

# **Virginia Higher Education Faculty Salary & Cost of Living Analysis**

**Final January 2010**

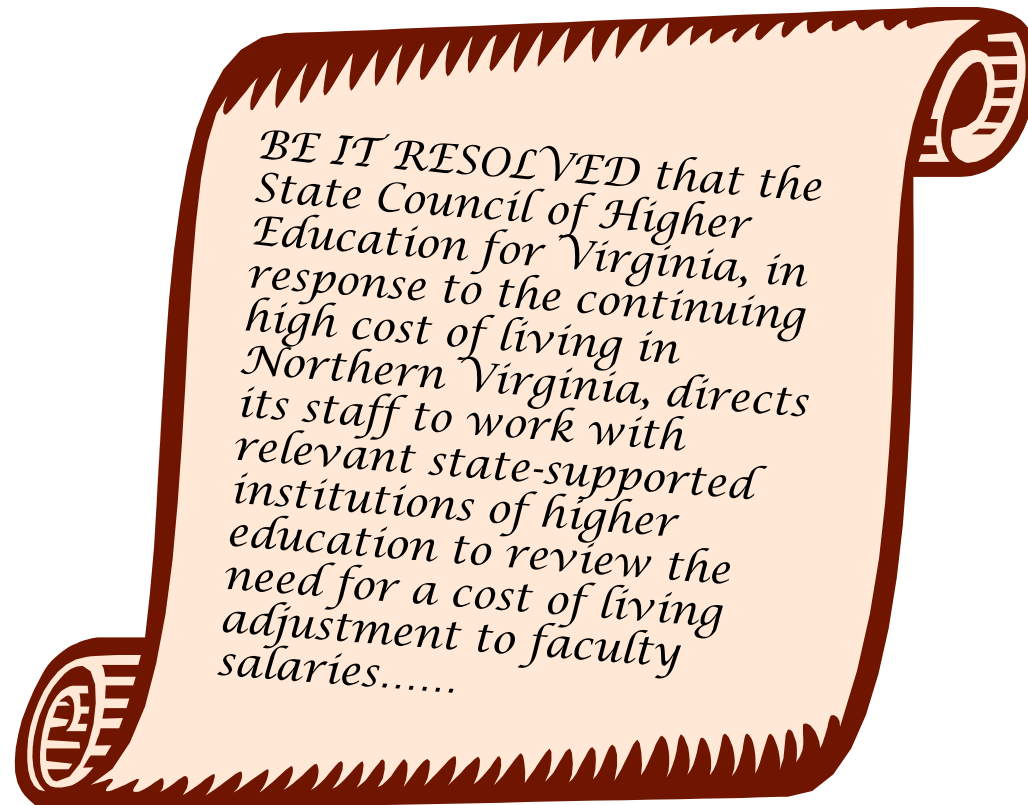
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## Why Are We Here?

- In October 2007 the State Council directed SCHEV staff to work with state-supported institutions to review the need for a cost of living adjustment to faculty salaries.



## Why Are We Here?

- George Mason University assembled a Cost of Living Working Group
  - All state-supported institutions were invited to participate in the Working Group
  - Five 4-year institutions and three 2-year institutions participated
  - Representatives of Virginia's Department of Human Resources Management (DHRM) also participated
- The Segal Company was hired to assist with the analysis
- In August 2009, members of the COL Working Group met with SCHEV staff to present the findings
  - SCHEV staff requested that GMU expand the study to include all state-supported Virginia institutions
- Today's presentation includes the results of the expanded study

## Agenda

- ① **Why is Cost of Living (COL) Important?**
- ② How Does COL Affect Faculty Salaries?
- ③ What Are We Proposing?

