Annual Compensation Survey Report FY 2007-2008

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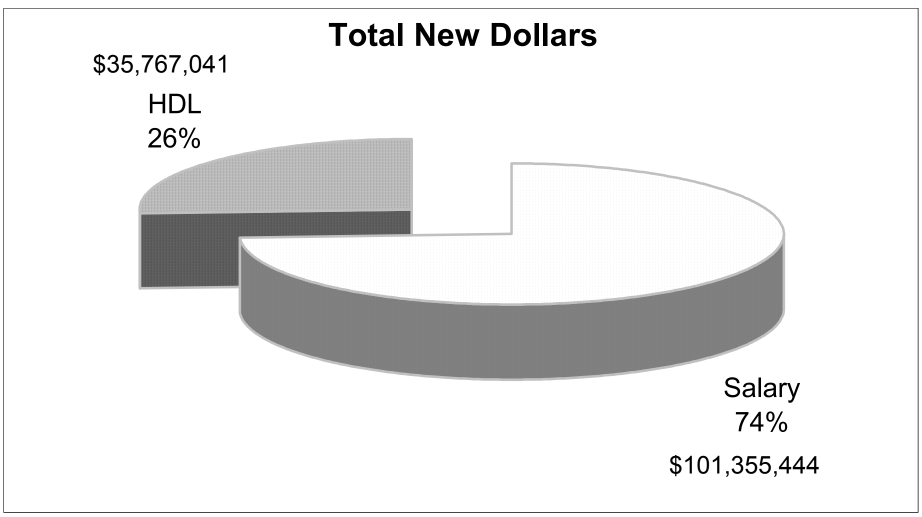
COMPENSATION SURVEY REPORT: EXECUTIVE SUMMARY

The Division of Human Resources (Division) within the Department of Personnel and Administration (DPA) conducted its FY 2007-2008 annual compensation survey and is reporting the findings as mandated by statute. The core compensation components surveyed are salary, including performance awards, and group benefit employer contributions. Due to the August deadline and limited surveys available to the Division at the time of publication, the survey findings will be updated in December 2006 from additional third-party surveys and a more recent economic indicator, which may change the overall findings.

The State of Colorado's policy is to provide competitive total compensation to employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce.

To provide a market-comparable salary package for the 31,264 positions in the state personnel system (including higher education), total salary increases are projected to be 5.7% or approximately $101,355,444.

In order to compete with market employers' contributions to group benefits, an estimated $35,767,041 for about 25,000 employees enrolled in the State's plans would be required. The following chart depicts the total new dollars to reach the prevailing total compensation package on July 1, 2007, with an estimated total of $137,122,485.



Note: The costs contained in this report are based on all employees in the state personnel system regardless of funding sources. Costing for budgetary purposes will be done later by including other considerations such as appropriated versus non-appropriated funding sources.

COMPENSATION POLICY

By statute, it is the State of Colorado's policy to provide competitive total compensation to its employees including, but not limited to: salary, performance awards, group benefit plans, retirement benefits, leave, incentives, and premium pay practices. According to total compensation statutes, this FY 2007-2008 survey findings report specifically includes the Department of Personnel and Administration's (DPA) primary focus on two major compensation components that require increased dollars each year, namely, salaries (including performance awards) and the employer contribution to group benefit plans.

SURVEY PROCESS

The complete text of the annual compensation survey process is contained in Appendix A and the following findings and costs cover the results obtained. The Division of Human Resources (Division) followed that process in conducting this survey and preparing this report. All changes are for implementation on July 1, 2007.

The two primary third-party survey sources used for this report are the Mountain States Employers Council (MSEC) and the Colorado Municipal League (CML). Appendix B contains a list of the specific third-party surveys used. Because third-party survey publications do not report data based on the same effective dates, the Division applied the annual Employment Cost Index (ECI) – Wages and Salary for all Civilian Workers (ECI-W) – to project all salary rates to July 1, 2007. The most recent ECI index (2.65% annual change from March 2005 to March 2006) was used to age the data. Due to limited survey sources, a survey update will be completed in December 2006 to include more third-party surveys and a more recent Employment Cost Index.

Market Salary Findings

The Division used salary data collected from the MSEC 2006 *Front Range Briefing* to determine the prevailing market practice for total salary increases. As reported in the surveys, total salary increases are defined as all increases market employers plan for the upcoming year through various compensation programs, such as merit, longevity, across-the-board, cost of living, and other base and non-base salary increases. The MSEC 2006 *Front Range Briefing* and other published planning information showed, in general, employee salary increases of 3.5% projected for the Colorado Front Range market (includes Denver/Boulder, Northern Colorado, Colorado Springs, and Pueblo). This Colorado market trend is comparable with the national trend reported by Hewitt in its 2006 and 2007 *U.S. Salary Increase Survey*. The Society of Human Resource Management (SHRM) article in the June 2006 *HR News* reported the same 3.5% amount.

Based on the State's method of measuring the year-to-year movement of survey midpoint data and the 3.5% projected salary increases, the projected adjustments by occupational groups are listed in the table below.

	8/1/2006 Proposed Salary Adjustments	# Employees
ENFORCEMENT AND PROTECTIVE SERVICES	3.2%	5200
TROOPERS	3.5%	682
FINANCIAL SERVICES	2.5%	1766
HEALTH CARE SERVICES	3.9%	3484
LABOR/TRADES/CRAFTS	2.2%	5242
ADMINISTRATIVE SUPPORT AND RELATED	2.5%	4643
PROFESSIONAL SERVICES	3.6%	8046
PHYSICAL SCIENCES AND ENGINEERING	3.4%	1917
TEACHER *	3.6%	241

*Due to the lack of survey data for the Teacher occupational group, the PS occupational group increase will be used for Teachers.

