Spread Pay
Agenda

• Context, Recap of Work
• Final recommendation from Taskforce
• Next Step – Memo from VP Finance on Options
Thank You

Rebecca Tallent (Chair)
Jack Miller
Yunhyung Chung
Marty Ytreberg
Sarah Nelson
Brandi Terwilliger
Mellody Miller
Cretia Bunney
Wendy Kerr
Mary Stout
Genesis and History

• Suggested over 5 years ago, stopped by President Nellis
• Suggested again a year ago along with consolidated fringe rate
• Decision to proceed occurred late Spring 2015
• Announcement came in June 2015
• Recalled the decision shortly after memo issued - needed more thoughtful discussion
On July 6, my office sent a memo to UI faculty and staff announcing that, beginning with salary agreements for 2016-17, the university would no longer offer faculty and staff that are on less than a full calendar year contract the option of spreading their pay over the fiscal year. The decision to end spread pay was made last May and my July memo was the formal announcement of that earlier decision. Since making the announcement, I have heard from a number of people who were distressed by it.

I am convinced that more engagement and dialogue with faculty, staff and others in needed. This assessment is based on a careful review of the issue, a close look at the concerns from employees and meetings with several key stakeholders. I have recommended to President Staben, and he has agreed, that we do not move forward to eliminate spread pay until we have come together as a UI community and discussed the issue more thoroughly. I am confident that together we can find a workable solution that minimizes or eliminates the impact on our faculty and staff and positions the university to minimize its legal and financial risks.

Together with Faculty Senate and Staff Council, I will establish a spread pay working group whose charge will be to investigate a range of options with respect to this matter. The charge of the working group will be shaped by President Staben, pending discussion at our next cabinet meeting on Monday, July 20. I anticipate the discussion at cabinet will consider the full range of options for the working group’s charge, from leaving things as they are now to eliminating spread pay in a manner that minimizes the impact on faculty and staff. I will continue to communicate with faculty and staff leadership as we go through this process and will send a more detailed plan of action next week.

I regret that our first order of business together has been difficult and I am committed to doing my part to continuously improve the process we use to make important decisions like this one. Further, I recognize the phrase “partial-year employee” is not an appropriate way to refer to our faculty and staff colleagues who work tirelessly year round to advance their craft and their profession and serve the UI community in remarkable ways. At the heart of this matter is the need to come together in a collegial and professional way with the same goal in mind: helping this great university grow and thrive.

I look forward to this opportunity and I hope you will join me.

John M. Wiencek, Ph.D,
Provoest and Executive Vice President
Professor of Chemical & Materials Engineering

“I am convinced that more engagement and dialogue with faculty, staff and others in needed. ... I am confident that together we can find a workable solution that minimizes or eliminates the impact on our faculty and staff and positions the university to minimize its legal and financial risks.”

“I will establish a spread pay working group whose charge will be to investigate a range of options with respect to this matter.”
Summary of Taskforce Effort – Becky Tallent

1. The committee was formed with nominally 50% staff and 50% faculty.
2. The committee is split – mainly along those same staff vs faculty lines.
3. The faculty view spread pay as an important, longstanding benefit.
4. The staff view spread pay as undermining the Banner finance system to the point that there is significant risk to the UI.
5. Moving to deferred pay within UI causes multiple new problems – missing 3 pay periods for current employees, compensation deferred across fiscal years, IRS constraints/impacts.
6. Path forward – do no harm. Give current employees options. Let them keep what they have but also let them know that other options are available. Nudge employees to save via direct deposit strategies.
Over 83% of respondents feel the broad university community was consulted at or above expectations. Major goal of this work was accomplished.
Path Forward – Do No Harm!
Path for Current Employees

**FY2017**

- Those on spread pay will remain on spread pay (grandfathered), may elect to convert to regular pay
- Notice to current spread pay employees by end of semester with education about options, benefits, etc.
- Grandfathered employees will be offered a financial incentive to move to regular pay in FY2018 (an irrevocable election), elect direct deposit, and appropriate direct deposit structure to allow savings for summer compensation

