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Human Resource Consulting

September 19, 2006

The California State University Presidents' Compensation, Benefits and Perquisites Review

Presentation to the Board of Trustees The California State University

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San Francisco



Marsh & McLennan Companies

Today's presentation will cover:

- Data Sources & Comparison Institutions
- Cash Compensation
- Benefits and Perquisites
- Retirement & Savings
- Total Rewards
- Executive Tenure Policies, President Transition Programs and Spousal Employment Arrangements
- Q&A



Data Sources & Comparison Institutions

The data presented are from three primary sources:

- 1) **Annual survey of President compensation**, including the *prevalence* of executive benefits and perquisites
 - Survey participants include 11 of 20 targeted CPEC* institutions; Mercer used supplemental data for 8 of the 9 remaining institutions
 - All information was collected in the fourth quarter of 2005

- 2) **Total rewards study**, including cash compensation and the *value* of automobile/housing perquisites, retirement/savings, health/group, and long-term disability provided to faculty and administrative staff
 - Study includes all 20 CPEC institutions

* *California Postsecondary Education Commission*

The data presented are from three primary sources: (continued)

- 3) **Follow-up telephone survey** conducted in September 2006 on policies and practices related to executive tenure, President transition arrangements and spousal employment
 - Survey participants include 15 of 20 targeted CPEC institutions*
 - Perquisite prevalence data from the Annual Presidents' Survey have been updated to reflect additional information, as appropriate
- Data from the annual survey of President compensation and the total rewards study were presented in closed session to the Board of Trustees on May 16, 2006

** Not all participants answered all questions asked as part of the telephone survey.*
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CPEC Survey Comparison Group

LIST OF PARTICIPANTS			
PARTICIPANT	PUBLIC/PRIVATE	CAMPUS	POSITION
Arizona State University	Public	Single	President
Bucknell University	Private	Single	President
Cleveland State University	Public	Single	President
George Mason University	Public	Single	President
Georgia State University	Public	Single	President
Illinois State University	Public	Single	President
Loyola University of Chicago	Private	Single	President
North Carolina State University	Public	Single	Chancellor
Reed College	Private	Single	President
Rutgers, The State University of New Jersey	Public	New Brunswick	President
State University of New York, Albany	Public	Albany	President
Tufts University	Private	Single	President
University of Colorado, Denver	Public	Denver	Chancellor (VACANT)
University of Connecticut	Public	Single	President
University of Maryland at Baltimore	Public	Baltimore County	President
University of Nevada, Reno	Public	Reno	President
University of Southern California	Private	Single	President
University of Texas at Arlington	Public	Arlington	President
University of Wisconsin, Milwaukee	Public	Milwaukee	Chancellor
Wayne State University	Public	Single	President



Cash Compensation

Cash Compensation – Overview of Findings

Base Salary

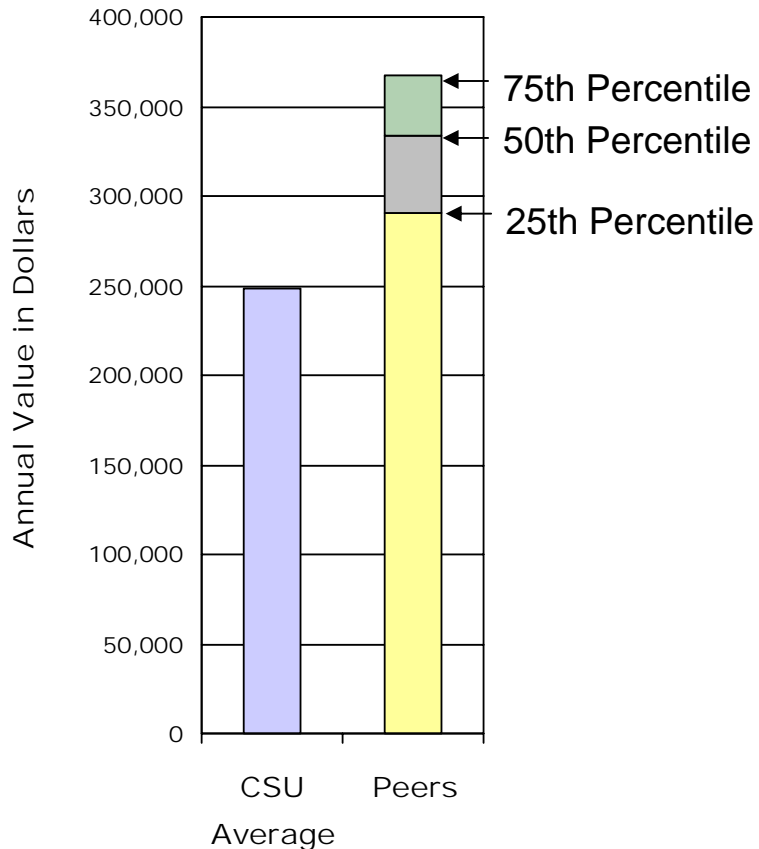
- Average base salary for survey Presidents is **\$354,075** (effective fourth quarter of 2005)
- Average CSU Presidents' salary is **\$248,859**, a lag of **42%***

