Annual Compensation Survey Report for FY2008-2009

August 1, 2007

Rich Gonzales
Executive Director

David Kaye, Director
Division of Human Resources

Colorado Department of Personnel & Administration

INDEX

INTRODUCTION

The Division of Human Resources (Division) within the Department of Personnel and Administration (DPA) conducted its FY 2008-2009 annual compensation survey and is reporting the findings as mandated by statute. The core compensation components surveyed are salary, including performance pay, and employer contributions to group benefit premiums. It should be noted that statute also requires the state personnel director to deliver recommended increases to the Governor and General Assembly. The total new cost for salaries and employer contribution to benefits to reach prevailing based on the survey findings is ***$109,590,702***. While the findings in this report are considered, the state personnel director must also consider other factors in determining the actual recommended increases, which are normally different from these 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.

SURVEY PROCESS

The annual compensation survey process document may be found on the Division's web site http://www.colorado.gov/dpa/dhr/comp/pay.htm and the following findings and costs cover the results obtained. The Division followed that process in conducting this survey and preparing this report. All changes are for implementation on July 1, 2008, subject to funding by the General Assembly.

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 A contains a list of the specific third-party surveys used. As third-party survey publications do not report data based on the same effective dates, the Division applied the annual Employment Cost Index – Wages and Salary for all Civilian Workers (ECI-W) to project all reported salary rates to July 1, 2008. The 2007 first quarter ECI index (3.57% annual change) was used to age the data. Due to limited survey sources available at this time, a survey update is completed in December to include additional third-party surveys and reflect a more recent Employment Cost Index.

Market Salary Findings

The Division used salary data collected from the MSEC 2007 Colorado Compensation *Briefing* to determine the prevailing market practice for planned total salary increases. Total salary increases are defined as all increases market employers plan for the upcoming year through various compensation programs, such as merit, performance, longevity, across-the-board, cost of living, market, and other base and non-base increases to actual salaries. The MSEC 2007 *Front Range Briefing* planning information showed, in general, employee salary increases of 3.8% projected for the Colorado Front Range market (includes Denver/Boulder, Northern Colorado, and Southern Colorado). This Colorado market trend is comparable with the national trend reported by the *2007-08 WorldatWork Salary Budget Survey* and the *Hewitt 2007-08 U.S. Salary Increase Survey* that also reported 3.8% as the national projection.

Based on the State's traditional method of measuring the year-to-year movement of market survey midpoint data, the Division found that the average pay structure movement in the market from last year to this year was 4.05%. This adjustment is to the pay structure only (range minimums and maximums) and does not impact actual salary increases, which are based on the 3.8% reported above.

Employers provide a mechanism to move employee salaries within the pay ranges in the pay structure, typically based on performance. The State's former policy of granting anniversary (longevity) increases changed in 2001 with legislation adopting performance as the mechanism to move salaries through the pay ranges. Funding this statutory policy continues to be a critical issue in the competitive total compensation package for the workforce.

The table below summarizes the findings on actual salary increases for FY 2008-02009, both market adjustments and achievement pay.

	7/1/08 Proposed Market Adjustment %
ENFORCEMENT AND PROTECTIVE SERVICES	3.17
TROOPERS	5.82
FINANCIAL SERVICES	4.17
HEALTH CARE SERVICES	3.98
LABOR/TRADES/CRAFTS	3.03
ADMINISTRATIVE SUPPORT AND RELATED	3.10
PROFESSIONAL SERVICES (TEACHER *)	4.40
PHYSICAL SCIENCES AND ENGINEERING	2.77
Average	**3.80**

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

As a reminder, the above amounts will be reduced due to the requirement to divert 0.5% to fund the supplemental amortization equalization distribution (SAED) to PERA in accordance with statute (SB06-235).

In addition, C.R.S. 24-50-104(1)(a)(III)(A) requires use of consistent methodologies to determine and maintain prevailing compensation for Troopers classes with two exceptions. The Division used the actual average salaries as reported in the 2007 CML survey and identified the three highest-paid large law enforcement jurisdictions (the labor market) to be Aurora, Fort Collins, and Arapahoe County. This year's top three jurisdictions showed an average pay structure movement of 3.2%. The average *actual salary* comparison shows the State needs to increase the Trooper actual salaries by 5.82%.

