

October 25, 2002

TO: Frank B. Cerra, Senior Vice President, Academic Health Sciences

FROM: AHC Finance & Planning Committee

Timothy Church, Chair

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RE: Concerns with Process around Faculty Compensation Adjustments

As you are aware, the annual merit evaluation exercise is viewed with mixed emotion by many faculty members. It is a time when half of the faculty must be told they are “less than average” relative to their peers (or some substitution thereof). Faculty have raised concerns within the AHC about the process used for merit evaluation in some departments, the tendency to allocate merit increases to salary components other than base, and the financial security of monies distributed within the AHC. Nested in the items above are the following concerns:

1. A noteworthy number of AHC departments/divisions (across most of the AHC colleges) have been found to either ignore or be uninformed about the University of Minnesota Compensation Policy and the Tenure Code and their provisions for the annual merit review process. [See AHC F&P Report on Merit Evaluation at <http://www1.umn.edu/usenate/ahcfp/meritmemo.html>]
2. The implementation of the central administrative letter with salary disbursement directions for 2000-2001 was a source of confusion that eroded confidence in an already uncertain system. [See attached]
3. The concept of institutional/university “increments” was more widely used in the 2000-2001 cycle without adequate explanation or clarification.

The AHC F&P Committee undertook an inquiry into this topic and also met with you twice. The purpose of this memo is to follow up with you on our discussions and to provide recommendations for future improvements in this process.

Faculty must understand how merit money is distributed, how much of it is guaranteed by tenure, and how much risk there is to the rest of what is deemed to be annual salary. Clarity and improved communication around these topics are sorely needed. As part of our effort, we prepared the following attached information:

- Faculty Compensation – Principles for Annual Merit Adjustments
- Frequently Asked Questions (FAQ) relevant to AHC collegiate and departmental merit endeavors
- Comparison of existing PeopleSoft codes and definitions to the terminology used in the University of Minnesota Tenure Code and Faculty Compensation Policy

Past compliance of some AHC units with the attached principles and existing University policy has been questionable. The combination of poor process, lack of understanding, and uncertainty about future income has great potential for negative morale. Given your support for the attached principles, we believe this information should be incorporated into compensation planning that will occur during FY03 for the FY04 academic year. In this uncertain environment, clarity is of the utmost importance.

Thank you for your consideration and support.

Clarity of Information

Clear and improved communication regarding faculty compensation must be provided to faculty.

At minimum, annually, each faculty member should receive a written communication about his or her compensation that provides the following information:

- The amount of annual increase in salary and the portion of this increase allocated to base
- The total base salary guaranteed by tenure
- The total other components of salary not guaranteed by tenure

The AHC Faculty Finance and Planning Committee has developed some new explanatory information for faculty that is attached:

- A summary comparing existing PeopleSoft codes and definitions to the terminology used in the University of Minnesota Tenure Code and Faculty Compensation Policy
- A FAQ document relevant to collegiate and departmental merit compensation endeavors

In addition, faculty should be reminded of the availability of the following University policies and other documents:

- Tenure Policy (<http://www1.umn.edu/regents/policies/humanresources/FacultyTenure.html>)
- Faculty Compensation Policy (<http://www1.umn.edu/usenate/policies/faccomp.html>)
- Bi-weekly payroll statements readily identify individual components of faculty salary

Adjustments to Base Salary

Incremental tuition revenue and incremental O&M revenue will rarely, if ever, be sufficient to cover mandated faculty salary increases. However, it is the expectation of the Sr. VP for Health Sciences that units will use their allocation of incremental tuition and/or incremental O&M support to increase base salaries. To the extent other sources of funding must be used to fund salary increases, such increases may be to base salary or may be in the form of salary not guaranteed by tenure.

Clinical departments bear the greatest burden to fund faculty salary increase from sources of funds other than tuition and O&M. The diagram below summarizes the distinction between base and other forms of compensation and the potential mix of funding sources:

----- **BASE GUARANTEED** ----- **OTHER**

I-----O&M and Tuition-----I-----Clinical Revenue or Other Funds-----I

Oversight

Collegiate deans will assume responsibility to ensure these principles are carried into department practice. Deans and department heads should tie these principles to the annual review process and to the process of faculty consultation required in developing the annual compensation plan. The principles and practices should be coordinated with the fiscal officers for funding implementation.

The deans' offices will monitor annual faculty compensation adjustments to ensure that adjustments are being made to base

salary consistent with the principles outlined in this document. Simple data queries could be run periodically to capture information needed to enable this monitoring. Examples of such queries include of the following: identification of any departments that do not give any increases in base salaries from one year to the next; amount of average increase to base salaries by department; timeliness of processing annual compensation adjustments; and other information as deemed appropriate.