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# **Total Compensation Philosophy**

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The policy of the State of Colorado (State) is to provide a competitive total compensation package to ensure that the State is able to recruit, reward and retain a qualified workforce. To support this policy, the State's total compensation philosophy is to provide employees with pay increases that recognize employee performance and contributions, and group benefit plans that are competitive with prevailing market trends.

As required by statute (Section 24-50-104, C.R.S.), the Department of Personnel & Administration (Department), Division of Human Resources (Division) conducts an annual market analysis of pay and benefits. The purpose of the annual compensation survey is to determine any necessary adjustments to salaries and employer contributions to group benefits that require increased funding. The annual survey supports the following priorities of the State Personnel Director (Director):

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

Based on the Director's goal to move employees in the workforce whose salary is below market toward midpoint, employees move through the salary range based on their performance, contributions and past year's achievements. The State does not move employees through their salary ranges by using a step method with pay increases based on the employee's tenure and performance.

Statute requires the Director to submit recommendations and estimated costs each year on August 1 for the following fiscal year to the governor and General Assembly. The Director's final recommendations will reflect overall cost estimates that consider factors including, but not limited to fiscal constraints, recruitment, retention and best practices, in addition to the findings in the annual compensation report.

This report contains recommendations for occupational group range adjustments, individual classification changes based on system maintenance studies, benefits and merit increases. Subject to approval and funding by the governor and General Assembly, the recommendations will be announced prior to the July 1, 2015 implementation.

# **Third-Party Surveys**

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The Division utilizes third-party published surveys to conduct the comparative analysis for each of the three components of the study. Each survey meets professionally acceptable compensation standards.

#### **COMPENSATION PLAN ADJUSTMENTS**

The surveys utilized in this analysis provide information on salaries and pay structures in the market for benchmarked classes.

Mountain States Employers Counsel - 2013 Public Employers' Survey
Mountain States Employers Council - 2013 Colorado Benchmark Survey
Mountain States Employers Council - 2013 Information Technology Survey
Mountain States Employers Council - 2013 Health Care Compensation Survey
Federal Office of Personnel Management - 2014 Correctional Officer Series
National Compensation Association of State Governments - 2013 Survey of U.S. State Governments

#### **PAY INCREASES**

The surveys utilized in this analysis provide information on the actual and projected value of the pay increases and types of pay increases provided in the market.

WorldatWork - 2014 Annual Compensation Report Mountain States Employers Council - 2014 Compensation Report Bureau of Labor and Statistics - Employment Cost Index Mountain States Employers Council - 2013 National Salary Budget Survey

#### **BENEFITS**

The surveys utilized in this analysis provide information on the types of benefits offered, benefit plan designs, enrollment, cost sharing and best practices.

Mountain States Employers Council - 2014 Health and Welfare Survey Mountain States Employers Council - 2012 Paid Time Off Policies Survey Kaiser Family Foundation - 2013 Employer Health Benefits Annual Survey Bureau of Labor and Statistics- Employee Benefits Survey Mercer - 2013 and 2014 Benefit Survey

# The Survey Process

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#### Collect Market Data

Pursuant to statute (Section 24-50-104, C.R.S.), the annual compensation survey is based on an analysis of published surveys that include a fair sample of public and private sector employers and jobs. State jobs may be compared with both public or private sector jobs, or a combination of both. Correctional Officers are one example of where only public sector job data was available.

#### Prepare Data for Analysis

#### **Job Matching Process**

Once the surveys are selected, the Division identifies benchmark positions by matching State jobs to the descriptions in the surveys. To ensure comparable work is being evaluated, the Division looks for similarities between the primary (predominant or essential) function(s) performed by a State job and the primary function(s) in the survey description. The primary function is the collective duties central to the function of the position; the central duties are the main reason the job exists. Reporting relationships and qualifications are also considered in the matching process but are mainly used to determine the level performed, rather than the type of work. A 70% match in duties is the industry standard. Pursuant to this standard, the matching process identified 186 benchmarks for comparison with the market. The benchmarks represent 38% of the State classes and 53% of employees in the State Personnel System.

#### Data Aging

Each of the surveys used in the analysis have a different effective date based on the date the data was collected. In order for all survey data to have a common effective date of July 1, 2015, the Division projected (aged) pay rates by using the Employment Cost Index (ECI). ECI provides the change in wages on a quarterly basis, so the Division extrapolates the monthly changes from the quarterly index. Since the data must be aged to the next fiscal year, the Division calculated the average change of the last four quarters reported to age the data forward by 18-months to July 1, 2015. Salaries for State employees were aged to July 1, 2015 to reflect potential pay increases in FY 2014-15. The aging analysis is in line with State Auditor's 2013 Evaluation of the Department of Personnel & Administration's Annual Compensation Survey for Fiscal Year 2014 (2013 Audit) recommendations. The medical and dental benefit premium rates were aged to July 1, 2015 based on a five year trend analysis of data reported by WorldatWork, Mountain States Employers Council (MSEC) and Bureau of Labor and Statistics (BLS).

#### Geographical Adjustments

The data for each state represented in the National Compensation Association of State Governments (NCASG) survey salary data was adjusted to Colorado income levels by utilizing the Economic Research Institute (ERI) geographic assessor based on geographic differentials in the average wage and income.

