USNA Faculty Compensation Model

U. S. Naval Academy
December 2010

Faculty Career Employment
Performance-Based Pay Steps

- **All federal employment systems (e.g., military, civil service, and "excepted service") include compensation growth over time**

- **Common characteristics:**
  - **Appropriate starting salary levels**
  - **Promotion opportunities with corresponding salary increases**
  - **Periodic salary increases**
  - **Annual Performance Appraisal System - performance against objectives**
  - **Incentive Awards program (though only rarely utilized in case of USNA faculty)**

- **Unique Characteristics for USNA Faculty Employment:**
  - **Flexible billet structure for faculty within departments**
  - **Periodic salary increases (pay steps) performance-based, depending on annual performance review**
  - **Flexibility to award "equity" pay steps, as warranted, to address Departmental step/pay inequities with new hires and current faculty**

Civilian Faculty Categories

Career Full-Time Academic Faculty:

263 **Faculty**
- 10 Month Assistant, Associate, and Full Professors

8 **Multi-year Term Appointments** – "Professor of the Practice"

14 **Department Chairs**
- 12 Month Term Appointments, selected from regular faculty

22 **Faculty – P.E.** (12 Month Chair plus 10 Month Asst, Assoc, Full)

33 **Admin Faculty**
- 12 Month Term Appointments
- 12 Month Permanent Appointments

51 **Adjunct Faculty**
- Full Time (11)
- Part Time (40)

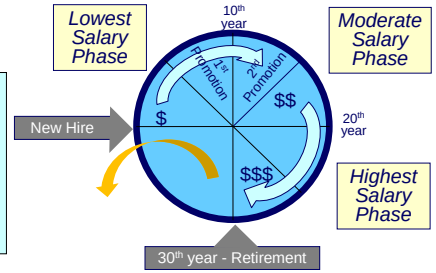
Not Included – Gift and Reimbursable Funded Faculty

Remaining briefing slides relate to Career FT Academic Faculty (the basis for the 301:301 plan)

Idealized Faculty Compensation Model

Ideally the salary delta between newly hired professors and senior faculty member retirements and other departures should fund the step increases for performance provided to continuing faculty.

Not the Case – instead there can exist an annual shortfall of ~$300K



Model maintains competitiveness with other premier academic institutions

- **Assumes faculty stay for exactly 30 years**
- **Assumes 1 performance-based step (on average) per eligible faculty member per year**
- **Assumes 4 pay steps per promotion - 2 promotions within the 30 year period**
- **Ignores any impact of pay cap**
- **Assumes no market creep in starting salaries or equity step adjustments during career and no delays in retirement decisions**
- **Ignores any impact of uneven funding over time (some years, significantly higher rate of awarding steps; other years, significantly lower rate of awarding steps)**

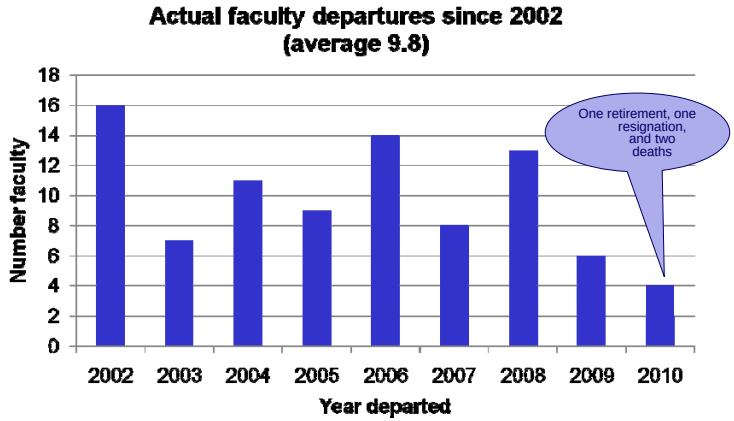
Variables Affecting the Faculty Pay Model

- Partially Funded Federally mandated pay adjustments
  - Shortfall of 1% (e.g., if mandated adjustment is 3.5%, but DoD/DoN budget inflator is only 2.5%) translates to budget shortfall of over $400K for faculty labor (similar impacts on all other labor)
  - Effect accumulates annually, leading to erosion of other USNA mission-essential activities
- Unpredictability of specific annual number of faculty departures (impact of human decision making over 25-35 year career)
  - Annual fluctuations may be very significant (magnitude as high as +/- $600K)
  - Two possible scenarios to account for these fluctuations
    - Annually throttle the merit pay steps awarded up or down (impact on career stability)
    - Connect with a buffer or "bank" system (either within USNA as a whole or beyond USNA) to deal with these annual fluctuations, allowing maintenance of a relatively steady awarding of merit pay steps