**In accordance with statute (24-50-104(4)(d)(IV), C.R.S.), the actual salary adjustment for Troopers is 6.2%.

In addition, C.R.S. 24-50-104 (1)(a)(III)(A) requires use of consistent methodologies to determine and maintain prevailing compensation for state Troopers with two exceptions. The Division used the actual average salaries as reported in the 2006 CML survey and identified the three highest-paid large law enforcement jurisdictions (the labor market) to be Fort Collins, Greeley, and Lakewood.

This year's top three jurisdictions showed an average structure movement of 3.5%. The actual average salary comparison shows the State needs to increase the Trooper actual salaries by 6.2%. Part of this increase is due to the mandated comparison and application of actual salaries and the fact that last year's actual salary movement recommendation (7.2%) was not funded. Instead, the General Assembly funded the lower structure adjustment (5.1%) so this year's actual salary adjustment recommendation captures that gap.

Summary

Based on the above findings on salary increases, the salary increase budget should be 3.5% at an estimated cost of $62,141,376.

Additionally, the Division conducted a detailed analysis of individual class pay ranges versus the labor market pay ranges because individual class pay ranges may move differently than the overall occupational group movement. The annual survey process document in Appendix A outlines this analysis and the criteria used to determine when an individual class adjustment is deemed necessary. This year, the Division completed an extensive review of survey-matched classes and found that several need adjustment. A detailed explanation of this review and the specific class adjustments are included in Appendix C. The Division found that 11 classes need adjustment with 10 moving upward and one moving downward, and the cost ($410,523) is included in the total new costs below.

One system maintenance study is included in this report. The Air Traffic Controller salary study requested by the Department of Military and Veterans Affairs is included in Appendix D and the cost ($43,920) is included in the total new costs below.

Employers provide a mechanism to move employee salaries within the pay ranges in the pay structure, typically based on performance. The survey findings for performance pay are inconclusive. The Hewitt 2005 VCM Report showed that the range of variable (non-base) awards based on performance rose slightly from the 2004 percentages. For salary levels comparable to the State's range of annual salaries ($18,792 to $103,428), the variable pay reported in the survey rose from a range of 3.4% - 12% up to a range of 4% - 14% in the 2005 report. At the point of transition from the State's former policy of granting anniversary (longevity) increases to rewarding performance, 2.2% of personal services were used to fund the mechanism that moves employee pay through the pay ranges. The State has only partially funded performance pay twice since its adoption and not at a level close to the historical funding level. This is becoming a critical issue in recruiting, retaining, and motivating the workforce. In order to secure funding for the mechanism that moves salaries through the pay ranges, performance pay, the historical 2.2% of personal services was used for purposes of these findings. The cost ($39,214,068) is included in the total new costs below.

TOTAL NEW COST OF SALARIES

The total cost for salary increases for FY 2007-2008 is **$101,355,444** including the associated PERA and Medicare costs.

HEALTH

The Division used the *2006 Health and Welfare Plan Survey* published by MSEC and the *2006 Benchmark Employee Compensation Report* by CML to measure market practices in health care benefits. In addition to measuring the employer contribution level, the Division also examined basic medical benefits, e.g., eligibility, general plan design, and cost-related plan features for both the employee and the employer. Health insurance price trend information was collected from publications by Mercer, Buck, Hewitt, Kaiser, Segal, Watson Wyatt, and from Workforce Economics, Inc.'s *State Employee Insurance Data*.

For the plan design comparison, the Division used the most prevalent plan chosen by state employees, which is the Preferred Provider Plan (PPO–1500 under the State's self-funded program). As defined by MSEC, a PPO plan is a "… benefit design wherein covered persons obtain a higher level of reimbursement if non-emergency services are obtained from participating providers." Based on the MSEC information, the State is comparable with market employers by offering medical plans (PPO and HMO) to its employees, and using a third-party administrator (TPA) to process most of the medical claims, including the use of stop-loss insurance to protect the State's self-funded medical liability. Like most employers, the State does not allow employees to receive cash in lieu of health coverage. In terms of eligibility for health care coverage, comparable to the market, state employees become eligible for medical insurance enrollment on the first day of the month following their employment with the State. The State's medical plans provide typical and prevailing coverage in psychiatric care, substance abuse programs, prescription drugs, outpatient surgery, home health care and hospice, well baby care, annual physical, nurse line, maternity management, chiropractic, and pre-tax flexible benefits.

Findings

In general, the State's medical plans require employees to share more of the cost of medical services than the market's PPO plans. The following table summaries key benefit comparison between the State and the average market.