**FY2018+**

- Default will change to regular pay, grandfathered employees may keep spread pay only by express written consent annually (IRS requirement)
- Grandfathered employees will need to acknowledge that they are forfeiting interest earnings, that bank-managed options exist to accomplish the same outcome, and that they may need to move to regular pay immediately (no transition time) if state requires change
Path Forward – New Employees

**FY2017**
- Employees on less than 12-month contracts will be paid on standard pay (no spread or advance pay through UI)
- These employees will be encouraged to establish a dual direct deposit structure before receiving their first paycheck (e.g., providing a suitable one-time financial incentive at the end of the first contract year of employment)
- New faculty orientation in August 2016 will include sessions on financial literacy and managing pay through bank options

**FY2018+**
- Will continue on standard pay
- Financial literacy training can be provided throughout the year to reinforce good habits for managing pay – many topics available from UI banking partners
Over 88% of respondents find the proposed recommendations agreeable at some level and over 60% are completely satisfied with the recommendations.
Agree to:

• Standard pay beginning Fall 2017
• Enroll in direct deposit, if not already
• Dual direct deposit to checking and savings

7/15/16
Spread – 27 pays
Set aside 12% from each of 27 pays to fund the 3-paycheck gap 7/28/17-8/25/17

7/14/17 9/8/17
Standard – 19.5 pays
Set aside 25% from each of 19.5 pays to fund the 6-paycheck gap 6/15/18-8/24/18

6/1/18 9/7/18

To those who do:
Sizeable incentive pay in July-August 2017 timeframe

5/10/16
Agree to:
• Standard pay beginning Fall 2017
• Enroll in direct deposit, if not already
• Dual direct deposit to checking and savings

Additional Details of Incentive Plans and Options Forthcoming from VP Finance office
Comments, questions?

Additional poll results follow .....
Over 40% of respondents do not understand exactly what spread pay is - and thus, the pros/cons to spread pay vs regular pay.
2. The recent Spread Pay Task Force has recommended which of the following (check all that apply):

- B. Require all new employees to sign up for spread pay
- C. Move all regular pay employees to spread pay
- D. Incentivize current employees on spread pay to move to regular pay
- E. Allow all employees currently utilizing spread pay to continue to elect into spread pay on an annual basis going forward
- F. Require all new employees to utilize regular pay
- G. Incentivize new employees to utilize automated savings options that provide benefits of the spread pay plan plus interest accrual.
3. Are you currently on Spread Pay?

Yes: 88.9%

No: 11.1%
Over 68% of respondents are open to moving to regular pay if incentives are appropriate.
5. What level of financial incentive would be appropriate to assist you in moving from spread pay to regular pay?

- More than $1,000: 63.6%
- $1,000: 18.2%
- $750: 9.1%
- $250: 9.1%
6. The Task Force was assembled to seek broad university-wide input and advice on the spread pay issue. Do you feel this goal was achieved?

- Significantly exceeded my expectations: 5.6%
- More open and participatory than I expected: 16.7%
- No, there was not meaningful input from broader UI community: 5.6%
- Not as much opportunity for input as I would like: 11.1%
- About what I expected: 61.1%
7. Are you satisfied with the final recommendations?

- I think the recommendations are very good: 33.3%
- I think the recommendations are satisfactory: 27.8%
- No, not satisfied. I do not agree with any of the recommendations: 11.1%
- Mixed feelings – I agree with some recommendations but not all: 27.8%
Need more info on incentive program. Interest earnings not significant enough to make the move.

Relieved ... thank you for allowing me to keep my spread pay option

Move to spread pay beginning August 15

Well done wrestling with this issue
### 9. Plan for Future Employees

<table>
<thead>
<tr>
<th>Count</th>
<th>Response</th>
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<tbody>
<tr>
<td>1</td>
<td>It is a good idea to encourage young professionals to save by incentivizing the switch. It can be short step to other kinds of savings programs started early in a career.</td>
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<tr>
<td>1</td>
<td>Keep spread pay</td>
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Charge to Taskforce

- Task force should educate itself on key issues and constraints (targeted completion: Oct. 15, 2015);
- Task force should investigate wide range of potential solutions (targeted completion: Nov. 15, 2015);
- Task force should develop most promising proposed solution(s) (targeted completion: Dec. 15, 2015);
- Solution(s) should be tested and vetted with appropriate administrative units (Payroll, Benefits, OSP, etc.) (targeted completion: Feb. 1, 2016);
- Task force should develop a communications and implementation strategy including a summative report with detailed work product summaries of each of the above phases (targeted completion: March 1, 2015).