Incentives

- CSU Presidents are currently not eligible to receive incentive compensation or other bonuses
- The majority of Presidents in the survey are also ineligible for incentives or bonuses
 - One survey participant reported the President participates in an annual incentive compensation plan
 - Three universities offer other types of bonus awards

**Market lead/lag is defined as the percentage the CSU salary would have to be decreased or increased, respectively, to equal the survey average (in accordance with CPEC methodology).*

Base Salaries vis-à-vis Market

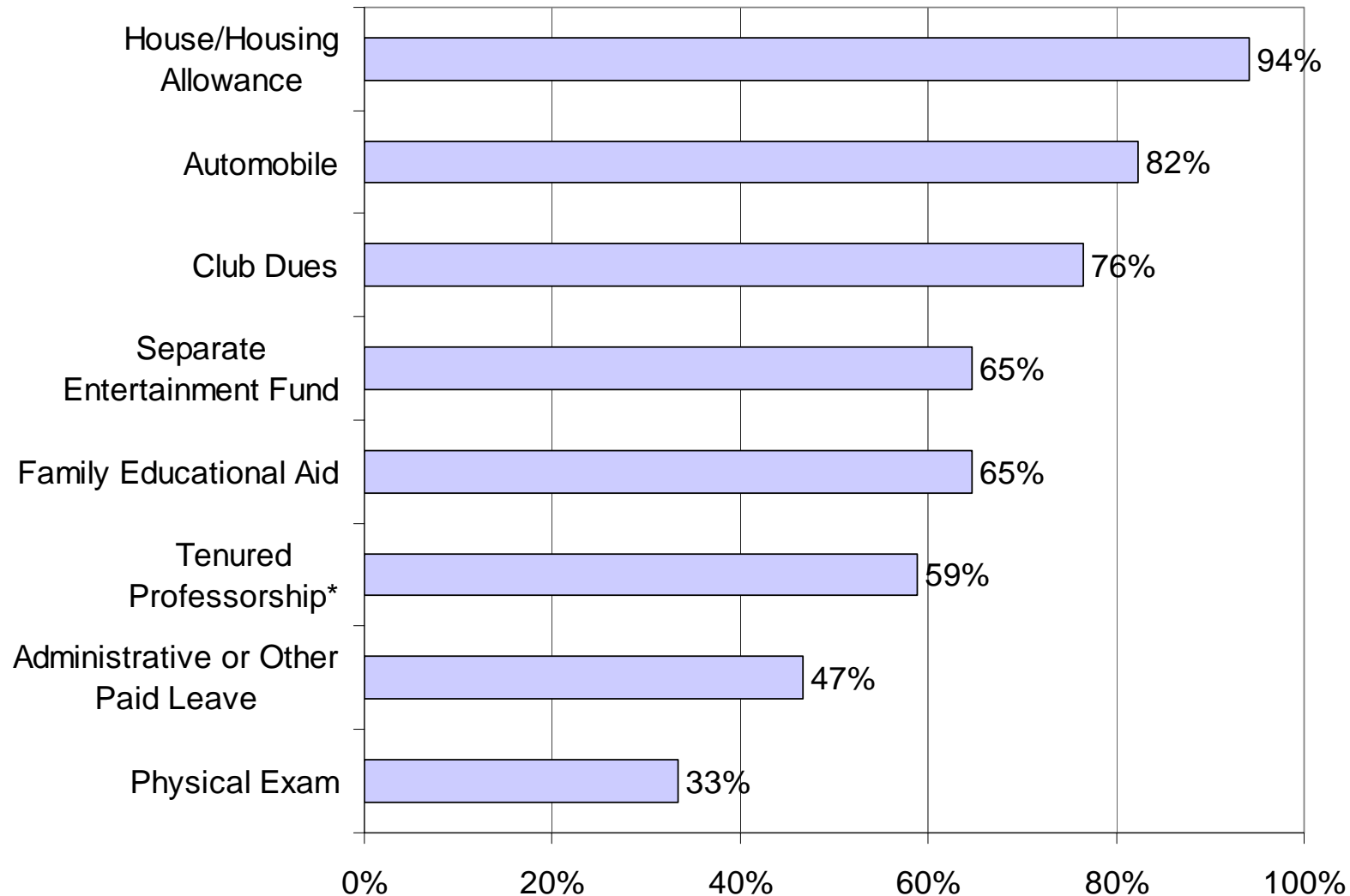


- The CSU Presidents' salaries range from \$220,116 to \$286,896, and average \$248,859
- Salaries at all 23 campuses fall below the 25th percentile of the comparison institutions