Benefits	MSEC Market (Median/Average)	**State (Policy)**
In-Network		
In-Network Deductible for tier 1	$500/$601	$1,500
In-Network Deductible for tier 4	$1,000/$1,465	$3,000
In-Network Out-of-Pocket Maximum for Tier 1	$2,000/$2,358	$3,000
In-Network Out-of-Pocket Maximum for Tier 4	$4,000/$5,361	$6,000
In-Network Co-Insurance (paid by employees)	10%-20%	20%
Out-Network		
Out-Network Deductible for tier 1	$1,000/$1,152	$3,000
Out-Network Deductible for tier 4	$2,000/$2,798	$6,000
Out-Network Out-of-Pocket Maximum for Tier 1	$4,000/$4,882	$6,000
Out-Network Out-of-Pocket Maximum for Tier 4	$9,000/$11,144	$12,000
Out-of-Network Co-Insurance (paid by employees)	30%	40%

Tier 1 is employee only; Tier 4 is employee + spouse + child(ren)

If the State wants to be prevailing on the basis of plan designs while still providing benefits that are affordable for employees, the state contribution would need to significantly increase, even beyond the prevailing market employer contribution. The State's demographics (e.g., average age of 47) and geography (i.e., all counties) drive higher overall medical cost compared to employers with which the State competes. Consequently, even if the State achieves and maintains the prevailing market employer contribution level in the face of relatively higher costs for our risk pool, further increased funding will be needed to bring plan designs and cost-related features (e.g., co-pays, co-insurance, deductibles, and out-of-pocket maximums) into line with the market.

In order to project the premium cost increases for FY 2007-2008, the Division used the trend information collected to project a 10% increase for medical premiums and 6% for dental premium increases. As part of the Five-Year Total Compensation Strategic Direction, the Division monitors the market trend and plans to achieve the prevailing employer contribution within the next two years, no later than July 1, 2008.

The following table compares employer medical plan contributions between the projected FY 2007-2008 market and the State's current employer contribution dollars by tier.

	Tier 1	Tier 2	Tier 3	Tier 4
State FY0607 Contribution	$244.12	$412.58	$381.48	$567.42
State (85% of market)	$280.67	$482.83	$434.92	$652.80
Projected market for FY0708	$330.20	$568.04	$511.67	$768.00

DENTAL

In the MSEC survey, three basic plan types were reported: Dental HMO, Dental PPO, and Dental Indemnity. The State currently provides two PPO's; Basic Plan and Basic Plus Plan, and a dental reimbursement plan. Similar to the health care benefits analysis, employers' contributions for all plan types were analyzed.

Findings

Relative to the market's plan design, the current Plus plan is comparable to the most common plan in the market; thus, the Basic plan lags the market. In general, the maximum dental benefit is between $1,000 - $1,500 in the market (vs. $1,000 for the State's Basic and $1,500 for the Plus plan). Orthodontia is provided for children by about 75% of companies and 27% for adults (a benefit provided under the State's Plus plan). The following table summarizes plan comparison between the State and its market.

<table>
<tr><th>Benefits</th><th>MSEC Market (Common practice)</th><th>State Basic Plan</th><th>State Plus Plan</th></tr>
<tr><td>Maximum benefit per person per year</td><td>Average $1,326</td><td>$1,000</td><td>$1,500</td></tr>
<tr><td>Deductible</td><td>Not Reported</td><td colspan="2">$50 per member
$150 per family</td></tr>
<tr><td>Orthodontics covered for children</td><td>Yes (Median $1,500)</td><td>No</td><td rowspan="2">Yes (up to $1,500)</td></tr>
<tr><td>Orthodontics covered for adults</td><td>No</td><td>No</td></tr>
</table>

As reported by Mercer, after years of increases, the cost for dental coverage was flat in 2005, about a one percent decrease. Dental benefits in terms of deductible, maximum benefits, and co-insurances tend to be stable over the years. Cost containment through plan design in dental plans is not as prevalent as medical plans. Combining the benefit features of the State's Basic and Plus plans, the State's dental benefits continue to lag the market in the employer's contribution, and to a lesser degree, in plan design.

The following table compares employer dental plan contributions between the projected FY 2007-2008 market and the State's current employer contribution dollars by tier.

	Tier 1	Tier 2	Tier 3	Tier 4
State FY0607 Contribution	$18.88	$27.96	$31.72	$41.40
State (85% of market)	$21.80	$34.06	$37.39	$50.31
Projected market for FY0708	$25.64	$40.07	$43.99	$59.19

LIFE INSURANCE AND ACCIDENTAL DEATH & DISMEMBERMENT (AD&D)

From the data in the MSEC survey, the Division analyzed the amount of life insurance provided by employers and the portion paid by the employer. A similar analysis of AD&D benefits provided by the employer was also conducted to show coverage and employer contribution levels.

Findings

Benefits in life and AD&D insurances remain stable as reported by MSEC. The most common practice (95% of employers) is for employers to fully pay for the plans. The State provides 100% state-paid basic life insurance to all employees. The most common amount of insurance is a multiplier of one to two times the annual salary (56% of reporting companies); the weighted average multiplier is 1.6 times the annual salary. Beginning July 2006, the State increased its life benefit to one times salary with a minimum of $33,000 and a maximum of $40,000. While this is more competitive, it still lags the market life insurance.

TOTAL NEW COST OF CONTRIBUTIONS TO GROUP BENEFITS PLANS

To meet **100%** of the 2007 prevailing level of employer contributions to premiums for group benefits plans (health, dental, life & AD&D), the cost is estimated to be **$35,767,041**. The cost is determined by comparing FY 2006-2007 state contributions to projected 2007-2008 market contributions.

APPENDIX A – ANNUAL SURVEY PROCESS

General Compensation Policy Statement

It is the policy of the State of Colorado to provide competitive total compensation to employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce. Total compensation includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.

