

Report on Faculty Salary and Composition

Committee on the Economic Status of the Faculty

June 2008

Received by the Regents
July 17, 2008

Salary Subcommittee Executive Summary

The University of Michigan will be presented with an unprecedented challenge over the next decade. The University underwent a burst of growth and hiring of academics and staff in the 1960's, and these people will be retiring. This demographic shift will simultaneously place a strain on the unfunded retiree health liability, as well as place a strain on the University to recruit and retain faculty at a time of fiscal challenge. These human resource challenges are not unique to Michigan, but are shared by all major research universities, which will seek to hire thousands of new faculty in the near future.

Michigan has an outstanding faculty with a history of academic accomplishment that fosters research, education, scholarship and service while addressing the emerging issues of our constantly evolving milieu. Many of Michigan's successes have evolved from a tradition of "bottom up" flow of innovation, programs and ideas. Michigan is a highly regarded breeding ground for future leaders, which leaves it vulnerable to predatory external recruitment efforts for its faculty. Frequently, this has led to the departure of distinguished faculty to pursue their careers elsewhere. The University should proactively enrich the benefit and salary programs for faculty to combat this process. Efforts to promote the University should focus a broad range of media activities along with campus-wide public relations on the breadth and quality of the University of Michigan rather than individual initiatives, programs, or units.

While Michigan has an exceptional human resource and employment record, so do our peer competitors. If Michigan is to optimally contribute to the economic catharsis of the State of Michigan, it will need to compete globally for the very best talent. The CESF supports strategic efforts to hire and retain the best faculty to proactively address the significant number of retirements of faculty and staff anticipated in the next decade. Ongoing collaborations with the administration to ensure that hiring and tenure processes become even more transparent and effective will be critical for the University to continue to thrive in this increasingly competitive environment.

Michigan is fortunate to have diverse sources of revenue feeding its missions, and it is important to acknowledge the wealth preserving management that has occurred in the past while carefully reflecting on the changes that are needed to maintain excellence and grow in the future. While investments in infrastructure are critical, investments in human resources are even more important. Strategies for managing and preserving the University's wealth evolve with time. Michigan does not thrive in a vacuum in Ann Arbor; we compete globally for students, faculty, and staff with the very best universities in the world. While Michigan has much unique strength, some of our most robust competitors enjoy advantages of much larger endowments, a more focused thematic academic mission, or smaller student bodies with concordant smaller teaching commitments.

The university and its faculty should better partner for economic development with the State of Michigan. The fiscal policy of the University is by its nature risk averse, yet development of novel intellectual property by its nature involves a higher degree of risk than the University is generally accustomed. This risk can have terrific rewards. Stanford, for example, has achieved significant accomplishments by partnering with its faculty in what were at the time high risk enterprises in Silicon Valley. We support ongoing investments and shared reward with faculty to foster intellectual property development.

Action items:

- 1) Proactively recruit and retain the best faculty by improving competitive pay and benefits, the University will badly stumble if it retains a reactive posture toward the faculty work environment
- 2) Continue to provide competitive academic support while fostering interdisciplinary collaboration
- 3) Develop new strategies to make Michigan a model academic employment destination
- 4) Improve pay and benefits for all faculty to address the issue of diversity through exemplary recruitment and retention of all faculty
- 5) Foster Entrepreneurship by supporting Technology Transfer and Intellectual property development and sharing
- 6) The university needs to improve internal and external communication of its strengths and achievements.

In summary, the University needs to hire and retain faculty of the highest quality during a period of unusually brisk turnover. The demographic trends which are projected must be embraced; it is impossible to fight demographics. Proactive efforts to improve compensation and benefits are necessary to assure future academic excellence. The faculty should lead efforts to enhance strengths in core disciplines while promoting interdisciplinary collaboration amongst key fields across campus.

Benefits Committee Executive Summary

1. **Faculty members elected by their peers in faculty governance should be seated at every table that discusses and decides benefits.** The administration loses an opportunity to gain credibility for the inevitable changes that must be made by leaving faculty-chosen figures out. Having “our people” “there” heightens the chance of good communication and even “buy-in.” Three bright lights are an exception: Laurita Thomas, Associate Vice President and Chief Human Resource Officer, provided this committee with the “Request for Proposal” for the dental plan to be started in January 2009, allowed members of this committee to review the submitted proposals, and sat down with two members of the committee to discuss the proposals that were on the table, all before the final decision had been made. SACUA elected a member of the Pharmacy Benefits Oversight Committee and the immediate past chair of SACUA is a member of the Michigan Healthy Community Advisory Committee. We encourage this collaborative approach and hope that it serves as a model for greater inclusion..
2. **The current economic model for healthcare with its rapidly increasing costs is unsustainable for both the University and its employees. In making changes, the University must grapple with affordability for those employees more poorly recompensed and the quality of the health coverage.** Changes in coverage should always be weighed on both the basis of cost-benefit and the contribution to the UM Healthy Community. **Co-premiums should be assessed proportional to salary to enable every employee to continue with the University.**
3. **The University should be aggressive in proposing national responses to the healthcare cost cataclysm.** Many voices in the nation are espousing proposals that respond to the crisis in healthcare. The University needs to find its voice and help to shape a response that will serve the public good and the best interests of the University. We need to find that voice soon. If the University does not play a formative role in the crisis response, the final solution will be less congenial for our situation.
4. We were concerned that the University considered outsourcing its very successful pharmaceutical plan. Our concerns reflect the exemplary success enjoyed by the current plan and the level of uncertainty with changing that model. That could be detrimental to our healthcare. **We understand that the current pharmacy plan has been renewed for the coming year and fully support that decision.**

5. We recommended adoption of a **dental plan** that provides for international coverage, that allows for retirees to choose their level of coverage and that provides additional cleanings for certain medical conditions. We are pleased that the University has chosen Delta Dental as our new plan as we feel there are multiple improvements in comparison with the old plan.

6. We recommend that **sufficient advance warning be made for all significant changes** in health care cost to employees and that when support is grandparented, employees of retirement age be given an opportunity to retire with the benefit in force. Sudden and even retroactive changes in health care coverage for retirees and the soon-to-be-retired cause concern that the University might withdraw all retiree healthcare benefits. The leaders of the University have said that they do not intend to eliminate retiree healthcare benefits, but it would assure faculty and staff if timely and respectful notice were provided for all changes.