#### Weighting and Combining Data

Local data and the national state data from NCASG were weighted before being combined. The purpose of weighting the data is to recognize the value of each data set in relationship to the market in which the State competes for talent. In general, new employees must be residents of the State of Colorado as required by the State Constitution. The State, as an employer, competes with both the public and private sectors when attracting and retaining employees.

# The Survey Process

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When both national and local data were available for a specific benchmark, the data was combined by weighting the national data at 20%, and local data at 80%. When only one geographic area was represented, the data was weighted at 100%. The local market survey data used represents both public and private sector organizations. Weighting the data is supported by the 2013 Audit.

After the data was appropriately weighted, it was combined by benchmark. The salary data was summarized for each benchmark into aggregate data points, including the weighted average of actual salaries, the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles of actual salaries, and the average of the salary range minimum, midpoint and range maximum as reported for each source. State data was excluded from the aggregate where applicable.

#### Compare Market Data to the State of Colorado

All job classifications are divided into occupational groups based on the type of work performed and each occupational group is analyzed separately. The analysis is consistent with recommendations from the 2013 Audit. The occupational group analysis considers market movement and identifies market trends by occupational area. This analysis ensures that State pay ranges are competitive with the market and aligns the State range midpoint with the prevailing rate in the market, and supports the Director's goal to establish overall pay that is consistent with prevailing practices within the market. The analysis is comprised of five steps.

- **Step 1: Range Representation:** A comparison is made between the actual rates paid, as reported in the survey data, with the ranges reported in the survey data. This ensures that the ranges reported are representative of the actual rates paid.
- **Step 2: Range Spread:** A comparison is made of the width of the surveyed ranges to the width of the State's ranges (the range maximum / range minimum 1). This ensures that the State's ranges are competitive with the market.
- Step 3: Percentage Difference of the State's Midpoints to Weighted Market Average: The State's compensation philosophy is to pay a generally prevailing rate. To meet this philosophy, the Division compared the State's range midpoints to the market weighted average. The market weighted average is an acceptable data point for determining the generally prevailing rate. Additional data points were compared, including the State range midpoint to the market median, the State average to the market weighted average, and the State median to the market median. The comparison of multiple data points provides a comprehensive comparison to the market rather than relying on one data point. The comparison of multiple data points provides the ability to consider how pay practices both internally to the State and externally in the market affect overall pay.
- **Step 4: Linearity:** A graph is created to plot the State range midpoint with the market weighted average to ensure linearity and identify outliers not identified in the previous steps.
- Step 5: Regression Analysis and Recommendations to Weighted Market Average: Once all classes are within 7.5% of the market, a regression equation is generated. An adjusted State range midpoint is determined for each job match. The adjusted State range midpoint is divided by the current State range midpoint, yielding a percentage increase (or decrease) for each benchmarked class. These increases or decreases are then summed and averaged. The net result of this process is the increase required for each occupational group to be competitive with market.



#### COMPENSATION

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The analysis of salary market data consists of two components and results in two types of recommendations. The first results in occupational group structure adjustments and the second identifies individual classifications that require adjustments.

Occupational group adjustments ensure that the State is able to maintain salary ranges for all job classifications that are comparable to public and private employers. An occupational group structure increase is recommended when the survey analysis indicates the pay for an occupational group has fallen behind the market. Based on the five step analysis, in order to remain competitive with the market, the occupational group range adjustments in the following chart are warranted.

COLORADO	Occupational Group Fin	adings
	OCCUPATIONAL GROUP	ADJUSTMENT
А	Enforcement and Protective Services	1.06%
С	Health Care Services	1.90%
D	Labor, Trades and Crafts	2.60%
G	Administrative Support and Related	1.00%
Н	Professional Services	3.00%
Н	Information Technology	3.00%
1	Physical Science and Engineering	6.10%

Occupational group structure adjustments are not designed to deliver pay increases to employees. The one exception is when an employee's pay falls below the range minimum of the pay grade assigned to their classification.

It is recommended that the adjustment of ranges be implemented in the following manner:

- 1. The percentage increase for each occupational group is applied to the range minimum; and
- 2. The range maximum is determined by multiplying the new range minimum by the current range length and rounding to the nearest whole dollar (range length % = range maximum/range minimum -1).

This method will deliver several key outcomes. It ensures that the integrity of the pay plan structure is maintained. It maintains the alignment of the range midpoint with the market and establishes a sound basis for measuring change in the market year over year in a consistent manner. Adjusting both the range minimum and maximum is necessary to ensure that the range lengths and midpoints are in alignment with generally prevailing rates in the market.

# System Maintenance Study Classifications Findings COMPENSATION

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Individual classifications may be recommended for a pay grade change based on the results of the market analysis, when occupational group adjustments are not enough to move all classifications to a competitive position with the market. The classification must be +/-7.5% to the market for two consecutive years before a change is recommended. This ensures a consistent trend in the market.

The analysis for FY 2015-16 did not identify any classifications to be recommended for a pay grade change.

A system maintenance study was conducted in FY 2013-14 of the Lottery Sales Representative classification series. The current classes are shown below.



Class Title	Range Minimum	Range Midpoint	Range Maximum
LOTTERY SALES REP I	\$3,087	\$3,747	\$4,408
LOTTERY SALES REP II	\$3,318	\$4,028	\$4,738
LOTTERY SALES REP III	\$3,834	\$4,654	\$5,475

This study identified the need for the development of the following new classifications. Changes to the classifications will only occur if final approval is given by the governor and General Assembly. Upon approval and implementation, new classifications will replace the current classifications.

