State of COLORADO

Annual Compensation Report

FY 2017-18

COLORADO
Division of Human Resources
Department of Personnel
& Administration
1525 Sherman St.
Denver, CO 80203

August 1, 2016

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

Honorable Representative Millie Hamner
Chair, Joint Budget Committee
Colorado General Assembly
200 East 14th Avenue
Denver, Colorado 80203

Dear Governor Hickenlooper and Representative Hamner,

In accordance with C.R.S. 24-50-104(4), the State Personnel Director (Director) is required to submit an Annual Compensation Report for annual adjustments to the State of Colorado's (State) total compensation package. The Department of Personnel & Administration (Department) prepares these findings with data from private and public organizations to compare the total and component values and costs.

Every odd year, the Department must contract with a third-party compensation consultant, with actuarial experience, to perform this analysis. In FY 2015-16, the State retained Milliman Inc. (Milliman) to perform the FY 2016-17 survey. Based on recommendations from Milliman, and to maintain the integrity of the analysis, the Department applied the methodologies used to conduct the FY 2016-17 market analysis and aged the data to prepare the findings for the FY 2017-18 Annual Total Compensation Report.

To evaluate the competitiveness of the total compensation package offered by the State, the methodology focuses on the ***value*** of the compensation package as opposed to solely the cost. Value is defined in terms of the dollar value received compared to the dollar cost to provide the benefit.

The State's policy is to provide competitive total compensation, including pay and group benefit plans, in order to recruit, reward and retain a qualified workforce. The Director's priorities are as follows:

i. Establish a total compensation package consistent with prevailing practices within the market;
ii. Move employees in the workforce whose salary is below market toward the prevailing market median level; and
iii. Reward employees in the workforce who are meeting or exceeding performance expectations.

TOTAL COMPENSATION FINDINGS

Plus or minus five percent is an acceptable variance between the total compensation package and the market. This percentage is an acceptable variance between individual components (pay, benefits, and retirement) and the market. When the State's total compensation package is valued, the Department's findings suggest that this variance is 2.4% below the prevailing market. Currently, on average, base pay accounts for 76% of the total compensation package and benefits account for the remaining 24%.

Survey data, aged to a common point in time, was used to compare the State's actual salary practice to the market. The Department's findings suggest that as a result of the State's pay practices, base salaries of state employees are, on average, 5.7% below the market.

Merit Pay

Based on C.R.S. 24-50-104(1)(c) 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. 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).

Similar to prior years, delivering performance based pay continues as the prevailing practice in the market. This method of pay increase meets the State's goal of rewarding State employees who are meeting or exceeding performance expectations. The merit-based approach affords lower paid, high-performing employees greater opportunity to work toward the prevailing pay rate (midpoint of the range). Individual merit pay does not replace salary survey market adjustments to job classifications. Merit pay may be a base or non-base building increase.

Individual employee pay is projected to increase by 3% in the market. As a result of the trend analysis and market pay projections, the State should continue to consider offering pay increases through merit; an average 3% merit adjustment may be warranted.

Base Salary

Overall, actual base salaries for State employees are 5.7% below market median. Variations for specific occupational groups are listed in the table below.

Base Salary Adjustments			
Occupational Group		% Below Market Median	% to Move to Acceptable Variance (+/-5%)
A	Enforcement and Protective Services	9%	4%
C	Healthcare Services	8%	3%
D	Labor, Trade and Crafts	9%	4%
G	Administrative Support and Related	5%	0%
H	Professional Services and Information Technology	5%	0%
I	Physical Science and Engineering	2%	0%

To improve alignment of this component of the total compensation package with the market, the State may consider one or a combination of the following actions:

1. A salary survey adjustment of 1% to actual base salaries for ***all*** employees to bring the overall weighted actual, average salaries to the level of acceptable variance (+/-5%) from market median. The estimated base-building impact of this recommendation is $20,240,262, including all salary related costs.

2. A salary survey adjustment increasing actual base salaries for employees in those occupational groups where the variance exceeds (+/-5%) from the market median. This action would impact salaries of employees in the Enforcement and Protective Services, Health Care, and Labor/Trades/Crafts occupational groups. The estimated base-building impact of this recommendation is $33,706,357.

The Director is currently evaluating the application of current rules to determine if changes are necessary to address agency specific compensation issues.

Salary Range Structure

The Department also evaluated the pay ranges established for the State's six occupational groups to determine if the ranges and the overall salary structure used by the State align with market practice. "Normal ranges" for public sector employers are typically set from 80% to 120% around the selected market data point (e.g. market median). These ranges allow for variations in compensation due to market factors, experience, performance, job complexity, and organizational values or compensation strategies.

Given the State's total compensation is within the range of acceptable variance from the market and in order to maintain the State's current total compensation structure, the State may consider an overall salary range structure adjustment by increasing range minimums and range maximums by 2.2%. Increasing the salary range would not necessarily result in a corresponding change in salary for individual employees. Unless the employee's salary falls below the minimum of the range pay, this adjustment will allow the State to keep pace with projected market structure increases.

Individual Classification Structure

The Department conducted a market analysis on certain individual classifications. When occupational group adjustments are insufficient to move all classifications to a competitive position with the market, individual classification structure changes may be recommended for range adjustments based on the result of the market analysis. Individual classifications that vary from +/- 7.5% to the market for two consecutive years may warrant additional analysis. Of the 238 class titles that were compared with the market, the majority of the State's classes are compensated within a normal range relative to the market. Therefore, there are no recommendations to adjust pay ranges for the individual classifications.

System Maintenance Study

The Department implemented the deconsolidation of the General Professional (GP) Class Series on July 1, 2016. This was in accordance with C.R.S. 24-50-104(1)(b) which requires a systematic approach to objectively determine and maintain alignment of job classes and occupational groups in the State Personnel System. There is no impact to pay ranges, individual salaries or working titles.