7. We recommend that **dependent tuition support** be implemented on the Ann Arbor campus to support the recruiting and retaining of first class faculty and staff. If the Office of the Provost sees no rationale to add applicants to the admissions pool in Ann Arbor, scholarship support from the main campus should be transferred to the Dearborn and Flint campuses. Those campuses offer Michigan degrees, provide distinguished faculty, have unique programs and have capacity for additional qualified students if the funding accompanied them. This is a win-win situation.

CESF REPORT

We are privileged to be participating in an exciting phase of growth and reinvigoration of the University of Michigan. The University of Michigan remains a robust, thriving and happy environment leading the structural change in our Economy from a largely manufacturing/industrial economy to a service economy. The University is engaged in teaching, research and delivery of clinical services, all of which are growth industries in our state. The University continues to attract and retain the very best faculty in the world, and it must regain a positive growth in faculty benefits and compensation in order to maintain this initiative as it competes with Universities in States with economies better than our own. The University is up to this challenge, as its leaders and faculty governance work together to enhance positive strategic growth.

Background/History

The Committee on the Economic Status of the Faculty (CESF) advises and consults with the Regents and the University administration on budgetary matters as they pertain to the economic status of the faculty; formulates specific requests regarding salaries and fringe benefits for faculty members and presents an annual report to the Regents and faculty. Previously, the CESF has focused its efforts on the development of a set of university wide faculty compensation guidelines. The CESF guidelines were presented to the Regents on April 21, 1998, and endorsed by the Senate Assembly on May 18, 1998. The CESF Guidelines call for basic standards of fairness and consistency:

- * Compensation should be based on merit.
- * The elements comprising merit within each school or college should be written and disseminated.
- * The process of determining compensation should be open, without compromising the privacy of individuals.

- * Meaningful communication with individual faculty members regarding their performance as it relates to the merit criteria employed by the school or college and the faculty member's compensation should be provided on a regular basis.

In addition, to foster confidence in the integrity of the decision-making process, CESF recommended that compensation policies should be:

1. Non-Discriminatory
2. Open
3. Consistent
4. Communicated
5. Include Peer Review
6. Accountable

The goal of this report is to provide information that can serve as a base upon which the faculty and administration in each academic unit can begin to develop a meaningful dialog about the factors that influence decisions on salary and other elements of compensation. CESF hopes this information will be helpful for the faculty and for the administration and welcomes your comments and feedback at cesf@umich.edu.

Two salient points can be gleaned from the following subcommittee reports:

- 1) Faculty compensation remains on par with many of our athletic peer institutions which are largely public institutions, but continues to lag our academic peers, which include many private institutions.

2) Benefit costs continue to migrate from the University to faculty and retirees, which reflects either a decrease in active compensation for current employees or deferred compensation for retirees.

Salary and Benefits are Not the Only Issue

CESF's goal is to gather and present the data with the objective of fostering transparency to permit rational efforts to improve faculty compensation and facilitate fair, equitable, and optimal compensation and the enhanced productivity and job satisfaction that such compensation fosters.

Several historic compensation trends persist.

Loyalty Tax: The committee remains concerned about the existence of a loyalty tax; the possibility that those who remain at the University for long periods of time without soliciting outside offers earn less than their peers. In this regard, attention is focused on faculty whose salaries are low outliers within their cohort.

Gender Disparity: Women tend to be in junior faculty ranks, tend heavily to be in non-tenure track, clinical faculty, and lecturer positions, and tend to be paid less. The status of women faculty is being studied elsewhere and the reasons for it are only partially understood. A significant number of Ann Arbor campus non-tenure track faculty, particularly within the librarian and archivist ranks, earned a relatively low salary.

LEO: We would be remiss if we did not note that some of the non-tenure track faculty are represented in collective bargaining with the University.

Committee on the Economic Status of the Faculty
Annual Report to the Regents, 2008
Benefits

Faculty involvement

This past year demonstrated a salubrious increasing involvement of elected faculty members at the table for benefits issues. This involvement is growing, but still far from its full promise. It seems incredible to us that with the growing monster of healthcare costs on the back of the University, representatives chosen by the faculty have not been encouraged to come to every table to help wrestle the beast. Even if the problem proves intractable and the responses unpalatable, the involvement of faculty government will lend credibility to the deliberations and responses. **Representatives chosen by the faculty should be included at the table.** We are left largely in the dark with little opportunity for consultation, deliberation, brainstorming or recognizing the details of the enormity of the challenge and are not allowed to be part of the response or the solution. From our perspective, for the health of the University and the credibility of its responses to the crisis of rising health care costs, it is only wise for the administration to invite SACUA and the Senate Assembly to appoint representatives to be at every table that discussions are held and decisions are made about benefits. An acceptable alternative is for faculty governance to nominate a slate of candidates from which the administration chooses members for the benefits committees. This is in stark contrast to the time when members of CESF sat down with the University benefits' office and worked out the benefits package together. Medical benefits are an area for which representative chosen by the faculty need to be at every table. The administration loses an opportunity to gain credibility for the inevitable changes that must be made by leaving faculty-chosen figures out. Having "our people" "there" also heightens the chance of good communication and even "buy-in."

Laurita Thomas, Associate Vice President and Chief Human Resource Officer, has made a major foray in bridging this gap and we commend her. She provided this committee with the "Request for Proposal" the University sent out to dental plan management vendors. After we had time to read the RFP, she permitted a member of the committee to come to the Human Resources offices in Wolverine Tower and study and compare those proposals. Following that opportunity, she took the time to sit down with CESF Chair Professor Fred Askari and one other member of the committee to discuss their assessment and "pros and cons" for the different plans. By doing so, she increased our understanding and the credibility of the final choice.

