COMMISSION ON FACULTY COMPENSATION AND ECONOMIC BENEFITS
ANNUAL REPORT FOR 2011-2012

I. STATEMENT OF COMMITTEE FUNCTION OR CHARGE

As specified in *Faculty Policies and Procedures* 6.34, the commission's charge is to address matters of faculty compensation and benefits by providing information, offering recommendations, representing the faculty in campus-wide discussions, and coordinating with the Academic Staff Executive Committee. Because of the unique opportunity afforded by the 2011-2013 state budget bill for UW-Madison to devise its own pay plan in addition to the state pay plan, the University Committee added three elements to the commission's charge in the current year:

- Develop proposals for faculty and staff compensation;

- Address compensation tools developed by Vice Provost Steve Stern, including the future use of these tools, their financing, and their long-term sustainability; and

- Assess the impact to date of salary stagnation and reduced benefits on faculty retention, retirement, and morale.

The full charge to the commission is attached as Appendix 1 to this report.

II. CURRENT YEAR'S ACTIVITIES

The last report of the Commission on Compensation and Economic Benefits was delivered in spring 2008. Spurred on by the new opportunities to engage with compensation and benefits issues, the commission met ten times during 2011-2012, approximately every other week from September through February. Meetings included conversations with leaders from the UW-Madison administration, the UW Foundation, and the Wisconsin Alumni Association. In addition, commission members spoke with deans or associate deans from each college regarding faculty retention practices. The commission chair also met with the Academic Staff Executive Committee to report on the aims and activities of the commission and to hear the academic staff perspective, and two members of the commission conducted a "Chair's Chat" session with department chairs from across campus for further feedback.

III. CURRENT ISSUES AND CONCERNS

UW-Madison is at risk of losing its most important resource: world-class researchers who keep the university on the cutting edge of knowledge. Compared to peer institutions,[1] faculty and staff salaries are low. In an increasingly global market for research and education, UW-Madison is falling behind in its ability to compete for the best faculty, and it faces the prospect of losing many of its most talented professors to other institutions. The situation is critical.

The solutions to UW-Madison's looming crisis entail difficult choices. They require strong but careful action to sustain excellence. The UW System and UW-Madison administrations must change the way they compensate faculty. UW-Madison faculty members must be more strategic and innovative in their

[1] Peer group for purposes of faculty salary comparison, established by the Governor's Commission on Faculty Compensation, 1984: University of Michigan, University of California, Los Angeles, University of California, Berkeley, University of Texas at Austin, University of Illinois at Urbana-Champaign, Ohio State University, University of Minnesota, Twin Cities, Indiana University-Bloomington, University of Washington (Seattle), and Purdue University.

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approaches to teaching to maintain high levels of quality with greater efficiency. UW-Madison will need to rely more heavily on philanthropy and fee-generating activities to support its base budget, but it will also need to continue advocating to the Wisconsin legislature for increased state funding and higher tuition. Each of these partners – UW System, UW-Madison faculty, staff, and administrators, alumni and philanthropic supporters, Wisconsin state leaders, and UW-Madison students and their families – has an essential role to play to ensure that UW-Madison responds effectively to the changing landscape of U.S. higher education.

As members of the Commission on Faculty Compensation and Economic Benefits, we recognize that times are difficult financially for the people of Wisconsin. A request from UW-Madison for more resources is much to ask. But the people and state government of Wisconsin should view their investment in UW-Madison as an investment in their future: The university brings revenue to the state – far more than state and tuition monies bring in; it creates high quality jobs; it serves as an incubator for new technologies and industries; it serves as a cultural, scientific, and technological resource for the state; and it educates the youth of the state. At the same time, UW-Madison competes in national and global markets to attract top faculty. As our salaries fall further behind peer institutions, we have more difficulty attracting and retaining top talent, without which UW-Madison must eventually decline in quality, stature, and effectiveness. If we are to maintain our university's high standing, it is imperative that action be taken to elevate compensation for UW-Madison faculty, and though they fall outside our charge, for staff and student employees as well.

A. Status of Faculty Compensation

Faculty Salaries at UW-Madison Compared to Those at Peer Institutions

In the past decade, UW-Madison has perennially ranked among top 20 universities in the world based on the Academic Ranking of World Universities.[2] UW-Madison consistently ranks among the top 3 of U.S. institutions in research monies brought in and regularly places in the top 10 of all institutions for doctorates conferred.[3] For undergraduate students UW-Madison is ranked 42nd in the nation by *US News & World Report*, higher than all but 3 of our peer institutions (and tied with a fourth).[4] This year, Kiplinger rated UW-Madison 13th best value for undergraduate students attending colleges in their home states and 11th for students attending college outside their home states.[5] In each of these rankings UW-Madison lies near the top of its peer group.

Meanwhile, in the past decade, UW-Madison faculty salaries have fallen, on average, 1% per year behind the median average at peer institutions. UW-Madison lies at the bottom of the peer group. While salaries of associate professors at UW-Madison are now close to the median, average salaries for full and assistant professors fall 15.6% and 6.0%, respectively, below counterpart salaries at peer institutions. For Wisconsin faculty this means an annual shortfall in salary of $24 million.[6] UW-Madison is now witnessing the second largest shortfall in more than 40 years. The trend peer comparison is shown in Figure 1.

[2] http://www.arwu.org/ARWU2010.jsp
[3] 2010-2011 Data Digest, Academic Planning and Analysis, Office of the Provost and the Office of Budget, Planning, and Analysis, University of Wisconsin-Madison, available at: http://apa.wisc.edu/DataDigest/DATA_DIGEST_11.pdf
[4] http://colleges.usnews.rankingsandreviews.com/best-colleges/rankings/national-universities
[5] http://www.kiplinger.com/tools/colleges/
[6] Memo to Chancellor Martin from Bruce Beck, April 13, 2011.

