

The One Percent at State U

How Public University Presidents Profit from Rising Student Debt and Low-Wage Faculty Labor



Updated May 21, 2014

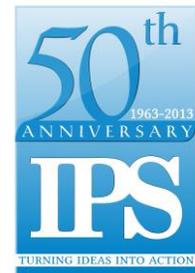
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Updated: This report was updated on May 21, 2014 to incorporate new data related to low-wage faculty and university expenditures from the American Federation of Teachers database. While this did not alter the report's major findings, it results in the following changes to the Top 5 Most Unequal Public Universities (p. 11): The University of Minnesota dropped from #3 to #4; the University of Michigan rose from #4 to #3; and the University of Delaware became #5. All data related to president pay and student debt levels were unaffected.

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Key Findings

State universities have come under increasing criticism for excessive executive pay, soaring student debt, and low-wage faculty labor. In the public debate, these issues are often treated separately. Our study examines what happened to student debt and faculty labor at the 25 public universities with the highest executive pay (hereafter “the top 25”) from fall 2005 to summer 2012 (FY 2006 – FY 2012). Our findings suggest these issues are closely related and should be addressed together in the future.

Since the 2008 financial crisis, executive pay at “the top 25” (see Appendix 2) has risen dramatically to far exceed pre-crisis levels. From fall 2005 to fall 2011, low-wage faculty labor and student debt at these institutions rose faster than national averages. In short, a top-heavy, “1% recovery” occurred at major state universities across the country, largely at the expense of faculty and students.

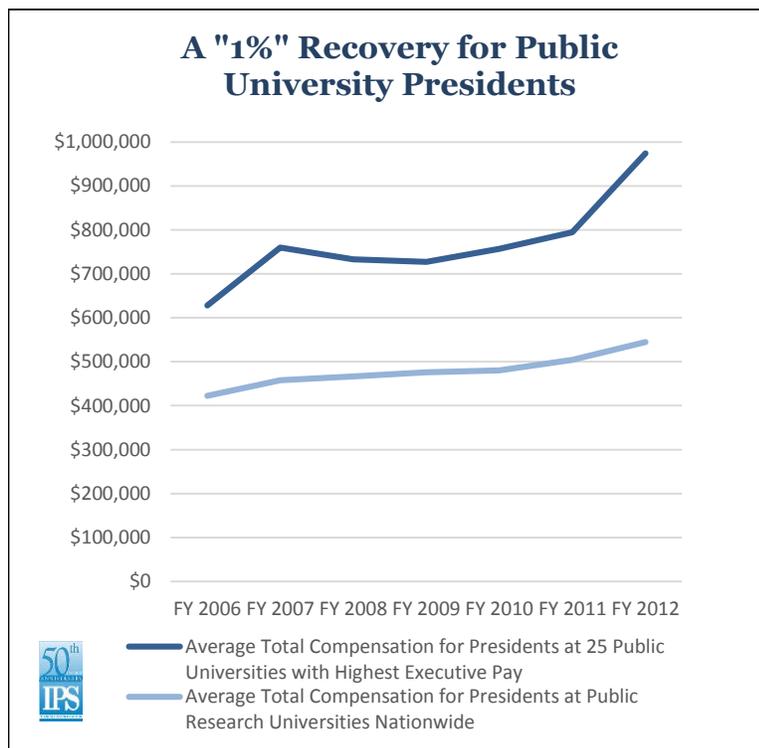
- The **student debt crisis is worse** at state schools with the highest-paid presidents. The sharpest rise in student debt at the top 25 occurred when executive compensation soared the highest.
- As students went deeper in debt, **administrative spending outstripped scholarship spending** by more than 2 to 1 at state schools with the highest-paid presidents.
- At state schools with the highest-paid presidents, **part-time adjunct faculty increased 22 percent** faster than the national average at all universities.
- At state schools with the highest-paid presidents, **permanent faculty declined** dramatically as a percentage of all faculty. By fall 2009, part-time and contingent faculty at the top 25 outnumbered permanent faculty for the first time.
- **Average executive pay** at the top 25 rose to **nearly \$1 million** by 2012— increasing more than twice as fast as the national average at public research universities.