Three other significant inclusions of faculty representation are noteworthy. Three years ago, SACUA elected a representative to the Faculty Benefits Oversight Committee, a community-based committee. This was a replacement for an earlier representative chosen by SACUA. Almost two years ago, the chair of SACUA was selected to serve on the Michigan Healthy Community Advisory Committee. This past year, an *ad hoc* committee was formed lead by Vice Provost Phil Hanlon and populated by four elected faculty representatives: the chair and vice-chair of SACUA and the chair and a member of CESF. This committee has been discussing the gathering of greater salary data. All these inclusions are important and increase credibility and transparency. We encourage an increase in these incidents of inclusion.

Health care coverage

The increased cost of health care insurance premiums in the five years from 2003 to 2008 is remarkable, both for the employees and the University. At the beginning of this period for many options, all employee healthcare insurance premiums were considered part of their University compensation, in accord with longstanding promises and practice of the University. Employees with children paid co-premiums, but they reflected the wage levels of many of the recipients. By the end of the period, an employee with children choosing an HMO paid as much as 300 per cent of the 2003 monthly contribution for the health care co-premium. For the same insurance coverage, the University costs increased almost 75% over five years. Coverage that included an additional adult underwent an even more remarkable change for the employee. In two of the insurance plans, the employee had paid no co-premium; the current charge is over \$100 a month. A third plan had more than an eightfold increase in employee cost. The cost to the University increased 30 per cent.

Across the nation, the bottom line of many industries, including the educational industry, is being devastated by rising healthcare and utility costs. Universities are paying the increased utility costs; many institutions are passing part of the increased healthcare costs on to their faculty and staff, whatever their previous practice or promise. Like the price of oil and journals, the pricing increase rate of healthcare significantly exceeds the inflation rate. The situation is only exacerbated by Michigan's depressed economy and diminished state support of the University. **The economic model for health care coverage is unsustainable. Neither employees nor the University can bear these increases if they continue into the near future; there is no evidence that the trend will not persist unabated.**

In addition to increases in premiums are changes in the coverage. What people notice most are those elements of coverage that once existed and are now dropped. Before 2003, physical and occupational therapy sessions recommended by the primary care physician were included in the original copay; now each session bears its own copay. A positive change is that MCare would only cover a condition requiring occupational or physical therapy once in a lifetime, for sixty days of treatment. The current UM Premier Care limits the treatment to therapy within sixty days of the first visit, but that benefit is renewed annually. Other plans allow sixty visits spread over the year; this may make a great deal of sense for some one who suffers from chronic back pain. During the last five years, the "Focus on Diabetes" program was implemented. This pilot program seeks to increase patient compliance with medication and other treatments by reducing and eliminating many co-pays. The University is to be lauded for its proactivity. According to Chief Financial Officer Tim Slottow, the jury is still out (and may be out for many years) on the cost-benefit of this approach, but it is a powerful symbol of the University's commitment to a healthy community. Some in the medical community are more convinced of its current financial viability. Next year we have been assured that a similar plan for cardiovascular patients will be initiated. In the switch from MCare to UM Premier Care, a pilot program ("Intervent") for about 500 members of the community who were at risk for cardiovascular incidents was dropped. This new pilot will include all of the community identified as "at risk" for a cardiovascular incident, a decided improvement.

Without a doubt, the insurance premiums would have increased more had some of the benefits not been changed. Benefit coverage change is a hidden area where some costs have shifted to the employee; the University may suffer as well. **The healthy community benefit and the benefit to the University should be evaluated both on the basis of cost and of contribution to a healthy community.** We suspect they are and that it is a hard call, but what benefit is it to the University if a nurse with back pain cannot lift a patient because her two months of therapy for the year has been used up and a second person must be hired as an aid?

We appreciate the list of changes in insurance coverage for the past five years recently supplied to this committee by Laurita Thomas, Associate Vice President and Chief Human Resource Officer. It is difficult to assess the changes that occur annually just by reviewing the “Open Enrollment” booklet. Ms. Thomas’ list has provided valuable information for the committee.

Issues with Medical Coverage

The primary issue we face is affordability. As stated, the current economic model cannot be sustained. If unchecked, it must finally crush the University and its employees. **Aggressive research and advocacy must be pressed in finding new models that will break the economic stranglehold. These models may be national models.** We have greater control of the outcome if we are involved in discovering and advocating responses. If the University chooses to retire to the sidelines while the national debate ensues, it will be less-satisfied with the results. It is very much in the University’s strategic interests to be involved in this discussion. The result may involve a two-payer model with a national base and the University offering its employees additional benefits. For example, knee surgery on a national plan might involve a substantial delay, but a supplementary insurance offered by the University to its employees might make the wait short.

Currently, the administrative overhead for Medicare and Medicaid is between 2 and 5%. In Canada, the overhead for national healthcare is 1.3 per cent. In 2004, *The International Journal of Health Services* (Volume 34, Number 1, Pages 79–86, 2004 which is the source for the other administrative costs) placed the 2003 administrative overhead of corporate healthcare at 25 per cent. Are the administrative costs of the providers we utilize 25 per cent or does our self-insurance system reduce these costs? Did we lose control of these costs by shifting to BCN? If we had control of these costs before, why was the total premium of MCare so similar to some of the other HMOs? Was state law restricting us from passing on the benefits of offering an insurance plan “in house?” What is the current cost of administrative overhead for University healthcare benefit plans? Is it the case that national plans that advertise administrative costs under 5 per cent are just hiding costs?

In line with the mission of the Michigan Healthy Community, the University should research and monitor outcomes along with cost. This falls along the line of a “**best practices**” schema. For example, has the research casting doubt on the effectiveness of statins for reducing the incidence of a cardiac episode for those who have never had one been taken into full consideration? What would be the cost saving if this research were validated and statins were no longer covered for pre-cardiac patients?

The University should consider outcomes along with cost as one of two foci of employee health care. The best practice for treatment of certain back problems, for example, should be included in the resources available to each employee. Preventative measures should be identified with the most cost-effective responses to achieve optimal health responses. It does little good to save by denying coverage if the result is an unproductive employee or one with diminished capacity. And it does little good if the University and employee are paying the same for sub-optimal care.

Expressions from those paid least by the University says that some current employees supporting other family members on their University health care insurance are already severely affected. This pressure is only exacerbated by escalating fuel, heating, and food costs and wage increases smaller than that of the cost of living. For these employees, the time has come to initiate a system of **health care co-premiums being charged proportional to income with those lowest on the pay scale having no charge.** The time

is at hand when some employees with families who wish to work at the University may not be able to afford to continue.