An ongoing system maintenance study is being conducted for the Information Technology classification which began in FY 2015-16 and will continue through FY 2016-17. This study will continue in FY 2017-18 and the Department will finalize its recommendations regarding this deconsolidation.

State Patrol Pay

Pursuant to C.R.S. 24-50-104(1)(a)(III)(A) the Department identified matches in the market for the State Patrol Class Series. The Department matches the three highest paid law enforcement jurisdictions, compared to individual classifications in the State Patrol Class Series. To maintain the required 99% of market compensation, adjustments to State Patrol Trooper, State Patrol Supervisor, State Patrol Administrator I and State Patrol Administrator II classes may be warranted.

BENEFITS FINDINGS

Valuation

In years where third party vendors are not performing the total compensation analysis, the Department ages the data used for the previous fiscal year to calculate the current year's benefit values. To analyze the value of benefits, data from each employer's most populated benefits plan is gathered. The approach is used to compare the value of the plan to an employee, not the cost to the State.

Benefits comprise 24% of the State's compensation package; the overall value of benefits is 7.4% above the prevailing market median. The State's retirement plan value is 11.6% above the market, inclusive of Social Security. In this maintenance year, the analysis of total compensation incorporated the value of the retirement benefit offered to state employees.

Cost

Medical and dental plan comparisons, and review of cost-sharing features indicate the State provides medical and dental plans that generally align with the prevailing market. However, with a projected 7.3% increase in medical costs, the State's contribution may need to increase in order to maintain a prevailing contribution level. For dental, the State's employer percent contribution is prevailing to market. For FY 2017-18, the Department projects a 3% increase to dental costs. In order to provide generally prevailing benefits, additional State funding is necessary.

The following tables show the State's proposed FY 2017-18 medical and dental contributions by tier, compared to the actual FY 2016-17 State contributions by tier:

FY 2016-17 Medical State Contributions vs. FY 2017-18 Proposed Medical State Contributions			
Tier	FY 2016-17 Actual	FY 2017-18 Proposed	Difference
Tier 1- Employee	$465.62	$499.62	$34.00
Tier 2 - Employee + Spouse	$872.60	$936.30	$63.70
Tier 3 - Employee + Child(ren)	$866.78	$930.06	$63.28
Tier 4 - Family	$1,230.06	$1,319.86	$89.80

FY 2016-17 Dental State Contributions vs. FY 2017-18 Proposed Dental State Contributions			
Tier	FY 2016-17 Actual	FY 2017-18 Proposed	Difference
Tier 1- Employee	$25.92	$26.70	$0.78
Tier 2 - Employee + Spouse	$42.62	$43.90	$1.28
Tier 3 - Employee + Child(ren)	$46.44	$47.84	$1.40
Tier 4 - Family	$62.22	$64.10	$1.88

TOTAL COMPENSATION ANALYSIS

The Department recognizes the importance of evaluating the overall value of total compensation in order to assess the competitiveness of the State's total compensation package. While the value of the State's total compensation package varies only slightly from the market, maintenance is required to sustain that acceptable variance.

The individual components of the compensation package evaluated in this year's annual compensation report indicate adjustments to the State's overall salary range structure, adjustments to actual base salaries to all or priority occupational groups, increases in the form of merit, and projected cost increases to benefits should be considered. These changes will be necessary to continue relative alignment of the total package and to address misalignment of specific components with prevailing levels in the market.

The Department will continue to work closely with the Governor's Office of State Planning and Budgeting to develop a recommendation for the appropriate amount of funding for annual salary and benefit increases for FY 2017-18. The final recommendation must consider the results of the annual compensation survey, fiscal constraints, and the ability to recruit and retain State employees. The recommendation will be submitted for consideration in the Governor's November 1, 2016 Budget Request for FY 2017-18.

Respectfully submitted,

June Taylor

June Taylor
Executive Director

cc: Joint Budget Committee Members, Cabinet Members, and Higher Education Presidents

June Taylor
State Personnel Director and Executive Director

Kara Veitch
Deputy Executive Director

Kim Burgess
Statewide Chief Human Resources Officer

About this Report:

The State of Colorado (State) FY 2017-18 Annual Compensation Report includes survey findings prepared by the Department of Personnel & Administration (Department), Division of Human Resources (Division) with data from private and public organizations to compare the **total and component costs, and values of the State's total compensation package.**

The report is subject to approval and funding by the Governor and General Assembly. Following the legislative process, the State Personnel Director will announce the final annual compensation adjustments to compensation and benefits, prior to the July 1, 2017 implementation.

Every odd year, the Department is statutorily required to contract with a third-party compensation consultant, with actuarial experience, to perform the total compensation study that must compare total and component costs and values of the State's total compensation against similar workforce structures, including private companies and other states. In FY 2015-16, the State retained Milliman Inc. (Milliman) to conduct the annual compensation analysis for FY 2016-17 and compare the value of the total compensation package provided to State employees to market. Based on recommendations from Milliman, and to maintain the integrity of the analysis, the Division aged the FY 2016-17 data to for the FY 2017-18 Annual Total Compensation Report.

Overall, the Division found the State's total compensation package is slightly below prevailing market. The State's total compensation package is estimated to lag the market by 2.4%. The acceptable variance is +/-5%.

Base salary accounts for 76% of the State's total compensation. When compared to the market, the Division found that median base salaries of employees are, on average, 6% below market.

Benefits (medical, dental, life, disability and retirement) account for 24% of the State's total compensation. The Division found that the overall value of these benefits is 8% higher, on average, than the benefits received by measurably similar workers in the market. Specifically, medical, dental, life and disability benefits account for 14% of the State's total compensation and the value of these benefits is 5.7% above the market. Retirement accounts for 10% of the State's total compensation and is 11.6% higher than market retirement plans, inclusive of Social Security.

In addition to information about the State's total compensation, this report contains specific information about maintenance of the overall salary plan structure, occupational groups, system maintenance studies, benefits plans, and merit increases.