The 1% Recovery at State U

Presidents of public universities with the highest executive pay since 2005 experienced a dramatic “1% recovery” after the 2008 financial crisis, far outpacing the recovery of their peers nationwide.

Executive Pay at the Top Rises, Falls, then Comes Roaring Back

Like executives in the corporate and banking sectors, public university presidents weathered the immediate aftermath of the fall 2008 financial crisis with minimal or no reductions in total compensation. From fall 2005 to summer 2009, average executive compensation at public research universities nationwide rose in 2012 dollars from \$422,447 to \$475,966 – an increase of 13%. During the top-heavy recovery from fall 2009 through summer 2012, average executive compensation at public research universities nationwide rose only slightly faster – increasing 14% to \$544,554.



By comparison, public universities that already paid their presidents higher than average before the crisis increased executive pay drastically during the top-heavy recovery. From FY 2009 to FY 2012, average annual compensation for presidents at the top 25 rose in 2012 dollars from \$727,002 to \$974,006 – increasing more than twice as fast as the national average at public research universities.

During this period, the gap in average executive pay between the top 25 and public research institutions nationwide grew from \$251,036 to \$429,452. By 2012, average executive pay at the top 25 stood near double the national average at public research universities.

Note: Figures are inflation adjusted in 2012 dollars.

Source: IPS analysis of Chronicle of Higher Education data

[Early indications](#) on executive compensation at the top 25 since 2012 suggest this acceleration for the “1%” of public university presidents continues.

Who Decides What University Presidents Make?

Boards of Trustees set the compensation packages of university presidents. Boards are commonly made up of private-sector executives from business, law, finance, real estate, and other industries with a significant presence in a given state. Managers of wealthy philanthropic societies may also sit on some boards. Board members are elected by governors, alumni, other trustees, and various business or professional associations with an interest in the university.

Given that private-sector executive compensation has soared to astronomical levels (see [IPS Executive Excess report](#)), trustees are increasingly out of touch with notions of reasonable compensation. When determining a president's salary, trustees may face a conflict between the cultural norms of their for-profit peer group and the public interest. Increasingly, boards are deferring to the former and offering dubious justifications in defense of their decisions.

“Fair Market Value”?

A common justification given by boards is so-called “fair market value.” In February 2014, for instance, Penn State's Board of Trustees hired Eric J. Barron as the university's next president, awarding him annual compensation in excess of \$1 million. [A university representative defended the sum](#), claiming the Board's Committee on Compensation had studied the salaries of peer institutions and had determined the package to be “competitive and reasonable.”

Given our analysis, such justifications are spurious at best. Between FY 2006 and FY 2012, national average annual compensation of four-year public university presidents ranged from \$370,939 to \$544,554 (nominal dollars). During that same period, however, boards of trustees at the top 25 consistently awarded compensation far in excess of this amount. This was particularly true during the “1% recovery” (FY 2010 – FY 2012) when average annual compensation at the top 25 rose to \$974,006 – nearly double the national average for public research university presidents.

Another argument often given in support of the “fair market value” justification is that presidents of large public research universities can legitimately “demand” much higher compensation than the national average at other four-year public universities.

This argument is also dubious. In FY 2012, for instance, the presidents of some of the nation's largest, most respected public research universities – the University of California-Berkeley, the University of Wisconsin-Madison, the University of North Carolina-Chapel Hill, and the University of Massachusetts-Amherst – each made less than \$500,000 in annual total compensation.

Our analysis suggests that executive compensation packages awarded between FY 2006 and FY 2012 in excess of \$600,000 per year (nominal or 2012 dollars) were inflated well above “market value.”

From FY 2008 to FY 2012, Ohio State University's Board of Trustees awarded President E. Gordon Gee \$8.9 million in total compensation. Gee's average yearly compensation was more than three times the national average for four-year public university presidents over the same period.

There was no “fair market value” compelling trustees to offer presidents of large public research universities far more than the national average for four-year public university presidents. Rather, deliberate decisions by individual boards (whose members often make extraordinary private-sector salaries) determined excessive compensation at the top 25.

