF awards, and supervisors found this very helpful. Numbers of CCF awards

*“[School of Education Acting Dean] Adam Gamoran and a WCER administrator reviewed equity issues to prompt units to put forward recommendations.”
—WCER Administrator*

were more equitable in the School of Education across minority status, though minorities on average received smaller awards. Thus we suggest the School of Education model as a best practice with the proviso that the size of awards should be more closely monitored.

Recommendation 4: Allow for CCF awards that take effect at a future date.

Units which do not have money available in their current budget can be encouraged to give CCF awards that will take effect at the time money can be made available. These would not be contingent awards (“we will give an award *if* money becomes available”) but firm commitments to give the award on a specific date, which would depend on the unit’s budget cycle.

Topic #2: Implementation of CCF by Units

Issue: Implementation of CCF varied widely between units.

Our interviews suggest that there was confusion about the purpose of CCF, criteria for giving awards, and eligibility. This confusion led to

“It seemed whoever was ambitious or whoever had an ambitious boss would get the CCF, but that is how the real world works.” —WCER Employee

differences in implementation. Some employees perceived these differences as unfair, however, CCF was designed to provide maximum flexibility and we believe differences in CCF implementation are appropriate when they are driven by the needs and strategies of schools/colleges/divisions or individual units.

Departments varied widely in the quantity of CCF awards given, with 29% of departments giving no awards to faculty or academic staff at all and 33% exceeding the target. There are legitimate reasons why a department might give no CCF awards, especially a small department (90% of departments that gave no CCF awards had fewer than ten faculty and academic staff). For example, all the employees could have been hired within the previous year at market rates

and were thus ineligible according to CCF guidelines. However, we're concerned that some departments may have given no awards without such a reason.

Recommendation 5: Require units that do not recommend any employees for CCF awards to provide a justification for this decision.

Some supervisors reported they were unclear about the guidelines for the exercise. One specific eligibility question that came up in interviews was whether employees who had recently received salary increases for other reasons could be given CCF awards. Central administration guidelines for CCF stated, "Although all faculty are eligible, those hired at market rate within the last 2-3 years or who received a market rate base adjustment for retention purposes within the last 2-3 years should not receive first consideration." Answers to FAQ prepared by the Office of Human Resources specified that units may choose to exclude academic staff with recent market adjustments from the CCF exercise or may choose to include them if there is still a market or equity problem. Analysis suggests some units avoided giving CCF awards to employees who had recently received increases, while others were more likely to give CCF awards to employees who had recently received increases than to those who hadn't. This indicates that there were different implementations of CCF policies in different units, and perhaps different compensation strategies in general. This guideline will become even more important in future CCF implementations as supervisors must consider whether to give CCF awards to people who received CCF awards in previous implementations, and the intent of the program should be made clear.

In some cases, what was perceived as a lack of clarity was intended as flexibility. For example, in the College of Letters and Sciences it was up to supervisors to decide whether to give CCF awards to employees who had recently received compensation increases.

Recommendation 6: Clarify the roles of central campus, schools/colleges/divisions, and departments/centers/units.

A clear, purposeful plan at each level of decision-making will eliminate confusion regarding eligibility and provide transparency to employees. One possible division of responsibilities is below.

Decisions to be made centrally:

- CCF target percent of payroll
- Fraction of employees who may be given awards
- Final deadline for making CCF awards
- Mandatory criteria
- Any criteria that are recommended but not considered mandatory
- Campus communication strategy

Decisions to be made by schools/colleges/divisions:

- How CCF will be used to further the school/college/division's overall strategy
- Whether any additional criteria will be required or recommended
- Detailed timeline for implementation
- Approval process
- School/college/division communication strategy

Decisions to be made by units:

- How CCF can address the unit's particular needs
- Who should receive CCF awards and the size of awards

Supervisors should understand that they are empowered to use the flexibility provided by CCF, within the guidelines provided by their school/college/division, to advance the mission of their unit. Supervisors should feel free to ask human resources staff for clarification when needed, but they should expect to make difficult decisions.