The Annual Compensation Report:

FY 2017-18
Annual Compensation Report

Introduction

State employees are the cornerstone for delivering efficient, effective and elegant service to Colorado residents and visitors. To ensure the State of Colorado (State) is able to recruit and retain a strong workforce, Colorado Revised Statute (C.R.S.) 24-50-104, requires the Department of Personnel & Administration to conduct an annual study that evaluates prevailing total compensation practices, levels and cost.

The State Personnel Director (Director) is required to provide an annual compensation report that reflects any adjustments that may be required to maintain the salary structure and prevailing state contributions for group benefit plans, and provide salary adjustments and merit pay for the upcoming fiscal year, July 1 through June 30. The report must be based on an annual survey of total compensation in the market.

Philosophy

Prevailing Total Compensation

The State of Colorado's compensation philosophy is defined in C.R.S. 24-50-104 and requires the State to provide **prevailing total compensation** to ensure that the State is able to recruit, reward and retain a qualified workforce.

Total compensation is a combination of base salary and all employee benefits; this includes both direct and indirect compensation.

- Direct compensation refers to an employee's annual base salary. It does not include shift differential, overtime pay or call-back pay. For the purpose of this report annual base salary is analyzed using the weighted average of *actual* salaries (not salary ranges).

- Indirect compensation refers to compensation that is not paid directly to an employee. Indirect compensation includes medical, dental, disability, life insurance, and retirement.

Colorado Revised Statute (24-50-104) Job Evaluation and Compensation

C.R.S. 24-50-104

(1) Total compensation philosophy. (a) (I) It is the policy of the state to provide prevailing total compensation to officers and employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent work force. For purposes of this section, "total compensation" includes, but is not limited to, salary, group benefit plans, retirement benefits, merit pay, incentives, premium pay practices, and leave. For purposes of this section, "group benefit plans" means group benefit coverages as described in section 24-50-603 (9).

Methodology & Data Sources

Survey Methodology

Milliman developed the methodology for the study used by the Division to conduct the *FY 2017-18 Annual Compensation Report*. The methodology is detailed below.

Value of Total Compensation

The valuation of total compensation takes into consideration each component of employee pay and benefits, including a combination of base salary, medical, retirement, and other benefits. Competitiveness of total compensation and the State's ability to recruit and retain talent is not just about the cost of the program, it is important to understand the value the total compensation package delivers.

The methodology analyzed both cost as well as the value of total compensation, (the plan design and different elements provided to the employee). This approach provides a holistic view to determine if the State, as an employer, is competitive to the market.

Survey Benchmarks

The annual survey process begins with identifying the core group of jobs within the State's personnel system to be used as benchmarks for conducting salary data comparisons with other employers in the market. Benchmark jobs are State jobs that are comparable to jobs readily identifiable and commonly found in the marketplace. Benchmark jobs are used to compare the State's salaries in relationship to the market and to validate the State's internal pay structure. The selection of core benchmarks provides an element of consistency in pay comparisons conducted year to year.

The selection of benchmark jobs also provides the basis for identifying the State's labor market and the appropriate sources for data collection. Characteristics of the industry's acceptable survey benchmarks:

- Represent a cross-section of positions and the types and levels of work performed in the State personnel system;
- Are well-established and generally have multiple incumbents, representing a significant portion of the workforce;
- Are commonly and easily defined by the State and other employers; and
- Are available for comparison in the State's defined labor market.

Benchmarks are reviewed on an annual basis to ensure consistent data collection, appropriate labor market, survey selection, and flexibility to changes in internal structure and external market conditions.

The State of Colorado has a total of 668 job classes. Because FY 2017-18 is a maintenance year, 238 benchmarked job classes were identified for the survey process. This represents 36% of all State Personnel System job classes and 28% of State employees.

Labor Market

The survey process requires defining the relevant labor market for collecting and comparing prevailing salary and benefits data, market trends, and salary budget planning information. The State's primary labor market, as mandated by C.R.S. 24-50-104(4)(a), includes both public and private sector employers and jobs including areas outside of the Denver metropolitan area. In addition, the State also collects data from employers outside Colorado when insufficient data is available within Colorado, for those benchmark jobs specific to state government.

Surveys

Pursuant to C.R.S. 24-50-104 (4)(a), the annual compensation survey is based on an analysis of surveys published by public or private organizations that include a sample of public and private sector employers. The following standards for survey selection were utilized:

- Adequate benchmark job descriptions to ensure appropriate matching
- Appropriate data necessary for analyses
- Statistically valid data collection and analysis methods
- Not "self-reported" by individual employees
- The effective date for pay rates or benefit contribution levels are identified
- Appropriate labor markets for State's personnel
- Readily available to examine, verify and/or purchase
- Conducted by a third-party for whom regular publication is a major part of business

Surveys for Base Salary and Pay Structure Analysis

The surveys utilized to provide information on salaries and pay structures in the market for benchmarked classes were:

- Compdata Benchmark Salary Survey
- Compdata Public & Not-for-Profit Salary Survey
- Economic Research Institute Compensation Survey
- Mercer Benchmark Compensation Survey
- Mountain States Employers Council Colorado Benchmark Survey
- Mountain States Employers Council Healthcare Survey
- Mountain States Employers Council Colorado Public Employers Survey

Geographical Adjustments

Because wage and income levels are different across the nation and even within local labor markets, differentials that factor in economic variations are calculated and applied to data the State collects from employers outside Colorado. Differentials are calculated by referencing the Economic Research Institute's Geographic Assessor Report. Figures reflect average wage and income levels by location. The State of Colorado is considered to be the base state and data from the other states are adjusted in comparison to Colorado, as the base.

Rate Projection (Aging Salary Data)

Not all survey publications 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 market salary data by applying the standard cost-of-labor indices as reported quarterly by Economic Research Institute. This projection is an estimate of wage adjustments based on labor market trends. For this annual compensation survey, the most current cost of labor annual percentage change has been used to trend survey data to the State's July 1, 2017 implementation date.