As Presidents Cash In, Students Go Deeper in the Hole

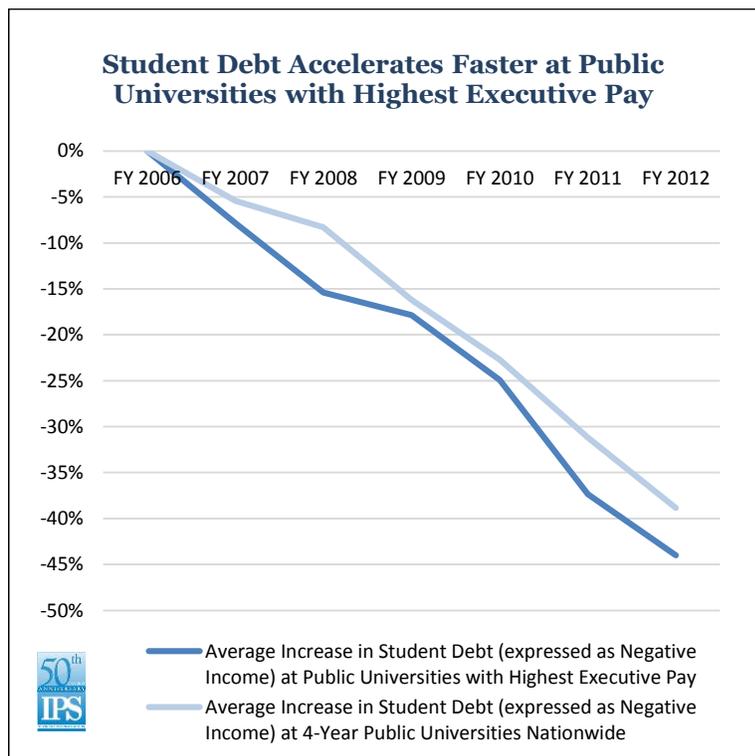
At the top 25 public universities with the highest executive pay, student debt increased much faster than the national average during the 1% recovery.

The Student Debt Crisis

The student debt crisis in America has reached staggering heights. In 2012, it was widely reported that student loan debt [reached \\$1.2 trillion](#), surpassing Americans' total credit card debt for the first time. According to the Institute for College Access and Success (TICAS), two-thirds of college students now graduating have some level of debt. [TICAS estimates](#) that 71% of college seniors who graduated last year had student loan debt, with an average of \$29,400 per borrower.

Student Debt Accelerates During the 1% Recovery

Though it has been rising everywhere, average student debt of graduates in the top 25 public universities with the highest executive pay increased 5 percentage points more or 13% faster than the national average from summer 2006 to summer 2012.



The rise was most pronounced when executive compensation soared during the 1% recovery. From summer 2010 to summer 2011 alone, student debt in the top 25 rose by 10%, increasing 43% faster than the national average.

We also found that throughout our study period student debt rose faster in the top 25 whenever executive compensation increased and slowed when compensation fell briefly after the 2008 financial crisis. This differed from the national trend, where student debt increased sharply after the financial crisis and continued growing at a steadier rate through 2012.

Source: IPS analysis of Institute for College Access and Success data

More Spending on Administration, Less Money for Scholarships

Spending on non-academic administration has risen dramatically nationwide. Non-academic administrative expenditures include executive direction and planning, general university administration, legal and fiscal operations, public relations and development. This category does not include administrative expenditures on services that provide a direct benefit to students such as academic advising, career guidance, library services, and computing.

At public universities with the highest executive pay, increased spending on non-academic administration came at the expense of scholarships.

From FY 2007 to FY 2012, spending on non-academic administration rose 36%, much faster than spending on scholarships in the top 25. As tuition and fees rose 50%, spending on scholarships did not keep pace, rising just 19%. Overall, spending on non-academic administration outstripped spending on scholarships by more than 2 to 1.

Between FY 2007 and FY 2012, the University of Minnesota-Twin Cities increased spending on non-academic administration by 44% while decreasing spending on scholarships by 55%.

[A recent report](#) on inflated administrator salaries at the University of Michigan – which paid out \$5.7 million in executive compensation from FY 2006 to FY 2012 – suggests excessive spending on non-academic administrator salaries continues to soar at schools in the top 25.

Mimicking common arguments in defense of presidential compensation, a spokesperson for the university defended the salaries, claiming they were “at market and very competitive.” The report found that salaries and unreported bonuses at the University of Michigan were 27 to 41 percent higher than those at peer institutions such as the University of Virginia and the University of Texas at Austin.

