



Annual Compensation Survey Process for FY2010-2011

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General Compensation Policy Statement

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

The reference to “prevailing” reflects the State’s desire to provide total compensation that is competitive with its defined labor market; specifically, to compensate at a level that falls in the middle of market rather than to lead or lag the market, except for Troopers as required by C.R.S. 24-50-104(1)(a)(III)(A).

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

- To determine prevailing practices for salary comparisons, the Division compares actual salaries paid in the market along with the midpoint of the market salary ranges to establish target compensation and to maintain pay structures and base pay that is competitive with the State’s defined labor market.
- For group benefit plans, the Division measures the market employer contributions (average dollars) as well as general plan designs, cost-related plan features, and market trends in health care related costs to determine prevailing market practices. The analysis of average dollar contribution by employers is also translated into a percentage that indicates our position relative to prevailing market and sets our target for reaching prevailing market on employer contributions.
- For determining total compensation budget increases, salary budget planning surveys and benefit cost trend surveys are used to assess prevailing practices and trends in the market and determine overall average increases.

Purpose of the Annual Compensation Survey

In order to maximize the investment made in state employees, the annual compensation survey is conducted in an effort to maintain an integrated and prevailing compensation

package. The purpose of the annual compensation survey is to determine any necessary adjustments to the two major components of total compensation that require increased dollars each year: salaries and employer contributions to group benefit plans. Other items such as retirement, paid leave, and premium pay are also periodically surveyed to monitor any changes in market trends. The result of the annual compensation survey is a published report that reflects all adjustments necessary to maintain prevailing pay, pay structures, and employer contributions to group benefit plans for the upcoming fiscal year.

Meet and Confer

At the beginning of the annual compensation survey process, the proposed survey process is published for comment. Although statute requires the Division to meet and confer with management, employee representatives, and the Total Compensation Advisory Council in order to establish confidence in the selection of surveys, the Division also invites employees to the “meet and confer” to discuss and foster a better understanding of the entire survey process. The Division notifies the workforce of the “meet and confer” through an announcement to departmental human resources (HR) directors and employee organizations.

The Division conducted two sessions on April 16th and April 17th, 2009, to review and discuss the proposed survey process. A total of 18 employees, managers, and employee representatives attended the meetings either on-site or via teleconferencing. In addition to these two sessions, the Division provided a preliminary review and discussion with Colorado WINS (which included seven employee representatives) and the Association of Colorado State Patrol Professionals (ACSPP) as part of an interest-based problem solving meeting on April 10th. The Division provided an additional week for submitting written comments regarding the survey process. All comments and questions raised during the meetings were addressed with further clarification and there were no suggestions to make changes to the survey process. No written comments were received by the Division.

The Director reviewed and considered stakeholder input on the survey process and the surveys to be used and has made the final decision regarding the process to conduct the annual compensation survey. In addition, the Division continues to communicate results, implementation, and other compensation related information to the workforce through announcements to the HR community and employee organizations, the *Advisor* newsletter, the Division’s Web site, and other forms of correspondence.

Annual Compensation Survey Process

Survey Benchmarks

The annual survey process begins with identifying a core group of benchmark jobs within the State's personnel system for data collection and market salary comparisons. Benchmark jobs are internal jobs that serve as the market anchor points because they closely resemble jobs performed in other organizations. Benchmark jobs are used to compare the State's salaries in relationship to the market and to validate the State's internal class structure. The selection of core benchmarks provides an element of consistency in pay comparisons conducted year to year. Non-benchmark jobs are then linked to the survey benchmarks to ensure appropriate pay grade placement, maintain internal relationships within the class structure, and maintain external market competitiveness. The selection of core benchmark jobs also provides the basis for identifying the State's labor market and the appropriate sources for data collection. Characteristics of good survey benchmarks:

- (1) Jobs that closely resemble other jobs in the State's labor market - at least 75% match of duties;
- (2) Jobs that are commonly and easily defined in the State and by other employers;
- (3) Jobs that represent a cross-section of the State's business functions and internal class structure;
- (4) Jobs that are well established with multiple incumbents; and,
- (5) Jobs for which pay data is readily available in published, professional compensation surveys.

Labor Market

The next step in the survey process is the selection of surveys for collecting data on prevailing practices in the defined labor market regarding salary and benefits data, market trends, and salary budget planning. The Division utilizes professional compensation and benefit surveys conducted by third-party organizations in the human resources and compensation industry. The State's primary, competitive labor market includes public and private sector employers within the state of Colorado, especially given the constitutional residency requirement. As appropriate, data from regional and national labor markets are considered to assess relevant trends in total compensation practices and provide comparisons with employers of comparable organizational size, structure, and industry (or services provided). The labor market may vary based on the type and levels of benchmark jobs surveyed as different jobs generally have different recruiting markets. The following table describes relevant labor markets given the type of benchmark jobs surveyed.

