Colorado
Department of Personnel & Administration

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August 1, 2013

Honorable John Hickenlooper
Governor of Colorado
136 State Capitol Building
Denver, Colorado 80203

Honorable Senator Pat Steadman
Chair, Joint Budget Committee
Colorado General Assembly
200 East 14th Avenue
Denver, Colorado 80203

Dear Governor Hickenlooper and Senator Steadman,

In accordance with C.R.S. Section 24-50-104 (4), the State Personnel Director (Director) is required to submit an Annual Compensation Letter and Report for annual adjustments to the State of Colorado (State) employee compensation and group benefits.

SUMMARY OF PREVAILING ANNUAL COMPENSATION AND BENEFITS COSTS

The State's policy is to provide employees competitive pay and group benefit plans that are consistent with prevailing practices in the market in order to provide a competitive total rewards package designed to recruit, reward and retain a qualified workforce. The Director's priorities are as follows:

i. Establish overall pay and benefits consistent with prevailing practices within the market;
ii. Move employees in the workforce whose salary is below market toward midpoint; and
iii. Reward employees in the workforce who are meeting or exceeding performance expectations.

In FY 2013-14, the State implemented a two percent across-the-board market salary adjustment for nearly every State employee. In addition, an average 1.6 percent merit increase was given based on priorities established by the Director. Finally, State employees' shares of health insurance premium costs were reduced in FY 2013-14.

Historically, the State has used the Consumer Price Index for all Urban consumers (CPI-U) to determine salary adjustments, however a recent recommendation issued by the Office of the State Auditor (OSA) advised the State to use the WorldatWork (W@W) Salary Budget Increase Survey to determine salary adjustments and merit increases. The W@W *2012-13 Salary Budget Planning Survey* estimated overall salary increase projections at three percent nationally and for Colorado.

For its FY 2014-15 analyses, the State contracted with The Segal Company (Segal) to conduct a market analysis of salaries and benefits. Segal recommended the Department look at actual State salaries to market salaries; in addition to range midpoints given that the State realigned pay ranges in FY 2013-14.

As a result, Segal was able to benchmark 253 job classes (up from 176 in FY 2013-14) for the FY 2014-15 Annual Survey Report. This represents approximately 79 percent of the population of employees in the State Personnel System, or 22,327 of 28,252 classified employees as of March 31, 2013 who were submitted to Segal for benchmark review.

Median Salary Comparisons Number of State Benchmarks Above/Below Market		
Percentage Difference	***# Above Market***	***# Under Market***
20% or greater	19	26
7.5% to 20%	46	61
Within 7.5%	101	
Total Number of Analyzed State Benchmarks: 253		

As indicated in the table above, 166 job classes are at, or above market; conversely 87 classes are below market. Using the information provided by Segal, the Department has estimated that the State's salaries lag the market by 3.8 percent as of March 31, 2013.[1] This metric, which estimates the weighted average budget dollars necessary to reach market, is comparable to the 7.2 percent estimate the Department provided in its November 1, 2012 Director's Update letter.

In prior years, the Department has also estimated the weighted average percent that would need to be applied to each job class to obtain parity with the market. Using the March 31, 2013 analysis completed by Segal, the Department estimates that the State lags the market by 6.32 percent using this metric. In the FY 2013-14 letter, the Department reported that the State lagged the market by 9.2 percent. The following table presents these metrics together to demonstrate the relative changes between fiscal years.

Summary of Reported Salary Metrics		
Letter Version	**Weighted Average Percent**	**Weighted Average Budget Dollar**
FY 2013-14 Update Letter	9.20%	7.20%
FY 2014-15 Letter	6.32%	3.80%
Change	**-2.88%**	**-3.40%**

FY 2014-15 Market Salary Adjustment Recommendation

The Director is recommending that the salary adjustment methodology used in FY 2013-14 remain in place for salary adjustments in FY 2014-15, with a few minor adjustments. In FY 2014-15, the Director recommends that a base building salary market adjustment is applied across-the-board for employees who are below their salary range maximums.

This adjustment will be base-building up to the salary range maximum but will not allow for any non-base, lump sum adjustments above range maximum for any employee, regardless of performance rating.

[1] *The March 31, 2013 metric did not include the adjustments to salary that took place on July 1, 2013 for the across-the-board or merit pay components.*

Employees that are at, or above, their range maximum will not receive any portion of the salary market adjustment. In addition, the Department has identified a number of job classes within their pay structure that are considerably below market (>7.5 percent). For these job classes, the Director's recommendation is to include an additional market pay adjustment to allow salaries for individuals in these job classes to align with market compensation.

MERIT PAY AND PRIORITY RECOMMENDATIONS

The Director is also recommending that the merit pay methodology in place for FY 2013-14 be applied to FY 2014-15 merit adjustments. It is recommended that employees be granted a merit pay adjustment that will vary based on performance rating and placement within job class salary range (quartile). Similar to FY 2013-14, the Director recommends that the merit pay adjustment be base building for quartiles one through three, and non-base building in the fourth quartile. For employees whose salaries are above the range maximum, the Director is recommending a one-time, non-base building lump sum adjustment to recognize their performance. Employees with a performance rating level of one will not be eligible for any portion of the merit pay adjustment. The following table provides the format of the matrix that will be used to determine merit percent adjustments.