Issue: Supervisors sometimes did not have all the information they needed to make informed decisions about CCF awards.

Our interviews found that performance evaluations were very useful to supervisors in deciding who was qualified to receive a CCF award.

"If this exercise is repeated in the future, I would suggest it be tied to the annual performance review." —WCER Employee

Unfortunately, performance evaluations are not conducted consistently or regularly in all units.

Recommendation 7: Continue to encourage all supervisors to conduct regular performance evaluations.

In some units employees were allowed to make their own case for receiving a CCF award. This increased the amount of information supervisors could use to make decisions, and our interviews suggest it also improved morale.

"I would clarify whether there is anything that the employee can do to advocate for themselves." —WCER Employee

"My involvement in the process maximized the improvement in my morale. I felt that someone was trying on my behalf; I was able to give input." —WCER Employee

Recommendation 8: Encourage academic staff to present relevant information to their supervisors and advocate for themselves as part of the CCF process, and support them in doing so.

Academic staff are currently permitted to present relevant information as part of the standard pay plan process (though this is not well known); this recommendation applies it to CCF as well.

Issue: Some units had difficulty meeting CCF deadlines, and carrying out the CCF exercise during the summer created problems for some units.

Some units felt that the timeframe by which they were asked to complete the CCF exercise was too short, though others said it was adequate. Also, since many faculty and instructional academic staff are not physically on campus during the summer, some units (such as the College of Letters and Sciences) did not begin the CCF exercise until the fall.

Recommendation 9: Allow sufficient time for implementation of CCF.

Topic #3: Communication

Issue: Awareness and understanding of CCF varied greatly.

Many academic staff members had some awareness and understanding of CCF; however, some reported not becoming aware of CCF until after it was announced in local media or not being aware at all. (In one striking case, an employee first learned about CCF when she asked why her paycheck had increased.) Others had limited understanding, with HR and administrative staff having the clearest understanding. Some employees found it difficult to understand the HR jargon used in the memos that described CCF, and some admitted they did not read them because they were too long.

Several of our interviewees said they believed that getting a CCF award depended on status or connections (for example, “The process rewarded those who were already in higher-level positions” and “Those who had more ties to administrators were more likely to get CCF for their people.”). Better communication about CCF criteria and more transparency in its implementation would help to ameliorate this perception.

Recommendation 10: Develop a comprehensive communications plan.

The communications plan should include the following elements:

- *Plan how employees will learn about CCF, and ensure the plan will reach all employees.* If responsibility for the initial announcement is delegated to schools/colleges/divisions, ensure they make the announcement in a timely manner even if the details of their implementation of CCF have not yet been determined.
- *Do not use HR jargon in communications with general employees.*
- *Clearly separate policies which only apply to faculty, limited employees, or classified staff from policies which apply to academic staff in CCF memoranda.*
- *Have school/college/division HR staff hold workshops for supervisors.* Content could include:
 - A thorough explanation of both the University’s requirements and the school/college/division’s strategy and timeline (Recommendations 1, 2, & 5)
 - A reminder that carrying out regular performance evaluations will make CCF much easier to implement, and that employees should be encouraged to submit relevant information (Recommendations 6 & 7)
 - A demonstration of how to use HR information systems to identify good candidates for CCF (Recommendation 3)

“I suggested to the business office that a meeting for questions and answers would have been useful for answering questions about how the Critical Compensation Fund might work. I know there are answers somewhere in the business office, and it’s harder to extract those answers than it would be to have an information session.”
—WCER Employee

- A brief presentation on “Talking to Employees about CCF,” perhaps presented by Office of Human Resource Development Staff
- Allow plenty of time for questions.
- *Encourage supervisors to hold face-to-face meetings to discuss CCF with employees (individually or as a group), first to introduce the program and then afterwards to discuss the outcomes.*
- *Ensure everyone who receives an award is notified in a timely manner.*
- *Ensure the timeline is well-known.* Employees should understand that if they have not been notified about receiving a CCF award by a designated date, they have not been awarded one.
- *Hold a debriefing for supervisors after the CCF awards are made to review the outcomes and evaluate the process.*

“I think if we were to do this kind of exercise on campus in the future, more communication should come from department/unit directors, such as my boss, during the Critical Compensation Fund decision making, to make the communications more direct and relevant.”