	Management	Professional	General Support	Law Enforcement
Industry <i>Public, private, services provided</i>	<ul style="list-style-type: none"> ▪ Government ▪ General Market 	<ul style="list-style-type: none"> ▪ Government ▪ General Market 	<ul style="list-style-type: none"> ▪ Government ▪ General Market 	<ul style="list-style-type: none"> ▪ Government
Employer Size <i>Employees, job classes, budgets, revenues, population served</i>	<ul style="list-style-type: none"> ▪ Similar size 	<ul style="list-style-type: none"> ▪ All sizes 	<ul style="list-style-type: none"> ▪ All sizes 	<ul style="list-style-type: none"> ▪ Similar size
Location	<ul style="list-style-type: none"> ▪ Local ▪ Regional ▪ National 	<ul style="list-style-type: none"> ▪ Local ▪ Regional 	<ul style="list-style-type: none"> ▪ Local 	<ul style="list-style-type: none"> ▪ Local

Data Collection and Analyses

General guidelines have been incorporated into the compensation profession in relation to conducting compensation surveys. Considerations to legal issues surrounding data collection and conducting surveys include maintaining confidentiality of the data of all participating companies and having a third party conduct the survey. Use of third-party survey sources removes the opportunity to bias the data and receive inappropriate information. One primary focus is to avoid any real or perceived anticompetitive “price fixing.” The guidelines provided below are intended to ensure that the exchange of data is used for adjusting wages in response to changing market conditions and not used by competitors for discussion or coordination of compensation (having the appearance of price-fixing).

- (1) Utilize third parties rather than exchanging pay information directly with market competitors.
- (2) Ensure there are at least five survey participants, with no individual participant’s data representing more than 25% of the data.
- (3) Survey output should be aggregated rather than showing individual company data, even when using codes to protect company confidentiality.
- (4) Data should reflect historical pay information (at least three months old) rather than future pay intentions.

Survey Selection

The following criteria are used to select published market surveys and are based on standard and accepted practices in the compensation industry to ensure the availability and reliability of compensation and benefits data reported. The Division conducts ongoing reviews of published surveys for collecting market data to ensure compliance with statute and the State’s policy to provide prevailing total compensation.

- (1) The survey provides adequate benchmark job descriptions to ensure appropriate matching of duties and responsibilities to the State's jobs.
- (2) The survey provides data necessary for analyses, including but not limited to, salary data, benefits data, or planning forecasts.
- (3) The survey adequately explains its methodologies in sample selection, data verification, and data analyses.
- (4) The survey data are not self-reported by individual employees.
- (5) The survey reports the effective date for pay rates or benefit contribution levels.
- (6) The survey includes appropriate labor markets for the State of Colorado and provides its data sources (survey participants).
- (7) The survey is available for the Division to examine, verify, or purchase.
- (8) The survey provides substantial value in job matches and comparisons to the State's benchmark jobs, labor markets appropriate for the State, or planning forecasts relevant to the State.
- (9) The survey is conducted by a third party for whom regular publication of professional compensation surveys for use by others is one of the major enterprises of the organization.

Because survey data is copyrighted and confidential by statute or by professional compensation practice, actual detailed salary survey data cannot be released except to the Office of the State Auditor.

Benchmark Comparisons

The method for collecting data and measuring market values corresponds directly to the State's compensation policy to provide "prevailing" compensation. The Division conducts direct benchmark comparisons of the State's salary and salary range data in relationship to the overall market salary and salary range data for similar jobs by calculating the percentage difference between the State salary figure and the market salary figure to determine whether the State pays above, below, or competitively with the market.

Where fewer than five data points are reported for a survey benchmark, the benchmark is excluded from analysis because fewer than five data points is considered an insufficient sample size for drawing conclusions. Data collection for the Trooper classes is the exception in that statute defines the labor market as the top three (large and highest salaried) law enforcement agencies within the state for determining Trooper salaries. A minimum of five actual salaries are typically reported within this defined market; however, there would not be a minimum of five data points reported for salary range comparisons for a given benchmark using a labor market of three employers.

Benchmark Comparisons – Trooper Classes

For the Trooper classes, C.R.S. 24-50-104 (1)(a)(III)(A) requires the Division to use methodologies consistent with the other classes to determine and maintain prevailing

compensation with two exceptions. First, the market to be used for adjustments to actual salaries is uniquely defined as the top three law enforcement agencies within the state having more than 100 commissioned officers and the highest actual average salary. Second, the salary adjustment for the Trooper sub-group will be at least 99% of the average actual salary of the defined Trooper market while backing out the FY 2003-04 survey adjustment of 3.5 percent pursuant to C.R.S. 24-50-104(4)(d)(IV). The pay structure adjustment for the Trooper subgroup is based on the same methodology used for all occupational groups.