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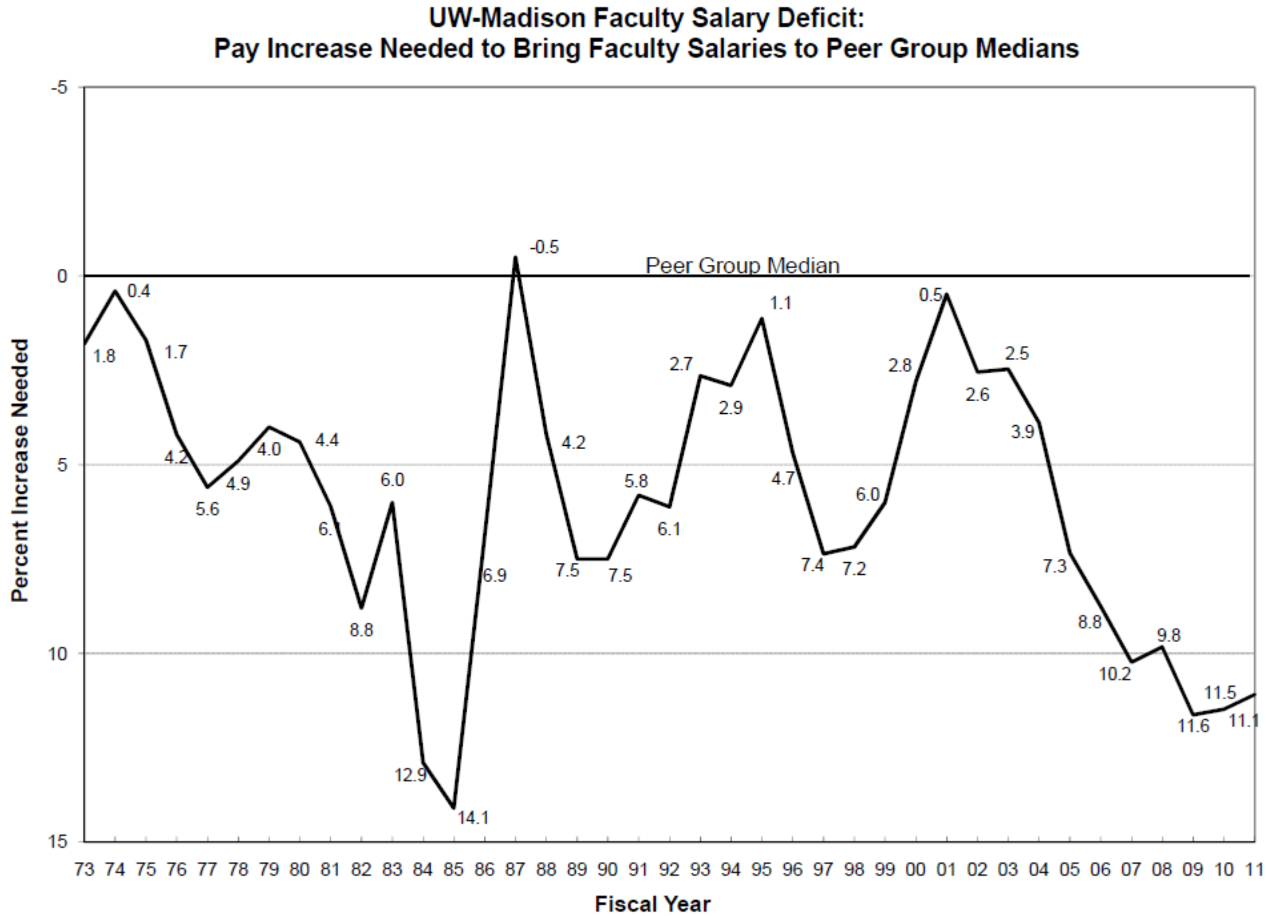

Figure 1. Average faculty salaries at UW-Madison vs. peer institutions. Source: Academic Planning and Analysis, Office of the Provost, UW-Madison, 2011.

Outside Offers and Strategies for Retention

In the past decade, competing institutions have attempted to hire away UW-Madison faculty at an increasing rate (2.5% of UW faculty recruited per year in the late 1990s and early 2000s; 8% per year in the latter half of the 2000s).[7] Fortunately, the success rate in retaining faculty has also increased, supported by the strategies and tools described below. In 2008, the Commission on Faculty Compensation and Economic Benefits recommended adoption of new policies that focus on proactive efforts to retain faculty.[8] Colleges and departments were encouraged to adopt merit- and market-based strategies to maintain salaries at the levels of peer institutions rather than waiting for faculty to receive or seek outside offers.

In 2010, the Office of the Provost collaborated with the deans of the different colleges and schools to create a new portfolio of salary adjustment initiatives for faculty merit pay increase, coordinated by Vice Provost Steve Stern (detailed in this report's next section). Despite the overall success of the proactive/preemptive retention policies and the "Stern Portfolio," the consensus among campus leaders is that the situation has become unsustainable. With the present downward trend in funding revenue, UW-Madison will become less competitive and its faculty members more prone to being targeted.

[7] Memo from Provost Paul DeLuca to Leadership Council, April 19, 2011: http://apa.wisc.edu/faculty_hire.html.
[8] http://www.secfac.wisc.edu/senate/2008/0505/2055.pdf

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Findings on Proactive and Preemptive vs. Reactive Retention Efforts

Commission members interviewed deans and administrators across campus to learn whether the new proactive policies were being implemented and to determine whether they were succeeding in their goal of retaining faculty. The commission learned that although the new tools are being widely used, their implementation varies markedly among the various schools and colleges ("units"). Some units report reactive retention, waiting until faculty have outside offers in hand, while other units report preemptive retention, trying to target faculty before they receive outside offers or even before they visit other universities. In some departments, faculty startup can be quite high, about $1 million, making replacement of faculty members cost-prohibitive and increasing the importance of preemptive efforts to retain faculty who are at high risk of external recruitment. Several deans indicated that the high-demand faculty fund has been very helpful in retaining faculty.