—WCER Employee

“My supervisor was engaged and well informed with the process, and feedback from him was clear and straightforward.”

—WCER Employee

The College of Letters and Sciences held a workshop for supervisors that was well-received.

“The meeting I attended last September organized by the L&S dean's office was very informative. Not only was the process explained in detail, we also had an opportunity as a group to listen to each other's questions and concerns. I left the meeting with the knowledge I needed to make requests for CCF funds for personnel in my unit.”

—College of Letters and Sciences Supervisor

It is our impression that face-to-face meetings generally led to higher levels of understanding and helped units deal with the strong feelings CCF sometimes created.

“I would also have done more communication than by emails.”

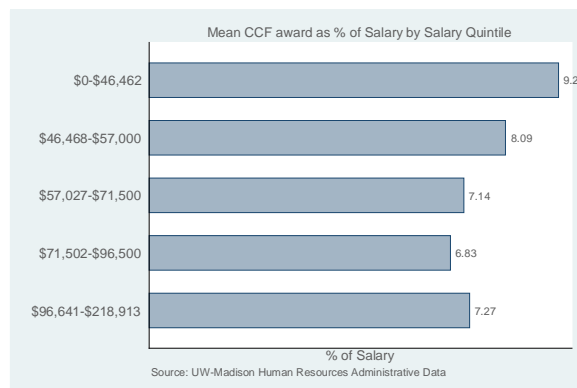
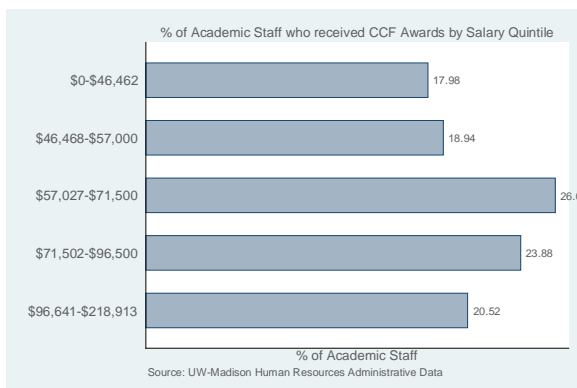
—WCER Employee

Topic #4: Other CCF Requirements and Constraints

Issue: Benefit changes implemented by Act 10 had a disproportionate impact on low-income academic staff.

Some of the benefit changes implemented by Act 10 reduced take-home pay by a fixed dollar amount. Thus they had a greater impact on low-income academic staff. CCF required a minimum award of \$3,000 for academic staff in an attempt to offset those changes.

Academic staff members in the lowest salary quintile were somewhat less likely to receive CCF awards. However, their average award as a percent of salary was higher. This indicates that the minimum CCF award accomplished its intended purpose for those who received it.



Recommendation 11: Continue the use of a minimum award and minimum percent of salary for academic staff.

In some very small units, depending on how the division distributed its CCF funds, the minimum could create a situation where a GPR-funded unit was not given enough money to fully fund a CCF award. We recommend that each school/college/division identify methods to deal with that particular issue. If no other solution can be found, the Academic Personnel Office may approve exceptions to the minimum award so that an award can be made.

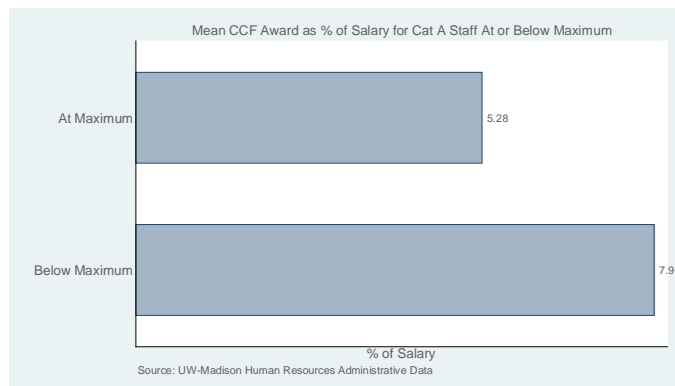
Issue: CCF increased academic staff salaries but did not increase Category A maxima. Category A maxima also constrained some CCF awards.