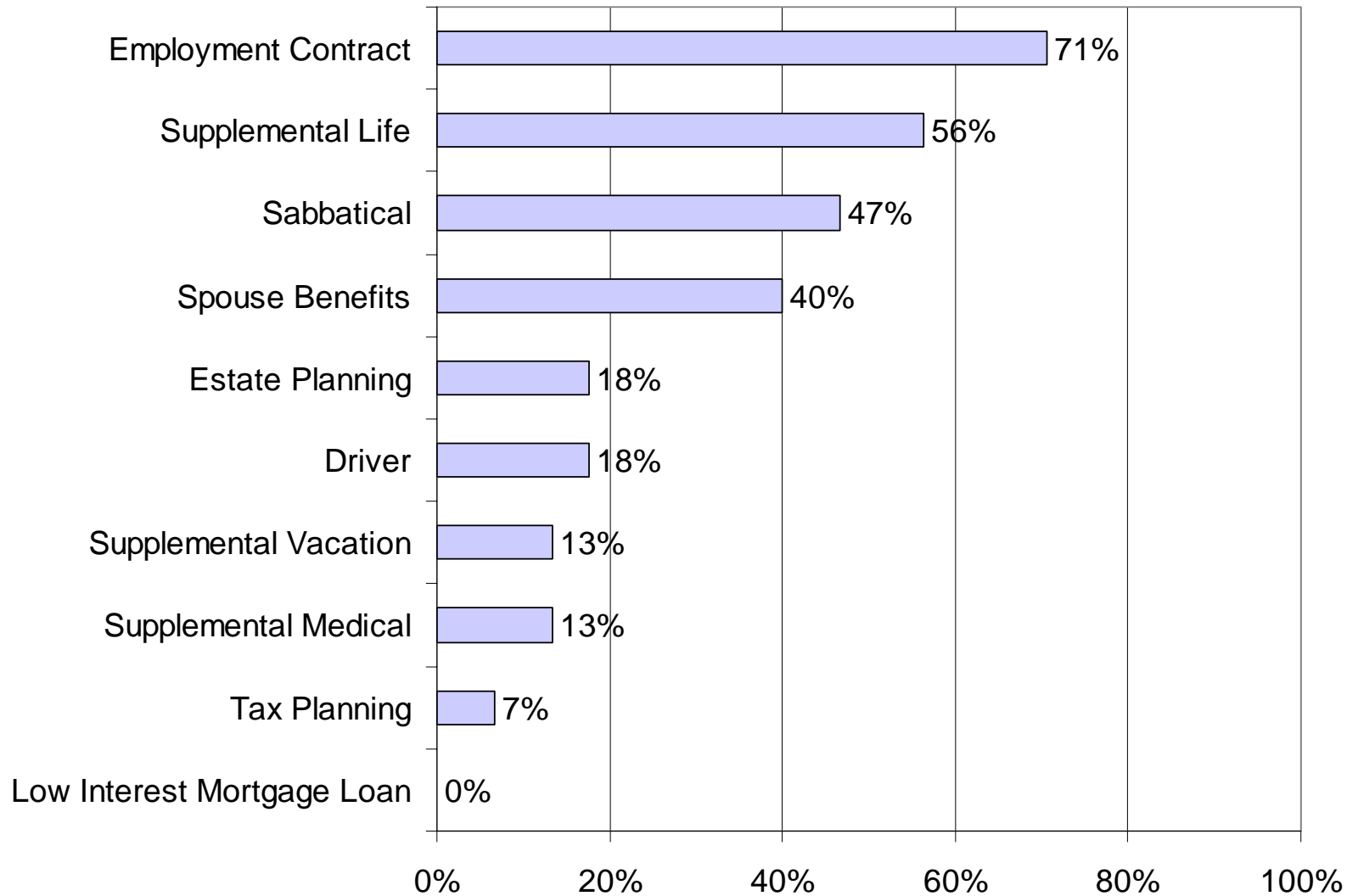
Benefits and Perquisites

Prevalence among the CPEC 20 of Executive Benefits & Perquisites Offered by CSU



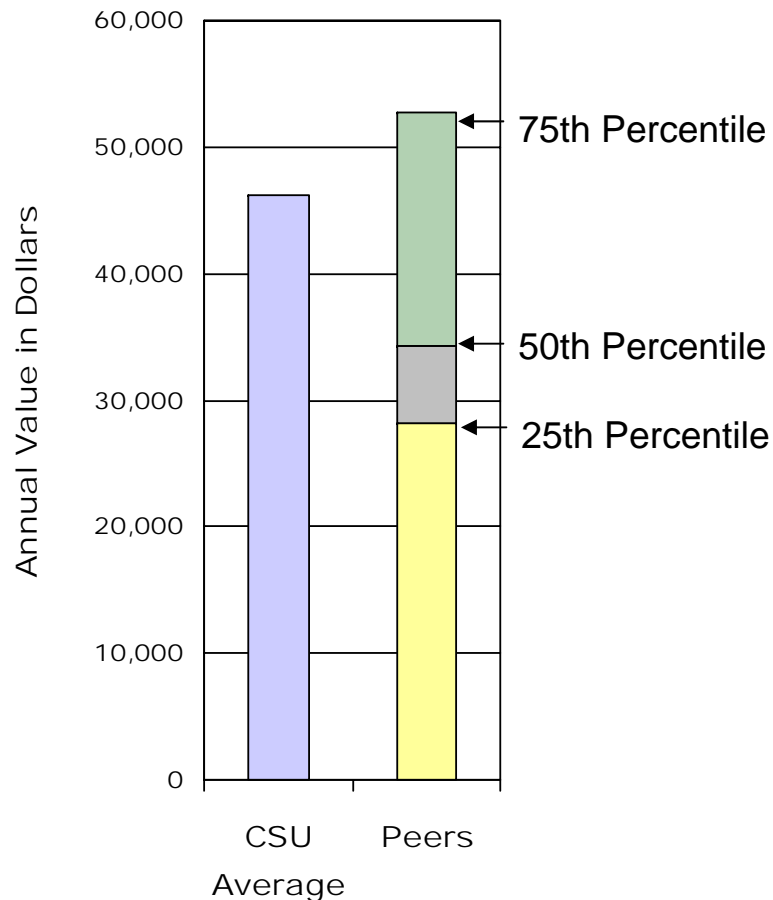
**Updated based on telephone survey findings.*