Proactive strategies vary among units. Some units rely on relatively narrow criteria for merit raises, e.g., research dollars and publications, while other units take every opportunity to raise faculty salaries based on broader criteria including teaching and service. A number of units report that they pay careful attention to faculty salaries at peer institutions and work aggressively to include equity raises as part of five-year post-tenure reviews.

Several units note that the strategies have been successful at retaining faculty. Nevertheless, they are concerned about low faculty morale and the continued gap in faculty pay compared to peer institutions.

Related Issues: Internal Funding

Some elements of the "Stern Portfolio" are internally funded, meaning that they rely on redistribution of funds rather than new funds. These plans entail the deans of the different units taxing a portion of their operating budgets, freeing up funds that can then be used for salary adjustments. The impact of this internal redistribution is that UW-Madison cannibalizes itself: it takes away resources from other purposes that are also important. There is now discussion of strategically cutting courses and small programs that might be taught elsewhere (in coordination with other institutions) or in different ways (e.g., web-based).

Although these salary adjustment elements have been found to be essential in retaining faculty, they do not solve the larger problem of the scarcity of resources to support compensation campus-wide, and in fact may exacerbate the situation. The impact is felt most strongly by other, critical members of the university community. The redistribution puts pressure on the availability of positions for academic and classified staff and, in the long run if no new revenues are forthcoming, may suppress the growth of their salaries. The redistribution also lowers the support available for graduate students through state-funded TA and PA positions. These losses diminish the human resources necessary for UW-Madison to maintain its excellence. They also lead to excessive administrative demands on faculty and staff that detract from their ability to perform their core duties of teaching, research, and service at the highest level of quality.

Operating Budget and Funding Sources

The mix of revenue sources that support UW-Madison's operating budget have shifted during the past decade.[9] Increases in student tuition have offset decreases in state tax support. Specifically, over the decade of 2001-02 to 2010-11:

[9] All figures in this section are from the 2010-2011 Data Digest: http://apa.wisc.edu/DataDigest/DATA_DIGEST_11.pdf

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- State revenues decreased from 25.2% to 17.6% of the UW-Madison budget, a 33% decline in the state's share.
- Tuition revenues remained a nearly constant fraction of the operating budget, about 14-15%.
- Resident students saw their tuitions more than double, from $4,089 per year to $8,987 per year.
- Combined tuition and state tax revenues increased by 38.4%. However, the operating budget of UW-Madison increased about 67%, from $1.615 billion to $2.701 billion, mainly due to increases in extramural research funding won by UW-Madison faculty and staff in competitive grant processes. Among other benefits, extramural funding provides salary support for many faculty, academic staff members, and graduate students.

The number of faculty members at UW-Madison has largely stayed the same, but the sources of their salaries have shifted. UW-Madison has relied on federal grants and philanthropy to keep faculty numbers stable:

- In 2010, the bulk of faculty funding still came from the general operations and other state funds, but there were 8.9% fewer positions supported by those general sources (1,608.8 in 2010-2011 compared with 1,765.1 in 2001-2002).
- There were 45% more faculty FTEs supported by federal grants in 2010-2011 compared to 2001-2002 (189.9 versus 130.6), and 76% more faculty FTEs supported by gifts and endowments (222.2 versus 126.2).

B. New Tools to Elevate Faculty Compensation

The commission has identified several mechanisms for addressing the lingering problems of competitive salaries and retentions outlined above. Some of these mechanisms, such as state pay plans, are longstanding, while others represent new approaches to closing the gap between compensation levels at UW-Madison and peer institutions. The commission emphasizes the importance of strategic, merit-based approaches that are attentive to the diverse needs and capacities of wide-ranging departments, and that can help ensure that the university meets its commitment to excellence in teaching, research, and service for the state of Wisconsin. Some of these tools would require statutory changes, which may be possible under the new flexibilities granted for human resource management at UW-Madison, and should be considered by the ongoing Human Resources Design initiative.

State Pay Plans

State pay plans have long been the principal mechanism for maintaining the competitiveness of faculty compensation and remain the tool that can have the largest potential impact for widespread merit-based increases to faculty compensation on campus. The commission recognizes the ongoing importance of maintaining good relations with the legislature as well as the need to emphasize the service that the faculty members continue to perform for the state through undergraduate education and outreach across the state. As part of a strategy to better inform the state about the critical work that UW-Madison faculty perform for the state, the commission encourages the faculty and central administration to engage more effectively with units such as the Wisconsin Alumni Association as a means of communicating with a broad constituency of alumni, current student families, and other stakeholders.

Supplemental Pay Plans

The biennial budget for 2011-2013 for the first time grants the UW-Madison the capacity to implement supplemental pay plans where possible. Supplemental pay plans represent a critical step in the university's

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budgetary independence and its capacity to assess its needs and priorities from within. However, the commission believes that the university needs to use supplemental pay plans with great caution and with attention to their broader implications. Additionally, it will not always be possible for the university to implement such plans given the broader budgetary constraints under which the university operates.

Supplemental pay plans require resources. An average 2% increase in compensation for faculty would cost approximately $3.3 million, not including fringe benefits.[10] If expanded to include academic staff, classified staff, and graduate students, such a plan would cost nearly $10 million. In a period of shrinking state support, finding the resources to fund such increases will be extremely difficult. If revenues could be developed either through an improving state economy or through mechanisms developed in the next section of the report, supplemental pay plans could become an important component of a salary structure that brings UW-Madison faculty closer to their peers. Supplemental pay plans represent an important tool for addressing the salary gap between UW-Madison and its peer institutions, but they also must be implemented wisely and strategically. A broad-based and significant supplemental pay plan might transfer the state's commitment to paying UW faculty competitive salaries to the university itself either directly or indirectly. If the university were to implement such a plan, it should therefore do so modestly as a means of partially addressing the problem rather than replacing the role of the state. Implementing such plans in a strategic and merit-based fashion along the lines of the mechanisms described below would potentially avoid some of these problems while still addressing the issue of a larger imbalance between faculty compensation at UW-Madison and at peer institutions.