The University could save money by identifying **the best local treatment centers for expensive procedures**. Knowing that the long-term success rate for a particular procedure done at a particular facility is superior would be good for the employee and for the University: no one gains if the procedure must be repeated or if the employee becomes unproductive because of inferior care.

The University is to be commended for implementing pill-splitting for cost saving, the counseling of participants taking nine or more medications, the continuing the proactive diabetes support plan and adding a similar cardiovascular plan in 2009. These are an important part of the Michigan Healthy Community Initiative and primary examples of the University's interest in the long term good health of its employees. Retirees should be included in these plans. It seems likely that if the plans are beneficial for current employees and have the potential to save money in the long run that the same could apply to retirees. If the incidence of these conditions for at-risk employees and retirees can be reduced, everyone wins. As the schema are developed, identifying both best practice and ineffective procedures and providing that information both to the physicians in the network and, more importantly, to the at-risk employees would augment the efforts to achieve a healthy community..

Some employees in the University might benefit from being able to access their own health records online from a **secure online medical records site**. The healthcare history of employees could be made available to the employees themselves for viewing and, if they choose, for downloading and printing. This would have to be fenced in by privacy rules and the level of Internet security used for "Wolverineaccess." The benefit would be enhanced if employees could voluntarily input daily home readings for blood pressure, sugar level, and weight, for example. This could allow for closer or at least more regular monitoring of health conditions. It would be important that this be an opt-in system and not a University-wide requirement.

The pharmaceutical plan is working well. The committee understands that the benefits office received proposals for outsourcing this service. The Blue Care Network, for example, has no current plan that would implement the farsighted "Focus on Diabetes" plan. The current plan is working with excellence. Risking our nationally-lauded pharmaceutical plan by outsourcing to an external vendor is a significant cost to pay. **We commend the decision to continue the current drug benefit plan.**

Some changes to current practice might be considered. It may be cost-effective for the University to advertise that some generic drug purchases could be made at local outlets that feature a \$4 fee for a 30-day supply. Three chains represented in the southeastern Michigan area offer this benefit for 300-360 drugs:

Kroger: (www.kroger.com/generic/) (Also offers other drugs at a higher cost.)

Walmart: (www.walmart.com/catalog/catalog.gsp?cat=546834) and

Target: (<http://sites.target.com/site/en/health/page.jsp?contentId=PRD03-004319>)

Meijer offers free fourteen day fills for selected oral antibiotics most used by children.

(www.meijer.com/content/content_leftnav_manual.jsp?pageName=free_antibiotics). These sites include links for the formularies.

Kmart has a program for a 90-day supply of selected generic drugs for \$15. See (<http://pharmacy.kmartcorp.com/index.jsp>).

The **consumer-advocate**: some of our employees might find the resource "**Generic Med List**" (genericmedlist.com/) useful. Not only does this site list the stores that have discount drug programs, but

it allows users to discover the generic or therapeutic equivalent to brand name drugs. This is a good tool to educate patients for self-advocacy and cost-savings. An employee that knows that a therapeutic equivalent is available for a drug s/he is now taking can take that information to the primary care physician at the next visit and save expense to both University and employee. Such advocacy aids might be included in the health care information supplied to all employees annually.

The pharmaceutical oversight committee has offered a proposal for changing the co-pays for drugs. **We understand that the co-pay schema for drugs has been reconsidered.** The cost of generics will be lowered to \$5 and the second and third tier medications will be raised significantly. It will continue the trend of encouraging our users to switch to chemically- and therapeutically-equivalent but less-expensive medications. Both the employee and the University will save substantially.

As a matter of public good policy, the University should consider using a **Michigan supplier for the three-month maintenance drug program.** It makes little sense for us to be using a warehouse in New Jersey when Michigan's economy is on the rocks. According to Tim Slottow, a law was passed recently allowing this type of service to be centered in Michigan. If no service has yet been started in Michigan, this sounds like an ideal collaboration for Michigan's public universities, one by which all the public universities could save money without losing autonomy; the state could benefit by keeping the tax dollars at home. We are excited to hear that the University is considering managing its own mail order pharmacy, i.e. that medications could be mailed from the UM pharmacy rather than Walgreens.

The dental plan

The University has put out a "Request for Proposal" for a vendor to supply our dental coverage and has received proposals. It was helpful to read both the RFP and the proposals. We were interested to see whether:

- Creative solutions were proposed;
- Customary and usual fees were based on the Ann Arbor area;
- Considerations for support for the Michigan Healthy Community, including the proactive care for diabetic patients;
- Retirees could choose between plan offerings on an annual basis, just like current employees;
- Basic changes in coverage were being proposed.

It is disconcerting to read in the dental RFP that the new proposals were to be "cost-neutral" compared to the current offering. There was no suggestion that consideration would be made for cost increases in the years since the previous contract was negotiated; it is difficult to imagine that the dental coverage could be equal to what is now offered, much less the needed improvement. We understand that the vendors could provide creative responses, but to a certain degree this is asking them to make "bricks without straw." Certainly the costs for the maintenance of dental offices and their staff have gone up in the years we have had our current plan. With the increase in costs for dentists, one would expect that those costs must be passed on. There should be some reasonable increase built in to the new plan to help dentists cover their increased costs. And with the rapid increase in fuel and other costs in the last months, a monthly review and adjustment of dental fees (as was done a decade ago) is fairer to all.

The soon to be replaced dental plan is the object of both anguish and derision by many in the University. Dentists in the area routinely add surcharges for the most basic of services and others, including at the University's School of Dentistry, will not accept the University's dental coverage for services they

provide. The “usual and customary fees” of the current plan are based on a much broader geographical area with lower average fees than the dentists available to most of the University employees. Studies at the University have demonstrated that diabetic patients that receive four dental cleanings a year have better control over their sugar levels.