Category A academic staff titles have associated pay ranges that set minimum and maximum salaries. Normally the minima and maxima are increased in conjunction with a pay plan, which allows them to increase at the same rate as salaries (and ideally to keep up with inflation). Category A maxima were increased by 2% in January 2012 but this increase was not formally linked to CCF. If self-funded compensation exercises which increase salaries but not Category A maxima become common, then Category A maxima will affect more and more academic staff.

After accounting for inflation, the real values of the Category A maxima have fallen by 9.7% since 2003. If pay plans continue to give raises lower than the rate of inflation, these values will continue to decline. Indexing Category A maxima to inflation would prevent further declines and most likely prevent them from constraining the salaries of more employees.

While CCF generally set a minimum award of \$3,000 or 5% of salary, it allowed smaller awards for Category A academic staff that were close enough to the maximum for their pay range that a standard award would take them over it. Unfortunately, not all units were aware of this exception.

Seventy Category A academic staff members received CCF awards that took them to the maximum for their pay range. However, their average award as a percent of salary was significantly smaller than other academic staff. It is likely units would have chosen to give larger awards if they had not been constrained by Category A maxima.



Recommendation 12: Develop and implement mechanisms which will ensure Category A maxima keep pace with both salaries and inflation. Consider whether the constraints created by Category A maxima are in the best interests of the University.

Topic #5: Future Compensation Exercises

Issue: Most UW-Madison employees, including many Principal Investigators and others who set budgets, did not anticipate CCF (or any compensation exercise in 2012). Future compensation exercises remain uncertain.

CCF came as a surprise to both employees and many supervisors after four years with no state pay plan. It was a welcome surprise, to

“One principal investigator chose not to pursue [a CCF award] for himself to avoid changing project money.”
— WCER Administrator

be sure, but some of the challenges in implementing CCF were a direct result of it being unexpected. For example, some units did not have money available for CCF awards because they had built their budgets on the assumption that there would not be a compensation exercise.

The 1% pay plan approved by the state for 2013 and 2014 is again welcome but does not give a clear signal about future intentions. Inflation is expected to be roughly 2% annually for the near future, so this pay plan represents a slower decline in real compensation rather than a real increase. The University’s stated desire to return compensation to competitive levels suggests additional compensation exercises are required. Units need clear and timely guidance to plan for them.

Recommendation 13: Carry out a compensation exercise (pay plan, CCF, etc.) annually.

Making compensation exercises predictable would have many advantages:

- Units would know to budget for salary increases (this is especially important for units funded by grants and contracts)
- Employees who did not receive CCF awards would feel more positive about CCF if they knew they might receive a salary increase in the future
- Both supervisors and employees would know that performance evaluations will have consequences in future compensation exercises

- Employees (and potential employees) would no longer have reason to believe that their real compensation is likely to decline indefinitely at UW-Madison

Future compensation exercises should include components that specifically target academic staff, such as academic staff equivalents to the High Demand Faculty Fund and the Stern Portfolio. In the period covered by our data, the median academic staff salary fell from 55% of the median faculty salary in 2011 to 53.8% of the median faculty salary in 2013. The fact that faculty salaries at UW-Madison are now 18% lower on average than faculty salaries at our peer institutions has been much discussed. If UW-Madison academic staff are falling behind UW-Madison faculty at the same time UW-Madison faculty are falling behind their peers, then UW-Madison academic staff are likely falling behind our peers at a similar or even faster pace.

The size of the compensation exercise will vary from year to year depending on many factors, but clearly we need a substantial long-term commitment in order to raise salaries to competitive levels. Unfortunately, these compensation exercises may often have to be self-funded. The sacrifices implied by a self-funded compensation exercise are significant. However, in an environment where state support is declining, federal funding is in jeopardy, and tolerance for further tuition increases is limited, we see few alternatives.