# New Classifications Resulting from System Maintenance

Class Title	Range Minimum	Range Midpoint	Range Maximum
RETAIL BUSINESS REP - ENTRY	\$2,790	\$3,432	\$4,074
RETAIL BUSINESS ANALYST II	\$3,323	\$4,220	\$5,118
RETAIL BUSINESS ANALYST III	\$3,734	\$4,742	\$5,750
RETAIL BUSINESS ANALYST IV	\$4,195	\$5,328	\$6,461

In the FY 2013-14 Annual Compensation Report, the Department recommended consolidating the Administrative Law Judge I and Administrative Law Judge II into a single class. After a system maintenance study was conducted on the Administrative Law Judge Series, the Department is retracting its recommendation to consolidate, as further investigation and this year's study revealed distinct differences in duties, responsibilities and knowledge for each of the three levels.

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The methodology used to determine and maintain prevailing compensation for law enforcement officers employed by the Colorado State Patrol (CSP) is provided by statute (Section 24-50-104, C.R.S.). Statute requires that CSP salary shall be at least 99% of the actual average salary provided to the top three law enforcement agencies in Colorado that have more than one hundred commissioned officers and the highest actual average salary. The agencies that meet this criteria may change from one year to the next. The three law enforcement agencies used in the FY 2015-16 analysis include the City and County of Denver, the City of Boulder and the City of Fort Collins. For the State Patrol Trooper classes, individual salary data in the market was summarized by calculating the weighted average of actual salaries reported as required by statute. The following table represents the four Trooper classifications that were matched to the three enforcement agencies.



# Market Findings for State Patrol Trooper Classes

Class Code	Class Title	OCC Group	Pay Grade	Weighted Market Average	Market Weighted Average @ 99%	State Average Salary	Growth / (Decrease) to Reach Market - Weighted Avg @ 99%
A4A3	STATE PATROL TROOPER	SP-TRP	A82	\$6,048	\$5,988	\$5,769	3.80%
A4A5	STATE PATROL SUPERVISOR	SP-TRP	A84	\$7,704	\$7,627	\$7,883	-3.25%
A4A6	STATE PATROL ADMIN I	SP-TRP	A85	\$8,818	\$8,730	\$8,954	-2.50%
A4A7	STATE PATROL ADMIN II	SP-TRP	A86	\$10,103	\$10,002	\$10,348	-3.34%

The market data indicates that the State Patrol Supervisor, State Patrol Administrator I and State Patrol Administrator II are slightly above the market. To maintain prevailing compensation with the market, no adjustment is necessary for pay ranges or pay for the State Patrol Supervisor, State Patrol Administrator I and State Patrol Administrator II. This does not impact potential merit increases.

Based on the statute criteria for establishing pay for State Patrol Trooper class series, the market data indicates that a 3.8% pay increase is warranted for the State Patrol Trooper classification. Market data was not available for the State Patrol Intern or the State Patrol Trooper III. To ensure that equity is maintained between the ranks it is recommended that the State Patrol Intern and the State Patrol Trooper III also receive a 3.8% pay increase. Additionally, the pay ranges for the State Patrol Intern, State Patrol Trooper and the State Patrol Trooper III should be adjusted by 3.8% at the range minimum and the range maximum.



# Proposed Ranges for State Patrol Trooper Classes

Class Code	Class Title	OCC Group	Pay Grade	Proposed Range Minimum	Proposed Range Midpoint	Proposed Range Maximum
A4A1	STATE PATROL INTERN	SP-TRP	A81	\$4,654	\$5,004	\$5,353
A4A3	STATE PATROL TROOPER	SP-TRP	A82	\$5,338	\$6,520	\$7,702
A4A4	STATE PATROL TROOPER III	SP-TRP	A83	\$5,990	\$7,004	\$8,017
A4A5	STATE PATROL SUPERVISOR	SP-TRP	A84	\$6,867	\$7,669	\$8,472
A4A6	STATE PATROL ADMIN I	SP-TRP	A85	\$8,160	\$8,858	\$9,555
A4A7	STATE PATROL ADMIN II	SP-TRP	A86	\$9,500	\$10,213	\$10,926

# Market Pay Increase Findings COMPENSATION

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Based on State Constitution (C.O. Const. art. XII, §13) requirements, the Director has established a merit pay system for employees in the State Personnel System for the purpose of providing salary increases based on individual employee performance. Awards of merit pay increases are based upon priority groups and are defined in a matrix. The priority groups are determined by an employee's location within the pay range and performance based on the following three performance levels: Exceptional (level 3), Successful (level 2) and Below Expectations (level 1).

Delivering pay increases based on performance is consistent with prevailing practice in the market and meets the Director's goal of rewarding employees in the workforce who are meeting or exceeding performance expectations. Local market data collected by MSEC reveals that the primary method of delivering pay increases used in the local market is merit increases based on individual performance.



# The Percentage of Organizations Utilizing Various Pay Increase Pay Practices

Primary Types of Pay Increases	Non Exempt - Clerical, Administrative, Technical	Non-Exempt Labor, Trades, Maintenance	Exempt
Merit increase based on individual performance	67%	64%	68%
Across the board general increase (not cost-of-living)	14%	16%	14%
Seniority/length of service	1%	1%	1%
Step progression based on length of service	1%	1%	1%
According to union contract	2%	2%	n/a
COLA (cost-of-living adjustment)	<b>7</b> %	7%	7%
Other	8%	9%	8%

The State of Colorado's merit philosophy is designed to move employees lower in the range quickly toward the range midpoint (prevailing market rate) and then slows movement towards the range maximum (above prevailing market rate).