Priority Groups for Merit Pay Increases					
Performance Rating	**Quartile 1 < 25%**	**Quartile 2 25-49.99%**	**Quartile 3 50-74.99%**	**Quartile 4 75-100**	**> Quartile 4 101% or more**
L3 – Exceptional	A	B	C	D	E
L2 – Successful	F	G	H	I	J
L1-Needs Improvement	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible

STATE CONTRIBUTIONS FOR GROUP BENEFIT PLANS

The Department utilized Segal to assess benefit programs and leave practices compared to market and provide projections for medical and dental cost trends overall. Medical cost trends are influenced by a number of complex factors including, but not limited to, utilization, medical cost inflation and cost-sharing between employer and employees. According to Segal, medical benefit cost trends are projected for FY 2013-14 at 8.5 percent.

The overall findings of plan design and cost-sharing features indicate the State generally provides medical and dental plan options with common and prevailing coverage at premium rates comparable to market. For medical, the State achieved overall prevailing employer contribution levels in FY 2012-13 and FY 2013-14. According to its analysis, however, the Department has determined that the cost-sharing aspect of its employer and employee contributions are misaligned with the market. In general, the market data indicates that employers cover 80 percent of the total cost of premium, in aggregate, with the remaining 20 percent being paid by the employee. Currently, the Department estimates that the State's contribution to medical and dental is not aligned by tier with market, and that the State pays less than the employer contributes in the market.

Though a final recommendation is pending additional review by the Department based on actual utilization, part of its final recommendation is to adjust the cost-sharing aspect of its total premium contributions, which will shift additional costs to the State.

The following table compares prevailing contribution levels within the market for FY 2013-14 to the State's current contributions for FY 2013-14, by tier. The market comparison value in the first section represents 100 percent of employer contributions in the market (i.e. current prevailing market contributions).

FY 2013-14 Comparison of Medical Plan Premium Contributions Determined at Prevailing Market Level				
Based on % Share of Contribution by Tier	**Employee**	**Employee +Spouse**	**Employee +Children**	**Employee +Family**
Prevailing Market Contribution for FY 2013-14 [1]	$491.30	$1,036.18	$870.58	$1,244.68
Current FY 2013-14 State Contribution	$434.10	$762.60	$795.66	$1,080.90
Difference	($57.20)	($273.58)	($74.92)	($163.78)
[1] An adjustment to contribution ratio by each tier to reflect market tier ratios. Market has been trended by 8.5%.				

The State's dental program is a self-funded program and is administered by Delta Dental. Based on the FY 2013-14 survey findings and recommendations, the Department enhanced its dental programs by expanding the network to allow better access to in-network services to employees, particularly employees in rural areas. Combining both plan options (Basic and Plus), the State's overall weighted average total dental premiums are greater than the market's share with respect to the employer's share of total premium.

FY 2013-14 Comparison of Dental Plan Premium Contributions Determined at Prevailing Market Level				
Based on % Share of Contribution by Tier	**Employee**	**Employee +Spouse**	**Employee +Children**	**Employee +Family**
Contribution Based on Market Share of Premium for FY 2013-14 [1]	$18.04	$30.32	$30.71	$46.72
Current FY 2013-14 State Contribution	$25.92	$42.62	$46.44	$62.22
Difference	$7.88	$12.30	$15.73	$15.50
[1] An adjustment to contribution ratio by each tier to reflect market tier ratios. Market has been trended by 4%.				

Additionally, the Department evaluated other group benefits offered by the State and found the coverage for short-term disability is commensurate with prevailing coverage in the market. However, life insurance and accidental death and dismemberment, as well as long-term disability are below prevailing levels. The Department will continue to work toward implementing a comprehensive measure of total compensation in future years.

Finally, the findings of the FY 2014-15 leave benefits survey indicate that the State is competitive or above market for most leaves. The State's policy on FML grants employees 13 weeks of leave compared to the market, which provides the federally mandated 12 weeks. In addition, the State allows employees to reset their FML at the beginning of the fiscal year, as opposed to the rolling year which is more common in the market.

TOTAL COMPENSATION ANALYSIS

The Department annually monitors market practices of other elements of total compensation such as leave, retirement benefits and premium pay practices. These elements have only been reported when significant deviation from market findings exists, or when special topics, or areas of interest are identified. The Department recognizes the value of providing an overall measure of total compensation or remuneration in order to assess the competitiveness of the State's total compensation package. In FY 2013-14, the Department performed a comparison of the State's contribution toward retirement benefits to employer retirement contributions in the market. The analysis revealed that the State contributes approximately 15.2 percent toward retirement benefits while the Colorado market contributes 12.1 percent.

In response to the request for information (RFI) issued by the Joint Budget Committee (JBC), the State is in discussions with Colorado Public Employees Retirement Association (PERA) to include the value of retirement benefits to employees in the total compensation report in the future. The Department is currently working within the scope of current resources to gather, analyze and present information to the JBC by its stated deadline of November 1, 2013.

The FY 2014-15 Annual Compensation Report and Letter indicate that adjustments are needed for both salary increases and group benefit programs in order to achieve prevailing market levels. The Department will continue to work closely with the Governor's Office of State Planning and Budgeting to develop a final recommendation for the appropriate amount of funding for annual salary and benefit adjustments for FY 2014-15, which will be outlined in additional communications issued by the Department. Consistent with market practices and statutory direction, the final recommendation will consider funding for market salary and merit incentive adjustments. Furthermore, this recommendation will consider the results of the annual compensation survey, fiscal constraints, and the ability to recruit and retain State employees. The final recommendation will be submitted along with the Governor's November 1 Budget Request.

Respectfully submitted,

Kathy Nesbitt

Kathy Nesbitt
Executive Director

cc: Colorado General Assembly
Office of State Planning and Budgeting
Cabinet Members
Higher Education Presidents