The "Stern Portfolio"

Beginning in 2010, Vice Provost for Faculty and Staff Steve Stern provided leadership to develop a "Portfolio of Tools" that was adopted by the faculty and implemented across campus. The tools have had notable effects in diminishing gross inequities in salary between UW-Madison faculty and faculty at peer universities. These have been modest programs, but their effects have been significant, and the commission strongly recommends their expansion. One example is the high-demand faculty fund. This fund pre-dated the Stern Portfolio, originating in negotiations between the state and the university, and involved a state allocation directed at the preemptive retention of faculty likely to receive outside offers. The high-demand fund encourages individual departments to inform the deans of faculty members who are likely to receive outside offers, and it provides limited funds for base adjustments to salary designed to prevent those faculty from seeking outside offers. As vice provost, Stern incorporated the high-demand fund as a permanent budget tool into a broader portfolio to address market pressures and emergencies, even in the absence of a state allocation. This fund has been demonstrably successful in proactively limiting faculty departures and represents the kind of merit-based and strategic deployment of scarce resources that the commission is advocating in other arenas.

Other tools developed or implemented under Stern's tenure have included a doubling of raises linked to promotions (with yearly adjustments to the promotion increment tied to the Consumer Price Index); salary increases of 5-7% as post-tenure increments for full professors, who are eligible five years after promotion; and compression equity raises of 5-10% for full professors, eligible ten years after promotion. Whereas the high-demand fund originally drew on a special allocation from the state, in the current biennium it relies on an internal allocation of funds, as do the raises linked to promotions, post-tenure increments, and compression equity. The compression equity program is presumed to sunset after five years in 2014.

[10] These figures are estimates from the University Budget Office. Personal communications from Steve Stern, October 5, 2011 and January 19, 2012.

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New Instruments

The commission has discussed a range of new instruments and strategies for implementing them that build on some of the more successful elements of the "Stern Portfolio." These suggestions revolve around merit-based initiatives, rather than across-the-board changes to salaries.

1. The commission recommends that campus units outline **new triggers** for raises for high-performing faculty. At the moment, there are four possible triggers for salary increases: change of duties, promotion, equity, and market adjustments (including retention). Other potential triggers for salary increases might include such measures of achievement as securing particularly competitive grants, election to a national academy, receipt of particular awards, and especially high scholarly or service activity in excess of normal expectations. It is crucial that these triggers be sensitive to the enormous diversity of fields on campus: clearly, the triggers established for physics or engineering would not necessarily apply to faculty in art history or German studies. The commission recommends that individual departments be asked to compile a list of the metrics appropriate for their own disciplines.

2. The commission also encourages campus units to consider **temporary incentives** that might contribute to reducing broad inequities in useful ways:

a. Higher compensation during a major grant period. For example, this commission's 2008 report recommended that faculty who secure specific grants might receive higher compensation during the grant period, when part of their salaries are supported by grants.

b. Temporary base adjustments such as those associated with changes of duties (for example, service as department chair), but in recognition for certain achievements associated with department-specific triggers mentioned above or other merit-based criteria.

c. Temporary endowments funded by new philanthropy. For example, provide temporary endowed chairs that provide for salary increases over a specific period rather than simply research funds.

d. Provide a bonus structure that allows departments to offer a one-time incentive to faculty in recognition of extraordinary performance.

The advantage of such temporary incentives is that they would have a particularly high impact for individual faculty members while costing relatively little, especially in terms of long-term commitments. Where even modest across-the-board permanent base adjustments are extremely costly, temporary adjustments have the capacity to reward individual faculty members significantly at much lower cost. The downside is that these merit-based structures may exacerbate inequities on campus. It is for this reason that decisions about the allocation of such incentives must happen at the local level rather than through central administration.

3. **Endowed chairs** made possible through new philanthropy also represent an important possibility for reducing market inequities for high-performing faculty. At the moment, most endowed chairs provide for research or other flexible funds for faculty; they do not cover salary. New philanthropic strategies as outlined in the next section of this report would allow for endowments to provide either permanent or temporary base adjustments for the holders of these chairs, and/or to free up general funds for faculty compensation.

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C. Revenue Sources to Support Compensation at Competitive Levels

To fund the array of tools that the commission has proposed for improving faculty compensation, it will be essential to engage the state government, the university administration, faculty, students, alumni, and officers of the UW Foundation charged with philanthropic efforts in a meaningful partnership. Our shared goal must be to invest significant new revenues required to maintain the high quality of education and service to the state that Wisconsin residents have come to expect.

We propose three broader strategies that, if deployed in concert, will raise faculty compensation to competitive levels and preserve UW-Madison's high standing among the top three research universities in the country: 1) the reallocation of existing resources through savings and innovations; 2) an increased emphasis on philanthropy to enhance human capital; and 3) strategic increases in tuition revenue, focusing on differentials for professional schools and out-of-state students. As explained in the previous section, the funds raised through these means should be used strategically to foster innovation and reward outstanding merit in teaching, research, and service.

1. Reallocation of Existing Resources

We will likely fail to counter the overall erosion of our competitive position in faculty compensation unless we balance new revenues with strategies that entail cost reductions and reallocation of existing resources. It is also essential that the university demonstrate to the state that we use the resources provided to us by the legislature as effectively and efficiently as possible. We support the implementation of recommendations in the Huron Group's report, commissioned by former Chancellor Martin, to identify crucial areas in which costs can be cut through greater efficiencies in the delivery of services and utilization of campus assets. We advocate that part of these cost savings be used to address shortfalls in faculty and staff compensation, either in terms of salary, or time, allowing faculty and staff to spend more time in research that contributes to their teaching mission and allows them to develop new and innovative courses and research programs for their students.