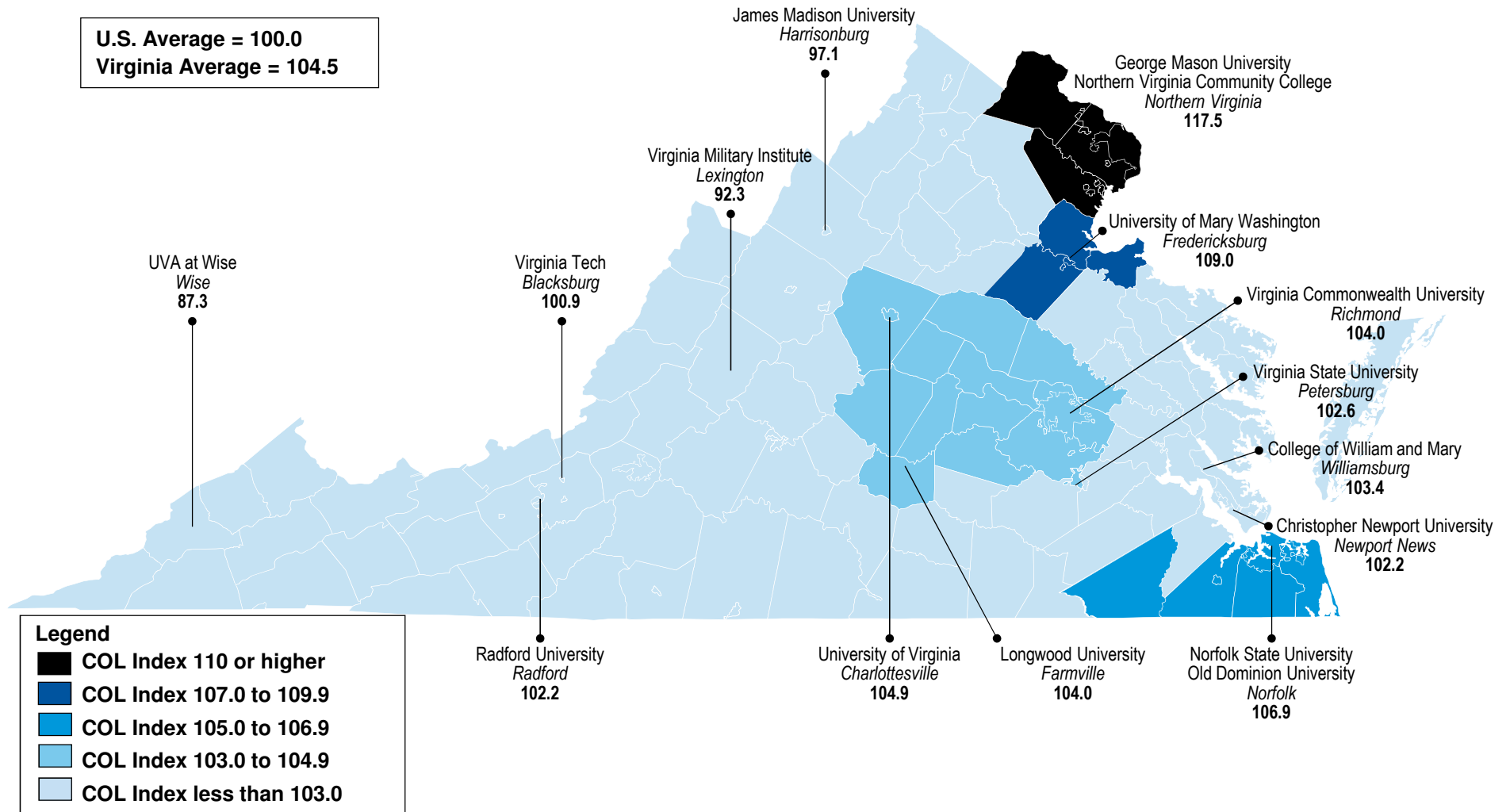
## Cost of Living Defined

- The phrase “Cost of Living” refers to spending patterns within a geographic location.
- Components of Cost of Living (COL) typically include:
  - Housing and Utilities
  - Consumables
  - Transportation
  - Health Services
  - Insurance
  - Taxes
- Human Resources professionals use Cost of Living information to:
  - Evaluate salary differentials for staff in different locations
  - Calculate salary changes for relocating employees
  - Determine equitable pay comparisons across geographic areas

