



Office of the President

1720 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin 53706-1559
(608) 262-2321
(608) 262-3985 Fax
email: klyall@uwsa.edu
website: http://www.uwsa.edu

Informational material for Committee of the Whole discussion

September 16, 2003

MEMORANDUM

Compensation Advisory Committee

Katharine C. Lyall
President

[Handwritten signature of Katharine C. Lyall]

SUBJECT: Follow-up Information on Alternative Pay Plan

At our meeting two weeks ago, you asked for a table that would compare the known state pay plan (0%/1%) and an alternative plan (2%/2%) that might be made available to faculty and staff. I asked that you discuss this information with your colleagues on campus and let me know their general sense of whether I should propose this alternative to the Board of Regents in October. The table, with Pro's and Con's is attached for your reference and consideration.

The known state pay plan provides no pay increase for 2003-04 and a 1% increase in 2004-05. In addition, all state employees will be required to contribute to the cost of health insurance through a monthly deduction based on the "Tier" placement of the health plan selected, beginning with January 1, 2004 coverage. The employee premium contribution rates are anticipated to be:

Table with 3 columns: Plan Tier, Single Health Plan, Family Health Plan. Rows include Tier 1, 2, and 3 plans with their respective monthly and annual costs.

The alternative pay plan would provide a base pay increase of \$690 for satisfactory employees with additional funds available for a total base pay increase of 2% effective January 1, 2004, and a \$690 or 2% pay plan in 2004-05. The funding for this plan would come from additional health insurance premiums, anticipated savings accrued to the from lower than expected total health insurance premiums, and discontinuing our health insurance pre-payment practice for at least one month. The employee premium rates for this alternative would be:

Table with 3 columns: Plan Tier, Single Health Plan, Family Health Plan. Rows include Tier 1, 2, and 3 plans with their respective monthly and annual costs.

For your information, there are 2,023 faculty and academic staff who do not have the health insurance benefit, but of the 15,872 who take it, 77% are in Tier 1 plans, 17% are in Tier 2 plans, and 6% are in the only Tier 3 plan (the former "standard plan"). Employee contribution rates for the "standard plan" are now generally in the \$800 to over \$1,000 per month range, so under either the state plan or the alternative

UW plan, substantial savings are available to faculty and academic staff who choose to stay with the preferred provider plan in 2004.

Several key points:

1. Regardless of the pay plan proposal itself, we need to recommend something on the health insurance premium contribution rates. If we make no recommendation on the health insurance premium contributions to be paid by our faculty and academic staff so that the Director of the Office of State Employment Relations can get JCOER approval of our pay plan, the new law requires that our faculty and staff will have to pay \$84.86 each month for single coverage or \$208.39 per month for family coverage, irrespective of the health plan selected. We cannot let this happen by default. Therefore, if we do not advance the alternative (2%/2%) plan, I would intend to recommend health insurance premium contributions that would be charged to all other state employees.
2. My notes from our meeting show a consensus that we should pick-up the cost of continuing our current practice of allowing all part-time faculty and academic staff with at least a 50% appointment to receive the full employer share of the health insurance premiums. We do not want part-time faculty and staff with appointments between 50% and 75% to be burdened by having to pay one-half of the total health insurance premiums, about \$200 per month for single coverage or about \$500 per month for family.
3. Further, I believe the group agreed that we should temporarily suspend the cash payment option for up to one week of unused vacation that is available to faculty and academic staff with at least 25 years of service, because the funding has been withdrawn. Instead, we should ask the Regents to allow those eligible to elect to defer up to 80 hours of unused vacation (instead of the current 40 hours) until funding is restored.
4. One item that we didn't discuss is whether we should ask the Regents, in light of the expected small pay plan that will be available, to suspend the current pay plan distribution guidelines that require 1/3 of the pay plan to be distributed to solid performers, 1/3 to be reserved for merit/market considerations, and the remaining 1/3 to be placed in either pool at the discretion of the campus. When we met in October 2002, I got the sense that you preferred to distribute a small pay plan amount on the basis of across-the-board for satisfactory employees in order to keep things simple. Is that the current thinking?

