

Compensation and Benefits Report

PROFESSIONAL & SCIENTIFIC COUNCIL
COMPENSATION & BENEFITS SUBCOMMITTEE

0 EXECUTIVE SUMMARY

The Compensation and Benefits Committee presents its annual report on Iowa State University's compensation and benefits structure for professional and scientific (P&S) employees, focusing on key aspects for employee retention and wellbeing.

Acknowledging the importance of competitive salaries as a factor that retains skilled staff, the report emphasizes maintaining healthy salaries that are both aligned with industry standards and that reward employees for their merit. It proposes the development of intentional budget plans for salaries that address the concern that cost-of-living increases are outpacing salary adjustments.

The report highlights the Employee Benefits Advisory Committee (EBAC) and recommends balancing its membership representation with P&S staff, including from non-academic areas, to enhance diversity and perspectives in benefit program deliberations. Additionally, it suggests exploring benefit enhancements to address changing workforce needs.

1 INTRODUCTION

The Compensation and Benefits Committee has completed its annual evaluation of the university's compensation and benefits structure for professional and scientific (P&S) employees.

Our mission is to assess the implemented compensation model and benefits program and provide commentary on changes to the pay grade structure and the impact of recent benefit plan changes.

Our recommendations would ensure the continued competitiveness and well-being for Iowa State University employees. Key stakeholders to these recommendations, including University Human Resources (UHR) and the Employee Benefits Advisory Committee (EBAC), are noteworthy in their respective abilities to be advocates for this purpose.

Our goal is to facilitate the development of a compensation and benefits framework that aligns with industry standards and promotes employee retention by meeting the needs of all P&S staff.

2 COMPENSATION

2.1 THE PAY GRADE STRUCTURE

In 2020, Iowa State University implemented a new compensation structure and philosophy that is a significant improvement to the previous model. It is based on market data that allows Iowa State University to stay competitive with higher education institutions and industry businesses of similar scope, size, and enrollment.

The Compensation and Benefits Committee commends UHR for the creation and implementation of the new compensation structure, along with their commitment to continually monitor the market and labor costs to make necessary adjustments. In 2022, UHR made a 6% adjustment to the pay grade structure to account for market changes. In addition, UHR assigned new pay grades to job profiles that had significant changes in their market value. In 2023, while UHR did not adjust the pay grade structure, it did review job profiles and assign some new pay grades to account for market movement. In 2024, the Committee recommends evaluation and adjustment of the pay grade structure to account for market movement and maintain the health of the compensation structure. The Committee further recommends that UHR continue to annually review the pay grade structure and individual job profiles for necessary adjustments.

2.2 COST OF LABOR VS. COST OF MARKET VS. COST OF LIVING

For the purposes of this report, the Committee defines Cost of Labor, Cost of Living, and Cost of Market as follows:

Cost of Labor:

The totality of compensation and benefits paid by an employer to an employee.

Cost of Living:

The amount an individual spends on the basic necessary expenses to maintain a lifestyle.

Cost of Market:

The current price at which a product or service costs to the supplier.

A wide range of factors influence these three areas and differ regionally. How each area affects the other is the key to better understanding how compensation and benefits of Iowa State University employees are determined.

The market trends of respective professions influence the Cost of Labor. How much each position requires an employer to fund is proportional to the market value of the position compared to other organizations of comparable size (e.g., enrollment, full-time equivalent employees) and purpose. Commonly compared to other organizations within the region, but also affected by national trends.

Cost of Living is more volatile than cost of labor, which is why employers may refrain from making compensation decisions solely based on current and future trends of cost of living. It is important

to note that the cost of living is not based on the self-determined needs of each individual/family but rather the necessities in life. Examples include housing, food, healthcare, childcare, education, transportation, utilities, and other necessities. Such factors tend to be regionally based but use the national average as a baseline.

As an institution for higher learning, Iowa State University provides education, housing, and other support services to our students. Cost of market dictates the budget to provide such products and services, which includes cost of labor. With recent inflation, not only is there significant increase in the cost of living for employees, but there is also an increased cost of market to the institution. Although Iowa State University is in a healthy state financially, it is imperative it remain prudent in its decisions to offset the cost of market trends. The cost of market may be different by region, but many products and services originate from the national and international markets.