Reading the proposals, we were delighted to see how much Delta Dental was able to accomplish within the limits drawn. This plan offered much stronger international coverage for faculty traveling on sabbatical and all employees traveling abroad on University business. Alternatives made it possible for those with certain conditions such as diabetes to receive four cleanings a year. New options were often limited to two levels of service, but it was clear that dentists in the School of Dentistry had been considered. While it was not specified in the plan, Laurita Thomas wrote to say that retirees would be given an annual choice for the level of service. Other creative solutions were provided that made this plan seem very appealing. We encouraged the University to choose this plan, and we are delighted to hear that they have chosen Delta Dental.

Retiree benefits

We recognize that one of the profound benefits of employment at the University of Michigan is the provision of health care coverage in retirement. Many universities do not offer this benefit. For years, the University told employees both verbally and in writing that they would have no health care premiums in their retirement years. In 1988 the Standard Practice Guide was changed to allow the University to modify its provisions for retirees, but the University continued the same practice for those retiring at 62 or older. That changed 15 years later in 2003. With little warning, current and retired members of the community were charged co-premiums and co-pays for drugs were increased. More recently the reimbursement for Medicare B insurance premiums was suddenly terminated retroactively for all current employees. We still hear from employees near retirement age about their anger about the cessation of the Medicare B insurance reimbursement.

One of the net effects of these sudden changes in coverage is concern from some retirees and current employees that they will wake up some morning and the University will have announced that they were no longer covering any healthcare expense for its retired employees or their spouses. The administration of the University has made verbal assurances that termination of retiree healthcare benefits is not being considered; those words seem hollow to some when written annual statements from the University in years past “assured” them that retirement healthcare benefits would be covered in full by the University. The compensation for University employees in retirement has diminished. There are ways to address that change. When one Michigan public university changed their retiree healthcare benefits for future retirees, they changed the formula for the University’s contribution to the 401k from 10 per cent to 11 per cent. From a financial side, this at least can be planned in the budget, unlike the far more rapid rise we are seeing in healthcare costs. Such a plan seems like a reasonable compromise between the understandable unwillingness of financial officers of the University to legally guarantee retiree benefits and the additional costs retirees face because of the changes the University has already made.

Retirees should also be considered in dental care plans. Currently, retirees are limited to the most basic plan, never being allowed to choose either of the other levels even though they would have to pay an increased premium. This should be reconsidered. Laurita Thomas has assured us in writing that beginning open enrollment in Fall 2008, retirees will be allowed to choose their level of dental service, paying larger premiums for superior coverage if the so opt. This is a commendable change and we appreciate the willingness to serve our retiree community better.

Dependent tuition support

There is no question that the University admissions office has an abundance of qualified undergraduate applicants, enough to fill every open spot several times over. The University does not need to attract additional student applicants to the Ann Arbor campus. That is not the case with either Dearborn or Flint: they have instituted tuition support for the dependents of faculty and staff in the hope of attracting more qualified applicants. Hopefully it will be continued past a trial period. We recognize that this is not a benefit that reaches to everyone. Many of our employees do not have children or children in the right age group and could not participate in this benefit. Some express concern that this benefit is not cost neutral, that by using funding for this benefit which is not available to them takes away from funding for benefits they might enjoy. This is not the case. Scholarship money and other funding for tuition support comes from a different source than does other employee benefits.

CESF is not considering this as a benefit to undergraduate admissions on the Ann Arbor campus when we ask for consideration of implementation of dependent tuition support. We are considering the positive impact on the recruitment and retention of faculty and staff. An administrator recently involved in Human Resources at another Michigan public university related that the benefit of dependent tuition support was highly influential in recruitment and retention of faculty members. She said that some current faculty turned down offers to other universities because their children were nearing admissions age or were already enrolled. By the time their children had graduated, many were firmly established and remained in their professorial post. She said it was often a very appealing carrot in recruiting as well. Are we losing recruits because they know our policy and turn us down before negotiations even begin? Most faculty members know of colleagues who have left the University of Michigan because another institution offered this benefit. The irony is that with salary compression issues, if we can retain faculty, we may result in a net cost saving for the Provost's accounts.

At one CESF meeting over three years ago, we brainstormed about how dependent tuition support could be implemented at the University of Michigan. Tim Slottow said that one way it could be accomplished would be to designate a million dollars of scholarship money in current funds for this benefit. Of course, it was just a brainstorming session, not a commitment, but it demonstrated that the benefit could be provided both legally and financially.

The Office of the Provost has told us that they have more qualified applicants than they can possibly accept without increasing the attraction of Michigan by offering tuition support to the qualified dependents of faculty and staff. However, alternative approaches might produce results agreeable to all sides. The campuses at Dearborn and Flint have the capacity and desire to accept more students. These campuses have excellent faculty, innovative programs, and enviable teacher-student ratios. The diplomas of the regional campuses read "The University of Michigan" just as those of the Ann Arbor campus. We are one University with one president and one Board of Regents. The Dearborn and Flint campuses provide tuition support to the dependents of their own faculty and staff and are studying whether they can continue this benefit. The Ann Arbor campus could set aside scholarship money for the qualified dependents of its faculty and staff members that could accompany the student accepted to Dearborn or Flint. This could be a win-win for the entire University. Dearborn and Flint could grow without the negative impact of additional scholarship draws and the Ann Arbor campus could have another tool to recruit and retain desirable faculty and staff.

The Big Picture

The University should be aggressive in proposing national responses to the healthcare cost cataclysm. Many voices in the nation are espousing proposals that respond to the crisis in healthcare. The University needs to find its voice and help to shape a response that will serve the public good and the best interests of the University. We need to find that voice soon. If the University does not play a formative role in the crisis response, the final solution will be less congenial for our situation.

Committee on the Economic Status of the Faculty
Annual Report to the Regents, 2008
Salary Report

The analysis of salary is obfuscated by a lack of transparency. Published salary data often poorly reflects total financial compensation, as it does not include supplemental salary, which may be given for administrative work, service work, summer course teaching or even research. While Universities provide salary data to the AAUP and administrators provide data to the department of education, there is no uniform standard as to what components of compensation are provided, and the data is therefore interpreted with these caveats. Moreover, faculty in some areas of the country continues to enjoy price appreciation in their homes. It is instructive to see however, that Michigan's salaries continue to be competitive with our athletic peers, although at times lag our academic peers.