Conclusion

Through analysis of CCF outcomes and interviews with CCF implementers and other employees, we have identified best practices and other recommendations that we believe will improve future implementations of the Critical Compensation Fund. In general, insisting on the same standards as a pay plan (where they apply) will ensure CCF awards are distributed equitably and meet the University's stated goals and numeric targets.

The quality of a research university depends almost entirely on its faculty and staff, and in the long run the University of Wisconsin-Madison cannot expect to maintain its quality without competitive compensation. Given that funding for regular and adequate across-the-board pay plans is not likely to be available, alternatives like the Critical Compensation Fund are vital and should be used frequently.

Appendix 1: The Critical Compensation Fund

Sections:

1. Memorandum to Deans and Directors on CCF:
http://www.ohr.wisc.edu/HR_Memos/Competitive%20Compensation%20Fund%20Cover%20memo.pdf
2. CCF Policy document:
http://www.news.wisc.edu/assets/9/original/Critical_Compensation_Fund_PolicyFINAL.pdf?1339607876

June 12, 2012

MEMORANDUM

TO: Deans and Directors

FROM: Paul M. DeLuca Jr., Provost
Darrell Bazzell, Vice Chancellor for Administration

Subject: 2012-13 Critical Compensation Fund (CCF)

Since he returned to campus in June 2011, Interim Chancellor David Ward has championed the idea of recognizing and retaining high-performing employees. UW-Madison salaries have not kept pace with the market for faculty, classified staff, academic staff and limited appointees. This has made it more difficult to attract exceptional talent and retain our best employees. To address this increasingly critical situation, the university has decided to proceed with a plan to provide the authority and funding to help close this compensation gap. The purpose of this Critical Compensation Fund (CCF) is to preserve the university's ability to carry out its mission by providing funds to increase the compensation of critical faculty and staff. The fund will provide targeted pay increases to address equity, retention, market influences and, for classified employees, exceptional performance.

This is not a pay plan, which the university has not had for several years. It will apply only to selected faculty, academic staff and classified staff. This fund was created by an overcut of fund 101 allocations to generate a pool of funds to distribute to all eligible employee groups.

Attached are the criteria, guidelines and procedures for use of the CCF. Here are a few key points.

- The funding is to be used to address market, retention and equity concerns. In addition, performance may be used as a criterion for classified employees (but not unclassified employees). Although performance cannot be used as a basis for an adjustment for faculty, academic staff or limited, exceptional performance is a necessary condition. In addition, please consider significant educational innovation as a marker of meritorious performance.
- The earliest effective date for adjustments utilizing this fund is July 1, 2012 (A-basis) and August 27, 2012 (C-basis). Adjustments cannot be made retroactively; the earliest effective date will be determined using the standard campus practices for adjustments.
- The adjustments will be base adjustments for faculty, academic staff and limited employees. For classified employees, the increase can be a base salary increase or lump sum, depending on the type of employee (see the attached CCF guidance document for details). Lump sum adjustments will not be permanent base allocations. The Budget Office will process mid-year transfers for FY13 for both permanent base salary increases and lump sum adjustments for GPR-funded positions. Continuing funding for GPR permanent base salary increases will be included in your FY14 budget planning allocations.
- Faculty, classified staff, academic staff and limited employees on non-state funds (including gifts, grants, contracts and auxiliary revenue) are subject to the same policies as state-funded staff. Units are expected to expend 2 percent of funds for this purpose.

- It is anticipated that no more than 30 percent of eligible employees within a school, college or division may receive increases.
- For each employee category, there are minimum percentage and/or dollar-amount increases.
- Deans and directors may use their school, college or division funds to exceed the 2 percent allocated under this fund.
- Please keep in mind internal salary equity issues, such as race and gender equity, as you make these allocations.
- Funding and authority cannot be transferred from one employee category to another (e.g., from academic staff to faculty).
- We have fully delegated the authority to deans and directors to approve adjustments under this initiative for faculty, academic staff, and limited employees. For classified adjustments, you will need to apply the campus Discretionary Merit Compensation (DMC) policy.