If we are to prepare the pay plan item for Regents consideration at the October 9 and 10 meeting, I need to have your counsel by Wednesday, September 24. I don't think it's necessary to have a teleconference. Instead, you can call or e-mail me or George Brooks. We'll tally the results and share them with you. I can be reached at (608) 262-2321 or send me an e-mail message to me at klyall@uwsa.edu. Or, you can call George at (608) 263-4385 or send him an e-mail message at gbrooks@uwsa.edu.

Thanks for all of your hard work. Your colleagues should be grateful for your efforts.

Attachment

Cc: Associate Vice President Brooks
Chancellors
Cabinet

INDIVIDUAL IMPACT OF PAY PLAN ALTERNATIVES

Example: \$34,500 Base Salary

	<u>Office of State Employment Relations Proposal</u>	<u>UW System Alternative Under Consideration</u>
2003-04 Pay Plan	\$0	\$690 base pay increase (\$ floor)
2003-04 fiscal year gross income	\$34,500	\$34,845
Less Health Insurance Premium Contribution:	(\$375)	(\$720)
Pre-Tax Fiscal Year Income	\$34,125	\$34,125
 Base Salary June 30, 2004	 \$34,500	 \$35,190
2004-05 Pay Plan	\$345 base pay increase	\$704 base pay increase (2% merit)
2004-05 fiscal year gross income	\$34,845	\$35,894
Less Health Insurance Premium Contribution:	(\$750)	(\$1,440)
Pre-Tax Fiscal Year Income	\$34,095	\$34,454
 Biennial Pre-Tax Income	 \$68,220	 \$68,579
 Base Salary June 30, 2003	 \$34,500	 \$34,500
 Base Salary June 30, 2005	 \$34,845 (1%)	 \$35,894 (3%)

Example: \$62,000 Base Salary

2003-04 Pay Plan	\$0	\$1,240 base pay increase (\$ floor)
2003-04 fiscal year gross income	\$62,000	\$62,620
Less Health Insurance Premium Contribution:	(\$375)	(\$720)
Pre-Tax Fiscal Year Income	\$61,625	\$61,900
 Base Salary June 30, 2004	 \$62,000	 \$63,240
2004-05 Pay Plan	\$620 base pay increase	\$1,265 base pay increase (2% merit)
2004-05 fiscal year gross income	\$62,620	\$64,505
Less Health Insurance Premium Contribution:	(\$750)	(\$1,440)
Pre-Tax Fiscal Year Income	\$61,870	\$63,065
 Biennial Pre-Tax Income	 \$123,495	 \$124,965
 Base Salary June 30, 2003	 \$62,000	 \$62,000
 Base Salary June 30, 2005	 \$62,620 (1%)	 \$64,505 (3%)

Long Term Impact: Retirement Contributions, Sick Leave Account Value, Base Salary for future pay plans

UW System Impact of Alternative Pay Plan

ADVANTAGES:

It avoids a \$0 pay plan year.

It avoids substantial erosion in relative market standing that is unlikely to be recovered.

It is consistent with legislative and executive branch principle that employees should make contributions for health insurance.

Health insurance premium contributions for UW faculty and academic staff will not place UW at a competitive disadvantage.

It enforces the argument for market based adjustments in future years because the UW has not traded benefit contributions for salaries.

DISADVANTAGES:

Health insurance premiums above state classified employee premiums would be required each year to maintain the increase in base salaries.

There is no guarantee that once higher health insurance premium deductions for faculty and academic staff are turned over to state government, that state government will return all of those funds to the faculty and academic staff salary line.

There is no way to assess the long-term impact of this premium contribution structure beyond the current 2003-05 biennium because continued dramatic increases in health insurance premiums may result in a completely different formula for determining employee contributions to health insurance.