Prevalence among the CPEC 20 Executive Benefits & Perquisites NOT Offered by CSU



Health and Welfare Benefits vis-à-vis Market

Note: Presidents receive the same benefits provided to faculty and staff, with minor exceptions

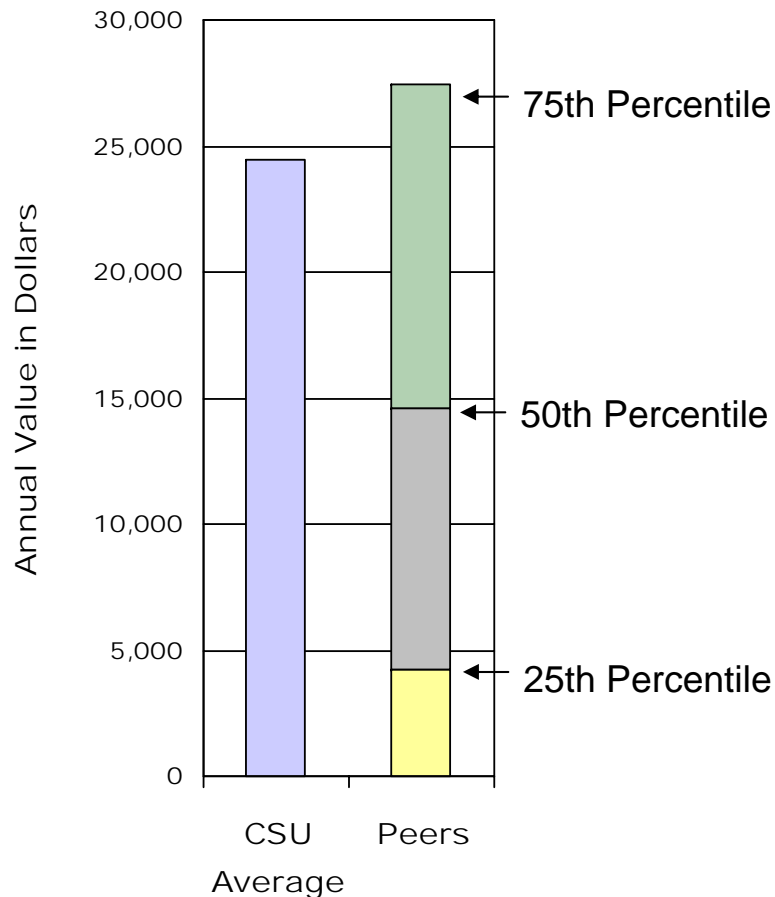


- CSU's health and welfare benefits fall between the peer group median and 75th percentile
- The following benefits are favorable relative to market:
 - dental (31%* lead)
 - life insurance (38%* lead)
 - post-retirement medical (40%* lead)
- However, medical benefits lag the market median by 27%* due to in part to higher deductibles and co-insurance rates

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Post-retirement Medical vis-à-vis Market

Note: Presidents receive the same benefits provided to faculty and staff, with minor exceptions



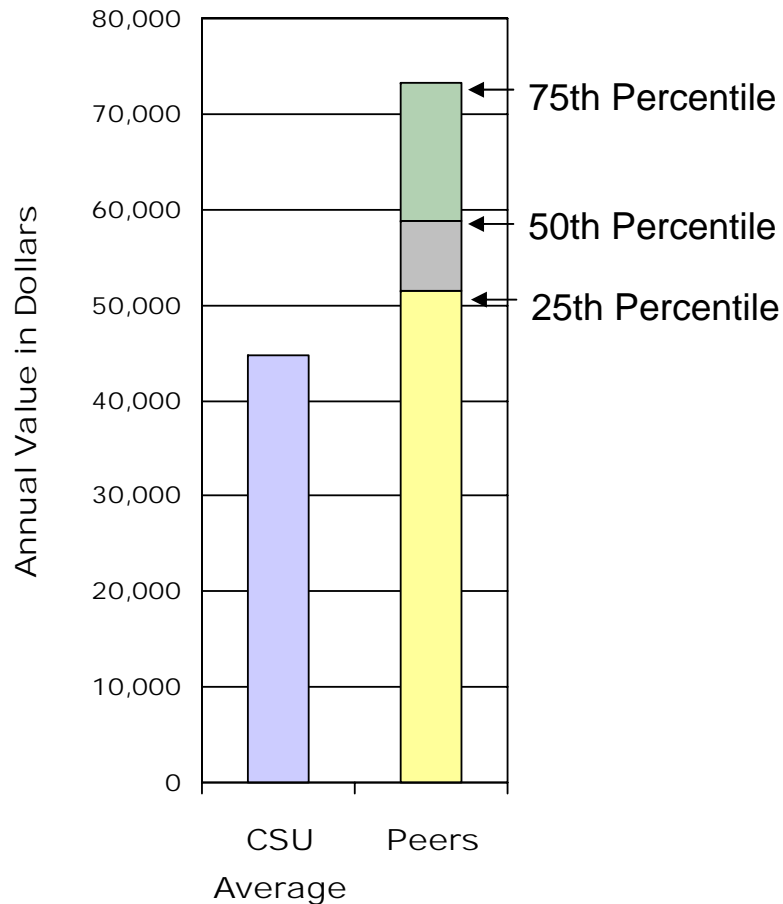
- CSU's post-retirement medical benefits lead the peer group median by 40%*
- Favorable provisions include:
 - No employee contributions from post-65 retirees and spouses for the plan valued¹
 - Very low contributions from pre-65 retirees and spouses
- Thirteen peers offer both pre-65 and post-65 employer-subsidized plans
- Five peers provide defined dollar allowances to all retirees or post-65 retirees only
- Two peers provide “access only” plans that are 100% retiree-paid