By law, most matters related to maintaining prevailing compensation for the state personnel system, including the annual compensation survey, recommendations to the General Assembly, and rulemaking for certain compensation practices are under the authority of the State Personnel Director (Director). The Director has delegated certain authorities to the Division of Human Resources (Division) in the Department of Personnel and Administration (Department). Such authority includes establishing technically and professionally sound survey methodologies, conducting surveys, analyzing data, and reporting survey findings. This document describes the methodologies and process used to conduct the annual compensation survey.

Purpose of the Annual Compensation Survey

In order to maximize the investment made in state employees, the annual compensation survey is conducted as part of an effort to maintain an integrated and prevailing compensation package. The annual compensation survey focuses primarily on the major components of total compensation that require increased dollars each year. These components are base salaries, both pay structure and performance awards, and the employer contribution to group benefit plans. Other items (such as disability insurance, retirement, paid leave, and premium pay) are also periodically surveyed to monitor any changes in market trends. The result of the annual compensation survey is a published report that reflects all adjustments necessary to maintain prevailing salaries and employer contribution to group benefit plans for the upcoming fiscal year.

Meet and Confer

Before the annual compensation survey process begins, the proposed survey process is published for comment. In order to maintain stakeholders' understanding and confidence in the selection of surveys, the Division meets and confers with management, employee representatives, employees, and the Total Compensation Advisory Council. The Department communicates to the workforce through public meetings, the *Advisor* newsletter, the Department's website, and other forms of correspondence. After reviewing and considering stakeholder input on the survey process and the surveys to be used, the Director will make the final decision regarding the process to conduct the annual compensation survey.

Annual Compensation Survey Process

The survey process begins with the collection of data from the identified labor market. The primary survey market is Colorado. As needed, regional and national data may be considered as additional information for decision-making purposes. The labor market must include a fair sample of public and private employers throughout the State of Colorado (this includes areas outside the Denver metropolitan area). This data is obtained through a collection of surveys, which may be published by public or private organizations or direct surveys conducted by the Division. The Division reviews the results of the surveys in order to report market findings. The Director then makes recommendations on any required increases and estimated costs regarding the two major components of total compensation. The review of any survey, the survey report, and recommendations regarding total compensation practices are not subject to appeal.

The following criteria are used to select published surveys for collection of market data:

(1) The survey provides adequate descriptions of work to match to state classes;
(2) The survey provides data necessary for survey analyses;
(3) The survey adequately explains its methodologies in sample selection and data analyses;
(4) The survey reports the effective date for pay rates or benefit contribution levels;
(5) The survey includes appropriate labor markets for the State of Colorado;
(6) The survey is available for the Division to examine, verify, or purchase;
(7) The survey provides substantial value in increasing the number of job matches for the state or labor markets appropriate for the state; or
(8) The survey is conducted by a third party for whom regular publication of professional compensation surveys for use by others is one of the major enterprises of the organization.

The Division also designs and conducts direct surveys when necessary. Such surveys are conducted to supplement data being reported in a published survey. For example, data appears to be insufficient or incomplete so additional information is needed. Direct surveys are also conducted to collect data not available in a published survey or when a published survey does not meet the criteria listed above.

The results of the annual compensation survey are contained in a report published on August 1. The Director considers this report in requesting increased funding and recommending the distribution between the two major compensation components. The General Assembly appropriates funds for salaries including performance awards and the employer contribution to group benefit plans. The effective date is July 1 for any changes unless the General Assembly, acting by bill, establishes a different date.

Rate Projection

Not all survey publications or their contributing organizations utilize the same effective date for their pay rates. In order for all survey data to have a common effective date (i.e., July 1), the Division projects salary survey data by applying the most recent annual Employment Cost Index – Wages and Salary for all Civilian Workers (ECI). The ECI is published quarterly by the U.S. Department of Labor, Bureau of Labor Statistics (BLS) and reflects the change in employment costs for civilian workers. This projection is an estimate of future market pay based on economic trends. For the annual compensation survey, the ECI is used to project all survey data to July 1 (state's effective date). This projection method ensures that the state does not use "old" data for the market comparison.

As the Director is required to report the survey findings and make the recommendations to the Governor and the General Assembly by August 1, the ECI used in the projection is the previous index issued in April. This economic index is at least 15 months away from the survey implementation date (July) of the following year. In order to reflect the economy as accurately as possible and to include some major survey publications that are available to the Department toward the end of the calendar year, the Division updates the survey findings and submits the update to the Director in December. The Director may use the updated findings to revise the survey recommendations, which will be published and communicated to the workforce.

Trooper Subgroup of Enforcement & Protective Services (EPS)

C.R.S. 24-50-104 (1)(a)(III)(A) requires the Department to use methodologies consistent with the other classes to determine and maintain prevailing compensation for state Troopers with two exceptions. First, the market to be used is uniquely defined as the top three law enforcement agencies within the state having more than 100 commissioned officers and the highest actual average salary. The pay structure adjustment for the Trooper subgroup is based on the analysis of midpoint rates movements for the top three law enforcement agencies. Second, if the state provides a salary adjustment to the workforce, the amount for this sub-group will be at least 99% of the actual average salary from this market while backing out FY 2003-04 survey adjustment of 3.5 percent per 24-50-104(4)(d)(III), C.R.S. (SB 02-273).

Individual State Job Comparison

In addition to the measurement of pay structure adjustment on an occupational group basis, the Division continues to compare the pay structure for individual state classes with the labor market. The comparison is done primarily on the basis of pay range midpoint rate comparison (similar to how it is done for occupational groups as a whole). The Division evaluates the following to determine whether individual class adjustment is necessary to realign state classes externally with the market.