Regardless of merit, pay increases may be base building or non-base building. This overall method meets the Director's goal to move employees in the workforce whose salary is below the market toward the midpoint.

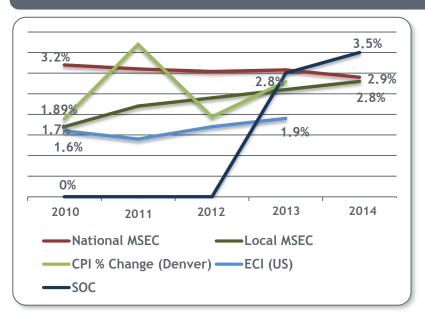
#### COMPENSATION

The percentage increases defined in the merit increase matrix are based upon pay increase

projections reported in the market. The Division considers two sets of market data - a five year trend analysis of actual pay increases provided in the market and the overall pay increase projections for the market.



# Five Year Trend Analysis of Actual Pay Increases Provided in the Market



#### **Summary of Findings**

A five year merit trend analysis suggests a market merit increase for FY 2015-16 of 3.0%, A 3.0% increase is consistent with forecasted increases reported in the MSEC National Survey for the past three years.



# Overall Pay Increase Projections for the Market

Source	Projected Increases
WorldatWork (August 2013)	3.00%
MSEC - National	3.00%
MSEC - Local	3.00%

#### **Summary of Findings**

Based upon prevailing market practice the State may want to consider offering pay increases through merit. As a result of the trend analysis and market pay projections, a 3.0% overall merit matrix may be warranted.

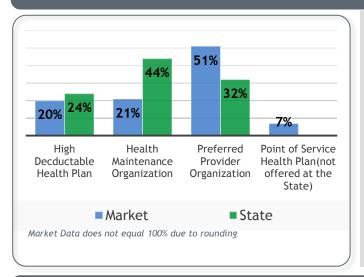


The State collected data on market trends and practices in medical, dental and life insurance benefits for comparison of plan costs and cost-sharing features including, but not limited to, average premium rates and the employer and employee share of contributions toward premiums. Cost-sharing data is used to ensure the State's group benefit plans are competitive with the prevailing market as required by statute (Section 24-50-104, C.R.S.). The following benefit summary reviews all non-salary elements of compensation as suggested in the 2013 Audit.

To compare with the market, the Division utilized 2014 market data. The following chart is a comparison of the distribution of health plan enrollment by covered workers for the market's most prevailing health plans: High Deductible Health Plans (HDHP), Health Maintenance Organization (HMO), Preferred Provider Organization (PPO) and Point of Service (POS) plans. The State provides a four-tier premium for coverage of the employee, employee plus spouse, employee plus children and employee plus family.



# Distribution of Health Plan Enrollment in the Market and State

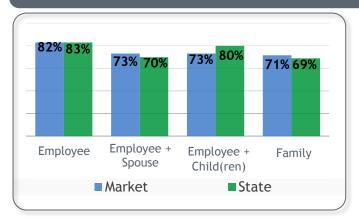


#### **Summary of Findings**

The State provides HDHP, HMO and PPO options to its workforce. The State does not offer a POS plan option. Based on the data collected in the MSEC survey, the State compares favorably with market employers by continuing to offer both PPO and HMO programs to the State workforce. The HMO plan is the most common enrollment plan for State employees and the PPO plan is the most common plan in the market; enrolling 44% of State employees and 51% of covered workers in 2014, respectively.



# Employer Cost Sharing Average Contribution to Health Premiums



#### **Summary of Findings**

The State's employer percent contribution for all tiers is currently prevailing to the market. In 2014, the State contributed an overall average of 76% as compared to an overall average in the market of 75% employer share of costs; employees contributed an overall average of 24% share of costs as compared to an overall average in the market of 25%.

Health plan premium rates (full employer and employee contributions) in the market and at the State have gradually increased over the last five years.



# Average Premium Rates Contribution Five Year Trend



#### Summary of Findings

Over the past five years the State has been able to keep annual increases below market. This trend is based on utilization and plan design. Funding reserves from the State's benefits program were used to supplement the premium contributions for 2014. This allowed the employee and the State's contribution to remain unchanged for 2014.

Health care costs continue to outpace projected wage increases. 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. Cost trend rate growth has slowed in the past 14 years, as reported in the 2014 Segal Health Plan Cost Trend Survey. As a result, an average projected increase of 8.33% is consistent with the State's five year projected cost increase trend. It is further supported by the projected cost increase percentage reported in the 2014 MSEC Health and Welfare Plan Survey and the 2014 Segal Health Plan Cost Trend Survey. Using the 8.33% trend to project market and State premiums for FY 2015-16 would ensure that the State remains comparable with cost increases in the market.

#### Other Considerations: The Affordable Care Act

Changes in health care that will impact medical plans and costs for the State and other market employers include provisions to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, collectively referred to as the Affordable Care Act (ACA). These changes will be phased in over the next eight years. In order to be in compliance with all regulations, the Department will monitor and report estimated costs as regulations are issued. The State of Colorado contracted with Segal Waters Consulting, a human resources consulting firm, to conduct an audit of the State's compliance with the provisions detailed in the ACA. At the time of this report, the audit's preliminary findings indicate that a small number of individuals previously considered part-time, now meet the full-time requirements to qualify for benefits as required by the ACA. The overall budgetary impact will be reported as it becomes available.