We will provide your HR representatives with detailed information this week about how to process your adjustments.

If you have any questions, please contact Tim Norris in the Madison Budget Office or Mark Walters or Steve Lund in the Office of Human Resources.

Attachment

xc: David Ward
Heather Daniels, Academic Staff Executive Committee
Debbie Weber, Council of Non-represented Classified Staff
Mark Cook, University Committee
Bob Lavigna
Tim Norris
Mark Walters
Steve Lund
HR Reps

JUNE 12, 2012

CRITICAL COMPENSATION FUND

University salaries have fallen behind the market for both faculty and staff. For example, despite being a world-class university, UW-Madison faculty compensation lies at the bottom of our peer group -- and the gap is growing. According to the 2011-12 Annual Report of the Commission on Faculty Compensation and Economic Benefits, "In the past decade, UW-Madison faculty salaries have fallen, on average, one percent per year behind the median average at peer institutions." Similarly, it has become difficult to attract and retain academic and classified staff, particularly in highly-technical fields.

To address this increasingly-critical situation, the university has decided to proceed with a plan to provide GPR funds and the authority to use non-GPR funds to help address this compensation gap. An allocation of 2% of GPR funds generated by all eligible employee groups has been budgeted. The purpose of the Critical Compensation Fund (CCF) is to preserve the University's ability to carry out its mission by providing funds to increase the compensation of critical faculty and staff. This strategy will not involve across-the-board increases. Instead, we will provide targeted pay increases to address equity, retention, market influences and, for classified employees, exceptional performance.

A. Criteria for CCF awards

1. Faculty, Academic Staff and Limited

- a. CCF funding is to address market, retention, and equity concerns. This is not a pay plan based on merit.
- b. Meritorious performance is, however, necessary for an employee to be eligible for an adjustment.
- c. For faculty, the relevant time span for consideration of sustained achievement normally may reach back as far as five years preceding the recommendation of an adjustment to the dean. Sustained achievement recognized by awards and prizes often trigger a market or equity concern which this initiative can address. Departments and deans are urged to also consider evidence of significant educational innovation as a marker of meritorious performance.

Examples of meritorious performance indicators:

1. External peer-reviewed markers of sustained achievement
 - a. Achievement recognized in *nearly all fields* (e.g., election to AAAS);
 - b. Achievement recognized in *some fields* (e.g., Guggenheim Fellowship);
 - c. Achievement recognized in *your field* (e.g., significant recognition of publication, research awards, program project awards).

2. Internal peer-reviewed markers of sustained achievement
 - a. Award based on a *campus-wide process* (e.g., a WARF Professorship, Distinguished Teaching Awards);
 - b. Achievement related to a group of units (e.g., a cluster or split appointment);
 - c. Rating by *home department* (consistently high annual evaluations).

These are illustrative rather than exhaustive; in all cases, local units and schools decide on valid markers of achievements.

2. Classified Staff

- a. CCF funding is to address market, retention, equity, and outstanding performance. It is not considered a pay plan.
- b. Discretionary Merit Compensation (DMC) adjustments will be used to provide CCF compensation increases. The campus DMC policy (see below for link to the policy) describes the guidelines for providing these adjustments.

B. Eligibility for CCF awards

1. Academic Staff and Limited – All academic and limited staff are eligible for adjustments except as follows
 - a. Category A academic and limited staff may not exceed their pay range maximums.
 - b. Employees with fixed-term terminal or hourly appointments.
 - c. Employees who began employment on or after July 1, 2011 (i.e., it is assumed they were hired at competitive rates).
 - d. Re-employed annuitants.
2. Faculty – Although all faculty are eligible, those hired at market rate within the last 2-3 years or who received a market rate base adjustment for retention purposes within the last 2-3 years should not receive first consideration
3. Classified Staff – All permanent and project employees are eligible for adjustments except:
 - a. Supervisors who have not completed formal performance evaluations on all subordinate employees within the past 12 months;
 - b. Employees who were rated below satisfactory in the previous fiscal year;
 - c. Employees in broad band pay schedules who were hired within last 12 months (it is assumed that they were hired at competitive rates);
 - d. Employees at their pay range maximums;
 - e. Employees in crafts worker and related positions; and
 - f. Employees in LTE appointments.