## Source of Cost of Living Information

- The **Economic Research Institute** (ERI) provides Cost of Living comparisons across geographic locations.
  - ERI has long been a respected source of cost of living data and is often used in labor negotiations, arbitrations, and legal disputes
  - ERI is used by 80% of the Fortune 500 companies
  - ERI's databases are derived from thousands of data points gathered via web services, digitization of public records, patented online surveys, and other licensed datasets
  - ERI's databases cover over 10,000 geographic locations and provide detailed two-city Cost of Living comparisons
  - ERI's tools allow the user to create a user-defined area (such as the 20-mile commuting radius that we used for this analysis)

# Commonwealth of Virginia Cost of Living Differences by Region



Source: ERI Geographic Assessor, October 2009

# Cost of Living Comparisons

- Cost of Living comparisons between two geographic locations show the relative buying power of dollars

Example #1

Location	COL Index	Buying Power
Northern Virginia	117.5	\$0.86
Atlanta, GA	101.5	\$1.00
<b>Difference</b>	<b>15.8%</b>	

A dollar in Atlanta, GA buys more than a dollar in Northern Virginia

Example #2

Location	COL Index	Buying Power
Richmond, VA	104.0	\$0.90
Morgantown, WV	93.5	\$1.00
<b>Difference</b>	<b>11.2%</b>	

A dollar in Morgantown, WV buys more than a dollar in Richmond

Cost of Living is important because of differences in the buying power of dollars between different locations.





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- ② **How Does COL Affect Faculty Salaries?**
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## How Does Cost of Living Affect Faculty Salaries?

- Cost of Living differences can skew salary comparisons.
- A comparison of nominal salaries between two institutions provides only a partial picture of the school's market position. For example:

Institution	Location	Nominal Salary Comparison	COL Index	Required COL Adjustment for Equivalent Buying Power
George Mason University	Northern VA	\$80,531*	117.5	\$94,624
University of Anytown	Anytown, USA	\$80,531*	100.0	\$80,531
<b>Difference</b>		<b>\$0</b>	<b>17.5%</b>	<b>\$14,093</b>

A 17.5% increase would be required for GMU faculty salaries to have the same buying power as faculty salaries in Anytown, USA.

## Study Methodology

- We determined the effect of Cost of Living differences on the competitive position of faculty salaries for 16 Virginia institutions using the following steps:
  - Compared each Virginia institution's COL index to the COL index of its peers
  - Adjusted each peer institution's average salary to the Virginia institution's COL
  - Determined whether peer faculty salaries are understated or overstated as a result of COL differences
  - Calculated each Virginia institution's market position both on a nominal basis and on a COL adjusted basis

## Other Factors Affecting Faculty Salary Requirements/Decisions

- Accuracy of selected peer institutions
- Cost of living differences including cost/availability of housing
- Competition for talent by geographically proximate institutions
- Mix of the institution's programs, mission, or direction
- Aspirations of the institution
- Demand for higher education

## Other Factors Affecting Faculty Salary Requirement/Decision

- Location of the institution including community resources and attractiveness
- Employment opportunities for trailing spouses
- Ability to attract or retain talent – in general and in particular fields
- Quality of faculty candidates
- Financial constraints of the institution