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¹ Other plans may be selected that require employee contributions.

Paid Time-Off Benefits vis-à-vis Market

Note: Presidents receive the same benefits provided to faculty and staff, with minor exceptions



- CSU’s paid time-off benefits lag the peer group median by 31%*
- Long-term disability benefits are favorable relative to market
- However, reflecting below market base salaries, the value of the following benefits appears low:
 - Vacation
 - Holidays
 - Sick Leave
 - Short-term disability

**Market lead/lag is defined as the percentage the CSU salary would have to be decreased or increased, respectively, to equal the survey average (in accordance with CPEC methodology).*



Retirement & Savings

California State University System Defined Benefit Retirement Program

Note: Presidents receive the same benefits provided to faculty and staff, with minor exceptions

- CSU offers all employees a defined benefit retirement program
- Employees contribute 5% of gross salary in excess of \$513 per month to the plan; the CSU contribution is 17% of the employee's full gross salary*
- The value of the CSU benefit varies by age, service and career horizon. In general, the plan provides a higher benefit to career employees and late career hires
- The eligible pay for pension calculations is capped at \$220,000; this limit is grandfathered at \$325,000 for employees hired before 1994
 - CSU does not provide any excess plan to make up for the impact of this limitation
- The benefit factor maximizes at age 63
- The plan provides for ancillary benefits such as cost of living adjustments and death and disability benefits

* *Except Public Safety employees*

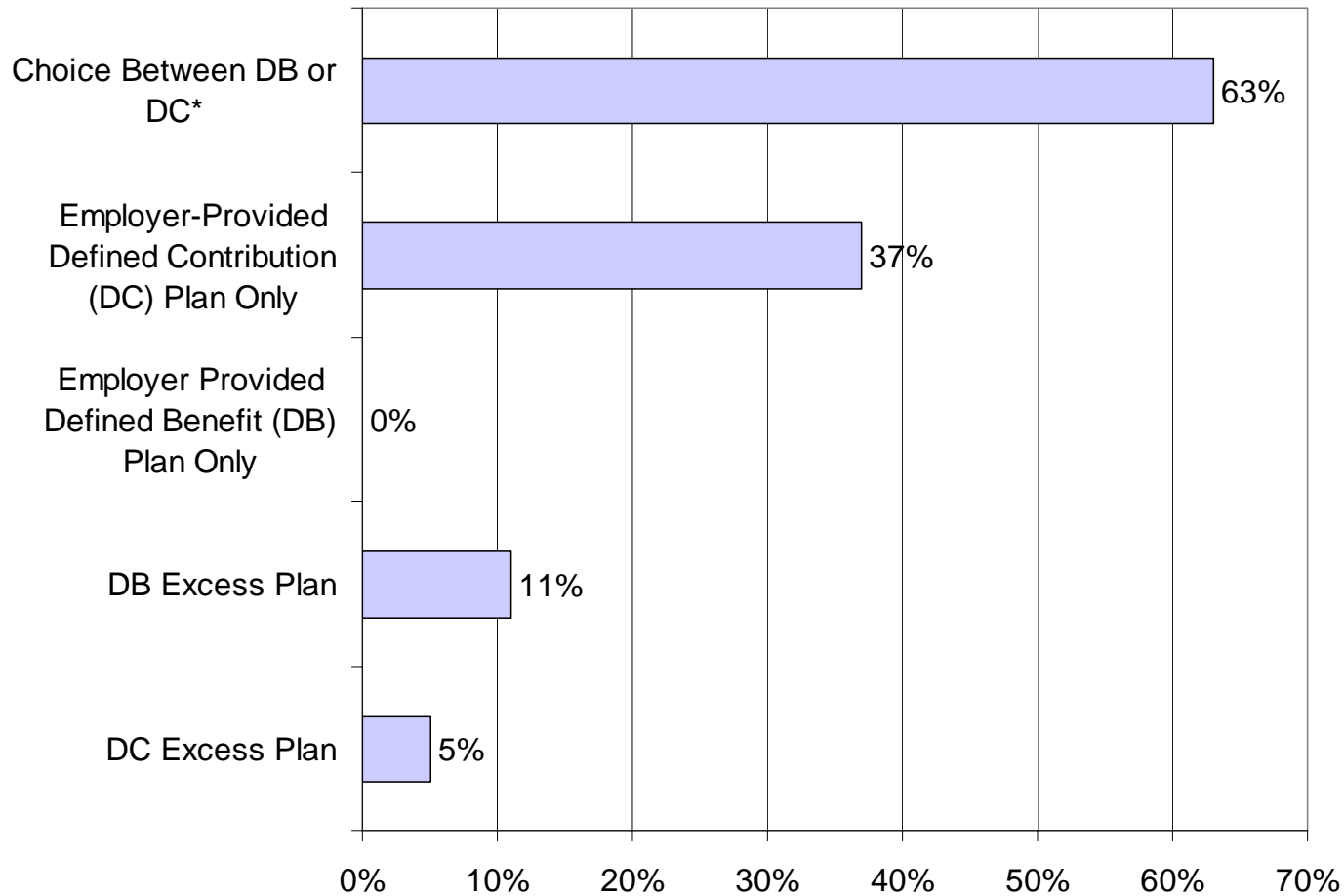
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California State University System Voluntary Deferred Compensation Programs