Benefits Valuation Analysis

In FY 2015-16, Milliman administered an independent custom survey of the State's labor market for FY 2016-17. In years where third party vendors are not performing the analysis, the Department ages the data used for previous fiscal year analysis to calculate benefit values for this report.

This step was conducted in order to gather the benefits information necessary to calculate benefit values. Published market surveys include benefits prevalence trends but do not calculate value of the respective plans. The organizations invited to participate consisted of other public and private sector organizations providing total compensation elements. This included 200 other entities and private sector companies. A total of 39 organizations (including Colorado) replied to the survey. While a number of private organizations were invited to participate, none chose to do so.

76%
of the State's total compensation is **BASE PAY**

Total Compensation Package

Findings

The State of Colorado's total compensation package includes base salary, benefits (medical, dental, disability, and life insurance) and retirement. Each of these benefits has a cost to the State of Colorado and offers a value to State employees.

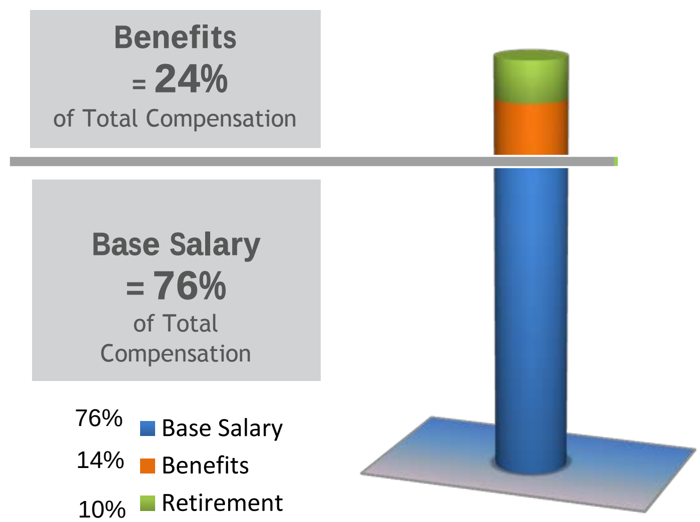
1 Benefits = 24% of Total Compensation Package

Benefits account for 24% of the State's total compensation package. Specifically, medical, dental, disability, and life benefits account for 14% and retirement benefits account for 10%.

2 Salary = 76% of Total Compensation Package

Base salary accounts for 76% of the State's total compensation package and is the amount per hour or per year that employees are paid for performing their job. It does not include any benefits associated with the job.

State of Colorado
Total Compensation Package



Medical and Other Benefits

The State of Colorado provides health insurance from two different providers: UnitedHealthcare and Kaiser Permanente. The State offers four medical plan options to employees.

- UnitedHealthcare: Copayment Plan and High-Deductible Health Plan (HDHP)
- Kaiser Permanente: Copayment Plan and High-Deductible Health Plan (HDHP)

The State also offers dental, basic-life, short-term disability and optional long-term disability and life insurance.

Retirement

The Colorado Public Employees' Retirement Association (PERA) provides retirement benefits to employees of the State of Colorado. PERA has two types of Plans—a Defined Benefit (DB) Plan and a Defined Contribution (DC) Plan. Neither the State of Colorado, nor State employees contribute to Social Security.

-2.4%
compared to market

Total Compensation Value

Findings

When the total overall value of the State's Total Compensation Package is compared to market, the State is below prevailing market levels (-2.4%). Acceptable variance for compensation plans is +/- 5% from market median.

Valuation of Total Compensation Package

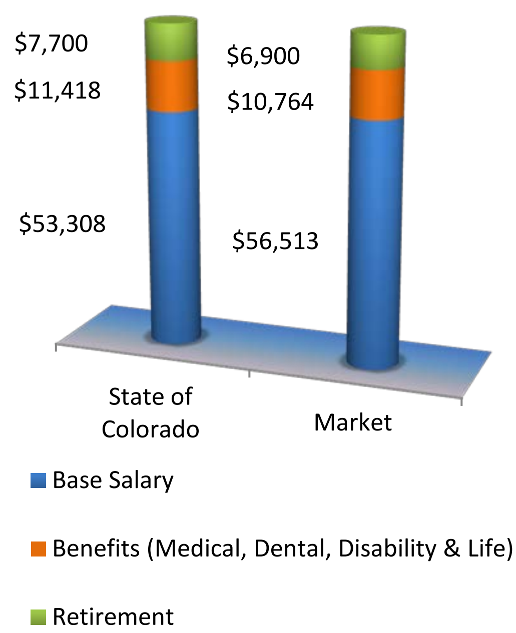
The valuation of total compensation takes into consideration each component of employee pay and benefits, including medical, dental, disability, life insurance, and retirement.

Total Compensation Comparison

Component of Total Compensation	State of Colorado Average	Market 50th Percentile	State Variance to Market
Average Base Salary	**$53,308**	**$56,513**	**-5.7%**
Medical	**$10,528**	**$9,801**	**7.4%**
Dental	**$770**	**$763**	**1%**
Retirement	**$7,700**	**$6,900**	**11.6%**
Disability	**$0**	**$80**	**0%**
Life	**$120**	**$120**	**0%**
Total:	**$72,426**	**$74,177**	**-2.4%**

Note: Disability is 0% because the State pays for short-term disability with optional long-term disability. Typical practice in the market is to offer long-term disability with optional short-term disability.