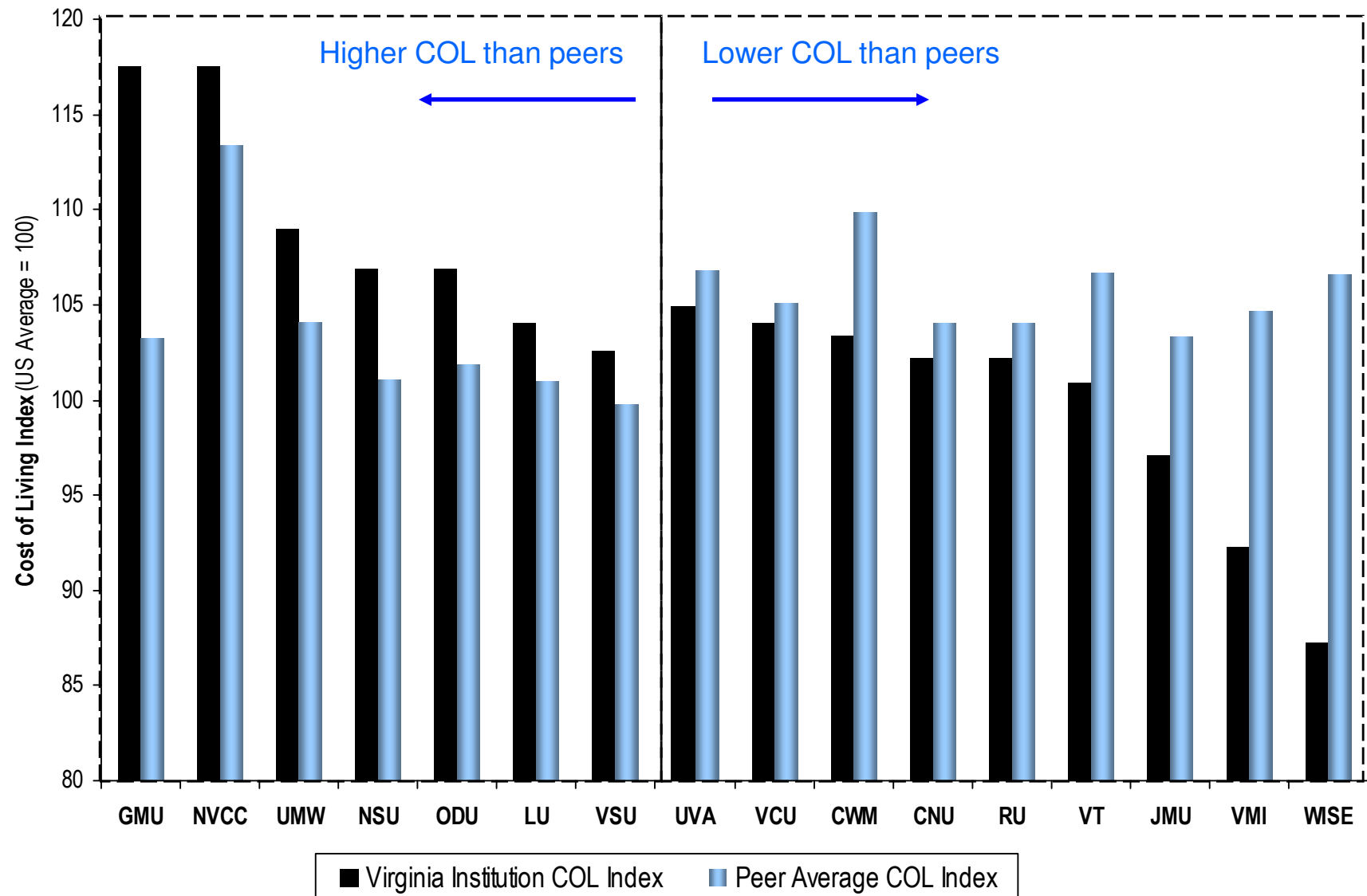
**These factors, which will differ by institution and location require consideration when developing comparative faculty salary analysis and/or establishing faculty salary requirements or targets.**