One change that will be implemented on July 1, 2008, along with the funded results of this report, is the result of legislative action (HB07-1373) on the maximum monthly salary paid to certain employees. C.R.S. 24-50-104 (5)(b) was modified so that the salary lid for medical and non-medical classes will rise by the *greater* of the employment cost index (ECI) for the preceding calendar year or the percentage increase in state general fund appropriations in relation to the preceding fiscal year. As of this report, the ECI is 3.57% for the first quarter of 2007 and the percentage increase in this fiscal year's state general fund appropriations was 6%. Therefore, the maximum range amount for those "lid" classes will be adjusted by 6%. This amount will be confirmed in the spring of 2008 once the 2007 ECI is published and can be verified that it is not greater than 6%. The salaries of employees in these "lid" classes will be increased by the same amount as all other employees in their respective occupational groups.

Other System Costs

The Division also conducted a detailed analysis of the individual class pay ranges matched in the market with the labor market pay ranges because individual class pay ranges may move differently from the overall occupational group movement. The annual survey process document outlined this analysis and the criteria used to determine when an individual class adjustment is deemed necessary. 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 B. The Division found that three classes of Transportation Maintenance need adjustment upward; and the cost ($96,857) is included in the total new costs below.

One system maintenance study is included in this report. The Teacher Occupational Group will be consolidated on July 1, 2008, into the Professional Services Occupational Group and the pay grades re-aligned. A more detailed summary of the study findings are included in Appendix B of this document. The expected cost of these changes is estimated to be $309,378 for the first year. This cost is also included in the total new costs below.

TOTAL NEW COST OF SALARIES

The total cost for 3.8% salary increases in FY 2008-2009 for the total state personnel system is **$70,036,430,** including the associated PERA and Medicare costs.

MEDICAL

The Division used the *2007 Health and Welfare Plan Survey* published by MSEC and the *2007 Benchmark Employee Compensation Report* by CML to measure market practices in medical 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. Medical insurance price trend information was also collected from publications by Segal and Associates. Appendix A lists those third-party survey reports used.

For the plan design comparison, the Division used the most prevalent plan chosen by state employees, which is the self-funded Preferred Provider Plan (PPO–1500). 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 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 summarizes key benefit comparisons between the State and the average market.

Benefits (Tier 1 = employee only; Tier 4 = family)	MSEC Market (Average)	**State PPO 1500**
In-Network		
In-Network Deductible for tier 1	$707	$1,500
In-Network Deductible for tier 4	$1,671	$3,000
In-Network Out-of-Pocket Maximum for Tier 1	$2,465	$3,000
In-Network Out-of-Pocket Maximum for Tier 4	$5,588	$4,000
Out-Network		
Out-Network Deductible for tier 1	$1,392	$3,000
Out-Network Deductible for tier 4	$3,476	$6,000
Out-Network Out-of-Pocket Maximum for Tier 1	$5,148	$6,000
Out-Network Out-of-Pocket Maximum for Tier 4	$11,593	$12,000

As part of the Five-Year Total Compensation Strategic Direction, the Division monitors the survey market trend and has set the goal of achieving prevailing employer contribution to premiums on July 1, 2008. 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. Medical cost trend is influenced by a number of complex factors including, but not limited to, medical cost inflation and cost-shifting. While a slowing in the national medical cost trend is expected in 2008, it does not automatically correlate to a decrease in premiums. Premium cost increases are based on a complexity of factors with medical cost increases being just one of them (e.g., demographic changes, enrollment patterns, utilization). Health care costs continue to outpace wage increases and inflation. The State's demographics (e.g., average age of 47), geography (i.e., all counties), and utilization 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 funds 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 2008-2009, the Division used the trend information collected to project an increase of 12% for 2008 and 10% for 2009 for medical premiums and 6% for dental premium increases. The following table compares employer medical plan contributions between the projected FY 2008-2009 market and the State's current employer contribution dollars by tier.

	Tier 1	Tier 2	Tier 3	Tier 4
State FY 07-08 Contribution minus $2.26 of Tobacco Supplemental funds	$283.58	$488.92	$440.58	$661.70
Projected Market for FY 08-09	$376.42	$625.54	$552.92	$866.14
Projected for FY 08-09 to reach prevailing	$ 92.84	$136.62	$112.34	$204.44

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 medical benefits analysis, employers' contributions to premiums 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 to $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 comparisons between the State and its market.

Benefits – family coverage	MSEC Market (Common practice)	State Basic Plan	State Plus Plan
Maximum benefit per person per year	$1,000 - $1,500	$1,000	$1,500
Deductible	Not Reported	$50 per member $150 per family	
Orthodontics covered for children	Yes ($1,500 - $1,378)	No	Yes (up to $1,500)
Orthodontics covered for adults	No	No	

Dental benefits in terms of deductibles, 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 2008-2009 market and the State's current employer contribution dollars by tier.