## **BENEFITS**

The State's dental program is self-funded. Two PPO plan options are offered: Delta Dental Basic and Delta Dental Plus. A projected increase in dental premium costs of 3.68% is projected for FY 2015-16 based on a five year trend analysis.



# Dental Plan Benefit Options Market Comparison

Market		State	
PPO Plan Offered	89%	The State offers a Dental Basic and Dental Plus PPO Plan	
	Maximu	n Annual Benefit	
\$1,000.00	23%	Dental Basic Plan	
\$2,000.00	27%	Dental Basic Plus Plan	
	Maximum Lifeti	me Orthodontic Benefit	
\$1,500.00	Dental Basic Plus Plan		
	Orthodontics	covered for children	
85% Dental Basic Plus plan			
	Orthodontic	s covered for adults	
	27% Dental Basic Plus Plan		

#### Summary of Findings

The State's dental plan options provide typical and prevailing coverage that include diagnostic and preventive services; basic services such as restorations, periodontal treatment, root canal therapy and extractions; and major services such as crowns, bridges, dentures, and orthodontia.



# Average Monthly Employer Contribution to Dental Premiums



#### Summary of Findings

Combining both plan options (Basic and Plus), the State's overall weighted average for the State's contribution is above the market.



# Five Year Trend Dental Premium Cost



#### Summary of Findings

To compare with the market, the Division used MSEC's 2014 Health and Welfare Plans to analyze dental premiums. Over the last five years the State's overall premium costs have increased based on utilization and market conditions.

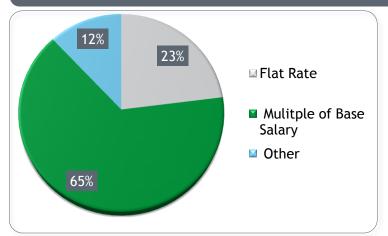
# Life Insurance BENEFITS

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Generally, employer-paid life insurance is provided in one of two ways. The first method is to provide a benefit that is a flat rate amount. All employees receive the same amount. The second method is to use a formula based on a factor times the employee's annual salary usually with a maximum benefit.



## Market Methods for Life Insurance

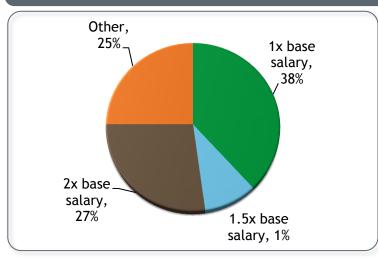


#### Summary of Findings

The prevailing practice (65%) in the Colorado market is to provide a benefit based on a factor times the employees annual earnings.



# Market Findings of Formula Based Life Insurance



#### **Summary of Findings**

The median and average life insurance benefit is 1x the employee's annual salary to a maximum of \$150,000. Currently the State of Colorado provides a flat rate amount of \$50,000. The average annual salary for State employees is approximately \$52,000. The \$50,000 currently provided does not provide a full year's salary for any employee who earns more than \$50,000.

Utilizing the formula based method would position the State to better align with generally prevailing life insurance benefits provided in the market. Specifically the State should offer a benefit providing a minimum of \$50,000 and a maximum of 1x the annual salary, up to \$150,000. This method would provide a richer benefit that is comparable to the market for those earning more than \$50,000.

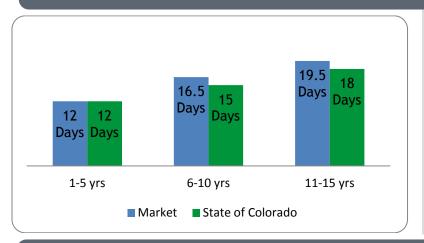
# Leave Benefit Comparison BENEFITS

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The State of Colorado provides a traditional paid time off system that includes annual leave (vacation), sick leave and holiday leave. A paid leave system is provided by 97% of organizations in the market. Overall the State is competitive with the market in terms of the overall total number of paid leave days provided each year.



# Market and State Comparison of Annual Paid Vacation Time



#### Summary of Findings

Most organizations including the State provide an incremental increase in annual leave based on years of service. The State is competitive for years 1-5, however for years 6-10 and 11-15 the State is lagging in the number of days provided annually. The State further provides an additional incremental increase for service above 15 years at 21 days per year.



# Market and State Comparison of Annual Paid Sick Leave



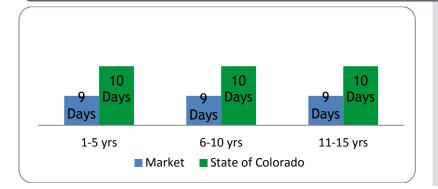
#### Summary of Findings

Organizations offer a variety of leave benefits to employees who must miss work due to illness. These benefits protect employees against the loss of income during short term absences from the workplace. Overall, 93% of organizations provide some form of paid sick leave. The State provides 10 paid sick days per year which is above the market by one day.





# Market and State Comparison of Paid Annual Holidays



#### Summary of Findings

Paid holidays can vary widely depending on the industry and organizational size. The State provides 10 paid holidays each year, which is slightly above the market by one day.



