

## February 2001

### Costs of Delaying the COLA and the Faculty Salary Increase

Since 1994-95, UC policy has been to delay for three months the beginning of the new COLA for all UC employees and the parity increase for faculty only (the % increase it would take to raise UC salaries midway between the salaries of the Comparison 8 universities). The University saves money each year as a result of this delay: it saves the annual increase for one quarter—July, August, and September. What UC saves from the three-month delay and spends on other budget items, the faculty loses in salary.

Initially the delay was a cost-saving measure during the budget crisis of the early nineties. Faculty had received no COLAs from 1991-94 and a 3.5% cut in salary in 1993-94. But an even greater problem stemmed from the Regents' decision not to pay faculty merits in 1991-92. The faculty joined together in a class action lawsuit, sued the University for repayment of the merits, and won. To comply, the Regents decided to take a portion of the 1994-95 COLA (initially funded at 5%) and delay it for three months. In the end, a COLA of 3% became effective Oct. 1, 1994, and the 1991-92 merits were repaid.

At that time, faculty thought the COLA delay was a one-time event caused by the budget crisis and the need to find the money to pay the merits. But what started out as a crisis measure soon became standard practice. Also, the significance of the change might have been somewhat obscured at the time by the new separation of the general COLA (cost of living adjustment) for all employees and the parity increase for faculty only (determined by following a specific methodology determined by the state and CPEC—California Postsecondary Education Commission). But the financial consequences of the permanent delay are not trivial, and faculty should know what they are losing each year by this practice.

To use round numbers, if a faculty member began earning \$100,000 a year on July 1, 1994, he/she would be losing about \$1,000 a year because of the COLA and parity delay. If he/she earned \$50,000, the loss would be about half that. Over many years, these losses could climb even higher if lost investment opportunities are taken into consideration.

**Table 1: Costs of the COLA and Parity Delay for a Professor Earning \$100,000**

Date	COLA	Faculty Parity	Total Increase	7/1-6/30 * Salary with Delay	7/1-6/30** Salary with no Delay	Difference/ Loss year
1993-94	-3.5%					
1994-95	3%		3%	\$102,249	\$103,000	\$751
1995-96	1.5%	1.5%	3%	\$105,318	\$106,090	\$773
1996-97	2%	3%	5%	\$110,068	\$111,395	\$1,326
1997-98***	2%	3%	5%	\$115,108	\$116,964	\$1,857
1998-99	2%	2.5%	4.5%	\$120,912	\$122,228	\$1,316
1999-00	2%	0.9%	2.9%	\$124,886	\$125,772	\$886
2000-01	2%	1%	3%	\$128,602	\$129,545	\$943
2001-02	2%	1%	3%	\$132,460	\$133,432	\$972
total					<b>total=</b>	<b>\$8,823</b>
average (not including 1997-98 with 4 month delay)					<b>average loss per year=</b>	<b>\$995</b>

\* computed in two segments: 7/1-9/30 without salary increase; and 10/1-6/30 with increase

\*\* computed as if the salary increase began on 7/1

\*\*\* in 1997-98 the COLA and parity were delayed 4 months

The higher the total salary increase, the greater the loss for the 3 month delay. When the COLA and parity are 5%, the loss from the delay is greater than when it is 3%. The higher the overall salary, the greater the loss from the delay. Faculty earning closer to \$100,000 lose more by the delay than those nearer the \$50,000 mark.

It would first appear that faculty who earn merits might be more affected by the delay than others, but that's only because that person loses the value of the new COLA and parity on a higher base for the three months of the delay. For example, if a faculty member were promoted from Full Professor Step IV to Step V in 1998-99, he/she would lose roughly \$948 by the delay. If there had been no promotion, he/she would still have lost \$876. The higher figure

results from the difference in COLA and parity increase on the lower step IV at \$6,400/mo. and the higher step V \$6,942/mo. for the three months of the delay. All faculty are losing because of the COLA and parity delay, those who receive merits and those who do not.

## **More Consequences of Altering the Full Academic Year Salary Summer Funding is Reduced**

Faculty who receive summer funding from agencies like NSF are especially negatively affected by the COLA and parity delay. Their summer funding is computed at the July 1 salary rate. Thus they receive several percent less each summer than they would if the COLA and parity increase had been included in the July payroll data. In this instance faculty lose money, and it is not even money that UC is saving. UC is simply arranging the start of the new COLA in the academic year in such a way that faculty receive less than they should from federal granting agencies. Since most universities begin the new salary base on July 1 that is the date selected by many funding agencies on which to figure the amount of the grant.