# Cost of Living Index Comparisons

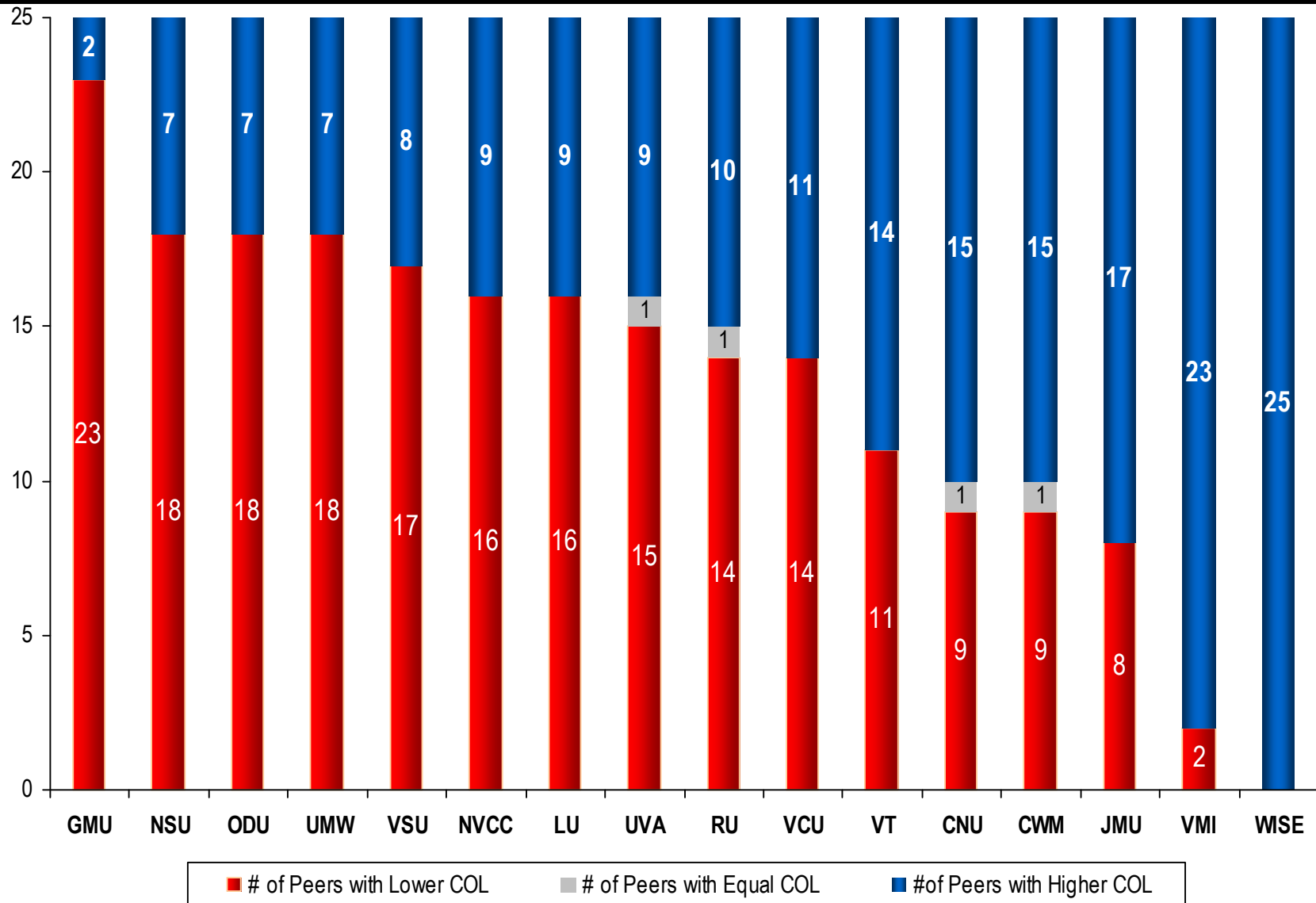
Institution	Virginia COL Index	Peer Average COL Index	Percentage Difference
George Mason University	117.5	103.2	14%
Norfolk State University	106.9	101.1	6%
Old Dominion University	106.9	101.9	5%
University of Mary Washington	109.0	104.1	5%
Northern Virginia CC	117.5	113.4	4%
Longwood University	104.0	101.0	3%
Virginia State University	102.6	99.8	3%
Virginia Commonwealth University	104.0	105.1	-1%
Christopher Newport University	102.2	104.0	-2%
Radford University	102.2	104.0	-2%
University of Virginia	104.9	106.8	-2%
Virginia Tech	100.9	106.7	-5%
College of William and Mary	103.4	109.9	-6%
James Madison University	97.1	103.3	-6%
Virginia Military Institute	92.3	104.7	-12%
University of Virginia at Wise	87.3	106.6	-18%