C. Using the CCF to increase compensation

1. Faculty, Academic Staff and Limited – all will be base salary adjustments.
2. Classified Staff
 - a. Increases will be permanent base salary adjustments for employees in positions currently within broad banded pay schedules (primarily FLSA exempt/salaried). These adjustments can be for market, retention, equity and outstanding performance.
 - b. Increases will be lump sum payments, based on performance, for employees in non-broad banded pay schedules (primarily FLSA non-exempt/hourly positions). This is because the state compensation plan prohibits base salary adjustments for these employees. Campus funding for lump-sum payments will be provided only for FY 2012-13.

D. Effective dates of CCF adjustments -- Adjustments may be effective as early as July 1, 2012 for those on 12-month appointments and August 27, 2012 for those on 9-month appointments. Adjustments cannot be made retroactively; the earliest effective date will be the first day of the month following receipt of the department's recommendation by the dean's/director's office. Classified adjustments will be effective the beginning of the first pay period after the request is received.

E. Additional guidelines for CCF awards

1. Non-state funds – Faculty, classified staff, academic staff and limited employees on non-state funds (including gifts, grants, contracts and auxiliary revenue) are subject to the same policies as state-funded staff. Units are expected to expend 2 percent of funds for this purpose.
2. Campus values and strategic support for interdisciplinary and cross-college partnerships - Deans/directors should consider the link between department and/or program area and the strategic priorities of the university, as well as the school/college/division.
3. Other types of adjustments -- This fund is not a substitute for promotions, or for base adjustments/reclasses based on changes in job duties, both of which should continue as usual. Classified and academic staff members who work in areas where positions have been eliminated should be reviewed to see if these employees have taken on new duties as a result and, if so, whether those duties warrant an adjustment based on a change in duties.
4. Proactive adjustments -- Units are encouraged to use CCF funds proactively to retain valued employees. It is not necessary that an outside offer either exist or be pending for a salary increase to be granted under this program. However, each school/college/division must be able to justify the use of the funds in the context of these guidelines.

5. Existing salary equity -- To ensure that current salary levels are equitable, units should pay particular attention to employees with similar duties, experience and performance to ensure discrepancies do not exist.
6. Distribution equity -- Deans/directors must review CCF awards to ensure they reflect an equitable distribution based on gender, race and ethnicity.
7. Distribution by funding source -- Differential treatment based on funding source is not permitted.
8. Adjustment minimums
 - a. Academic Staff and Limited -- individual salary increases cannot be less than 5% of an employee's current salary or \$3,000, whichever is higher.
 - b. Classified Staff -- individual salary increases/lump sums cannot be less than 5% of an employee's current salary or \$1,500, whichever is higher.
 - c. Faculty -- individual salary increases cannot be less than 5%.
9. Distribution limit -- CCF funding may not be used to provide general "across-the-board" increases. It is anticipated that no more than 30% of eligible employees within a school, college or division may receive a CCF increase.
10. Using existing base budget to supplement the CCF -- Units may supplement, from their base budgets, the funding from the CCF to increase the amount of a base adjustment or lump sum payment (for non-exempt classified only).
11. Split appointments or multiple appointments -- Agreement on salary base increases must be reached between employing budget units, including UW-Extension, which jointly employ staff members. If CCF salary base adjustments are not agreed to by all employing units, the recommendations will not be accepted. When salary base increases are being determined, deans/directors should remember that the increases must be in proportion to the base salary by employing unit.
12. Prior approval of transfers -- Transfer of state funds for retention between employment types (i.e., faculty, academic staff, classified, limited) is only permitted with prior approval from the Madison Budget Office and Office of Human Resources (OHR).
13. No reassignment of funds -- State funding provided for the CCF may not be reassigned to other major cost classes such as supplies or capital, and may not be used to increase the salary rates of vacant positions.