Note: Presidents receive the same benefits provided to faculty and staff, with minor exceptions

- CSU Presidents are eligible to defer compensation under the following plans, which are 100% employee-funded:
 - 401K
 - Maximum deferral of \$15,000 per year, with eligibility to make catch-up contributions of up to \$5,000 per year at age 50
 - 403B
 - Maximum deferral of \$15,000 per year with eligibility to make catch-up contributions of up to \$5,000 per year at age 50 or up to \$3,000 per year with 15 years of service; limits are linked to 401K
 - 457
 - Maximum deferral of \$15,000 per year, with eligibility to make catch-up contributions of up to \$5,000 per year at age 50; limits are independent of other plans

Prevalence of Employer-Contributory Retirement Programs among the CPEC 20 Institutions



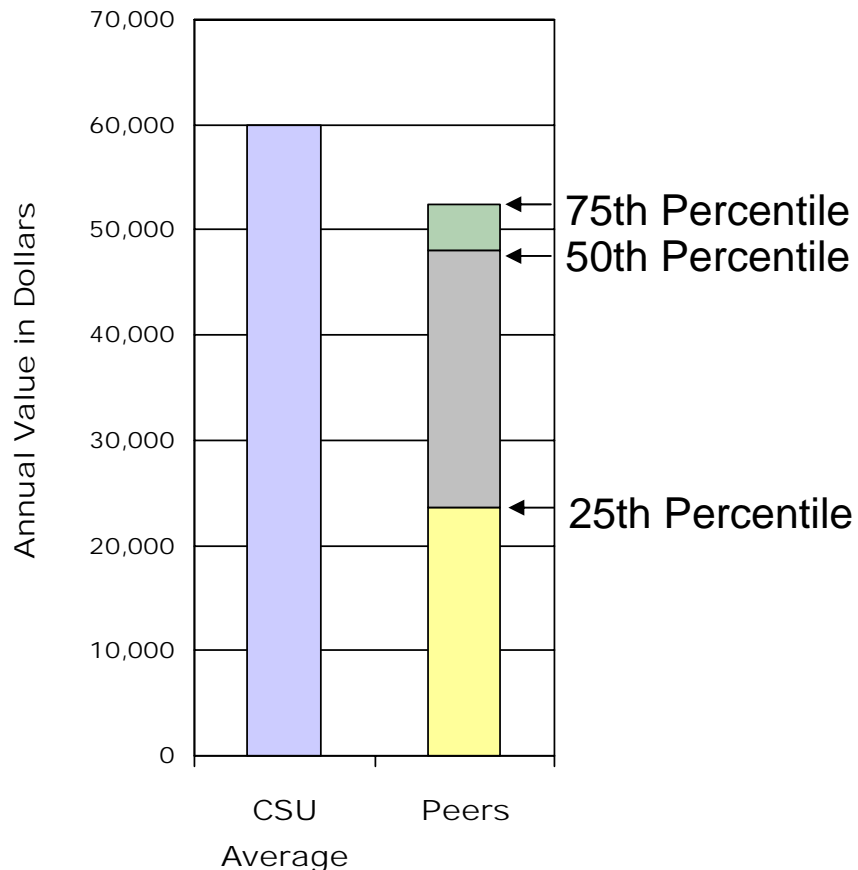
* Includes one organization that provides the more valuable of the DB or DC plan.

Note: Analysis excludes 1 university where the President is eligible to participate in neither a DC or DB plan.

Typical Retirement Provisions among the CPEC 20 Institutions

- More than half of comparison universities offer a defined benefit (DB) plan
 - 8 of 12 universities require employee contributions
 - Employee contributions range from 2% to 10% of salary
- Nearly all comparison universities offer a defined contribution (DC) plan with employer contributions
 - Employer contributions range from 6% to 13.5% of salary
- All of the organizations that offer a DB plan also offer a DC plan with employer contributions, however, the large majority require executives to choose between plans
- Only a handful of universities offer supplemental retirement benefits, including excess DB or DC plans that provide benefits above legislated limits
- Employee-funded deferred compensation plans are very common

Total Retirement/Savings Plan Value vis-à-vis Market



- The value of CSU's total retirement and savings benefits leads the peer group median by 20%*
- CSU's DB plan is highly competitive relative to peers. Favorable plan features include:
 - 1-year highest average pay
 - Annual cost-of-living adjustment
- Where comparison universities offer both an employer-provided DB and employer-provided DC plan and requires a participant choose, our analysis reflects the more valuable plan only (typically the DB plan)