The Explosion of Low-Wage Faculty Labor

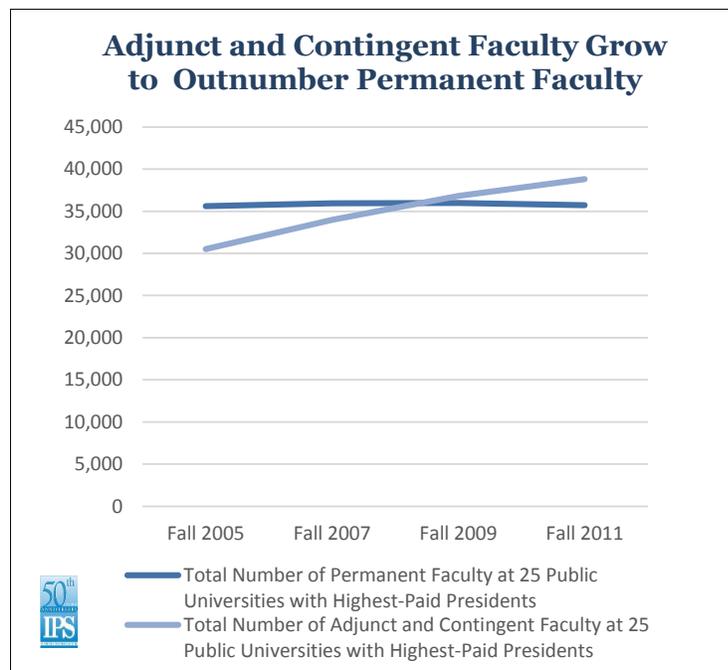
The top 25 public universities with highest executive pay increased low-wage and contingent faculty labor much faster than the national average.

Adjunct and Contingent Faculty Rise

According to a [recent report](#) by Adjunct Action at the Service Employees International Union (SEIU), two-thirds of all faculty in U.S. higher education work on a contingent basis – facing low pay, little or no benefits, and no job security.

The Coalition on the Academic Workforce (CAW) found that the [median adjunct pay per course](#) was **\$2,700**. Because adjuncts work at piece rate, their annual pay depends on the number of courses taught. The U.S. House Committee on Education and the Workforce recently estimated that the [median adjunct pay per year](#) was **\$22,041** – below the federal poverty line for a family of four.

As in universities everywhere, hiring of adjunct and contingent faculty far outstripped permanent faculty hiring at the 25 state schools with the highest-paid presidents. However, we found that adjunct (part-time) and contingent (full-time temporary) faculty grew much faster than the national average at the 25 state schools with the highest-paid presidents. From fall 2005 to fall 2011, adjunct faculty labor at the top 25 increased 22 percent faster than the national average at all universities. Adjunct and contingent faculty combined increased 29 percent faster than the national average at all universities.



Source: IPS analysis of American Federation of Teachers data

While adjuncts face the worst working conditions among their faculty peers, contingent faculty work on temporary contracts that end after 1 or 2 years. Since permanent faculty hires remain flat nationwide, full-time contingents are likely to fall into the ranks of adjuncts later.

Where Have All the Professors Gone?

As [SEIU's report](#) points out: “Being a university professor, once the quintessential middle-class job, has become a low-wage one.” Even as university presidents’ pay skyrocketed at the top 25, permanent faculty declined

dramatically as a percentage of all teaching faculty.

At the top 25, permanent faculty hiring fell well below the national average for all universities. Between fall 2005 and fall 2011, permanent faculty at the top 25 grew by less than 1 percent compared to 5 percent nationwide. Prior to fall 2009, total permanent faculty at the top 25 outnumbered total adjunct and contingent faculty by a margin of 35,597 to 30,508 – 54% to 46%. By fall 2011, total adjunct and contingent faculty at the top 25 outnumbered total permanent faculty by a margin of 38,816 to 35,712 – 52% to 48%.