There is a wide variation of buying power differences between each institution and its peers, ranging from 14% above the peer average (GMU) to 18% below the peer average (UVA-Wise).

# Cost of Living Comparisons



## Mix of Peers Affect Salary Comparisons





# The Effect of COL on Peer Average Salary

Institution	Peer Nominal Average Salary	COL Difference	Peer Adjusted Average Salary
<b>George Mason University</b>	<b>\$85,521</b>	<b>14%</b>	<b>\$97,285</b>
Norfolk State University	\$64,267	6%	\$68,282
University of Mary Washington	\$68,429	5%	\$71,803
Old Dominion University	\$79,531	5%	\$83,347
Longwood University	\$67,129	4%	\$69,480
Northern Virginia CC	\$68,742	3%	\$71,132
Virginia State University	\$66,954	3%	\$69,029
Virginia Commonwealth University	\$86,465	-1%	\$85,689
Christopher Newport University	\$73,275	-1%	\$72,447
University of Virginia	\$98,866	-1%	\$97,546
Radford University	\$73,021	-2%	\$71,817
College of William and Mary	\$97,482	-5%	\$92,567
Virginia Tech	\$92,892	-5%	\$88,147
James Madison University	\$75,768	-6%	\$71,267
<b>Virginia Military Institute</b>	<b>\$78,760</b>	<b>-12%</b>	<b>\$69,250</b>
<b>University of Virginia at Wise</b>	<b>\$63,197</b>	<b>-18%</b>	<b>\$52,071</b>

Cost of Living differences can have a significant impact on peer average salaries.