F. Process for awarding CCF adjustments

1. Faculty, Academic Staff and Limited -- The authority for approval of adjustments under this initiative is fully delegated to Deans and Directors. APO approval is not required. The names, adjustment amounts and effective dates must be submitted on a spreadsheet to APO for entry into HRS. However, each dean's/director's office is required to maintain records of the justifications for all adjustments and may be asked to produce that

information. The justifications should illustrate the relationship between the particular case and the criteria for CCF adjustments. Detailed submission information will be sent directly to each division's HR staff.

2. *Classified* -- All classified adjustments, including with CCF funds, must follow the campus DMC policy. Classified Human Resources (CHR) needs to request approval from the Office of State Employment Relations (OSER) for each adjustment. Deans/directors should use the online DMC work flow process.

Campus DMC Policy --

http://www.ohr.wisc.edu/HR_Memos/DMC_Policy&Instructions_3-24-12.pdf

DMC Online Work Flow -- <http://apps.ohr.wisc.edu/dmc>

Appendix 2: Methodology

The Academic Staff Advisory Committee on Budget Issues, Policies, and Strategies and the Compensation and Economic Benefits Committee jointly sponsored this evaluation of CCF. The committees formed a work group composed of committee members and volunteers. The work group members brought a great deal of expertise to the table, including backgrounds in University administration, human resources (several members had been involved in implementing CCF), assessment and compliance, and statistics and analysis. The information gathering phase of our evaluation had three parts:

Quantitative Data Analysis

One group requested and received administrative data on all academic staff and faculty in order to analyze the use of CCF. We were given a tremendous amount of data and we very much appreciate both the openness of the Academic Planning and Institutional Research Office and the time they spent preparing it for us. (The work group members who analyzed the data have experience with sensitive data and employee privacy was protected at all times.) The data set was taken from the October 2011 and October 2012 payroll data and the HR_ALLJOB_VW data view, as of April 15, 2013.

Overview of Communication and Implementation

A second group contacted HR staff in departments across the University and asked for information about their implementation of CCF and especially their communications about it. About half of those contacted responded.

School of Education Case Study Analysis

A third group conducted a more detailed case study of CCF implementation in the School of Education and particularly the Wisconsin Center for Educational Research.

Our interviews were not intended to create a representative sample that would allow us to make inferences about the University as whole, but rather to give insight into how CCF was or could be implemented. The quantitative data covered the entire University and is not affected by sampling issues.

We have included a number of quotations from participants in our case study interviews. By including a quotation from an interview in our report the workgroup is not necessarily endorsing that quotation as an accurate description of CCF. However, it is an accurate description of how that employee perceived CCF, and those perceptions are very important.

Appendix 3: Members of the CCF Evaluation Workgroup

Heather Daniels*, Senior Administrative Program Specialist, Graduate School Research Services
(Now Secretary of the Academic Staff)

Russell Dimond*, Senior Information Processing Consultant, Social Science Computing
Cooperative, College of Letters & Sciences

Sharon Gehl**, Associate Administrator, Department of Medicine, School of Medicine and
Public Health

Margaret Harrigan*, Distinguished Policy and Planning Analyst, Academic Planning and
Institutional Research, Office of the Provost

Mats Johansson**, Senior Scientist, Department of Biomolecular Chemistry, School of Medicine
and Public Health

Cheryl Adams Kadera, Assistant Dean, Academic Staff Human Resources, College of Letters &
Science

Robin Kurtz*, Distinguished Faculty Associate, Department of Bacteriology, College of
Agricultural and Life Sciences

Deb McFarlane, Student Services Coordinator, Department of Political Science, College of
Letters and Sciences

Clarissa Steele, Assistant Researcher, Value-Added Research Center, Wisconsin Center for
Education Research, School of Education

Nola Walker**, Senior Academic Librarian, Assessment & Public Services, General Library
System

* Member of the Advisory Committee on Budget Issues, Policies, and Strategies

**Member of the Compensation and Economic Benefits Committee

4 of 10 workgroup members received CCF awards.