

Potential Cost-Saving Strategies Pertaining to Employee and Dependent Tuition Remission Policy

The University's 2020 Vision establishes a goal for all employee compensation to achieve 100% of labor market median values. As of FY 2009-10, faculty and staff salaries averaged approximately 90% of market value. During a discussion of tuition remission benefits in 1978, it is interesting to note the Board of Trustees acknowledged the essential trade-off between maintaining competitive salaries and supporting competitive benefit programs as part of total compensation.

For FY 2011-12, the Executive Leadership Team has set a priority to increase salary competitiveness, proposing a salary increase pool ranging from 2-3%. Each percentage point salary increase costs the University approximately \$5.0 million (across all funds). The final salary increase percentage will depend in part on identifying potential savings in other parts of the budget. To support this overall effort, the Provost asked the Human Resources Advisory Committee to evaluate the tuition remission program to identify potential savings that would take some of the cost pressure off the University and help promote a more sustainable tuition remission program, over time.

Current benefit programs as a percent of total compensation are often "rich" in comparison to peer institutions, while salaries are not as competitive as we would hope. For example, UK's dependent tuition remission provides a maximum discount of 50% of undergraduate tuition after five years of employment (and requires the employee to concurrently forego employee tuition remission). The reality, however, is that with respect to the University's recruitment and retention efforts, having a rich benefit program does not reduce pressure on maintaining competitive salaries. For the University to remain competitive on both fronts, we need to maintain an appropriate balance between salary and benefit expenditures.

During FY 2009-10, the tuition remission program cost approximately \$6.5 million (including \$2.2 million for employee benefits and \$4.3 million for dependent benefits) and exceeded its budget by \$1.067 million. With no program changes, the University would need to allocate an additional million dollars to sustain the tuition remission program, which would compete for limited funds available to increase base salaries. Consequently, we are confronted with the necessity of allocating funds to cover the shortfall in the tuition remission program (reducing funding available for salary increases) or promoting cost saving strategies to help cover the shortfall in the tuition remission program.

As charged by the Provost, the Human Resources Advisory Committee has identified a number of potential cost saving strategies. If adopted, these changes in the tuition remission program represent **potential savings of \$556,000 - \$608,000** (covering 75% to 80% of the current budget shortfall and helping to promote a more sustainable benefit program over time). This document has been prepared to facilitate discussion of various potential cost saving strategies by appropriate campus constituent groups. This document does not represent the express endorsement of individual HRAC members.

Regular Faculty & Staff Benefits

Current Benefits:

- a) For regular faculty & staff at .80 FTE or greater, six hours per semester.
- b) For regular part-time staff at .40 FTE or greater, three hours per semester.
- c) For contract part-time faculty at .40 FTE or greater, three hours per semester.

Potential Cost Saving Strategies:

- a) Establish performance standard to receive tuition remission in successive semesters. Grade of C or better (or 2.0 GPA in preceding semester if more than one course) or Pass (on Pass/Fail courses); permit three “unsatisfactory” attempts before performance standard precludes future tuition remission, until a 2.0 GPA is achieved. Withdrawal after drop/add would constitute unsatisfactory performance. No savings projected.
- b) Require employees to pay student fees (representing \$18 per credit hour, reducing charges to the tuition remission budget from \$351 to \$333 per credit hour for undergraduate courses and from \$508 to \$484 for graduate courses. **Potential savings: \$110,000.**
- c) Require employees to pay graduate program tuition surcharges, as applicable, for professional degrees; effectively capping graduate tuition remission at the “regular, resident graduate tuition rate” per credit hour. **Potential savings: \$10,000 - \$15,000.**

Proposed effective date: Next academic term after change date for all employees.

Note: Preserve current program flexibility for employees by continuing to support undergraduate, graduate, and life-long learning (whether enrolled in a degree granting program or not) and continue to pay full tuition for distance education.

Spousal Transfer Benefits

Current Benefits:

- a) Regular Faculty & Staff (at .80 FTE or more) hired on or after July 1, 1978 may transfer unused tuition remission benefits to their spouses (up to six credit hours per semester).
- b) Spouses of Full-time Faculty (at 1.0 FTE or more) hired before July 1, 1978 have an independent, permanent entitlement to three credit hours per semester.

Note: Spousal transfer benefits were suspended administratively effective Fall Semester 2008. No current changes are proposed.

Children Tuition Remission Benefits

Current Benefits:

- a) For permanent FT faculty (1.0 FTE) hired before 1966, after one year of service: full tuition remission, regardless of financial dependency for both undergraduate & graduate degrees.
- b) For permanent FT faculty (1.0 FTE) hired after 1966 and before July 1978, after one year of service: full tuition remission, for both independent and dependent children, limited to first undergraduate degree.
- c) For regular status faculty and staff working .80 FTE or greater, hired on or after July 1, 1978, full tuition remission for dependent children only for first undergraduate degree. [Note: Previous service requirement omitted.]
- d) Effective July 1, 1978, children of an eligible employee who becomes permanently disabled, retires, or dies in active service shall remain eligible. [Note: Previous service requirement omitted.]

Note: An administrative clarification was published in 2005 that provided: Children includes natural born, adopted, or step-children only (excluding loco parentis relationships such as nieces, nephews, or grandchildren living with an employee, regardless of dependency status).

Potential Cost Saving Strategies:

- a) Clarify the definition of eligible children in policy (as above, but include legal wards) and establish Age limit at 26. Verify dependent eligibility the 1st semester a child enrolls. No savings estimated, but would provide better program control over time.
- b) Re-establish a waiting period of 12 months of continuous service for dependents of employees hired after effective date of policy change. No savings estimated.
- c) Establish a service requirement of seven years of creditable service (equivalent to retirement eligibility service requirement) for continuing dependent children eligibility for employees who die in active service or become permanently disabled for employees hired after effective date of policy change. [Effectively, already applies to retirees.] No savings estimated.
- d) Establish a credit hour limit of 140 semester hours for dependent tuition remission, regardless of degree program. Effective for all employee dependents the first term after date of policy change. **Potential savings \$86,000 to \$129,000 per year.**

- e) Exclude Student Fees (as above for employee tuition remission), effective for all employee dependents the first term following date of policy change. **Potential savings: \$222,000 per year.**
- f) Exclude distance education tuition surcharge (currently 30% of total tuition for distance education courses, with no course credit limit), effective for all employee dependents the first term after date of policy change. **Potential savings: \$130,000 per year.**

Note: An alternative approach to eliminating the distance education surcharge would be to cap dependent tuition remission at the regular undergraduate, FT resident tuition rate (currently \$4,212 per semester) which would drive equivalent or greater savings, while allowing some flexibility in class scheduling.

Summary of Potential Savings

- Potential Savings from Employee Tuition Remission: \$120,000 - \$125,000 out of a program budget of \$2.2 million (or approx 5.5% of current cost for employee tuition remission).
- Potential Savings from Dependent Tuition Remission: \$438,000 - \$481,000 out of a program budget of \$4.3 million (or approx 10.1% – 11.1% of current cost for dependent tuition remission).
- **Total Potential Savings: \$558,000 - \$606,000 out of a program budget of \$6.513 million (or approx 8.6 – 9.3% of current total cost).**

Additional reference documents are available on request from Human Resources.

- i. Summary of Trustee Actions pertaining to Tuition Remission, 1954 – Present
- ii. Comparison of Tuition Remission Programs, Kentucky Public Universities
- iii. Expanded Discussion Document, including calculation of estimated savings.

Note: During HRAC and constituent group discussions, certain program enhancements were identified that would enhance program flexibility without material impact on cost considerations. These will be addressed separately.

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