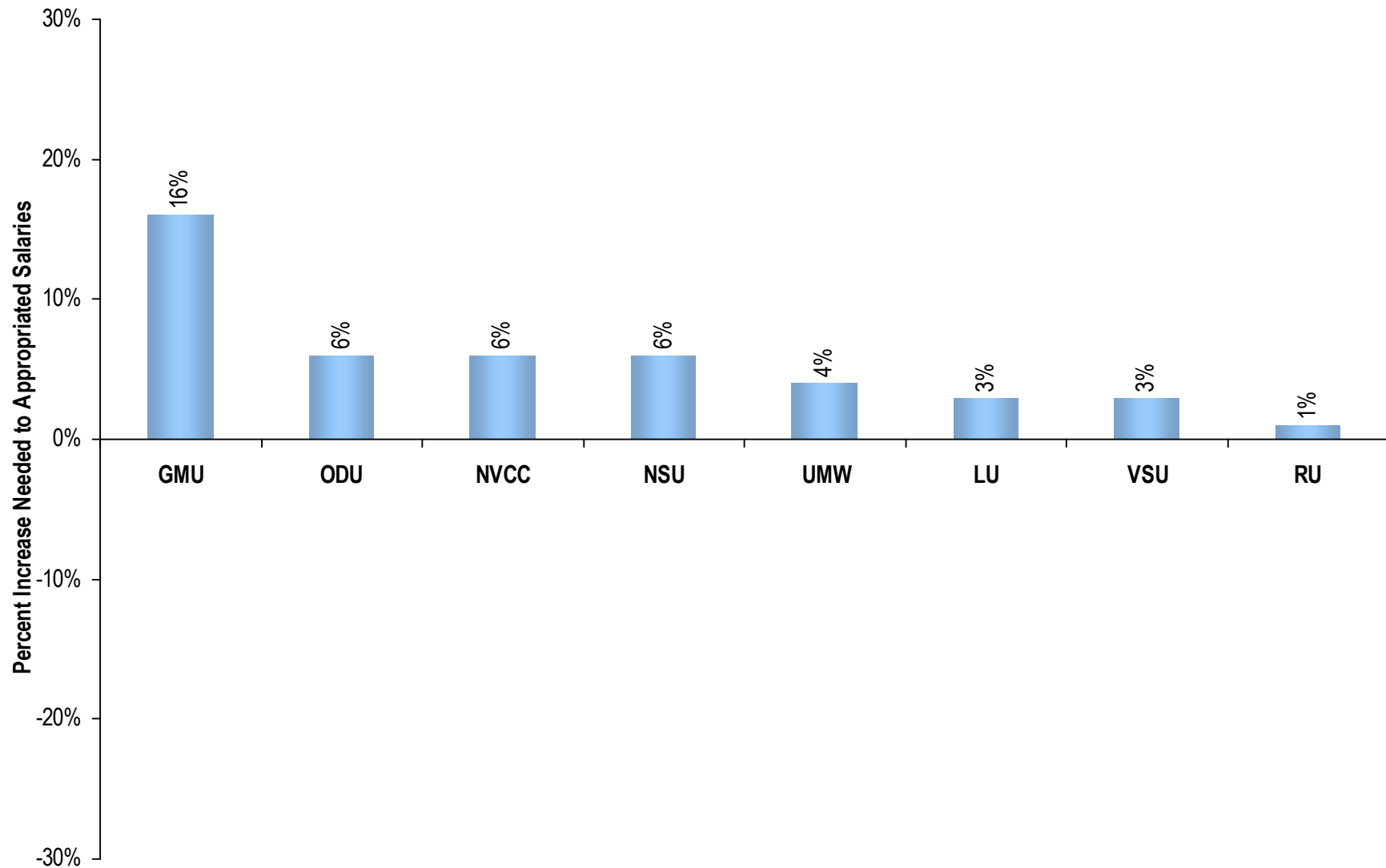
## The Effect of COL on Percentile Rank

Institution	SCHEV Percentile Rank	Percentile Rank after COL Adjustments	Effect
George Mason University	29.2	0.0	-
Old Dominion University	31.7	14.2	-
Northern Virginia CC	30.8	17.9	-
Radford University	25.5	21.8	-
Virginia State University	35.7	26.5	-
Virginia Commonwealth University	33.5	32.6	-
Norfolk State University	52.5	33.7	-
Longwood University	51.8	39.3	-
University of Mary Washington	69.2	53.6	-
Christopher Newport University	34.0	37.7	+
University of Virginia	38.8	42.2	+
College of William and Mary	28.6	49.5	+
Virginia Tech	34.8	54.9	+
Virginia Military Institute	32.6	59.8	+
James Madison University	43.0	61.5	+
University of Virginia at Wise	81.4	99.0	+

Cost of Living differences have a significant impact on percentile rank.

To be competitive from a buying power perspective, institutions need to at least maintain their percentile position, taking into consideration COL differences

# Faculty Salary Increases Needed to Maintain Percentile Rank



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# What Are We Proposing?

## Suggested Guiding Principles for State Council Consideration

- WHEREAS the State Council of Higher Education for Virginia seeks to maintain market competitive faculty salaries for all Virginia public institutions
- WHEREAS market competitive faculty salaries are affected by both the peer selection and geographic cost of living differences
- SCHEV's methodology for determining the percentile position of faculty salaries should take into consideration geographic differences in the cost of living between the Virginia institution and its peer institutions

Recognizing Cost of Living in the peer salaries calculation would better address **buying power** differences and would introduce **greater equity** into the process.