The University of Michigan has a longstanding commitment to excellence which is reflected in everything we do. We have one of the finest faculties in the world with a myriad of research, teaching, and service accomplishments. Rather than being enamored with past accomplishments, in response to prior reports the Regents have requested market based data on how we can improve. There is the widespread perception on campus that the University is reactive to outside market offers setting the value of individual faculty, rather than necessarily being proactive in driving a value based reimbursement scheme which competes across all faculty markets.

While the University provides excellent salary and benefits, market analysis shows that there is room for improvement. Many of our competing institutions provide tuition salary support for their dependents. Many competitors have generated increased value by assisting their faculty to develop intellectual property. Universities which have been the most successful in spinning off technologies have driven the development of their local economies as well as augmented their own endowments. Universities based in California have developed tremendous value along with their faculty in computer and information technologies in Silicon Valley and biotechnology in San Diego. Similarly, biotech spin offs have fueled the development of Boston area biotechnology companies.

Michigan faces an unprecedented demographic challenge, with 49% of the faculty eligible to retire by 2013. Similar demographics exist at other research Universities, which will place a premium on hiring new faculty in the coming years. Many competitors are already fund raising with initiatives to promote and support their faculty. Michigan is to be commended for increasing the number of endowed professorships over the last decade, but it needs to be prepared to face even greater competitive challenges in the years ahead.

Michigan has some of the most accomplished faculty in the world, more competitive salaries and benefits could keep more of them in Ann Arbor. Michigan faculty have left the University to win Nobel prizes, be the founding President of an Ivy League University, run the Human Genome Project, and assume other important leadership roles throughout academics and industry. It is quite reasonable for some of the brightest and most accomplished young faculty to pass through Ann Arbor, but it is also important to retain and develop a significant cohort here. It is difficult to provide market data for the departure of developing talent from Ann Arbor, but one metric could be the numbers of faculty who have distinguished themselves with the highest honor and yet remain in Ann Arbor now. We believe that Universities with more successful metrics in the areas of salary and dependent tuition benefits, as well as in the field of intellectual property development have contributed to the table below:

National Academy of Science Membership.
<http://www.nasonline.org/site/Dir/>

University of Michigan: 19
 University of Wisconsin: 44
 University of California, Berkeley 127
 University of California, San Diego: 65
 Harvard University: 162
 University of Illinois: 28

On a positive note, we are told that seven NOBEL AWARD winners have connections to Ann Arbor. Reflecting the difficulty of competing to keep top talent, the majority won the award while no longer in Ann Arbor and we do not believe any awardees are actively working on campus. One Michigan faculty member received a Lasker Award, which is widely perceived as being a prelude to the Nobel Prize.

We take great pride in the University of Michigan’s rank in the top twenty five world Universities (<http://ed.sjtu.edu.cn/rank/2007/ranking2007.htm>). We believe that the faculty and University have accomplished a great deal under the current model for faculty development and retention, which is to be applauded. Nevertheless, if the University is to excel even higher, we must pay attention to the market data which gives us an Award score of Zero. The faculty feels this reflects the ability of competitors to recruit faculty away from the University with improved salary and benefits, as well as perhaps an environment which fosters “weighing” ones CV rather than supporting high risk. When studying the Institute of Higher Education, Shanghai Jiao Tong University report, our Score on Award is striking in comparison to our highly ranked peer institutions. No other University has accomplished so much with so little award recognition. It should be noted that this cannot be dismissed as a Midwestern phenomenon, as the University of Wisconsin and University of Chicago have exceptional Award Scores.

Top 500 World Universities (1-50)

World Rank	Institution*	Region	Regional Rank	Country	National Rank	Score on Alumni	Score on Award	Score on HiCi	Score on N&S	Score on SCI	Score on Size	Total Score
1	Harvard Univ	Americas	1	USA	1	100	100	100	100	100	73	100
2	Stanford Univ	Americas	2	USA	2	42	78.7	86.1	69.6	70.3	65.7	73.7
3	Univ California - Berkeley	Americas	3	USA	3	72.5	77.1	67.9	72.9	69.2	52.6	71.9
4	Univ Cambridge	Europe	1	UK	1	93.6	91.5	54	58.2	65.4	65.1	71.6
5	Massachusetts Inst Tech (MIT)	Americas	4	USA	4	74.6	80.6	65.9	68.4	61.7	53.4	70.0
6	California Inst Tech	Americas	5	USA	5	55.5	69.1	58.4	67.6	50.3	100	66.4
7	Columbia Univ	Americas	6	USA	6	76	65.7	56.5	54.3	69.6	46.4	63.2