Total Value Comparison



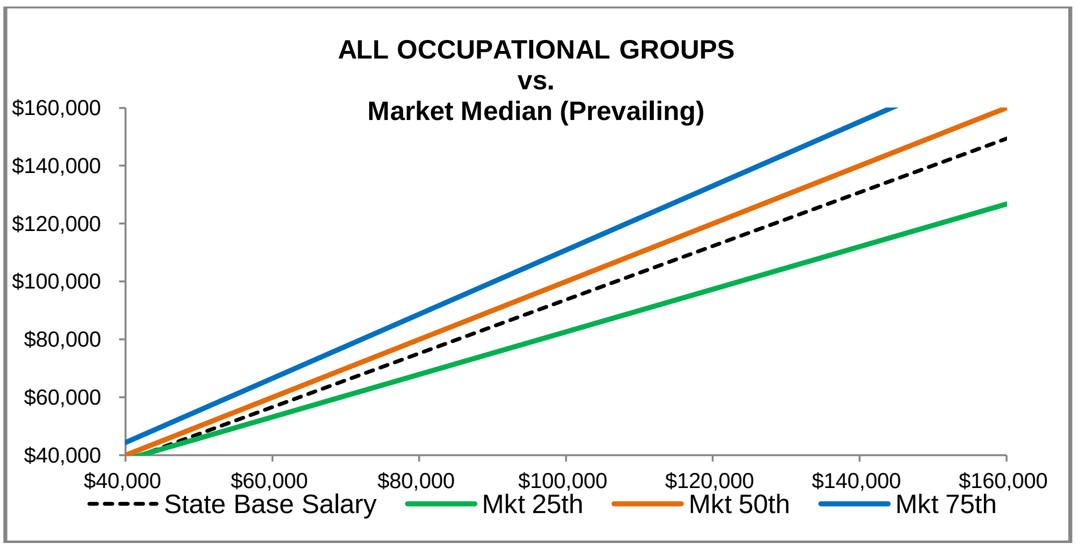
-5.7%
compared to
market median

Base Salary

Findings

The base salaries at the State, on average, are 5.7% below the 50th percentile/median (prevailing) of the market. This means the average of actual salaries (not salary ranges) of all employees across all occupations in the State is approximately 5.7% below actual salaries in the market.

State of Colorado Average Base Salary Compared to Market at 25th, 50th and 75th Percentile



Analysis

Findings in the FY 2016-17 Annual Compensation Report found that actual base salary (not salary ranges) for State employees lagged the market by 3%, which is within an acceptable variance (+/-5%) to market median. For FY 2017-18, actual base salaries for State employees are 5.7% below market median.

Market Salary Increase Projections

3%

projected salary increase

Findings

FY 2017-18 Market Salary Increase Projections

Overall, FY 2017-18 salary increase projections in the market are summarized below. Participants in the surveys listed below project a 3% overall pay increase for FY 2017-18.

Source	FY 2017-18 Salary Increase Projections
Mercer	**2.9%**
Mountain States Employers Council	**3.0%**
Economic Research Institute	**3.0%**

Best Practices for Delivering Pay Increases

80%

provide merit increases based on performance

Similar to prior years, the practice of delivering performance based pay continues as the prevailing practice in the market. This method of pay increase meets the Director's goal of rewarding State employees who are meeting or exceeding performance expectations. Market data collected by Mountain States Employers Council, Mercer and Economic Research Institute indicates that the primary method of delivering pay increases used in the market are based on individual performance (merit increases).

The table below indicates the various ways that organizations grant increases to employee base salary. The right hand column summarizes the percent of use for each form of pay increase. For instance, 80% of the market uses individual merit increase as a form of pay increase for employees.

The Percentage of Organizations Utilizing Various Pay Increase Best Practices

Pay Increase Best Practices	Percentage of Market
Merit increase based on individual performance	**80%**
Cost of living increase	**18%**
Across the board general increase (not cost-of-living)	**16%**
Step progression based on length of service	**4%**
Other	**2%**

Note: Percentages do not add up to 100% since many organizations use more than one practice on pay increase.

State of Colorado Merit System

The Colorado Constitution establishes a State Personnel System based on merit and fitness (CO Const. art. XII, §13). Pursuant to C.R.S. 24-50-104(1)(c), and the Director 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). Refer to the Cost Projection Section of this report for additional detail on the merit matrix and associated costs.

Analysis

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

Based upon prevailing market practice, the State should consider offering pay increases through merit.

As a result of the trend analysis and market pay projections, an average 3% merit adjustment may be warranted.

Market Salary Range Structure Increase Projections

2.2%
projected salary range structure increase

Findings

State of Colorado Salary Range Structure

The State of Colorado utilizes a range of diverse jobs that are categorized into occupational groups. Adjustments to individual occupational groups and in some cases, adjustments to the entire salary structure (i.e. all occupational groups) are required to ensure the State is able to maintain salary ranges for all job classifications that are comparable to public and private employers.

Salary range structure occupational group adjustments are not designed to deliver pay increases to individual employees. The one exception is when an adjustment is made and an employee's pay falls below the range minimum of the pay grade assigned to their respective classification.

Market Salary Range Structure Increase Projections

Overall, 2017 salary range structure increase projections, in the market, are summarized below.

Source	2017 Salary Range Increase Projections
Compdata	**2.5%**
Mountain States Employers Council	**2.3%**
Economic Research Institute	**2.1%**

Analysis

For FY 2017-18, salary ranges for individual occupational groups vary from 2% above the market to almost 9% below.

Given the State's total compensation is prevailing (i.e. the value of the total compensation package is within the range of acceptable variance from the market) and in order to maintain the State's current total compensation structure, the State should consider an overall salary range structure adjustment of 2.2%.

This adjustment will allow the State to keep pace with projected market structure increases.

Individual Class Structure

Findings

Of the 238 benchmarked classes, the Division reports that the majority of the State’s classes are compensated within a normal range around the market median.

State of Colorado Individual Class Structure

Individual classifications may be recommended for range adjustments based on the results of the market analysis, when occupational group adjustments are insufficient to move all classifications to a competitive position with the market. Individual classifications that vary from +/- 7.5% to the market for two consecutive years may warrant additional analysis and recommendations for adjustments. This ensures a consistent trend exists in the market.