Inequality in the University Undermines Education and Opportunity

The decline of university professors in favor of part-time and contingent faculty labor mirrors the shift in the broader economy from a secure, permanent workforce to a part-time, low-wage and contingent one. This shift has long-term consequences for the quality of higher education. Because adjuncts have to teach as many classes as possible to pay the bills, they do not have adequate time for class preparation or student mentorship. A [recent survey](#) revealed that 98% of adjuncts felt they were “missing opportunities to better serve their students because of the demands of their schedule.” Additionally, adjuncts [do not receive support](#) for research or professional development.

Our research on the 25 public universities with the highest executive pay suggests that soaring compensation for college presidents has come at a familiar price: worsening inequality. In the public university, economic inequality in turn has adverse effects on the quality of higher education. Such effects worsen opportunities for poor and middle-class students – creating a feedback loop that entrenches inequality in the broader economy.

Top 5 Most Unequal Public Universities

Based on our analysis, we determined the worst overall offenders across all categories: excessive executive pay, highest student debt, and large increases in low-wage and/or contingent faculty labor. (See Appendix 1, No. 5)

1. Ohio State University

From FY 2010 to FY 2012, Ohio State paid its top executive \$5.9 million. From summer 2006 to summer 2012, average student debt rose 46% to \$26,409. From fall 2005 to fall 2011, adjunct and contingent faculty increased 62% – nearly three times faster than the national average.

2. Pennsylvania State University

In FY 2012, Penn State’s Board of Trustees awarded \$2.9 million in salary and severance pay to Graham Spanier – who was terminated “without cause” for his handling of the Jerry Sandusky sex abuse scandal. From FY 2006 to FY 2012, the Board approved another \$4.8 million in executive compensation while average student debt on campus grew by 49% to \$35,100.

3. University of Michigan

From FY 2010 to FY 2012, the University of Michigan paid its top executive over \$2.6 million. From fall 2005 to fall 2011, the ranks of adjunct and contingent faculty increased by 1,777 or 64%. From summer 2006 to summer 2012, average student debt rose 18% to \$27,815.

4. University of Minnesota

From FY 2010 to FY 2012, the University of Minnesota paid its president \$2.1 million. From fall 2005 to fall 2011, adjunct and contingent faculty increased by 825 or 105%. Average student debt reached \$29,702 by summer 2012

5. University of Delaware

From FY 2010 to FY 2012, the University of Delaware paid its president \$2.2 million. From summer 2006 to summer 2012, student debt rose 96% to \$33,649. From fall 2005 to fall 2011, adjunct and contingent faculty increased by 34 or 12%.

Solutions: Creating a More Equal University

Thirty years ago, America's state universities were [affordable and accessible](#), university presidents were [more like educational leaders than CEOs](#), permanent faculty made up [70 percent](#) of all instructional staff, and students [rarely went into debt at all](#).

Debt Relief – Tax the 1% Recovery

College graduates need immediate student debt relief. Senator Elizabeth Warren is expected to reintroduce an updated version of her [Bank on Students Loan Fairness Act](#) this spring. The legislation would refinance student loans at 3.86 percent. For students carrying loans at 6.8 percent, this would nearly halve their total interest payments. Senator Warren's bill would pay for the lower interest rates by adopting the [Buffett Rule](#), which raises the marginal tax rate on income in excess of \$1 million dollars.

Pay Ratios

State legislatures should establish **pay ratio requirements** for their public universities. For example, administrative salaries could be required to be no greater than 10 times the full-time equivalent pay of the lowest paid faculty member. Pay ratios would not cap administrative salaries but rather require lowering administrative salaries or raising the salaries of low-wage faculty members. Ten times the average salary of an adjunct (\$22,041), for instance, would be \$220,410.

Support for Adjunct Organizing

Adjunct faculty jobs should be made into stable, living-wage positions. Just like other low-wage sectors of the economy, [adjunct faculty are now organizing](#) to demand better compensation, benefits, and job security. Adjuncts nationwide should be granted full collective bargaining rights.

Board Diversity

Boards of trustees should be required to demonstrate **socioeconomic diversity**. Recently some schools have pushed for greater [racial and gender diversity](#) on boards of trustees to reflect the diversity of the state residents and taxpayers they represent. Ensuring socioeconomic diversity would expand boards' perspective to include the impact of high executive pay on low wages and student debt.