8	Princeton Univ	Americas	7	USA	7	62.3	80.4	59.3	42.9	46.5	58.9	59.5
9	Univ Chicago	Americas	8	USA	8	70.8	80.2	50.8	42.8	54.1	41.3	58.4
10	Univ Oxford	Europe	2	UK	2	60.3	57.9	46.3	52.3	65.4	44.7	56.4
11	Yale Univ	Americas	9	USA	9	50.9	43.6	57.9	57.2	63.2	48.9	55.9
12	Cornell Univ	Americas	10	USA	10	43.6	51.3	54.5	51.4	65.1	39.9	54.3
13	Univ California - Los Angeles	Americas	11	USA	11	25.6	42.8	57.4	49.1	75.9	35.5	52.6
14	Univ California - San Diego	Americas	12	USA	12	16.6	34	59.3	55.5	64.6	46.6	50.4
15	Univ Pennsylvania	Americas	13	USA	13	33.3	34.4	56.9	40.3	70.8	38.7	49.0
16	Univ Washington - Seattle	Americas	14	USA	14	27	31.8	52.4	49	74.1	27.4	48.2
17	Univ Wisconsin - Madison	Americas	15	USA	15	40.3	35.5	52.9	43.1	67.2	28.6	48.0
18	Univ California - San Francisco	Americas	16	USA	16	0	36.8	54	53.7	59.8	46.7	46.8
19	Johns Hopkins Univ	Americas	17	USA	17	48.1	27.8	41.3	50.9	67.9	24.7	46.1
20	Tokyo Univ	Asia/Pac	1	Japan	1	33.8	14.1	41.9	52.7	80.9	34	45.9
21	Univ Michigan - Ann Arbor	Americas	18	USA	18	40.3	0	60.7	40.8	77.1	30.7	44.0
22	Kyoto Univ	Asia/Pac	2	Japan	2	37.2	33.4	38.5	35.1	68.6	30.6	43.1
23	Imperial Coll London	Europe	3	UK	3	19.5	37.4	40.6	39.7	62.2	39.4	43.0
23	Univ Toronto	Americas	19	Canada	1	26.3	19.3	39.2	37.7	77.6	44.4	43.0
25	Univ Coll London	Europe	4	UK	4	28.8	32.2	38.5	42.9	63.2	33.8	42.8
26	Univ Illinois - Urbana Champaign	Americas	20	USA	19	39	36.6	44.5	36.4	57.6	26.2	42.7
27	Swiss Fed Inst Tech - Zurich	Europe	5	Switzerland	1	37.7	36.3	35.5	39.9	38.4	50.5	39.9
28	Washington Univ - St. Louis	Americas	21	USA	20	23.5	26	39.2	43.2	53.4	39.3	39.7
29	Northwestern Univ	Americas	22	USA	21	20.4	18.9	46.9	34.2	57	36.9	38.2
30	New York Univ	Americas	23	USA	22	35.8	24.5	41.3	34.4	53.9	25.9	38.0
30	Rockefeller Univ	Americas	23	USA	22	21.2	58.6	27.7	45.6	23.2	37.8	38.0
32	Duke Univ	Americas	25	USA	24	19.5	0	46.9	43.6	62	39.2	37.4
33	Univ Minnesota - Twin Cities	Americas	26	USA	25	33.8	0	48.6	35.9	67	23.5	37.0
34	Univ Colorado - Boulder	Americas	27	USA	26	15.6	30.8	39.9	38.8	45.7	30	36.6

35	Univ California - Santa Barbara	Americas	28	USA	27	0	35.3	42.6	36.2	42.7	35.1	35.8
36	Univ British Columbia	Americas	29	Canada	2	19.5	18.9	31.4	31	63.1	36.3	35.4
37	Univ Maryland - Coll Park	Americas	30	USA	28	24.3	20	40.6	31.2	53.3	25.9	35.0
38	Univ Texas - Austin	Americas	31	USA	29	20.4	16.7	46.9	28	54.8	21.3	34.4
39	Univ Paris 06	Europe	6	France	1	38.4	23.6	23.4	27.2	54.2	33.5	33.8
39	Univ Texas Southwestern Med Center	Americas	32	USA	30	22.8	33.2	30.6	35.5	38	31.9	33.8
41	Vanderbilt Univ	Americas	33	USA	31	19.5	29.6	31.4	23.8	51	36	33.6
42	Univ Utrecht	Europe	7	Netherlands	1	28.8	20.9	27.7	29.9	56.6	26.6	33.5
43	Pennsylvania State Univ - Univ Park	Americas	34	USA	32	13.2	0	45.1	37.7	58	23.7	32.7
43	Univ California - Davis	Americas	34	USA	32	0	0	46.9	33.1	64.2	30	32.7
45	Univ California - Irvine	Americas	36	USA	34	0	29.4	35.5	28	48.9	32.1	32.5
46	Univ Copenhagen	Europe	8	Denmark	1	28.8	24.2	25.7	25.2	51.4	31.7	32.2
47	Rutgers State Univ - New Brunswick	Americas	37	USA	35	14.4	20	39.9	32.1	44.8	24.2	32.1
48	Univ Manchester	Europe	9	UK	5	25.6	18.9	24.6	28.3	56.9	28.4	32.0
49	Univ Pittsburgh - Pittsburgh	Americas	38	USA	36	23.5	0	39.9	23.6	65.6	28.5	31.9
50	Univ Southern California	Americas	39	USA	37	0	26.8	37.1	23.4	52.7	25.9	31.4

The University has several members of the American Philosophical Society, but again lags many key competitors in terms of faculty membership in this honorary society as well.

University of Michigan 8 active members
Harvard 81 active members
Berkeley 32 active members
Princeton 62 active members
Wisconsin 8 active members
Illinois 8 active members
Duke 6 active members
UCLA 20 active members
Columbia 32 active members
Chicago 21 active members

University of Michigan faculty representation relative to faculty at peer institutions in honorary societies or groups is not confined to any solitary discipline or field of study on campus. As another example, University of Michigan's representation amongst Field's medalists includes alum Stephen Smale won the Field's Medal in mathematics in 1966 while working as a member of the faculty at another institution.

The University is to be commended for hiring and developing its faculty. The University is to be commended for its plans to hire new and develop current faculty, and we hope that these plans will include continuing to develop some of the best salaries and benefits for the faculty as well.

The faculty endorses facilitating the cooperative development of intellectual property. The University has developed plans to facilitate intellectual property development, and the faculty endorses these investments of time, thought and capital. Perhaps the oldest and one of the more successful Universities which has facilitated the development of intellectual property is the University of Wisconsin. Their success has been fueled by what is perceived as a more generous sharing of revenue with faculty. UW distributes royalties independent of expenses, whereas others divide royalties on a net basis after deduction of patent/copyright costs and administrative fees; the UW approach yields increased returns to the author/inventor. UW also rewards faculty with a milestone payment once a patent is accepted or licensed, which also provides incentive for individuals to apply themselves along the path of technology development. We encourage the University to continue to invest in intellectual property development in partnership with faculty and encourage the University to study ways to provide incentives in this regard.

Appendix A: Comparison of Michigan and Wisconsin Intellectual Property development:

MICHIGAN INTELLECTUAL PROPERTY DISTRIBUTION:

V. Revenue Distribution

1. Revenues generated by the licensing of University Intellectual Property provide a strong incentive for Employee participation in technology licensing and support further investment in research and technology transfer. The University shall share revenues received from commercialization efforts with all involved University Inventors, except as may otherwise be provided. OVPR shall set rules for instances where revenues are for the recovery of production expenses for applicable types of Intellectual Property (e.g., Tangible Materials). This Section V shall apply to new agreements entered into after the date of this Policy revision (January 1, 2007), though the percentages defined below are unchanged. This Policy does not apply to funds received as gifts or for sponsored research.