1. Educate yourself and listen to constituent concerns
2. Remember that just as many folks were happy with the announcement as upset
3. Set emotion aside
4. Provide analysis, ideas, and options
5. Bring entire UI community into the conversation ... Communication!

-Agree that current spread pay is vulnerable
-Recommend deferred pay
-How to mitigate impact
-How to offer interest bearing options outside UI solution
Dear University of Idaho Colleagues

It has been awhile since my last update on the Spread Task Pay Task Force. At a recent meeting with the Provost, the task force reached agreement on the largest issue which I would like to share with you here. There is still more work to do, but we are on a forward path to make final recommendations to the Provost this spring.

Our current payroll options include accepting payment as it is earned (Standard Pay) or leveling the anticipated pay in a given fiscal year by spreading it out over even payments for the entire fiscal year (Spread or Deferred Pay). The task force agrees the current practice is highly valued by many employees and we should continue to offer an option that would allow employees to smooth their income over the entire year. But, the current method to accomplish this task could be challenged under State of Idaho law because this method pays employees in advance during the months of July and August. This also puts us out of step with the practices at other Idaho state institutions and agencies.

It is permissible under state law to allow employees to defer payment of income so that they can smooth pay out over an entire year. So, the task force is recommending the University of Idaho offer the Deferred Pay option to employees who desire to smooth their pay over the entire year. Such a method would start at the beginning of work for each contract as opposed to a July 1 start date as currently practiced.

With agreement on that point, the task force has additional questions to address. The change will require removing employees from the current spread pay system and placing them into either a standard pay or a deferred pay system, depending on employee preference, and asking all employees to make the cognitive choice between the two. This transition will require the affected employees to forgo pay for up to three pay periods at the beginning of the fiscal year in which such a change is implemented. The task force is currently developing recommendations on how best to mitigate this significant impact for the affected employees. We will implement such changes no earlier than the start of fiscal year 2017-2018 (July 1, 2017). The committee will discuss the timing and mitigation strategies with the Vice President of Finance Brian Foisy in an upcoming meeting.

The task force also recognizes there can be a personal benefit to managing an equivalent deferred pay option through banks or other financial institutions since such bank-managed or self-managed options will provide interest earnings on those deferred funds. This is still a spread pay plan, but it is managed by the employee’s financial institution rather than the university. Interest earnings in typical examples discussed were more than $100 per year. We will be working with some financial institutions to develop such a personal banking option for any interested employees.

We remain busy with this project, but we are also optimistic we will have a final recommendation before the end of the spring semester. Please feel free to follow up with members of the task force if you have feedback or questions.

Sincerely

Rebecca Tallent

Spread Pay Task Force Chair

Associate Professor, Journalism and Mass Media
Behavioral Science View of Spread Pay
(Yun Chung, Jack Miller)

• Behavior is not rational – people tend to make poor choices in absence of rules that nudge them

• Examples of nudging include opt-in default, use of target date funds

• Tendency towards procrastination, perception of defaults as advice, stress due to uncertainty in financial-making skills

• Survey of 25 College of Business faculty members: 22 support spread pay, 3 support options
Additional research on deferred pay, etc

- In order to be in compliance with IRS code, spread pay requests must be initiated by the employee (that is, the employer cannot simply default employees into a spread pay system).

- Spread pay calendars that begin in mid-August (in order to avoid advance pay) pose difficulties as well, because pay is pushed between fiscal years and must accommodate annual salary increases mid-cycle.

- For institutions receiving federal grants and contracts, use of 12-month spread pay also requires that pay be “deferred” back to the 9-month period of actual faculty service. This duplicate payroll reporting process “breaks” the salary encumbrance system in Banner.

- Third-party solutions are available, but they shift interest earnings from employee to vendor – ethically not viable.

- Banks can provide a spread pay alternative via dual direct deposit methodology – 75% to checking and 25% to interest-bearing savings account (over 19.5 pays)