	Tier 1	Tier 2	Tier 3	Tier 4
State FY0708 Contribution	$18.88	$27.96	$31.72	$41.40
Projected Market for FY0809	$25.36	$38.24	$43.04	$55.82
Additional State Contribution to Reach Market	$ 6.48	$10.28	$11.32	$14.42

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

An analysis of the market on life insurance and accidental death and dismemberment was not conducted this year because the State's contracts covering these benefits continue through FY 2008-2009 so no change in coverage will occur.

TOTAL NEW COST OF CONTRIBUTIONS TO GROUP BENEFITS PLANS

To meet **100%** of the 2008 prevailing level of employer contributions to premiums for group benefits plans (health, dental, life & AD&D), the cost is estimated to be ***$39,554,272***. This does not include the overhead costs associated with administration of group benefit plans, which are typically paid by the employer.

APPENDIX A – THIRD-PARTY SURVEYS

Organization	Publication	Component(s)
Colorado Municipal League (CML)	June 2007 download from Technology Net, Inc.	Salary & Benefits
Mountain States Employers Council (MSEC)	2007 Colorado Compensation Survey	Salary
Mountain States Employers Council (MSEC)	2007 Public Employers Survey	Salary
Mountain States Employers Council (MSEC)	2007 Health Care Compensation Winter	Salary
Mountain States Employers Council (MSEC)	2007 Health & Welfare Plans	Benefits
Mountain States Employers Council (MSEC)	2007 Colorado Compensation Briefing	Planning & Budgeting
Mountain States Employers Council (MSEC)	2006 Health Care Compensation Summer	Salary
WorldatWork	2007-08 Salary Budget Survey	Planning & Budgeting
Hewitt Associates	2007-08 U.S. Salary Increase Survey	Planning
PricewaterhouseCoopers – Health Research Institute	Healthcare Cost Trends for 2008	Benefits

INDIVIDUAL CLASS ADJUSTMENT

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 for reviewing individual class comparisons with the market are those published in the annual survey process.

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 2008-2009 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 year; validated benchmarks are properly matched, and identified several classes needing adjustments. The review was based on FY0607 and previous year's salary levels. The table below lists those classes where adjustments are needed based on the criteria. These changes will be effective July 1, 2008.

Class Title	Class Code	Pay Grade	
		Current	Recommended
Transportation Maintenance I	D7D1	D37	D39
Transportation Maintenance II	D7D2	D41	D43
Transportation Maintenance III	D7D3	D50	D52

CLASS SERIES GRADE ADJUSTMENT EXPLANATION

The II and III levels are survey classes and have been for at least the past four years. The two survey classes show a consistent below the market trend for those four years: 7.19% to 11.06% for the II class, and 8.4% to 8.6% for the III. These classes are recommended for an upward adjustment of two pay grades (5%) each. All three classes are scheduled for a two-grade increase in order to maintain the proper internal pay relationship between those three classes. No unusual turnover issues are present.

COSTS

The cost of implementing these upward adjustments equals $109,704, including additional PERA and Medicare employer contributions. These costs cover 1196 filled, permanent positions in all departments statewide as obtained from June 2007 information in CPPS, CU, and CSU payroll systems. The costs are incorporated into the annual compensation survey total for salaries.

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. The study completed this year for inclusion in the report is the Teachers Occupational Group. The final findings of the Teacher study are contained in JEL 08-01, published July 20, 2007. Five departments (Corrections, Human Services, University of Colorado at Boulder, Front Range Community College, and Pikes Peak Community College) are impacted by the increased cost to convert all positions in the current classes to the classes in the new occupational group, Professional Services. Other departments using these classes will not incur any increased costs as a result of this study. The following information depicts the assumptions made in the calculation of increased costs for the Teacher study.

- Data was taken from CPPS as of April 30, 2007, 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, 2008, 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 2007-2008 compensation plan values and do not include any potential FY 2008-2009 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 $350,231. PERA (11.15%) and Medicare (1.45%) costs are included in the calculations.

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

	Class	Existing Grades	New Class	New Grade
J1A1**	Teacher I	J26, J28, J31, J33, J38	State Teacher I	H42
-	-	-	State Teacher II	H48
J1A2**	Teacher II	J38	State Teacher III	H54
J1A3**	Teacher III	J42	State Teacher IV	H58
J2A1XX	Teacher Aide	J10	State Teacher Aide	H15
J2B1TX	Child Care Aide	J11	Child Car Aide	H05
J2B2XX	Early Child Educ I	J15	Early Child Educ I	H09
J2B3XX	Early Child Educ II	J19	Early Child Educ II	H13