We recognize that not all units have equal capacity to realize substantial savings; we therefore recommend that a mechanism be developed to provide funds to these other units. We find particularly promising Chancellor Ward's Educational Innovation campaign, which allows departments that are able to find savings or generate new revenues to retain the majority of the funds yielded through innovations. In the College of Letters and Science, the dean will allow departments to retain two thirds of the savings, while the remaining third may be used by the dean for other purposes, including support of other units. Examples of ways in which departments might find savings include closing faculty lines upon retirement; ways in which departments might generate revenues include the development of distance learning programs, professional masters degrees, and professional development programs. The committee recommends the use of these strategies where appropriate, but also advises caution in their implementation and strongly counsels central administration review of such decisions. Reallocations such as the distribution of salary savings may be quite useful under certain circumstances—for example, the retirement of a faculty member whose specific research and teaching specialties have witnessed a significant drop in demand over time—but in other circumstances, and especially in small departments, such reallocations may drastically curtail the department's ability to meet the university's core needs. Likewise, a key principle of the Chancellor's Educational Innovation campaign is that innovations maintain or enhance learning outcomes. New modes of teaching such as distance learning or video lecturing may be useful for generating revenue or savings, but they should not be implemented in ways that compromise the learning experiences of students.

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Senior campus leaders have proposed that we consider the possibility of reducing the faculty size in some areas in order to enhance the areas of greatest strength and innovation. We agree that to maintain our strong competitive position, we must be able to adequately fund existing faculty and allocate faculty lines where they are most needed. Individual departments and units must be given the flexibility to decide how they want to reallocate funds that are saved by relinquishing a promised faculty line or raising funds through new curricular programs (e.g. special professional masters and adult education programs). Funds could be used to support merit increases and offer targeted, market-based adjustments.

2. Philanthropy

An essential complement to reallocation of existing resources is to generate revenues through new philanthropic strategies. Over the past decade, UW-Madison's most conspicuous displays of philanthropic spending have taken the form of building projects. The commission encourages the administration to support the UW Foundation's increasing emphasis on human capital and recommends that in future capital campaigns, donors be asked to contribute a percentage towards programming and faculty resources associated with those projects. We also strongly urge the UW Foundation to fully implement its plans for the "Great People, Great Place program."[11] When it was initially announced in 2008, the program was projected to include three elements: undergraduate financial aid, graduate student support and faculty support. Complementing the MIU initiative, fundraising has focused primarily on financial aid for undergraduates. Graduate support has also improved, in part through the generosity of the Mellon Foundation. In the present context, the commission believes that the time has come to focus on faculty support.

Endowed professorships will continue to be a significant means of recruiting and maintaining our top faculty in a competitive marketplace, and we urge the UW Foundation to expand those efforts to include base salary support. Most of our current endowed professorships provide research funding but little or no salary support; this approach should be changed in the future such that professorships provide salary enhancements in addition to research funds. The commission also supports the UW Foundation's recent diversification of approaches to fundraising to include shorter-term funding initiatives such as term chairs, in which donors contribute funds for immediate use to support outstanding faculty for a limited period of time, including five- to six-year positions, both to recruit talented assistant professors and to reward productive faculty at various stages of their academic careers. This diversification will support one of the crucial strategic tools for a merit-based system of rewarding faculty for their research and teaching achievements. Faculty must play a more active role in identifying funding needs and making the case to current and potential donors.

Successful philanthropy is dependent not only on the efforts of the UW Foundation but also on a partnership with university faculty and the Wisconsin Alumni Association. We encourage better coordination of message among the UW Foundation, WAA and administration and urge faculty to be more actively involved in philanthropic efforts, not only in engaging individual donors, but also in actively participating in the WAA events throughout the state. Communicating the value of what we teach as well as the economic benefits of the university to the state will be essential to gaining greater philanthropic support.

[11] See www.supportuw.org/wp-content/uploads/insights_08_summer.pdf.

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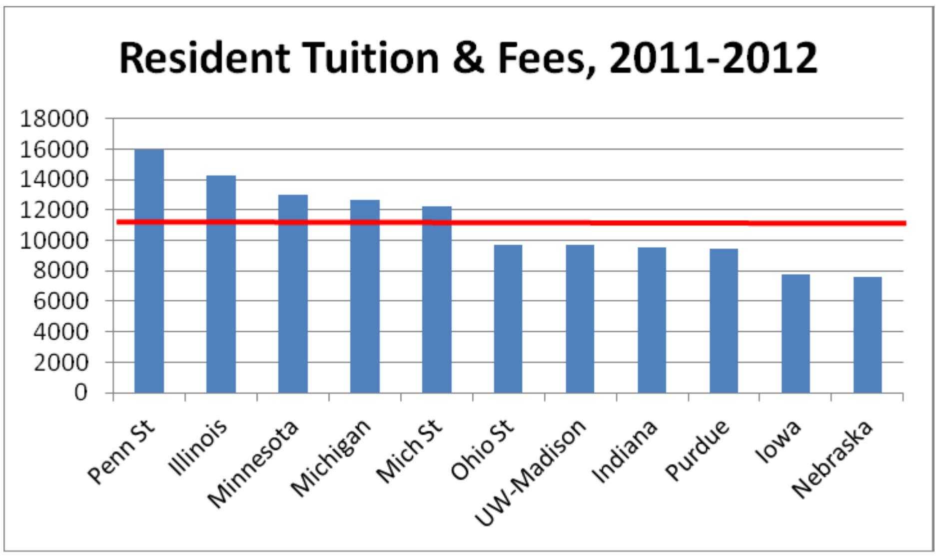
3. Strategic Tuition Increases

A third key strategy for raising needed revenues concerns tuition. Although UW-Madison ranks among the top three research universities in the country (based on national research funding received), our tuition ranks below the midpoint of the Big Ten for both resident and non-resident students (see Figures 2 and 3) and near the bottom of the public universities in our peer group.[12] UW-Madison's resident tuition rose over the past year so that we now rank seventh in the Big Ten (excluding Northwestern), but we remain about $1,300 or 12% below the public Big Ten median. As a result of our relatively high quality and low tuition, we offer an exceptional value to students, as noted by Kiplinger, which rated UW-Madison as the 13th best value among the top 100 public universities and colleges in the U.S.[13] Yet we recognize that UW-Madison's tuition represents a significant cost for Wisconsin residents, and that it has risen at rates far higher than inflation in recent years. Mindful of the need to maintain affordability for Wisconsin residents, we recommend that general increases in resident tuition be limited to the amount required to maintain our core budget and offset state budget cuts – the 5.5% tuition increased approved for the current budget biennium[14] – as well as full implementation of the Madison Initiative for Undergraduate (MIU; a $1,000 increase over four years which will be completed in 2013-2014). We also urge that even these modest increases be accompanied by increases in financial aid, as is well underway for the MIU, and by enhanced dissemination of information about financial aid so that needy students are able to take advantage of financial aid opportunities.