Spending Ratios

State legislatures should establish **spending ratios** for their public universities. Based on our analysis, a ratio of spending on non-academic administration to scholarships could be reasonably set at 2 to 1. Bringing down spending on administration while increasing scholarships will help make college more affordable and discourage rapid tuition increases.

Appendix 1: Sources & Methodology

1. Data on executive compensation, faculty labor and expenditures, and student debt were collected from the following sources:

Executive Compensation

Chronicle of Higher Education

<http://chronicle.com/>

Faculty Labor / Expenditures

American Federation of Teachers

<http://highereddata.aft.org/>

Student Debt

Institute for College Access and Success

<http://college-insight.org/>

2. In determining which four-year public universities paid out the most in total compensation from FY 2006 to FY 2012, we excluded presidents who managed entire systems but not a single campus. In determining total compensation, we excluded car and housing allowances. Total compensation includes the following data as reported by the Chronicle of Higher Education: base pay, bonuses, deferred compensation, and retirement contributions.

3. For five schools in the top 25 (Georgia State, University of Houston, University of Kentucky, University of Pittsburgh, and Washington State), student debt data was too incomplete to generate estimates for missing years. We excluded these schools from our aggregate analysis. Two schools had one year of missing student debt data (University of Texas at Austin, University of Washington) and another had two (University of Minnesota). Estimates were calculated for these based on prior and subsequent year figures, tuition and fee increases, total cost of attendance, and scholarship expenditures.

4. Data on scholarship expenditures were missing for four schools (University of Delaware, Penn State, University of Pittsburgh, and Temple University). We excluded them from our aggregate analysis of scholarship expenditures and from aggregate comparisons of scholarship and non-academic administrative expenditures.

5. For the top 5 list of worst offenders, we ranked all top 25 schools in 3 categories: 1) total executive compensation from FY 2006 to FY 2012 2) average student debt and 3) percent increase of adjunct and contingent faculty from fall 2005 to fall 2011.

Appendix 2: Top 25 Public Universities with the Highest Executive Pay, FY 2006 – FY 2012

Rank	Institution	Total Compensation Awarded to Top Executive of Main Campus, FY 06 – FY 12	Average Yearly Total Compensation in 2012 dollars, FY 06 – FY 12
1	Ohio State University	\$10,223,733	\$1,533,286
2	Pennsylvania State University	\$7,658,372	\$1,134,067
3	University of Delaware*	\$7,083,950	\$1,089,663
4	Auburn University	\$6,237,411	\$925,941
5	University of Virginia	\$5,774,436	\$873,488
6	University of Michigan	\$5,659,043	\$858,333
7	George Mason University**	\$5,636,489	\$844,265
8	University of Washington	\$5,404,009	\$821,315
9	Virginia Tech	\$5,004,070	\$758,098
10	University of Texas	\$4,733,280	\$716,644
11	University of Central Florida**	\$4,712,161	\$714,369
12	University of Minnesota	\$4,425,889	\$669,874
13	Arizona State University	\$4,382,001	\$664,503
14	University of Florida	\$4,327,277	\$656,238
15	Temple University	\$4,302,599	\$651,943
16	Washington State University	\$4,301,950	\$652,655
17	Rutgers University	\$4,289,298	\$653,821
18	University of Kentucky	\$4,284,203	\$647,349
19	University of Houston	\$4,273,040	\$648,216
20	Georgia State University	\$4,199,291	\$641,036
21	Pittsburgh University	\$4,136,562	\$628,210
22	Georgia Institute of Technology	\$4,116,997	\$625,918
23	University of Georgia	\$4,088,151	\$620,958
24	University of Connecticut	\$3,925,372	\$595,586
25	Florida State University	\$3,694,233	\$561,876

Source: IPS analysis of Chronicle of Higher Education data

*FY 2009 compensation was unreported. Total compensation for FY 06 - FY 12 reflects an FY 09 estimate based on the yearly average of total compensation reported for Patrick Harker in FY 08, FY 10, FY 11, and FY 12.

**FY 2006 compensation was unreported. Total compensation for FY 06 - FY 12 reflects an FY 06 estimate based on average of 23 other top 25 total compensation figures for FY 06. Given subsequent year totals at this institution, the FY 06 - FY12 total is likely an underestimate.