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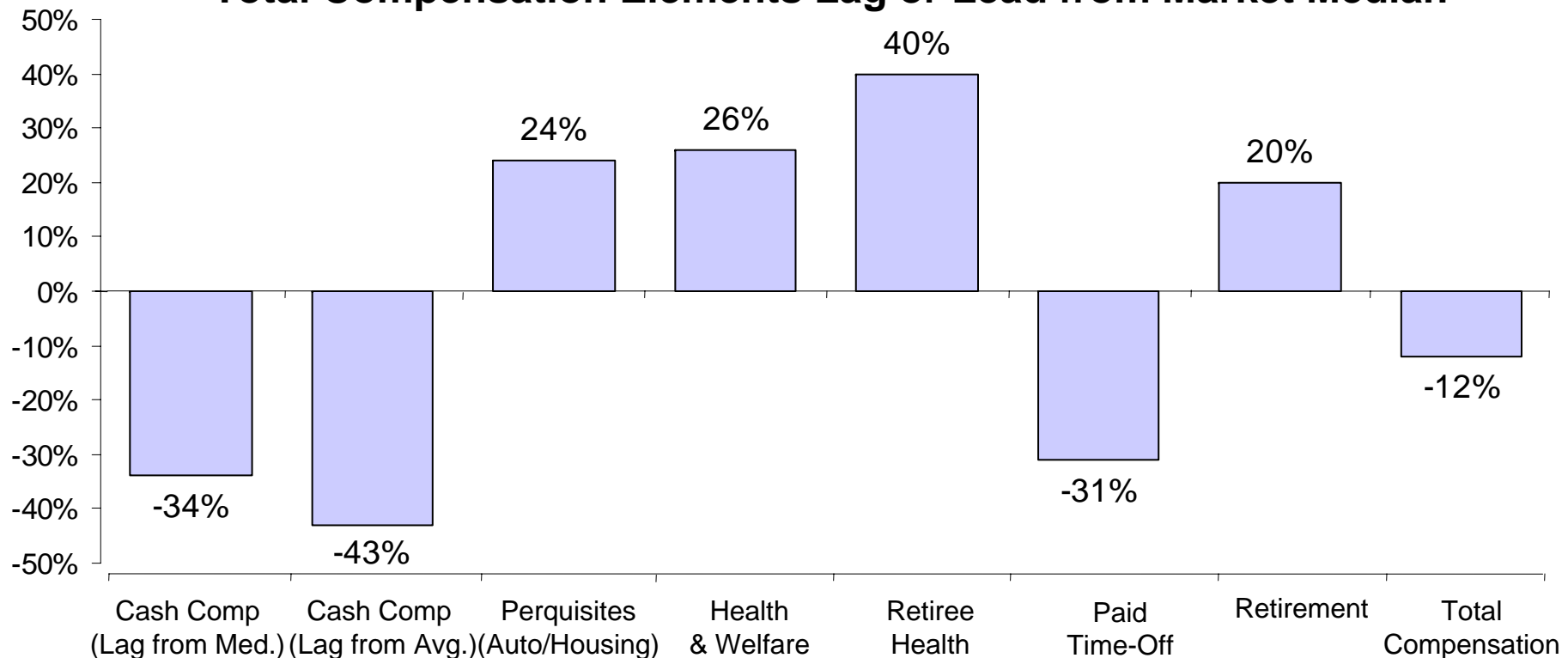


Total Rewards

Total Rewards Value – Presidents

Though benefits and perquisites are above market median, total compensation still falls below market due to below market salaries