Note: Midpoint excluding UW-Madison = $10,969

Figure 2. Resident tuition and fees at Big Ten universities (excluding Northwestern), 2010-2011. Source: Academic Planning and Analysis, Office of the Provost, UW-Madison, 2011.

[12] For Big Ten public universities, see Appendix 2. For peer group comparisons, see Appendix 3 and the *AAUDE Survey of Academic Year Tuition and Required Fees at AAU Public Universities.*
[13] *Kiplinger Best Values in Public Colleges*, 2011-2012, available at: http://ww.kiplinger.com/tools/colleges
[14] Although the 5.5% tuition increase offset the permanent state budget cut, it did not offset the one-time lapse of nearly $25 million. We thank UW-Madison budget director Tim Norris for helping us understand the relation between state budget cuts and tuition increases.

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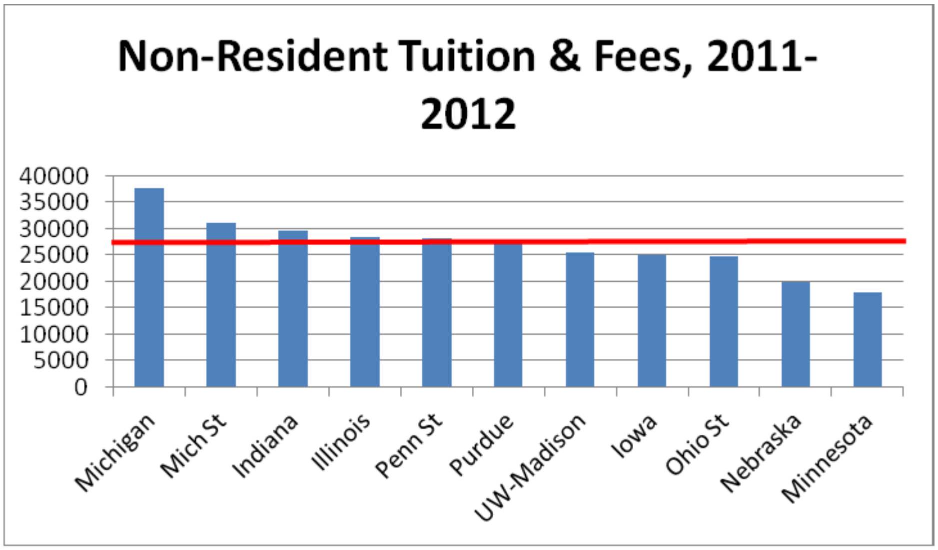
To go beyond our core needs, foster innovation and retain our best faculty, we recommend strategic increases in non-resident tuition and differential tuition. Regarding non-resident tuition, we rank 7th in the Big Ten, only slightly higher than Iowa and Ohio State, and well behind Michigan, Michigan State, Indiana, Illinois, and Penn State. Compared to our national peer universities, UW-Madison is third from the bottom for non-resident universities (see Appendix 3). Indeed, according to Kiplinger, UW-Madison is even more of a bargain for non-resident than for resident students, ranking 11th in value for non-resident students as compared with 13th for resident students. Increasing non-resident undergraduate tuition by 10% would place us on par with Illinois and Penn State (ranked fourth and fifth among public universities in the Big Ten), but still well below Michigan and Michigan State.



Note: Midpoint excluding UW-Madison = $27,857

Figure 3. Non-Resident tuition and fees at Big Ten universities (excluding Northwestern), 2010-2011. Source: Academic Planning and Analysis, Office of the Provost, UW-Madison, 2011.

With respect to differential tuition, the current tuition charged to state residents by UW-Madison is substantially below that of UW's peers. For example, UW Business School's MBA tuition and fees amount to $10,671 per year for state residents and $26,757 for non-residents;[15] by contrast, Penn State charges $21,066 in tuition for state residents and $34,062 for non-residents,[16] the University of Minnesota charges $28,896 (resident) and $41,144 (non-resident)[17] and the University of Illinois at Champaign-Urbana charges $19,975 (resident) and $29,975 (non-resident).[18] On the basis of these comparisons, UW-Madison might reasonably raise the differential tuition by $4,000 to $5,000 and remain very competitive.

In addition to raising tuition charged to non-resident students, we could enhance revenues by seeking UW System approval for a different method of defining the 25% to 75% ratio of out-of-state to in-state students. Three strategies may be considered:

[15] See http://bus.wisc.edu/mba/admissions/tuition-financial-aid-scholarships.
[16] http://www.smeal.psu.edu/mba/admission/finance.html
[17] http://grad-schools.usnews.rankingsandreviews.com/best-graduate-schools/top-business-schools/university-of-minnesota-twin-cities-carlson-01126
[18] http://www.mba.illinois.edu/admissions/tuition.aspx

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a. UW-Madison could recruit more non-resident students if the 25% figure was **applied as an average across the UW-System**, rather than on an institution by institution basis. Schools such as UW-Madison and UW-Milwaukee, which tend to attract more non-resident students than their 25% share will allow, could be allowed to accept a greater proportion of non-resident students, complementing the lower than average numbers of non-resident and international students attending the other UW System institutions.

b. **International students could be excluded** from the 25% non-resident allocation, while maintaining a ratio of 25% to 75% among domestic students.

c. We could change the ratio by **increasing the number of non-resident students** at UW-Madison **without reducing the number of Wisconsin residents** enrolled. Especially if combined with increases in non-resident tuition, this strategy could yield greater revenues for the university without reducing access – or financial pressures – on resident students. The challenge to this strategy is maintaining the same quality of undergraduate education while accommodating a larger number of non-resident students. This challenge may, in principle, be addressed through strategies currently emerging in response to the chancellor's Educational Innovation initiative.