Analysis

Individual classification structure changes may be recommended for range adjustments based on the results of the market analysis, when occupational group adjustments are insufficient to move all classifications to a competitive position with the market. Of the 238 benchmarked classes that were analyzed, the majority of the State’s classes are compensated within a normal range around the market median. Therefore, there are no recommendations to adjust pay ranges for individual classifications.

System Maintenance Studies

General Professional (GP) Class Series

The General Professional (GP) Deconsolidation was conducted in accordance with C.R.S. 24-50-104(1)(b) which requires the Department to use a systematic approach to objectively determine and maintain alignment of job classes and occupational groups in the state personnel system.

The Division implemented the deconsolidation July 1, 2016 by creating class series for professions and placing positions in appropriate new job classes using the most recent job description. There has been minimal impact to pay ranges, individual salaries or working titles.

For more information on final changes regarding the deconsolidation of the GP class series including the class conversion chart, new class descriptions and minimum qualifications reference the *System Maintenance Study Narrative Report for the GP Deconsolidation*.

Information Technology (IT) Class Series

A system maintenance study of the IT class series began in FY 2015-16. The study will conclude in FY 2017-18.

State Patrol Trooper

Methodology & Findings

The methodology used to determine and maintain prevailing compensation for law enforcement officers employed by the Colorado State Patrol is provided by C.R.S. 24-50-104.

Pursuant to statute, the State conducted a survey analysis for State Patrol Trooper Classes, similar to the overall methodology to determine prevailing market compensation for other classes.

In addition, the State must make salary adjustments and compare the Trooper Classes to the defined market, in order to compare to the actual average pay by job classes to the top three law enforcement agencies within the state that have both more than one hundred commissioned officers and the highest actual average.

The Division identified matches in the market for the State Patrol series, utilizing the methodology identified by statute.

The Division's market matches the three highest paid law enforcement jurisdictions, compared to individual classifications in the State Trooper series.

<table>
<tr><th colspan="2">Three Highest-Paid, Law Enforcement Jurisdictions By Individual Classification</th></tr>
<tr><td rowspan="3">State Patrol Trooper</td><td>City and County of Denver</td></tr>
<tr><td>City of Fort Collins</td></tr>
<tr><td>City of Lakewood</td></tr>
<tr><td rowspan="3">State Patrol Supervisor</td><td>City and County of Denver</td></tr>
<tr><td>City of Fort Collins</td></tr>
<tr><td>City of Littleton</td></tr>
<tr><td rowspan="3">State Patrol Admin I</td><td>City and County of Denver</td></tr>
<tr><td>City of Fort Collins</td></tr>
<tr><td>City of Thornton</td></tr>
<tr><td rowspan="3">State Patrol Admin II</td><td>City of Fort Collins</td></tr>
<tr><td>City of Loveland</td></tr>
<tr><td>County of Larimer</td></tr>
<tr><td>State Patrol Cadet</td><td>Insufficient Data</td></tr>
<tr><td>State Patrol Trooper III</td><td>Insufficient Data</td></tr>
</table>

Market Findings for State Patrol Trooper Class

Class Code	Class Title	Pay Grade	Weighted Market Average	Market Weighted Average at 99%	State Average Salary	Growth / (Decrease) to Reach Market - Weighted Average @ 99%
A4A3	STATE PATROL TROOPER	S02	$6,911	$6,842	$6,018	13.69%
A4A5	STATE PATROL SUPERVISOR	S04	$8,643	$8,557	$8,018	6.71%
A4A6	STATE PATROL ADMIN I	S05	$9,946	$9,847	$9,086	8.38%
A4A7	STATE PATROL ADMIN II	S06	$11,692	$11,575	$10,551	9.70%
A4A1	STATE PATROL CADET	S05	*Insufficient Data*			
A4A4	STATE PATROL TROOPER III	S06				

Analysis

Market data indicates that all State Patrol Troopers are below weighted market average at 99%.

To maintain the required 99% of market compensation, adjustments are necessary; adjustments to State Patrol Trooper, State Patrol Supervisor, State Patrol Administrator I and II classes would be necessary.

Market data was not available for the State Patrol Cadet and the State Patrol Trooper III class titles.

The ranges for the State Trooper's align with the market. Based on methodologies recommended by Milliman, "Normal ranges" for public sector employees typically fall between 20% below to 20% above the market data point (e.g. market median). Trooper ranges align with this practice.

For FY 2017-18, the Division estimates that the incremental impact to raise the benchmarked State Patrol salaries to 99% of weighted market average will cost the State $5,763,017.

Medical Benefits

+7.4%
compared to market

The State of Colorado Group Employee Medical Plan offers copayment and high deductible health plan (HDHP) medical insurance options through UnitedHealthcare and Kaiser Permanente. Overall, employee enrollment in medical benefits has remained consistent over the past three years. However, there has been change among employees' choice of plans in the past two years. The copayment plans continue to be the most popular plan designs. Of the two high deductible health plans (HDHP), UHC has more participation.