**Campus Presidents:
Total Compensation Elements Lag or Lead from Market Median***

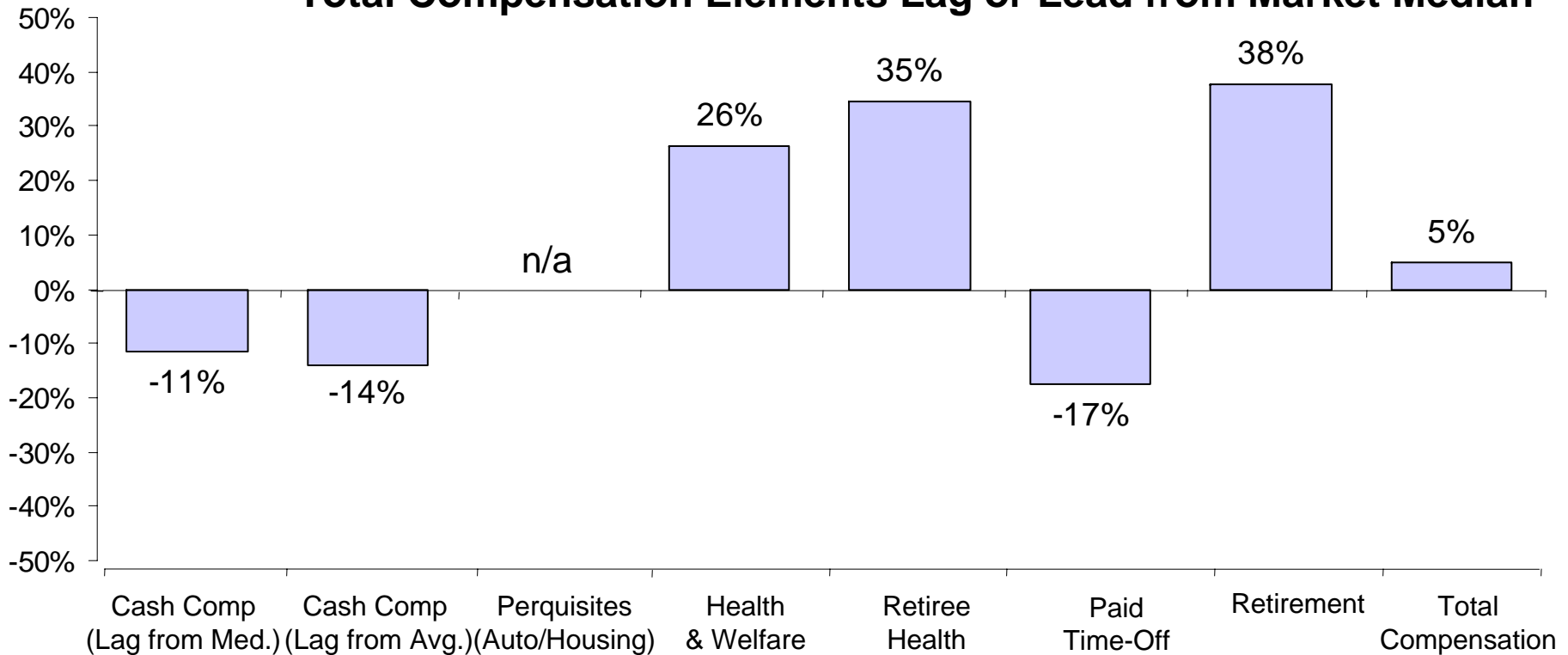


*Market lead/lag is defined as the percentage the CSU salary would have to be decreased or increased, respectively, to equal the survey average (in accordance with CPEC methodology).

Total Rewards Value – Faculty

Total compensation for faculty members is positioned slightly above the market median

**Campus Faculty:
Total Compensation Elements Lag or Lead from Market Median***



*Market lead/lag is defined as the percentage the CSU salary would have to be decreased or increased, respectively, to equal the survey average (in accordance with CPEC methodology).



Tenure Programs, Trustee
Professorship and Executive Transition
Program for System Executives

California State University System Tenure Program for System Executives

- The tenure program for system executives allows the university to take advantage of the real-world skills and knowledge of such individuals in the classroom
- Tenured posts are not automatically awarded; each campus president may only grant tenure based upon a recommendation by the departmental faculty

Tenure Programs among the CPEC 20 Institutions

- As a matter of practice, the majority of universities (59%, 10 out of 17) grant tenure to the President upon appointment to the position
 - In general, there is no formal policy guaranteeing tenure and the decision is made on a case by case basis.
- The majority of universities (57%, 8 out of 14) do not grant tenure to other executives
- At those universities that do not provide tenure to Presidents and other executives, these individuals are free to pursue tenure on their own academic merit through the same process as other faculty

California State University System Trustee Professorship Program

- Established in 1981 and is available to executives appointed to executive positions prior to November 18, 1992
- Objective is to ensure that the university continues to benefit from an executive's accumulated experience and insights
- Transition year funding is provided for a paid leave set at the approximate midpoint between the executive's salary and the top of a 12-month full professor salary range (currently \$112,548)
- No time limit on how long a former executive can serve as a trustee professor
- Replaced in 1992 with the Executive Transition Program

California State University System Executive Transition Program

- Adopted to replace the Trustee Professor Program and available for executives appointed after November 18, 1992
- Entitles a departing campus president, or other executive, to paid leave at a reduced salary for one year
 - Transition salary paid at the midpoint between the executive's salary and the maximum of the salary range for a 12-month full professor (currently \$112,548)
- At the conclusion of the transition year, executive may elect to exercise any retreat rights, which may have been established previously to a CSU position
- The transition year is funded by the Chancellor's Office

Executive Transition Policies & Practices among the CPEC 20 Institutions

- Only 29% of universities (4 out of 14) have a formal policy, but all responding universities have offered a transition period benefit to presidents stepping down from the role to return to another position within the university
- Transition period benefits typically negotiated on a case-by-case basis upon hire or upon accepting a faculty appointment in connection with termination
- Typical provisions include:
 - One year in duration; length may vary based on service
 - Requirement to resume academic role post-transition period
 - Some universities require service *during* the transition period (e.g., fundraising, legislative work, research)
 - Compensation generally lower than Presidents' current salary; may be based on the teaching discipline to which they return

Employment Arrangements for Presidents' Spouses

- 71% (10 of 14) of universities will make arrangements to employ the spouse of a president
- In general, the arrangement is negotiated on a case-by-case basis depending upon the spouse's qualifications and open positions at the university
- 14% (2 of 14) of universities have a formal policy to appoint trailing spouses to positions at the organization as part of the Presidential recruiting process
- 14% (2 of 14) do not employ the spouse of the president due to a formal policy not allowing supervision of an employee by a family member



Any Questions?