In whatever way UW-Madison decides to focus future raises in tuition, we are mindful of the need to balance the desire to maintain our competitive position among our peer group of public research universities with our essential commitment to the citizens of Wisconsin to guarantee appropriate access to one of the country's finest institutions of higher learning.

IV. SUMMARY OF RECOMMENDATIONS

The Commission on Faculty Compensation and Economic Benefits offers recommendations for strategies and tools to elevate faculty compensation to competitive levels, and for revenue sources that could support these strategies and tools. We were guided by the principle that allocation of resources should be transparent, merit-based, and serve the teaching, research, and service mission of UW-Madison.

A. Recommendations on Strategies and Tools

1. UW-Madison faculty and administration should work with the Wisconsin Alumni Association to engage with a broad constituency of alumni, current student families, and other stakeholders to develop support for a state pay plan.

2. UW-Madison should consider a modest supplemental pay plan for which all faculty, academic, and classified staff would be eligible based on merit.

3. The "Stern Portfolio" of tools for elevating faculty salaries should be preserved, but new revenues are required to sustain it.

4. UW-Madison should identify additional markers of exceptional accomplishment as triggers for elevating faculty salary.

5. UW-Madison should consider temporary base adjustments or one-time salary additions for reasons other than administrative service, such as for extramural grant funding or for holding endowed chairs.

6. Endowed chairs should be tapped for salary support as well as research funding.

(continued)

B. Recommendations on Revenue Sources

1. UW-Madison should implement the chancellor's Educational Innovation campaign to develop savings and new revenues that could be reinvested to maintain a competitive work force.

2. The philanthropic efforts of UW-Madison and the UW Foundation should be directed towards support for human capital.

3. Increases in resident undergraduate tuition should be limited to the amounts needed to offset cuts in state budget allocations. Tuition increases should be accompanied by increases in financial aid, and enhanced information about financial aid, to maintain access for all qualified students.

4. Differential tuition in areas such as UW-Madison's professional schools as well as for non-resident undergraduates should be raised to higher levels while still remaining competitive with our peers.

5. The UW System should consider reframing the 25% to 75% ratio of non-resident to resident students. Strategies worth considering include calculating the ratio for the system as a whole rather than institution by institution; excluding international students from the calculation; and increasing the number of non-resident students at UW-Madison without reducing the number of resident students.

V. COMMISSION MEMBERSHIP

Brad Barham (Agricultural and Applied Economics), UC ex officio appointee, non-voting
Thomas Dale (Art History)
Erik Dent (Neuroscience)
Jo Ellen Fair (Journalism and Mass Communication)
Adam Gamoran, chair (Sociology)
Richard Keller (Medical History and Bioethics)
Alan Lockwood (Curriculum and Instruction)
Ann Macguidwin (Plant Pathology)
Donald Stone (Materials Science and Engineering)
Mary Triana (Business)

(continued)

Appendix 1
Charge to the Commission

To: Members of the Commission on Faculty Compensation and Economic Benefits

Fr: The University Committee (UC)

Re: Building the Capacity on Campus for Well-Designed Compensation and Benefits Strategies

Date: August 24, 2011

As a result of the 2011-2013 State Budget Bill, the University of Wisconsin-Madison now has the flexibility to propose its own pay plans in addition to whatever the state legislature authorizes as a state pay plan. This flexibility includes a wide range of options, some of which require approval from state agencies, others that do not. This opportunity to take a more active role in the formation of local policy on faculty (and staff) wages and benefits makes the work of this commission of primary importance to the design of strategies for achieving competitive and fair compensation strategies.

As the faculty committee designated to work on these themes, the Commission on Faculty Compensation and Economic Benefits needs to become the guiding light on campus, working closely with and independently from the university administration to develop high quality analyses of the situation and sound and viable proposals to redress the declining competitiveness and often inequitable distribution of salary and benefit conditions on campus. This memo has the goal of reviving the commission which for understandable but not laudable reasons has not met in the past two years. What follows below is the UC's charge to the commission for the upcoming year.

Also, note that among the commission members (listed at the bottom of the memo) is Brad Barham, this year's chair of the University Committee. He has been designated by the UC to recruit a member willing to be elected as chair for the commission and will do so over the next two weeks. Volunteers are of course welcome, and a first meeting will be scheduled soon for the second week of classes by use of a doodle poll. It is likely that the commission will need to meet on a regular basis (at least every month), and may need to form some sub-committees to achieve its goals. Of course, the UC also invites the commission to offer revisions to its charge once its active deliberations are under way.

Charge to Commission on Faculty Compensation and Economic Benefits

We start with the functions as described in Faculty Policies and Procedures (FPP) 6.34.

1. Concerns itself primarily with improving economic benefits for the faculty. Matters of governance, including decisions affecting individual faculty concerning recruitment, retention, promotion, merit increases, and workloads, are reserved to the department, school, and college faculties.
2. Prepares for the information of the faculty, studies of faculty economic needs and desires, including such comparative data from other universities and professional fields as it deems necessary.
3. Prepares for the Faculty Senate, recommendations concerning faculty compensation and economic benefits for transmission to the administration, the Board of Regents, the governor, and the legislature.

(continued)

4. Represents the faculty in discussions, hearings, and other appropriate settings to present faculty policy recommendations and requests dealing with faculty compensation and economic benefits.
5. Coordinates its activities with those of the Academic Staff Committee to ensure concerted action on economic issues common to faculty and academic staff.

These functions remain fully relevant to the efficacy of the commission's activities in the upcoming years under the opportunities for local design of compensation schemes. In addition, the University Committee asks that the commission pursue the following specific actions:

1. Development of a Faculty and Staff Compensation and Benefits Proposals for 2012-2013 and 2013-2015, with an eye toward future ones as well. The proposal could include some alternatives but should be designed to have a recommended approach. It can also include a wide range of options for achieving competitiveness and equity objectives, such as supplemental pay plans (university-wide), high-demand retention faculty funds (administered by departments and colleges), promotion increases, compression adjustments, and so on.