Employee Membership

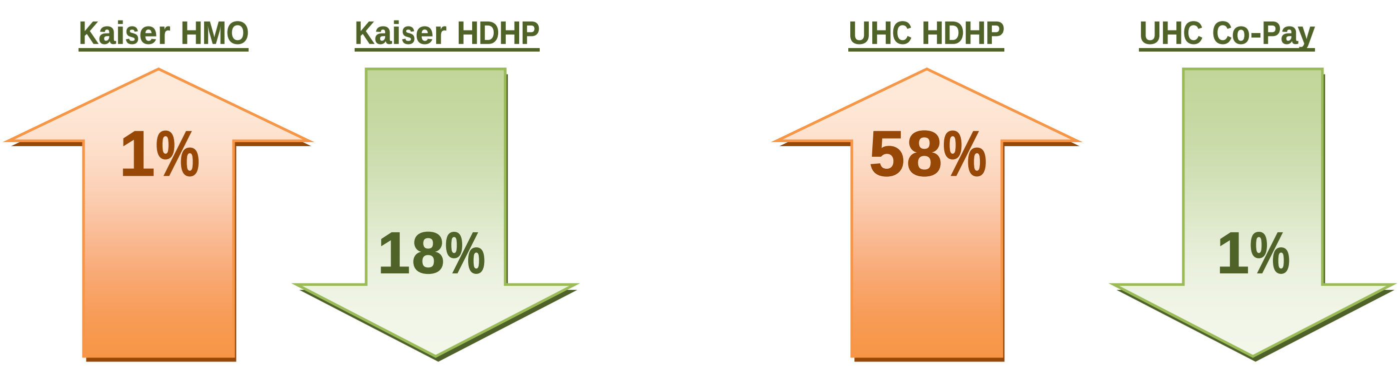
KAISER PERMANENTE®

The Kaiser Health Maintenance Organization (HMO) copayment plan is the most popular plan at the State of Colorado with 12,661 members. The Kaiser HDHP continues to have the fewest members of all four plan designs with 1,477 members, down 18% from FY 2015-16.

UnitedHealthcare

The UHC HDHP increased membership by 58% to 9,460 employees compared to FY 2015-16. The UHC Co-Pay Plus Plan has 9,807 members in FY 2016-17, down slightly from FY 2015-16 and remains the most popular UHC plan. Overall, the state had a membership growth of 1% for FY 2016-17. The health savings account State contribution of $720.00 to employees enrolled in an HDHP, along with maintaining current plan design may be the cause of migration.

FY 2016-17 Percent Change in Enrollment by Plan Compared to FY 2015-16



Valuation of Benefits

To analyze the value of benefits, the Division gathers and analyzes data from each employer's most populated benefits plan. The approach is to compare the value of the plan to an employee, not the cost to the State. Participation by tier (employee only; employee + family; employee + children) of the most populated plan is multiplied by the cost per tier to generate an average value. In order to compare the value of the benefit to the employee, the cost sharing between the employer and the employee in terms of premium payments must be factored into the value.

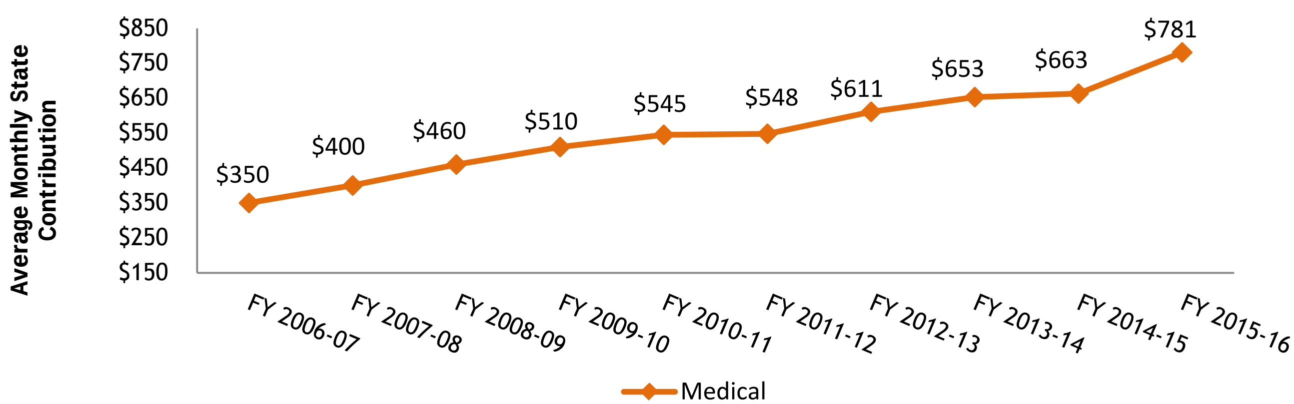
Findings

The value of the State's medical plan is between the 50th percentile and 75th percentile of the market. Overall, the State's most populated medical plan is 7.4% above the market median.

Medical Contributions

The State collected data on market trends and practices in medical 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 C.R.S. 24-50-104.

State of Colorado Average Medical Contribution Per Enrolled Employee



The State of Colorado sets the employer and employee contributions toward medical benefits each year as part of the budget process, which is approved by the Colorado General Assembly. The estimated cost associated with health insurance premiums is included on page 24.

Retirement

+11.6%
compared to market

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%). In addition, statute requires the State, as a PERA employer, to contribute an incremental percentage increase each year toward the Amortization Equalization Disbursement (AED) and the Supplemental Amortization Equalization Disbursement (SAED). C.R.S. 24-51-411 sections 3.5 and 6.5 state that AED and SAED do not increase beyond calendar year 2017; both have reached the maximum of 5% each for FY 2017-18.

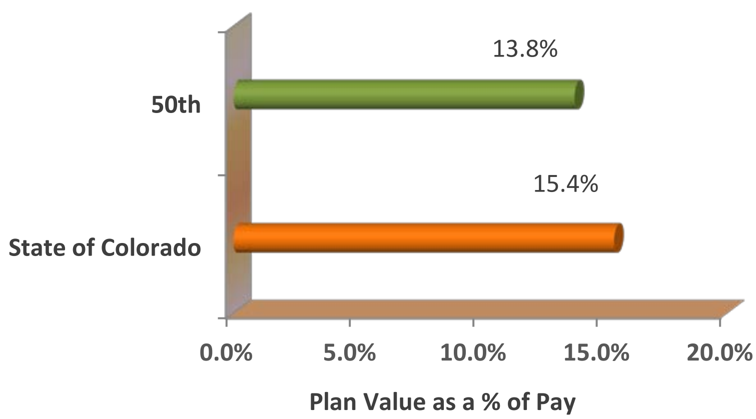
Valuation of Retirement

The Milliman Study provided the State with two different methodologies of valuing retirement. The Milliman Study, released in August 2015 did not include Social Security in the valuation method used to compare the State of Colorado to market organizations. *The Milliman Clarifying Addendum to the State of Colorado Total Compensation Study* includes Social Security in the valuation method used to compare the State of Colorado to market organizations. The Department used the latter as the base for this report.