All three cost areas detailed above have a circular effect on each other. Cost of labor trends commonly lag the effects of cost of living and cost of market, as both tend to be volatile. Iowa State University strives to maintain pace regionally and nationally in compensation and benefits for employees in all areas, while remaining cognizant of cost-of-living fluctuations.

2.3 HEALTHY SALARIES FOR CURRENT EMPLOYEES

President Wintersteen advocated for additional funds to retain our talented staff, emphasizing the institution's commitment to excellence¹. In a presentation to the Iowa Legislature in February 2024, President Wintersteen requested an additional \$4.5 million in part to “support for priorities such as student financial aid, student support services, and faculty and staff retention, as well as to address inflation”. The committee appreciates President Wintersteen and other senior administrators for their identification of how important it is to retain talented and dedicated staff members. Retaining experienced employees is essential for sustaining our competitive edge in higher education.

The Committee would like to thank university leadership for approving up to an additional 3% merit increase this past year for employees. Acknowledging market trends highlights the necessity of aligning salaries with industry standards. This past year, Iowa State University met and exceeded national averages from a market perspective. For the University to remain an attractive destination for skilled professionals, salary increases must remain a priority.

With the implementation of a new compensation model three years ago, UHR placed P&S employees into job classifications and compensation structures with their current salary. For those who fell below the minimum of their new salary level, UHR gave departments time to adjust salaries to ensure all P&S employees were compensated within their salary range.

What was not a part of the compensation model shift was a university-wide analysis of individual employees to ensure they were compensated based on their individual market, meaning they are compensated appropriately to market based on their years of experience and proficiency. The Committee acknowledges that this type of review may be occurring in individual units, however,

¹ <https://www.inside.iastate.edu/article/2024/02/15/request>

these reviews depend on availability of funds. For this reason, some units have not been able to engage in this type of review and employee salaries may be stagnant.

When reviewing employee pay comprehensively, UHR looks at a metric known as the compa-ratio.

Compa-ratio is a measurement of pay that compares an employee's salary to the midpoint of a salary range.

In Iowa State University's case, where the midpoint of a pay grade reflects the market median, this is a good indicator of how an employee's pay aligns with the market for their specific job. A 1.00, or 100% compa-ratio indicates that an employee's salary is the same as the pay grade midpoint or, at Iowa State University, at-market for their specific job. A compa-ratio less than 1.00 indicates an employee's pay is below midpoint, and a compa-ratio above 1.00 indicates an employee is above midpoint. In consultation with UHR, we learned that overall, a compa-ratio plus or minus 10% of the midpoint (0.90–1.10) is market competitive for a job. From an employee's perspective, this compa-ratio may vary based on their individual years of experience or qualifications for a particular job.

In 2020, the average compa-ratio for P&S employees in all jobs was 0.99, or 99%. As of January 1, 2024, the average compa-ratio for P&S employees in all jobs is 0.96, or 96%. While we recognize that the current average compa-ratio still falls within a market competitive range, it is notable that the overall compa-ratio has steadily decreased over the last 4 years. This decrease is likely because the university has stayed committed to being market competitive by making shifts to the pay grade structure and properly aligning job profiles to grades based on market shifts. However, further action is necessary to address individual employee pay. While it is important to keep the compensation structure competitive, the University must identify how to keep individual salaries competitive to ensure that the structure does not outpace individual employee compensation. The question is: how do we get current employee salaries to a place where they are market competitive based on their individual proficiency (i.e., years of experience) and ensure that they stay there?

2.4 COMMON MISCONCEPTIONS

Collaborating with constituents and UHR has brought to light common misconceptions about compensation at Iowa State University. Clarifying these misconceptions is a crucial step in educating employees and advocating for healthy compensation.

- *Cost of Living.* Through conversations with UHR, the Compensation and Benefits Committee has learned that cost of living is not a direct variable in compensation decisions or annual raises. Rather, for P&S employees, UHR provides information to senior leadership related to expected market movement when determining pay increases. Projections estimate that the market will move 2–3% per year.
- *Hiring above the first third.* There is a common misconception that hiring managers cannot hire new employees above First Third in the pay-grade structure. An employee's hiring salary should be commensurate with their years of experience, with consideration to departmental budget.