# Market and State Comparison of Bereavement Leave

Source	Average Days Provided
Mountain States Employers' Council Paid Time Off Policies Survey 2012	3
Bureau of Labor Statistics Benchmark Benefit Survey Series	3
State	5

#### Summary of Findings

The State provides up to five days of paid bereavement leave per year, which is above the prevailing practice in the market.

MSEC's 2012 Paid Time Off Policies Survey reports on the various types of leave provided in the market. The current prevailing practice is to provide traditional vacation and sick leave plans similar to what the State offers. The report reveals that 62% of organizations provide a paid vacation plan and 57% provide a sick leave plan.

The data also indicates an increase from 2008 to 2012 in organizations providing a PTO (Paid Time Off) plan. A PTO plan combines all paid leave into one leave bank that does not differentiate the types of leave. This provides employees with the flexibility to use leave as they choose for purposes at their discretion. MSEC's 2008 Paid Leave Survey shows a slight rise in organizations that provide a Paid Time Off (PTO) leave plan to employees. In 2008, MSEC reported 34% of surveyed organizations provided a PTO plan to employees, and in 2014, 38% of surveyed organizations provide a PTO leave plan to employees.

The Division previously reviewed PTO as a viable leave option. It is recommended that the State continue to review PTO leave as a viable leave option to remain competitive and prevailing to market.

Currently, the State provides short term disability (STD) insurance at no cost to employees for the

Currently, the State provides short term disability (STD) insurance at no cost to employees for the purpose of protecting an employee's income.



# Short Term Disability Insurance (STD)

	Market
STD Offered as a Benefit	66%
Premium Costs-Paid by Employer	77%
Median Maximum Weekly Benefit (salary replacement)	60%



# **Duration of STD Benefits**

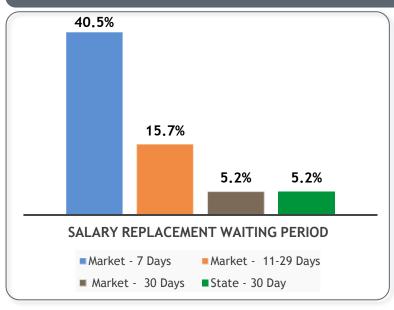
	Market
8 Weeks	2%
11 Weeks	18%
13 Weeks	38%
26 Weeks	24%
52 Weeks	1%
Other	17%

#### **Summary of Findings**

The State's STD insurance pays up to 60% of pre-disability income for up to 26 weeks following a required 30-day waiting period. The State is competitive with the market in paying 100% of the premium, the weekly benefit amount, and the duration of benefits.



# Market Comparison to State of Colorado Salary Replacement Waiting Period



#### Summary of Findings

Market data reports 45.5% of organizations have a seven day waiting period, in comparison to 5.2% of organizations that have a 30-day waiting period. The State has a waiting period of 30-days after all paid leave is exhausted before STD is applied. When considering the prevailing practice to market, the State may want to consider adjusting the waiting period to better align with the generally prevailing benefit provided in the market.

# Voluntary Benefit Options BENEFITS

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The State of Colorado provides additional, optional benefits that are generally comparable to the market. Market trends show an increase in enrollment in non-traditional benefit options. Some of which are employer paid, some cost-shared and some employee paid. Options include a vision hardware supplement program, flexible spending programs, FLEX debit card, optional Long Term Disability (LTD), an employee assistance program and an employee wellness program.



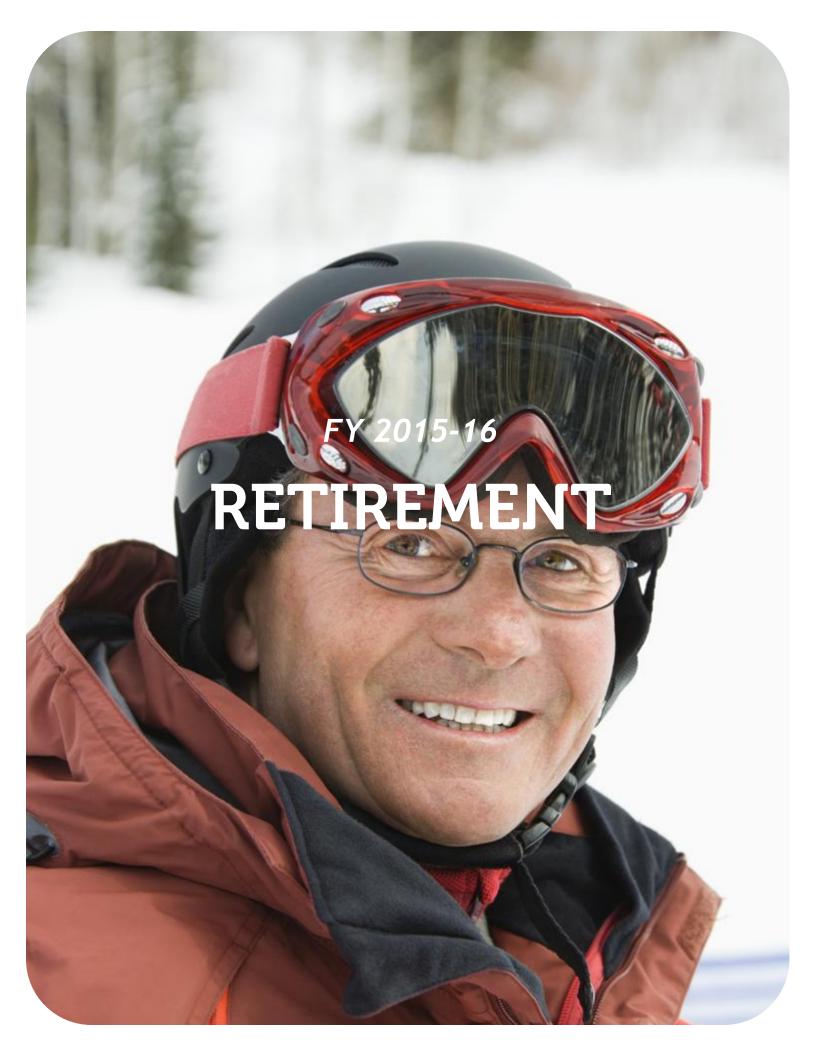
# Voluntary Cost Shared, Employer Paid, Employee Paid Benefits