Findings

Overall, the value of the State's retirement plan is 11.6% higher than market retirement plans, inclusive of Social Security.

Total Retirement Value Comparison



[1] Note: 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.

Assumptions

Milliman projected the retirement benefits using a sample employee who is hired at age 35, currently is age 45, currently earns $55,000 per year of pensionable compensation and will retire at age 65.

These are intended to be representative of a full career employee, and are based in part on approximate averages of current state employees. The retirement age of 65 is typical, and ensures the full retirement benefit is vested, though full retirement may be available earlier for some plans.

FY 2017-18 Cost Projections

The Department used the April 2016 salaries and health and dental elections for all classified staff to develop the figures presented in the text and charts below[i].

Merit Matrix Adjustments

Historically, the State utilized a combination of merit and across-the-board pay practices. As outlined on page 11 of this report, the State should consider adjustments based on an employee's performance rather than across the board adjustments. To that end, the Department requests the merit matrix percent adjustments reflect the entirety of the market salary adjustment. The following merit matrix reflects this request.

Merit Matrix for FY 2017-18*

Performance Rating	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Above Quartile 4
Exceptional (level 3)	3.6%	3.2%	2.8%	2.4%	2.0%
Successful (level 2)	2.6%	2.2%	1.8%	1.4%	1.0%
Below Expectations (level 1)	0%	0%	0%	0%	0%

Note: Because the State must adjust for the SAED, the weighted average adjustment is 2.5%, while the market adjustment is actually 3%.

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 2017-18, the Department estimates that the base-building impact of the requested policy is estimated to be $38,886,455 in total funds, while the non-base-building impact is estimated to be $2,870,231 (total cost of $41,756,686, including all salary related costs)[ii].

Base Salary Adjustments

Actual base salaries for State employees are 5.7% below market median. Variations for specific occupational groups are listed in the table below.

Base Salary Adjustments			
Occupational Group		% Below Market Median	% to Move to Acceptable Variance (+/-5%)
A	Enforcement and Protective Services	9%	4%
C	Healthcare Services	8%	3%
D	Labor, Trade and Crafts	9%	4%
G	Administrative Support and Related	5%	0%
H	Professional Services and Information Technology	5%	0%
I	Physical Science and Engineering	2%	0%

Potential Options: To improve alignment with the market, the State may consider one or a combination of the following recommendations to bring State employees' weighted actual average salary equal to or within an acceptable range of (+/-5%) of the market median.

1. Consider a salary survey adjustment of at least 1% to actual base salary for ***all*** employees to bring State employees weighted actual, average salary to, or within, an acceptable variance to (+/-5%) to market median. The estimated base-building impact of this recommendation is $20,240,262, including all salary related costs.

2. Consider a salary survey adjustment increasing actual base salary for individual occupational groups where State employees weighted actual, average salary to, or within, an acceptable variance to (+/-5%) to market median by percentages based on the FY 2017-18 analysis. The estimated base-building impact of this recommendation is $33,706,357, including all salary related costs.

The Director is currently evaluating the application of current rules to determine if changes are necessary to address agency specific compensation issues.

Salary Structure Adjustments

To more accurately align itself with the market, the Department recommends that individual pay ranges be adjusted. 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 2017-18, the Department estimates that the upward movement of range minimums will cost the State $7,464,525, which includes all salary related costs. This includes an overall structure adjustment of 2.2%.

Healthcare Cost Adjustments

For FY 2017-18, the Department estimates that overall health care costs will increase by 7.3%. This overall cost trend was applied to the total FY 2016-17 premiums by tier and by plan to project corresponding premiums for FY 2017-18. Using the market average percent of employer contribution to total premium discussed above, the Department projected the State's contribution to health premiums by tier.

FY 2016-17 State Contribution vs. FY 2017-18 Proposed State Contribution

The table below shows the proposed State contribution by tier compared to the FY 2016-17 State contributions by tier.

Tier	FY 2016-17 Actual	FY 2017-18 Proposed
Employee Tier 1	$465.62	$499.62
Employee + Spouse Tier 2	$872.60	$936.30
Employee + Child(ren) Tier 3	$866.78	$930.06
Family Tier 4	$1,230.06	$1,319.86

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 2017-18, the Department estimates the State will need an additional $15,358,789 in total funds to cover increases in health insurance premiums.

Dental Cost Adjustments

For FY 2017-18, the Department estimates that overall dental costs will increase by 3%. This overall cost trend was applied to the total FY 2016-17 premiums by tier and by plan to project corresponding premiums for FY 2017-18. Using the market average percent of employer contribution to total premium discussed above, the Department projected the State's contribution to dental premiums by tier.

FY 2016-17 State Contribution vs. FY 2017-18 Proposed State Contribution

The table below shows the proposed State contribution by tier compared to the FY 2016-17 State contributions by tier.

Tier	FY 2016-17 Actual	FY 2017-18 Proposed
Employee Tier 1	$25.92	$26.70
Employee + Spouse Tier 2	$42.62	$43.90
Employee + Child(ren) Tier 3	$46.44	$47.84
Family Tier 4	$62.22	$64.10

In FY 2017-18, the total incremental cost for dental coverage is estimated to be $342,773 in total funds.

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[i] Analysis was completed for the remaining benefit components (life, leave, and short term disability). No cost adjustments are presented, as the value of these benefits did not vary from prevailing market.

[ii] The Department will work with the Office of State Planning & Budgeting to develop the final merit matrix for consideration in the Governor's November 1 Budget Request for FY 2017-18.