2.5 RECOMMENDATIONS

The Committee makes the following compensation recommendations to university administration:

- Centralized one-time discretionary increases to bring employees to market based on their experience and proficiency.
- Dedicated budget for salaries that are not dependent on state funding or departmental funding. Lacking state funding and variable departmental funding currently has a direct impact on individual employees receiving a healthy salary based on market. To address this, the University must explore other budget models and funding options for compensating employees.
- Proactive budgeting for salaries. Beyond budgeting for annual increases, departments must budget for promotions, market increases, etc. Education and communication on how departments should be mindful in addressing compensation is important, and actively earmarking funds for employee salaries is crucial.
- Training and guidance for supervisors to understand the importance of competitive pay and the need for constant vigilance around employee compensation. Compensation should not be a once-a-year conversation; it should be something that supervisors consistently think about and advocate for. Additionally, the Committee advocates for supervisor education around compensation best practices for hiring salaries and debunking the “first third rule” myth.
- UHR review to identify departments who are systematically underpaying employees based on market and assist those departments in identifying strategic plans to address individual employee compensation.
- University-wide performance review process that ensures completion, consistency, and value in annual reviews that provides an opportunity for P&S staff to receive feedback.
 - Meaningful annual reviews for all P&S employees, ensuring that employees understand metrics used to determine annual salary increases.
 - Implementation of additional reviews to occur in an employee's first 30, 60, and 90 days of employment.
 - Identification of core skills on which supervisors should evaluate all P&S staff such as collaboration, communication, and alignment with departmental and institutional values and goals.
 - Accountability from UHR for supervisors who do not consistently complete meaningful annual reviews for P&S staff.

3 BENEFITS

3.1 OVERVIEW OF CHANGES

In 2023, EBAC and university administration assessed needed changes to the Iowa State University Benefits plan. EBAC recommended smaller premium increases coupled with plan design changes. These plan design changes place more responsibility on individual employees to budget for and actively manage their health. Inside Iowa State summarized the changes as “adding cost-sharing changes is a more balanced approach and encourages employees to be more involved in managing their own health care, in some cases contributing to efforts to lower costs”.

The changes were due to the University spending more on claims than premiums cover. The Compensation and Benefits Committee recognizes that as a self-funded plan, changes were necessary to balance the budget. The Committee also recognizes these changes may significantly impact employees who rely on the affordability of the benefits plan. The Compensation and Benefits Committee anticipates sharing information about these impacts in the 2025 annual report, when additional data and information is available from constituents.

3.2 SELF-FUNDED PLANS

To understand the need for premium and/or plan design changes, it is important to understand what it means to be a self-funded plan.

Iowa State University self-funds the medical and dental costs of employees and contracts with Wellmark to administer its health care plan.

When a plan subscriber makes a medical claim, Iowa State University pays for all claim costs plus administrative costs charged by Wellmark. When claims exceed premiums, the University must cover the difference. In recent years, the medical and pharmacy costs to Iowa State University have been higher than the money brought in through employee monthly premiums, therefore requiring a premium and/or plan design change for 2024. Aetna’s self-insurance plan webpage specifically compares self-funded and fully-funded plans². Constituents may find it helpful to review this information to better understand how a self-funded plan works and the role that employees and the University play in having a cost-effective plan.

3.3 ENROLLMENT DATA

The end of the last calendar year sparked a great deal of change for benefits. UHR worked to create a variety of resources for university employees, ensuring they had the best information possible when updating their benefits during the most recent open enrollment period. Additional times were available for people to meet in-person, or virtually, with their designated UHR representative. UHR promoted the use of ALEX, an interactive online benefit tool. Lastly, UHR held a university-wide

² <https://www.aetna.com/employers-organizations/self-insurance-plans.html>

town hall for employees to learn about the changes to the benefits. UHR designed these resources to give employees the knowledge to make informed decisions about their benefits.