2. Explicit attention to the role of what we call the Stern Plan, which is the plan that was developed over the past two years under the leadership of Steve Stern from the provost's office to address salary compression and equity issues through a variety of vehicles including high-demand faculty retention funds, expanded promotion and market and compression adjustments. Among the issues to be addressed are:

    a. The financing of this plan,

    b. The efficacy of this plan, and

    c. The extent to which this approach should be viewed as a 'transitional' strategy or a longer-term vehicle for the management of compensation and benefit planning.

3. Assess the impacts of the past several years of salary stagnation and benefit reductions on retention, early retirements, faculty involvement in outside ventures, and faculty and staff morale. Quantitative and qualitative evidence on these impacts is likely to play a key informational role in the development and promotion of "proposals".

Commission members:

Brad Barham (Agricultural and Applied Economics, UC), ex officio, non-voting
Thomas Dale (Art History)
Erik Dent (Neuroscience)
Jo Ellen Fair (Journalism and Mass Communication)
Adam Gamoran (Sociology)
Richard Keller (Medical History and Bioethics)
Alan Lockwood (Curriculum and Instruction)
Ann Macguidwin (Plant Pathology)
Donald Stone (Materials Science and Engineering)
Mary Triana (Business)

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Appendix 2
2011-2012 Tuition and Fees at Public Big Ten Universities

2011-2012 Academic Year Tuition & Required Fees at Public Big Ten Universities
Including **Nebraska**

University	Undergraduate Resident Amount	Undergraduate Resident Rank	Undergraduate Non-Resident Amount	Undergraduate Non-Resident Rank	Graduate Resident Amount	Graduate Resident Rank	Graduate Non-Resident Amount	Graduate Non-Resident Rank
Pennsylvania State University	15,984	1	28,066	5	18,032	2	30,516	2
University of Illinois at Urbana	14,276	2	28,418	4	14,262	4	27,528	5
University of Minnesota	13,022	3	18,022	11	15,240	3	22,694	10
University of Michigan	12,634	4	37,782	1	18,860	1	37,920	1
Michigan State University	12,203	5	31,148	2	13,656	5	26,820	6
The Ohio State University	9,735	6	24,630	9	11,823	6	28,548	3
University of Wisconsin-Madison	**9,671**	**7**	**25,421**	**7**	**11,375**	**7**	**25,133**	**7**
Indiana University	9,523	8	29,540	3	8,519	10	22,739	9
Purdue University	9,478	9	27,646	6	9,478	8	27,646	4
University of Iowa	7,765	10	25,099	8	8,982	9	24,340	8
University of Nebraska	7,562	11	19,847	10	7,846	11	19,036	11
Average Excluding UW-Madison	11,218		27,020		12,670		26,779	
Midpoint Excluding UW-Madison	10,969		27,856		12,740		27,174	
UW-Madison Distance From the Midpoint	-1,298		-2,435		-1,364		-2,041	

Notes: Rates shown are for new, entering students. All of the public Big Ten universities assess additional fees, beyond those shown above, for undergraduates enrolled in specific academic programs, such as engineering or business. Sources: AAUDE Survey of Academic Year Tuition & Required Fees at AAU Public Universities, and the University of Virginia Survey of Academic Year Tuition & Required Fees.

Ranking of Public Big Ten Universities by Academic Year Tuition & Fees for In-State Undergraduates

Rank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Penn State	Penn State	Penn State	Penn State	Penn State	Penn State	Penn State	Penn State	Penn State	Penn State
2	Michigan	Michigan	Michigan	Michigan	Michigan	Illinois	Illinois	Illinois	Illinois	Illinois
3	Illinois	Minnesota	Minnesota	Illinois	Illinois	Michigan	Michigan	Michigan	Michigan	Minnesota
4	Mich State	Mich State	Illinois	Minnesota	Minnesota	Mich State	Mich State	Mich State	Minnesota	Michigan
5	Minnesota	Illinois	Ohio State	Mich State	Mich State	Minnesota	Minnesota	Minnesota	Mich State	Mich State
6	Ohio State	Ohio State	Mich State	Ohio State	Ohio State	Ohio State	Ohio State	Ohio State	Ohio State	Ohio State
7	Purdue	Indiana	Indiana	Indiana	Indiana	Indiana	Indiana	Purdue	Purdue	Wisconsin
8	Indiana	Purdue	Purdue	Purdue	Purdue	Purdue	Purdue	Indiana	Indiana	Indiana
9	Wisconsin	Wisconsin	Wisconsin	Wisconsin	Wisconsin	Wisconsin	Wisconsin	Wisconsin	Wisconsin	Purdue
10	Iowa	Iowa	Iowa	Iowa	Iowa	Iowa	Iowa	Iowa	Iowa	Iowa
11										Nebraska

Note: Ranking is in descending order. Academic Planning & Analysis, Office of the Provost, UW-Madison bdb 10/12/2011

Source: Academic Planning and Analysis, Office of the Provost, UW-Madison, 2011, available at: http://apa.wisc.edu/Tuition/BigTentuition.pdf

(continued)

Appendix 3
2011-2012 Annual Tuition and Fees at UW-Madison National Peer Universities

	Resident		Non-Resident	
	Amount	Rank	Amount	Rank
Illinois	14,276	1	28,418	6
Berkeley	13,360	2	28,672	5
Minnesota	13,022	3	18,022	11
UCLA	12,686	4	35,564	2
Michigan	12,634	5	37,782	1
Washington	10,479	6	27,871	7
Ohio State	9,735	7	24,630	10
UW-Madison	9,671	8	25,421	9
Indiana	9,523	9	29,540	4
Purdue	9,478	10	27,646	8
Texas	9,346	11	31,102	3

Sources: For Big Ten universities, Academic Planning and Analysis, Office of the Provost, 2011; for other universities, individual university web sites.