(1) The magnitude of the difference. Discretion is used in considering all of the factors, but generally, under this factor, a review does not begin until the magnitude is ± 7.5%.
(2) Stability of the rate difference from one year to the next. Does the difference fluctuate or is it steadily above or below the market?
(3) Duration of the difference. Has the difference appeared suddenly or been sustained for a number of years?
(4) Nature of the labor market sample for the survey class, e.g., type of labor market, number and size of firms reported, comparability with state jobs, and actual average salary levels.
(5) Historical and market pay relationships that exist between the class and other related classes.
(6) Documented recruitment and retention difficulties for the survey class.
(7) Significant market trend differences in pay practices.

The Division will also evaluate actual pay comparison for outlier classes in order to take necessary action to realign state classes both internally and externally. If individual class adjustment is warranted for purposes of external alignment with the labor market only, those recommendations are made as part of the base salary analysis in the annual compensation survey rather than adjusted through system maintenance studies. System maintenance studies may be conducted in a subsequent year when internal alignment (relationship among state classes) needs to be examined and verified with external alignment (market practices). The system maintenance studies that have fiscal impact are included as part of the annual compensation survey report or the subsequent December update.

Pay Range

A pay range is a range of pay rates between two control points: minimum and maximum. It defines the lowest and highest base salary the state (the employer) will pay for a given job. Range width is the percentage difference between these two control points. The Division reviews average market minimum and maximum range rates for the occupational groups and assesses comparability to the state's ranges. In addition, the Division reviews market practices around pay ranges such as width for different occupations or levels of jobs, progression within a range, and distribution of employees within a range for an occupation. Review of market practices in these areas provides useful information for establishing ranges comparable with the market, as well as policies and procedures for progression within pay ranges.

Performance Salary Adjustment

The Division reviews market practices around performance-based pay (PBP) and bonus systems to evaluate current policies for the state's PBP system, including but not limited to, eligibility for performance awards, ratings distribution, and the budgeted amount of performance awards. Typically, both national and Colorado surveys are used for measuring market performance pay practices. Additionally, the Division analyzes available total compensation survey reports, including actual pay data, to verify the recommendations. The findings are incorporated into the annual compensation survey report.

Employer Contribution Toward Group Benefit Plans

In the annual compensation survey, the Division reviews market group plans and employers' and employees' contributions to group benefit plans including medical, dental, life, and accidental death and dismemberment. The Division conducts a comparison of general benefit plan components before premium contributions are assessed. Once plan coverage components are compared, the Division evaluates the cost of a group plan as well as how employers and employees are sharing the cost in order to determine the weighted average employer contribution in the market and recommend the state's contribution. Market premium rates for both medical and dental plans are projected based on trend information found in the market. Based on the analyses, the Division includes findings in the annual compensation survey report. The Director recommends the funding required as part of the overall annual compensation recommendation.

Pay plans

Based on the annual compensation survey, various pay plans and directives are established, and procedures adopted, as required to implement the state's prevailing total compensation philosophy. A pay plan (or compensation plan) is a listing of salary schedules for all occupational groups and job classes, and other applicable premium pays. The pay plan is published prior to the implementation of salary survey adjustments.

Survey Process Audit

To ensure technically and professionally sound survey methodologies and practices, the annual compensation survey is subject to a performance audit. The Office of the State Auditor is responsible for contracting with a private firm to conduct an audit of the annual compensation survey process and application of data including any direct surveys. Beginning January 1, 2005, the audit cycle changes to every four years; therefore, the next audit will not occur until the early 2009 (FY 2009-2010 survey).

Current Topics of Interest

The Director is interested in information on other total compensation topics that may result in new or revised policy and programs. The information collected and analyzed may be found in the same third-party survey sources used for the annual survey process. Depending upon the topic, additional survey sources may be sought to answer questions or examine issues relating to these topics.

These special interest items may be used to support policy decisions on total compensation matters, but may not be a recurring survey item each year. This year, the Director will analyze three topics: eligibility for the state's benefit plans, a review of separation incentives, and a study on reducing the number of occupational groups.

APPENDIX B – THIRD-PARTY SURVEYS

Organization	Publication	Component(s)
Colorado Municipal League (CML)	June 2006 download from Technology Net, Inc.	Salary
Mountain States Employers Council (MSEC)	2006 Colorado Front Range Survey	Salary
Mountain States Employers Council (MSEC)	2006 Public Employers Survey	Salary
Mountain States Employers Council (MSEC)	2006 Health Care Compensation Winter	Salary
Mountain States Employers Council (MSEC)	2006 Health & Welfare Plans	Benefits
Mountain States Employers Council (MSEC)	2006 Front Range Briefing	Planning & Budgeting
Mountain States Employers Council (MSEC)	2005 Health Care Compensation Summer	Salary
Hewitt	2006/07 US Salary Increase Survey	Planning & Budgeting
Society for Human Resource Management (SHRM)	HR News, June 29, 2006	Planning & Budgeting
Hewitt	2005 Variable Compensation Measurement	Performance Pay
Mercer	2005/06 US Compensation Planning	Performance Pay
Institute of Management & Administration (IOMA)	February 2006 Report on Salary Surveys (Mercer 2005/06 US Compensation Planning Survey)	Salary
Mountain States Employers Council (MSEC)	2005 Survey Miscellaneous Benefits & Pay Practices	Severance Pay
Institute of Management & Administration (IOMA)	June 2006 Report on Salary Surveys (Culpepper Benefits Survey)	Severance Pay
International Foundation	2004 Survey Summary	Severance Pay
Lee Hecht Harrison (LHH)	2005 Severance & Separation Benefits	Severance Pay

APPENDIX C - INDIVIDUAL CLASS ADJUSTMENTS

Since 1992, the annual compensation survey process has included the methodology to measure individual class pay grades with the prevailing market. This is in addition to the annual pay structure adjustments by occupational group average percentages. The survey process includes several criteria the Division uses to measure class alignment with the market and determine when individual class adjustments are necessary. The criteria used are the following.