Variables Affecting the Faculty Pay Model

- Aging workforce translates into fewer retirements (1.2 fewer retirements annually over last 20 years) → 50 fewer recovered pay steps ~ $125-$150K unrecovered funds annually
- Market forces (new hires average 5 pay steps higher than initial pay step level of those departing) → for 10 new hires, 50 pay steps ~ $125K-$150K additional funds annually
- A smaller effect, but important for future consideration: the pay cap
  - Pay Cap not increasing with Cost of Living increases –
  - Capped Step is reduced (FY 2008 – step 60, FY 2010 – Step 57)
  - Higher steps realize no pay increase nor do they provide for "recovered" steps upon retirement

Career FT Academic Faculty Departures

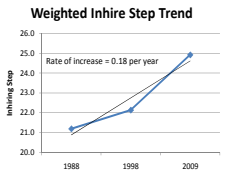


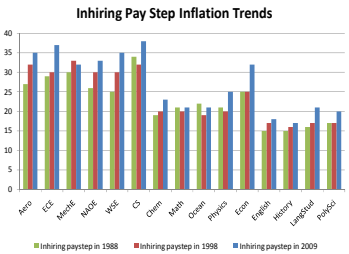
Academic Market Forces

Market Effect on Starting Salary

1988 to 1998 to 2009

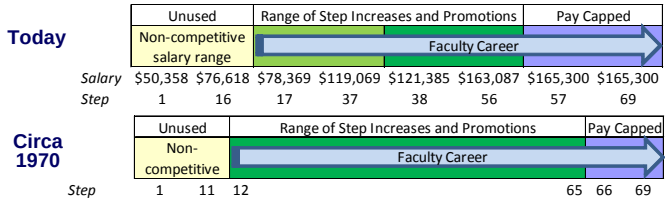
– Average increase ≈ 1 step every 5 years (0.18 per year)





Faculty Pay Model's effect on Faculty Pay Scale

- Higher starting salaries, step increases for merit, longevity and pay equity required to compete with other public and private educational institutions to attract and retain talent
- Compensation range has been gradually squeezed - Higher entry-level competitive salaries and Lower Capped Pay Step squeezing faculty compensation to Step 17 to 57 range

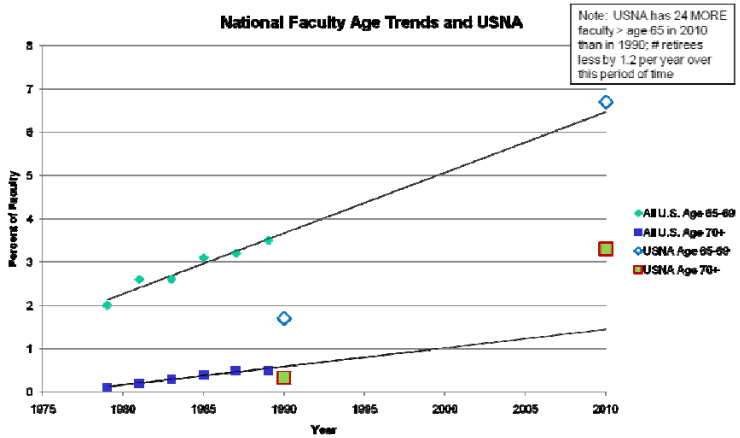


Bottom Line Summary

- Current faculty pay model not sufficiently funded within budget process/controls to maintain competitiveness with other premier institutions
- To fully fund pay model and maintain competitiveness
  - COLA + locality adjustment must be fully funded
  - Additional $300K required to account for unrealized savings in retirements/new hires
- Needed: method to account for labor requirement fluctuations arising from variable numbers of faculty departures from year to year
- For consideration: plan/program appropriately for potential future pay cap adjustments

Back-up

Delayed Faculty Retirement Decisions



Chapter Two Appendix

Enclosure 2.10
Chief of Naval Personnel Brief re. Faculty Compensation Model (December 2010)