2. For agreements entered into after January 1, 2007, after recovery of University Expenses, aggregate revenues resulting from royalties and sale of equity interests shall be shared as follows. The division of revenues are subject to change through appropriate University procedures.

Up to \$200,000:	Over \$200,000 (and up to \$2,000,000):	Over \$2,000,000:			
To the Inventor(s)	50%	30%	30%		
To the Inventor's department	17%	20%			
To the Inventor's school or college	18%	25%	35%		
To the central University administration	15%	25%	35%		

For agreements entered into prior to January 1, 2007, click here to view the applicable policy and revenue distribution rules. As a brief summary, the following apply to such agreements:

For agreements entered into between July 1, 2004 and January 1, 2007:	Up to \$200,000:	Over \$200,000 (and up to \$2,000,000):	Over \$2,000,000:		
To the inventor(s)	50%	30%	30%		
To the originating unit(s)		17%	20%		
To the originating school, college, division or other responsibility center(s)	18%	25%	35%		
To the central administration		15%	25%	35%	

For agreements entered into between July 1, 1996 and July 1, 2004:	Up to \$200,000:	Over \$200,000 (and up to \$2,000,000):	Over \$2,000,000:		
To the inventor(s)	50%	33 1/3%	33 1/3%		
To the originating unit(s)		25%	33 1/3%		
To the originating school, college, division or other responsibility center(s)	25%	33 1/3%	66 2/3%		

For agreements effective before July 1, 1996:	Up to \$100,000:	The second \$100,000:	Over \$200,000:		
To the inventor(s)	50%	40%	33 1/3%		
To the originating unit(s)		25%	30%	33 1/3%	
To central administration		25%	30%	33 1/3%	

3. OVPR shall set and administer rules for determining the Inventor share of revenues within the parameters outlined in this Policy. This Policy, including the revenue sharing provisions, is subject to change with respect to both current Employees and Employees that have left the University.

4. OVPR shall set and administer rules for cases where an Inventor changes departments, is affiliated with a University institute or center, an Inventor does not have a department or school/college affiliation, or when other unusual circumstances apply. Although the University units described above shall have discretion for distributing the revenue they receive, generally it is expected that revenues will be used for research and educational purposes or for investment in further commercialization activities, such as in the laboratories of Inventors.

5. An allocation from all revenues will fund patent expenses beyond the annual base OTT Patent Budget. Each year, based on projections of license revenues and patent expenses, a patent allocation percentage will be assessed on all revenues as a University expense. Such funds will facilitate investment in new Intellectual Property protection.

6. Consideration for a license may include equity in a business. If equity is liquidated, it shall be treated as revenues and distributed according to this Policy. Equity will be held, liquidated, or directly distributed to Inventors (to the extent permitted by law) at the discretion of the University. Neither OTT nor Inventors will control the timing and terms of the liquidation of such equity received by the University. The Office of the Treasurer of the University will manage the disposal of equity held by the University. The holding of equity by Inventors may be subject to University conflict of interest policies.

7. The Vice President for Research shall have authority to resolve any unusual circumstances and may make exceptions to the distribution rules after consulting the affected parties.

UNIVERSITY OF WISCONSIN INTELLECTUAL PROPERTY DISTRIBUTION:

Licensing Income Sharing Plan

Revenue generated by licensing a technology is shared with the technology's inventor(s) or author(s), their laboratories, their academic department(s), and the UW-Madison. Revenue distributions differ for patents and non-copyrightable technologies, vs. non-patented copyrightable works (which includes copyrighted computer software.)

Below is a general description of how licensing income is distributed. For a more detailed explanation of the revenue sharing program see Determining Eligibility to Receive Lab Share Distributions.
Licensing Income Sharing Program: Patents and non-Copyrightable Technologies

First \$100,000 of Income per license (Laboratory Share distributions)
20% to Inventor(s)
70% to Research Program of Inventor(s) through a quarterly Laboratory Share Distribution
10% included in the WARF gift to campus

Income over \$100,000 per license (Department Share distributions)*
20% to Inventor(s)
15% to Department/ Center through an annual Department Share Distribution**
65% included in the WARF gift to campus
Licensing Income Sharing Program: Non-Patented Copyrightable Works, Specifically Computer Software

First \$100,000 of Income per license (Laboratory Share distributions)
40% to Author(s)
50% to Research Program of Author(s) through a quarterly Laboratory Share Distribution
10% included in the WARF gift to campus

Income over \$100,000 per license (Department Share distributions)*
20% to Author(s)
15% to Department/ Center through an annual Department Share Distribution**
65% included in the WARF gift to campus

Licensing income resulting from licenses signed prior to October 1, 1997, for both patents and non-copyrightable technologies, and non-patented copyrightable works, is only distributed using the income over \$100,000 per license formula (department share).

* Once royalties for a patentable, non-copyrightable work, or for a non-patentable, copyrightable license exceed \$100,000 per license, the distribution changes as shown. New income received at WARF is then distributed using the "Income over \$100,000" formula.

** This distribution goes to the Department/Center that administered the funds used to develop the intellectual property as reported by inventors at the time of the equity review. (The equity review is an assessment, done by The Graduate School, of the funds and agreements relevant to an invention, and is based on information provided on the Invention Disclosure Report form and input from the inventors.)

When authors leave, retire or become inactive in research, there will be no new quarterly Laboratory Share Distributions. New income received at WARF is then distributed using the "Income over \$100,000" formula. At that time, any balance in the Graduate School assigned Laboratory Share Account (135-D..) reverts to the Graduate School.

A few additional conditions apply, e.g., for Laboratory Share Distributions there is a limit of \$100,000 per laboratory/research program for each license and an annual cap of \$200,000 per inventor's or author's research program per laboratory share account.

UW-Madison and WARF provide a one-time payment of \$1,500 to inventors for each invention accepted for patenting and licensing.

It is important to note that UW/WARF distributes royalties independent of expenses, whereas most universities divide royalties on a net basis after deduction of patent/copyright costs and administrative fees; the UW/WARF approach yields increased returns to the author/inventor.