- The magnitude of the difference between the market midpoint rate and the class midpoint. Generally, a review does not begin until the difference is greater than ±7.5%.
- Stability in the rate of difference from one year to the next. Does the difference fluctuate wildly or is it steadily above or below the market? Generally, at least three years of a stable and identifiable trend is needed before an adjustment is recommended. For example, if market data suggests that a class is behind the market by 8% to 10% for two years, and then the most recent data shows that class is above the market by 8%, no adjustment would be recommended due to a lack of a stable three-year trend.
- Duration of the difference. Has the difference appeared suddenly or been sustained for a number of years? Generally, a trend of at least three years is needed.
- Nature of the labor market sample for the survey class, e.g., type of labor market, number and size of firms reported, and comparability with state jobs, including the degree of similarity in nature and scope of work. Generally, similar numbers of reporting participant employers and number of employees, along with a static market match are needed during the three-year trending period.
- Historical and market pay relationships that exist between the class and other related classes.
- Documented recruitment and retention difficulties for the survey class.
- Any significant market trend differences in pay practices.

When individual class adjustments are warranted for the sole purpose of external alignment with the labor market, these recommendations are made as part of the annual survey process. Not all classes in a series can be matched in the market. In order to maintain internal pay relationships, all classes in a series are often adjusted at the same time. Other classes may be tentatively identified but are not included in the annual compensation survey report because of the need for additional salary information or issues other than external alignment with the labor market, which require a separate system maintenance study.

These recommended adjustments will be implemented concurrently with the other FY 2007-2008 survey recommendations on salaries. Employees will not see a change to their individual salaries unless they fall below the new minimums for classes going upward. Employees in classes being lowered will be placed in saved pay status, if necessary, for up to three years, until the maximum for their pay range catches up to their salary amount. In rare cases when their occupational group adjustment does not "catch-up" to their saved pay amount, employees' pay is reduced to the maximum of the pay range at the end of the three-year saved pay period. These saved pay provisions are statutory.

The Division reviewed the labor market salary data for all matched classes and turnover rates for all classes over the past four years; validated benchmarks are properly matched, and identified several classes needing adjustments. The table below lists those classes where adjustments are needed based on the criteria above. These changes will be effective July 1, 2007.

Class title	Class code	Pay Grade	
		Current	Recommended
ACCOUNTING TECH I	B1C1TX	B10	B11
ACCOUNTING TECH II	B1C2XX	B13	B15
ACCOUNTING TECH III	B1C3XX	B19	B21
ACCOUNTING TECH IV	B1C4XX	B27	B29
UTILITY PLANT OPER I	D6E1TX	D49	D47
EQUIPMENT OPERATOR I	D7B1TX	D25	D27
EQUIPMENT OPERATOR II	D7B2XX	D31	D35
EQUIPMENT OPERATOR III	D7B3XX	D37	D39
SECURITY I	D8H1TX	D25	D30
SECURITY II	D8H2XX	D30	D35
SECURITY III	D8H3XX	D36	D41

CLASS SERIES GRADE ADJUSTMENT EXPLANATION

Accounting Technician – The I, II, and IV are survey classes and have been for at least the past five years. The three survey classes show a consistent below the market trend for at least three years, with a pattern of a three-year average of 5.9% and increasing for the I, and a three-year average of 14.2% and decreasing for the IV class. These classes are recommended for an upward adjustment ranging from one to two pay grades (2.5% - 5%). The I class is scheduled for a one grade increase and the other three classes a two grade increase. The Accounting Technician III is recommended for the same pay grade change as the II and IV classes in order to maintain the proper internal pay relationship between those three classes. No unusual turnover issues are present.

Utility Plant Operator – Both levels of this series are survey classes. The match has been stable as well as the sample market over the three-year period. The I has been consistently above the market (over 10% the last three years) and is recommended for a two pay grade (5%) decrease. The II level is slightly below the market, however, the trend is not large enough to recommend a change for the II level.

In order to verify the recommended downward adjustment, a relationship analysis was completed. Salary data from surrounding states obtained through the Central States Compensation Association (CSCA) was used to compare the internal relationship for each state, for two separate occupations. The Utility Plant Operator I and Custodian I relationship, representing a very stable common market match, were analyzed. For Colorado, the Utility Plant Operator I salary structure is approximately 107.9% higher than the Custodian I. The average relationship difference between the same two occupations in 19 other states was approximately 60.3%. This shows that Colorado's salary structure for Utility Plant Operator I is considerably higher, in relation to Custodian, than other states, which supports the local labor market data findings. Although the CSCA relationship analysis could suggest a greater downward adjustment than recommended, the local labor market data has more relevance, thus, the recommendation of a two-grade reduction. In addition, moving the I level alone brings the pay relationship in the series closer to that found in the market.