	Market Employer Paid	State of Colorado
Vision Plan Separate from Group Health Insurance	70%	Vision Hardware Supplement
Flexible Spending Accounts Health and Dependent Care	94%	Offered
Flex Debit Card 100% Paid by Employer	63%	Not Offered
Flex Debit Card paid by Employee	11%	Offered
Flexible Work Schedule	75%	Offered (with approval)
Tuition Aid	47%	Varies by Department
Subsidies/Incentive for Public Transportation	7%	Offered
Long Term Disability	84%	Paid by employee
Long Term Disability -100% Employer Paid	60%	PERA Disability Retirement Offered
Employee Assistance Program	82%	Offered
Wellness Program	83%	Offered

**Long Term Disability** - The State offers two options for LTD, both of which are paid for by the employee. The State offers an optional employee paid LTD plan and members of the Colorado Public Employees' Retirement Association (PERA) with five or more years of earned service credit are eligible for PERA disability retirement. In the market, 60% of organizations offer an employer paid LTD benefit.

**FLEX Debit Card** - Beginning in FY 2014-15 the State began offering a debit card to employees to provide access to the funds in their flexible spending accounts. The fee to State employees is \$6.00 per year for the debit card. In the market, 63% of organizations provide a debit card at no cost to the employee.

Wellness - The State of Colorado implemented an employee wellness program in 2013. The State's wellness program is available to all State employees and includes health assessments, department-based initiatives, health education and a credit of up to \$20 per month toward health insurance premiums. Continuing employee education on health, wellness and health care costs will provide the State the ability to maintain a healthy workforce and sustain current health and dental costs.



# COLORADO PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) RETIREMENT

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The State provides retirement benefits for employees through the Colorado Public Employees Retirement Association (PERA), rather than contributing to Social Security. Newly hired State employees have a choice of two basic retirement plans: the Colorado PERA Defined Benefit Plan or the Defined Contribution Plan. The State currently contributes  $10.15\%^{[1]}$  of each employee's salary toward the PERA retirement benefit. Employees currently contribute 8% (State Troopers and CBI Agents contribute 10 percent). In addition, legislation requires the State, as a PERA employer, to contribute an incremental percentage increase each year toward the Amortization Equalization Disbursement (SAED).

The following table outlines PERA employer contribution rates.



### Colorado PERA Contribution Rates 2012-2016

Start Date	Statutory Employer Contribution	AED	SAED*	Total Contribution% for year
July 2012	10.15%	3.00%	2.50%	15.65%
Jan 2013	10.15%	3.40%	3.00%	16.55%
Jan 2014	10.15%	3.80%	3.50%	17.45%
Jan 2015	10.15%	4.20%	4.00%	18.35%
Jan 2016	10.15%	4.60%	4.50%	19.25%

Retrieved from https://www.copera.org/pdf/5/5-123.pdf

Note: Employer contribution included 1.02% into the Health Care Trust Fund.

The Department will conduct a comparison of the PERA benefit to market benefits based on Senate Bill 14-214, which requires the State Personnel Director to contract with a third-party compensation consulting firm to perform a total compensation study that includes the retirement benefits provided by the State through PERA. The outcome of the study will be submitted by January 15, 2015 as an addendum to the annual compensation report.

Additionally, the State auditor, in cooperation with PERA, is required to contract with an actuarial firm to conduct analysis on the cost and effectiveness of the current hybrid defined benefit plan currently administered by PERA, to alternative plan designs in both the public and private sector, and to conduct a sensitivity analysis to determine when model assumptions are meeting targets and achieving sustainability. Two reports are due on this study, one by July 15, 2015 and the other by December 1, 2015.

<sup>\*</sup>State statute mandates that the SAED be funded by moneys otherwise available for employee wage increases. The SAED is not credited to the member account.

Note that the 10.15% contribution rate here refers to general State government. Other PERA contribution rates can apply to different groups including, but not limited to, State Patrol Troopers and some employees in the Judicial Branch.



### **COST PROJECTIONS**

The Department used the May 31, 2014 salaries and health, life and dental elections for all classified

The Department used the May 31, 2014 salaries and health, life and dental elections for all classified staff to develop the figures presented in the text and charts below. The data does not include updated performance ratings, as the FY 2013-14 performance ratings were not available at the time of calculation. To estimate the FY 2015-16 base need, the Department used the total compensation template to age the data to what salaries should be on June 30, 2015, given that all of the recommendations are adopted by the Department and approved by the governor and General Assembly during the 2014 legislative session.