With all the changes that occurred to Iowa State University benefits, there were few changes in employees' elections. The data collected includes all groups of employees at the university, merit, contract, faculty, and P&S levels. Approximately 91% of the medical elections had no change. Of the changes, most were from individuals changing their elected medical plan from PPO to HMO. The Committee will continue to monitor medical elections in the coming years as individuals and their families may not yet have fully felt their impacts.

Iowa State University's Health FSA has 2,015 participants. Of those participants, 1,159 changed their monthly election. During open enrollment, 543 individuals elected to participate in the FSA for the first time. There are many factors for why not all eligible employees would participate in the FSA, such as double spouses on campus or using a spouses' employer for FSA benefits.

It is worth noting again that the Committee intends to evaluate the effect of the benefits changes in the coming years to understand an accurate impact on ISU employees and their families.

3.4 EBAC REPRESENTATION

The EBAC is a vital assembly of individuals from diverse corners of our campus, collaborating to provide invaluable insights on employee benefit programs. The Compensation and Benefits Committee acknowledges and appreciates EBAC's pivotal role in fostering a space where many perspectives converge before formulating benefit recommendations.

Through careful examination of EBAC's purpose and structure, the Compensation and Benefits Committee makes the following recommendations:

1. *An additional seat for P&S Staff:* Considering the notable figures from the 2022-23 Iowa State University Fact Book, which highlights the significant presence of P&S staff, we recommend adding an additional seat for this group on EBAC. This adjustment aligns with the demographic distribution of employees, ensuring the distinct representation of P&S staff, the largest employee segment.
2. *Diversification of EBAC Representation:* We encourage the Senior Vice President of Operations and Finance to inspire colleges to diversify their representation on EBAC. A broader array of perspectives, including varying levels of compensation and experience, would enhance the committee's deliberations, especially in reviewing potential premium increases and plan design changes.
3. *Implementation of an Onboarding Process for new EBAC Members:* To bolster the effectiveness of EBAC, we propose establishing a comprehensive onboarding process for new members. Recognizing that unfamiliarity with the committee's functions and expectations can be a hurdle, we encourage the EBAC Chairperson to take proactive steps in educating incoming members about their roles and the impactful contributions they can make to the University from the outset. These recommendations, made with utmost respect and consideration, aim to fortify the collaborative efforts of EBAC and contribute to the ongoing enhancement of employee benefit programs at Iowa State University. We look

forward to working with the new Senior Vice President of Operations and Finance and other members of EBAC in the future.

3.5 BENEFIT GAPS

Iowa State University continues to offer a robust benefit plan for its employees. As our workforce evolves, our committee has received various inquiries from constituents regarding offering additional voluntary benefits for employees. The Committee understands that offering certain voluntary benefits requires meeting enrollment thresholds, and the employee would be responsible for all premium costs. We encourage our Director of Benefits and Procurement staff to investigate options for additional voluntary benefits such as:

- Pet Insurance
- Short-Term Disability Insurance
- Long-Term Care Insurance
- Cancer Expense Insurance
- Gym/Fitness Center Subsidy

4 RESOURCES

The links below comprise educational resources for understanding compensation and benefits at Iowa State University.

4.1 UNIVERSITY HUMAN RESOURCES

- **New Employee Benefits Presentation**
<https://hr.iastate.edu/new-hire-benefits-presentation>
- **Benefits Education**
<https://hr.iastate.edu/benefits-education-1>

4.2 WORKDAY LEARNING

- **Microlearning -- Market-based Compensation - ISU's Market & Considerations**
<https://www.myworkday.com/isu/learning/course/7fdb83d3e61c1001ed054cf68d1a0000>
- **Microlearning – Evaluating Salary – Best Practices for Pay Delivery**
<https://www.myworkday.com/isu/learning/course/7fdb83d3e61c1001edb768244c710000>
- **Microlearning - Market-Based Compensation Structure - Building the Structure & Advantages**
<https://www.myworkday.com/isu/learning/course/1fe22041954c1001ed0614388df90000>
- **Microlearning -- Classification and Compensation Structure - How it Works Together**
<https://www.myworkday.com/isu/learning/course/1fe22041954c1001ee17089c4eb20000>