Equipment Operator – Each level in this class series is a survey class. The matches have been stable as well as the sample market for all four classes over the three-year period. The first three levels are consistently below the market (3-year averages of 7.1%, 15.4%, and 6.5% respectively) with the trends holding steady or increasing, and the IV slightly above (2%). Equipment Operator I and III are recommended for a two-grade increase (5%), and Equipment Operator II a four-grade increase (10%) to closer align with the market. No change is recommended for the Equipment Operator IV, as it does not meet the criteria for an adjustment.

Security – Security I is the only survey class in this series. The match has been stable as well as the sample market for three years. The Security I class has been an average of 12.6% (ranging from 8% to 16%) behind the market for the last three years, with the trend increasing each year. Turnover for this class (three-year average of 25.6%) has also been high in comparison to the occupational group average (13.56% for FY 2004-2005). The salary and turnover data certainly fit the general overall market conditions, which reflect an increased emphasis on security, armed and unarmed. In order to align with the market, it is recommended the I level be adjusted upward five pay grades (12.5%). To keep the current internal alignment, the II and III levels are also recommended for a five-grade increase.

COSTS

The costs of implementing these adjustments (one class downward and 10 classes upward) equal $410,532, including additional PERA and Medicare employer contributions. These costs cover 289 filled, permanent positions in all departments statewide as obtained from June 2006 information in CPPS, CU, and CSU payroll systems. Classes moving downward in pay grade result in no added cost or any cost avoidance as employees in those classes are subject to saved pay, where appropriate. The costs are incorporated into the annual compensation survey total for salaries.

APPENDIX D - SYSTEM MAINTENANCE STUDY

C.R.S. 24-50-104(4)(c) and (6)(a) require that any study involving increased costs must be included in the annual compensation report for an effective date on the ensuing July 1. This study proposes to adjust the three classes in the Air Traffic Controller series upward. The complete findings of this study are contained in JEL 06-01, published March 13, 2006. One department, the Department of Military and Veterans Affairs (DMVA), is impacted by the increased cost to adjust seven positions. The following information depicts the assumptions made in the calculation of increased costs.

- Data was taken from CPPS as of June 30, 2006, and is assumed to be accurate as of that date.

- Only permanent positions are reported. Vacant, temporary, and substitute positions are excluded.

- The implementation date of July 1, 2007, coincides with the presumed implementation of the annual compensation adjustments. In accordance with the Director's Administrative Procedures regarding the order of multiple actions on the same effective date, system maintenance studies are implemented first. For this reason, these calculations use the final FY 2006-2007 compensation plan values and do not include any potential FY 2007-2008 annual compensation survey adjustments.

- In accordance with the Director's Administrative Procedures, system maintenance studies are implemented on a "dollar-for-dollar" basis where an employee's current salary remains unchanged when a class is moved to the new grade. An exception is when a class moves upward and the employee's current salary falls below the minimum of the new grade. Such adjustments to base salary represent increased cost.

- The estimated total first-year cost to implement this study is approximately $43,956. PERA (including the 1/1/2007 AED increase) and Medicare costs are included in the calculations.

The pay grades recommended for the series are shown in the following table.

	Class	Existing Grade	Proposed Grade
H4N1TX	A.T.C. I	H37	H46
H4N2XX	A.T.C. II	H41	H50
H4N3XX	A.T.C. III	H48	H57

APPENDIX E - SEVERANCE PAY IN THE MARKET

The published surveys used in these findings on severance pay are: the *2004 Severance Policies* by International Foundation, the *2005 Culpepper Benefits Survey* by Culpepper and Associates, the biennial MSEC *2005 Miscellaneous Benefits and Pay Practices Survey – Colorado & Wyoming,* and the Lee Hecht Harrison (LHH) 2005 *Severance & Separation Benefits* Report on national organizations. For purposes of this discussion, severance benefits and separation allowances are synonymous.

Background

Severance pay is not an obligatory benefit but is allowed in the Voluntary Separation Incentive Program (VSIP) authorized by 24-50-208, C.R.S., and Director's Rule 3-53. Severance pay practices in the market were last reviewed in mid-2002 as part of the *2003 Total Compensation Survey Report*. That report concluded that the average maximum amount of severance pay was 13 weeks and recommended that the State change its policy from the prior maximum amount of 27 weeks to a limit of 13 weeks. Thus, the current policy is to grant one week's salary for each full year of uninterrupted state service to a maximum of 13 weeks and not to exceed 25% of annual salary. Thirteen weeks and 25% of salary are approximately equal. Subsequent application of this policy in layoffs resulted in some dissatisfaction with the maximum amount expressed by the University of Colorado. The State Personnel Director agreed to re-examine the severance pay policy using recent market data as part of the cyclical review of compensation practices.

Findings

The 2004 International Foundation's report reflects responses from 303 corporations and public employers in the United States and Canada. Of those responding, 55% have formal written policies while another 23% have unwritten policies; therefore, a clear majority have policies on severance pay. The report further states that years-of-service is the most prevalent determinant of severance pay. Fifty-six percent of employers provide these benefits to all levels of employees (exempt was 84% of employers and non-exempt was 78% of employers). This report did not include any information on the amounts of severance pay, either in terms of money or number of weeks.