### **Merit Matrix Adjustments**

Historically, the State has utilized a combination of merit and across-the-board pay practices. The State may want to consider adjustments based on an employee's performance rather than across the board adjustments. To that end, the Department has requested the merit matrix percent adjustments reflect the entirety of the market salary adjustment. The following merit matrix reflects this request:



### Merit Matrix for FY 2015-16

Performance Rating	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Above Quartile 4
Exceptional (level 3)	4.0%	3.2%	2.7%	2.2%	1.7%
Successful (level 2)	3.0%	2.2%	1.7%	1.2%	0.7%
Below Expectations (level 1)	0%	0%	0%	0%	0%

The priority groups are determined by an employee's location within the pay range and performance based on the following three performance levels: Exceptional (level 3), Successful (level 2) and Below Expectations (level 1). If the State were to pursue salary increases through merit, the salary adjustments for the merit awards would be base-building for quartiles one through three, with non-base-building awards granted for the fourth quartile and above. For FY 2015-16, the Department estimates that the base-building impact would be \$38,349,868 in total funds, whereas the non-base-building impact is estimated to be \$3,522,866 (total cost of \$41,872,734, including all salary related costs).

## Occupational Group Adjustments

To more accurately align itself with the market and establish a solid foundation upon which future compensation recommendations can be made, the Department is recommending that individual job class minimums and maximums be adjusted by the aggregate estimated percent change of the overall occupational group. To the extent that an individual's salary falls below the range minimum as a result of these adjustments, the State is statutorily required to make up the difference. For FY 2015-16, the Department estimates that the upward movement of range minimums will cost the State \$448,291, which includes all salary related costs.

# **Individual Classification Adjustments**

The Department did not identify any individual classifications that need to be included as cost estimates for FY 2015-16.

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## System Maintenance Study Adjustments

The Department knows that adjustments within the Department of Revenue will be necessary to account for the movement of lottery sales agents from the three current job classifications into four new classifications. The Department and the Department of Revenue have worked in concert to ensure that these transitions will occur smoothly once the new classifications have been approved. There is no associated cost for this movement.

### **Health Care Cost Adjustments**

For FY 2015-16, the Department has estimated that overall health care costs will increase by 8.3%. This overall cost trend was applied to the total FY 2014-15 premiums by tier and by plan to project corresponding premiums for FY 2015-16. Using the market average percent of employer contribution to total premium discussed above, the Department projected the State's ideal contribution to health premiums by tier.

The table below shows the proposed State contribution by tier compared to the FY 2014-15 State contribution by tier:



# FY 2014-15 State Contribution vs. FY 2015-16 Proposed State Contribution

	FY 2014-15 Actual	FY 2015-16 Proposed	Difference
Employee Tier 1	\$434.10	\$488.67	\$54.57
Employee + Spouse Tier 2	\$762.60	\$861.26	\$98.66
Employee + Child(ren) Tier 3	\$795.66	\$896.76	\$101.10
Family Tier 4	\$1,080.90	\$1,199.36	\$118.46

Much of the difference between the two contributions can be attributed to the fact that the Department has been able to use excess reserve fund balance to offset cost increases to the State and its employees in the past two years. In FY 2014-15, the excess reserve fund balance was above the recommended reserve balance and the State was able to absorb all cost increases to the employer and the employee, which held contributions from both entities the same from FY 2013-14 to FY 2014-15. After accounting for the overall cost trend for health related expenses and assuming that no excess reserve fund balance will be used to offset expenses in FY 2015-16, the Department estimates the State will need an additional \$22,960,123 in total funds to cover increases in health insurance premiums.

#### **COST PROJECTIONS**

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#### **Dental Cost Adjustments**

For FY 2015-16, the Department estimated that overall dental costs will increase by 3.68%. This overall cost trend was applied to the total FY 2014-15 premiums by tier and by plan to project corresponding premiums for FY 2015-16. Using the market average percent of employer contribution to total premium discussed above, the Department projected the State's ideal contribution to dental premiums by tier.

The table below shows the proposed State contribution by tier compared to the FY 2014-15 State contribution by tier:



# FY 2014-15 State Contribution vs FY 2015-16 Proposed State Contribution

	FY 2014-15 Actual	FY 2015-16 Proposed	Difference
Employee Tier 1	\$25.92	\$28.32	\$2.40
Employee + Spouse Tier 2	\$42.62	\$46.39	\$3.77
Employee + Child(ren) Tier 3	\$46.44	\$53.92	\$7.48
Family Tier 4	\$62.22	\$69.33	\$7.11

In FY 2015-16, the total incremental cost for dental coverage is estimated to be \$1,256,756 in total funds.

## Life Insurance Coverage Adjustments

For FY 2015-16, the premium for life insurance coverage is estimated to increase from the FY 2014-15 cost of \$8.76 per covered life, to \$8.80 per covered life, due to an increase in the benefit to provide 1x employees' annual salary, up to a maximum of \$150,000. In FY 2015-16, the incremental increase for life insurance is estimated to be \$15,159.

## **Short Term Disability Adjustments**

The Department is not recommending an adjustment to the short-term disability rate. The State may want to consider a shorter waiting period. The Department continues to research and evaluate the State's options and will report findings in its November FY 2015-16 Update to Director's Recommendations Letter.