In addition, diminished salary levels have a lasting effect on retirement income as well because retirement stipends are calculated on the highest three years of salaries; if those salaries are reduced by increments similar to those calculated in Table 1, then the benefit stipend is also reduced for life.

## **The Parity Increase May Itself Be Reduced by the Delay**

In order to determine the level of the parity increase, UC must calculate accurate average salaries for full, associate, and assistant professors. Delaying the COLA and parity beyond July 1 makes it impossible to calculate those averages directly from UC payroll data for July. Instead, UC must estimate the averages. In 1999-2000, UC estimated that all ranks were increased by 2.9%, but in fact the COLAs and parity increases are not added equally across all ranks. Typically the upper ranks get slightly less than the full COLA and the lower ranks get more. The result is that UC salary averages are somewhat high, especially at the full professor rank, by having the full COLA projected at all ranks. Contrary to expectation, high average salaries when plugged into the CPEC formula result in lower parity increases. The effect of estimating the COLA and parity at one level for all ranks may result in only small differences, but when the parity for this year and next year is calculated at 1%, small changes can matter.

The CPEC methodology does not make adjustments for the delayed COLA and parity funding at UC. Many of the Comparison 8 faculty receive their salary increases at the beginning of the academic year on July 1 (at Harvard, Yale, MIT, raises are effective July 1; Illinois and Suny-Buffalo Aug. 1, with an additional 1% discretionary increase at SUNY beginning Oct. 1). In order to be completely accurate and consistent, UC should be calculating the cost of the salary delays and making adjustments to the salary averages in their estimations.

## **Salary Surveys for UC May Be Misleading**

National surveys of salary averages at institutions across the country can be incorrect for UC because the salaries provided at the beginning of the academic year don't include the new increases. For example, when the COLA and parity were delayed 4 months in 1997-98, the Academe salary figures for UC did not reflect the new COLA and parity. Delaying the COLA and parity can result in an erratic record of UC salaries published in national surveys and misunderstanding by readers and faculty at other universities about the correct level of UC salaries.

## **UC Rationale and Possible Solution**

The University defends the delay by saying that the financial implications are relatively trivial, more of an accounting headache than anything else. The COLA and parity increase for faculty may be delayed 3 months in the fall, but once it begins on Oct 1, it is carried through until the following Sept. 30, thereby filling out a full year of payment at the same range increase. Furthermore, there are competing interests for limited University funding, and it would take significant funds to restore COLAs and the faculty parity increases to July 1, 2001 and to keep them at the beginning of the academic year. Somewhere (library, technology, equipment, etc.) the university would have to find the funds to begin paying the higher COLAs to all employees and parity increases to faculty on July 1. In an FA meeting with UCOP at the beginning of January, a VP from Academic Advancement suggested that one solution

FA at UCLA Faculty Association Newsletter, page 2

might be to reduce the COLA a bit each year, allowing this reduction to pay the cost of moving back the onset of the COLA and parity. The Faculty Association at UCLA is not in favor of any scenario in which the COLA is reduced each year until the effective date is restored to July 1. Such a plan would serve to multiply the accounting problems, affect retirement calculations, and further distort the salary averages that are published in journals of higher education. More importantly, it violates the principle that faculty deserve the full amount of the academic year salary during the academic year.

## **Restore COLA and Parity Onset to July 1, the Beginning of the Academic Year**

It is time for the University to end COLA and parity delays and find the funds to pay the full faculty salaries at the beginning of the academic year. The salary increase delays are a major source of faculty discontent at the economic loss and inconvenience of having to wait for a salary increase for three months beyond the beginning of the academic year. For many reasons, including fairness to all faculty as well as accounting clarity and integrity of the formulas used to compute faculty salary averages and retirement benefits, the Faculty Association at UCLA asks that the Office of the President restore COLAs and parity increases to July 1, 2001, and only consider delaying these increases in the future as a temporary, last resort measure in a time of acute financial crisis. The Faculty Association has plans to meet with Chancellor Carnesale over this matter and inform members of the campus and systemwide Faculty Welfare Committees about this issue.