IOMA, Inc.'s June 2006 *Report on Salary Surveys* included a summary of the Culpepper Benefits Survey on a technology industry survey that represented 72 firms. Although its findings are from a single industry, they are consistent with the other broader surveys. The Culpepper survey reported that 93% of companies pay severance when they layoff employees. This report categorizes severance practices by level of employee, but our analysis did not include the executive and officer levels, and focused only on the managerial and professional levels of employees. For both managers and professionals, over one-half of the companies use a variable method (length of service versus a flat amount) for calculating the amount of severance pay. The average payouts were equivalent to five to seven weeks' salary. Additionally, more than one-half of the respondents continue to subsidize medical benefit premiums in an amount equivalent to the severance period. No information was reported on how the benefit premiums were paid out.

APPENDIX E - SEVERANCE PAY IN THE MARKET

The MSEC survey included 653 organizations across Colorado representing varying sizes and types of industries. Of the participating employers, approximately 53% of them provide separation pay under limited circumstances. The three primary reasons reported for separation pay are a permanent reduction in force, plant closure, or job elimination. Separation pay is rarely given for other reasons.

In terms of the amount of separation pay provided by MSEC participants who have formal, written policies (9% of total), the average of 11 months was the minimum service required before becoming eligible for separation pay. The reported range of minimum service for eligibility was three weeks to 18 weeks. Employers reported offering one week's pay per year of service as the amount of separation pay. The practice of basing the pay amount on length of service did not vary and the average maximum was up through 15 years of service.

The LHH survey was a nationwide survey of 1,030 senior HR executives from a variety of employer sizes and industries. Although this report covered corporate and senior executives, the data used in this analysis includes only the professional and administrative occupations. Their results showed that approximately 61% of organizations have formal separation pay policies and they typically base their separation pay on years of service. Approximately 67% of those with formal policies report a median value of two to three weeks as the minimum separation pay and approximately 60% reported the median value of 26 weeks as the maximum amount of pay given.

An observation found in the LHH reports was that 95% of the reporting organizations with formal written policies continue medical benefits for the duration of the separation pay (number of weeks). The report did not address how the benefits were paid. Other benefits for such things as contributions to dental care, life insurance, disability, and retirement are much less prevalent. The LHH survey included the observation that employers have become slightly more generous with separation pay since their prior survey in 2001.

Conclusions

The table below summarizes the market findings from the four surveys used in this analysis. MSEC included Colorado employers, which is our typical labor market, and the other reports were national or international surveys. All of the surveys were from 2004 or 2005.

Typical practice: one week's pay for each year of service

Survey – mkt	No. of Firms	# ER's offer	Min. Service Eligibility	Avg. Min. Amount	Avg. Max. Amount
Int'l Foundation	303	56%	Not reported	Not reported	Not reported
Culpepper (IT)	72	93%	Not reported	3 wks*	Not reported*
MSEC – CO	653	53%	11 mos.	3 wks	18 wks
LHH – National	1030	61%	Not reported	2-3 wks**	26 wks **

* Average number of weeks for managers and professionals was 5-7 weeks.

** LHH reported that over one-half of employers include medical benefit contributions.

APPENDIX E - SEVERANCE PAY IN THE MARKET

Options and Recommendation for VSIP

1. Continue current state policy of a minimum of one week to a maximum of 13 weeks for each full year of service. In addition, at the discretion of a department, a cash equivalent of the state contribution to the employee's current medical plan up to the number of weeks of pay, may be given. This policy is within the range of pay amounts provided by Colorado employers as reported by MSEC. It also adds the discretion to include a cash equivalent of the state contribution to medical plans, which was not reported by MSEC, the local market source. However, the addition does provide a means to increase the incentive without changing or increasing the maximum pay amount. Using a cash equivalent also avoids issues related to benefits eligibility because the employee does not remain on the payroll. Departments would need to specify whether they will include the benefits allowance and how it will be applied in their VSIP plans to insure consistency. A shortcoming of this policy is that it is significantly less than the national averages reported by other surveys, but these surveys are not as representative of our labor market as MSEC.

2. Revise the State's policy by increasing the maximum to 18 weeks. This policy better conforms to the maximum pay amount reported by MSEC and is closer to the LHH national survey report. Because the MSEC survey did not include the question about continuing medical benefits, this would not be added to the policy at this time. However, MSEC has indicated it will likely include it in the next survey in two years so the State's policy could be modified at that time if it is found to be prevailing in Colorado. Unlike the first option, there would be no need to take away this portion of the incentive if it is found not to be a prevailing practice in the Colorado market.

3. Revise the State's policy by increasing the maximum to 18 weeks (similar to Option 2 above) but add the ability to include cash equivalent of the State's contribution to the employee's medical plan up to the same number of weeks of pay, at a department's discretion (similar to Option 1 above). In other words, add the cash equivalent of the state contribution to the employee's medical plan to the separation pay. In addition to the advantages and shortcomings identified in the above options, this policy gives the most discretion to departments to design an incentive package that is most attractive to their employees in lieu of a layoff. It also could be the most expensive for departments to use because it combines the most generous aspects of the above options by increasing the maximum number of weeks for the pay amount (Option 2) and allows for the cash equivalent of medical benefits (Option 1). Departments would need to specify whether they will include the benefits allowance and how it will be applied in their VSIP plans to insure consistency.

Staff recommends Option 2 for implementation on July 1, 2007. The maximum number of weeks allowed better matches the market, and the decision on adding an allowance for medical benefits is deferred until data on the Colorado market is available. There would be no mandated cost impact of a change in the policy as the VSIP program is discretionary on the part of department directors, must be paid from available funds, and remains applicable only to avoid layoffs.