Rate Projection (Aging Data)

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

Wage and Income Differentials

Because wage and income levels are different across the nation and in some cases within specific labor markets, differentials that factor in economic variations are calculated and applied to data collected from employers outside the State of Colorado, such as states participating in the Central States Compensation Association (CSCA) survey. Differentials are calculated by referencing the Economic Research Institute (ERI), Geographic Assessor Report and figures reflect wage and income levels by location. For example, differentials based on statewide average wage and income levels are collected for each state reporting data in the CSCA survey, as well as for the State of Colorado. The State of Colorado is considered to be the base state and data from the other states are adjusted comparable to the base. For instance, if a state is 2.3% above Colorado, that organization's data are decreased by 2.3% to be comparable to the State of Colorado's market; if a state is 3.8% below, that organization's data are increased by 3.8%.

Salary Budget Planning

In addition to compensation surveys used for direct benchmark analysis, the Division uses third-party salary budget planning surveys from local, regional, and national sources as appropriate, to assess prevailing market trends and determine annual salary budget increases. Data collected from these surveys includes, but is not limited to, actual salary data and projections for average employee salary increases in the market. Total salary increases reported in the market encompass all increases market employers apply to employee salaries throughout the year, which may include merit, market

adjustments, performance-based pay, cost-of-living adjustments, and other base and non-base building salary increases.

Findings

The overall findings from the market analyses, both the benchmark comparisons and assessment of salary budget planning trends, are used to determine occupational group pay structure adjustments and total salary budget increases to ensure the State's pay structures and classes are internally equitable and externally competitive. The findings are reported in the annual compensation survey report. The reported findings are considered by the Director in formulating recommendations for annual salary increases (market and performance pay), including base and non-base pay appropriate to the State.

Individual Class Adjustments

In addition to surveying and conducting market comparisons of the core benchmark jobs each year, additional jobs may be surveyed as appropriate, to address potential compensation issues resulting from changes in the labor market or internal concerns identified, such as recruitment or retention of specific jobs. The Division applies the following guidelines, based on standard compensation practices, to identify and determine whether individual class adjustments are necessary to realign state classes both internally and externally with the market.

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

If the analysis indicates that an individual class adjustment is warranted, additional data may be collected to verify the findings or appropriate adjustments recommended in the annual compensation survey report. In cases where the market salary data is inconclusive for specific classes or series, system maintenance studies may be conducted in a subsequent year when internal alignment (relationship among state

classes) needs to be examined and verified with external alignment (market pay). The system maintenance studies that have fiscal impact are included as part of the subsequent annual compensation survey report.

Data Collection and Analyses – Group Benefit Plans

The Division uses third-party benefits surveys and trend reports to collect data and review group benefit plans including medical, dental, life, accidental death and dismemberment, and disability. The Division compares core benefit coverage and assesses how market employers share premium contributions with employees. Data collected for analyses includes, but is not limited to, premium costs, deductibles, co-pays or coinsurance, and other related costs paid or shared by the plan, the plan member, and the employer. Other information such as employer demographics may be used to assess plan features, options, and costs. The Director uses the prevailing market employer contribution levels included in the annual compensation survey report to recommend the State's contribution level.

Pay plans

A pay plan (or compensation plan) details the salary grades and pay ranges for all classes and occupational groups and provides other applicable premium pay determinations. The pay plan will reflect any annual pay structure (occupational group) adjustments, individual class adjustments, and salary lid values, and is published prior to the implementation of annual compensation adjustments.

Pay Structures

The state personnel system currently categorizes similar classes of jobs into seven occupational groups. Each occupational group has its own pay structure made up of multiple pay grades and ranges.

Pay Ranges

A pay range is the formal range of pay or value established as the lowest (range minimum) and highest (range maximum) base salary an employer will pay for a given job. Range width is the percentage difference between the minimum and maximum of the pay range. Statute directs setting the maximum base salary (salary lid) the State will compensate an employee in any class in the non-medical pay plan, Medical pay plan, and Senior Executive Service (SES) pay plan.

The Division reviews market practices around pay ranges and pay structures for different occupations or classes. Review of market practices in the use of ranges, control points within the ranges, and range widths provides useful information for assessing the overall design of the State's pay structures.

Survey Process Audit

To ensure technically and professionally sound survey methodologies and practices, the annual compensation survey is subject to a performance audit. The Office of the State Auditor is responsible for contracting with a private compensation consulting firm to conduct an audit of the annual compensation survey process and application of data, including any direct surveys. Beginning January 1, 2005, the audit cycle changed to every four years; therefore, an audit of the FY 2009-2010 survey is currently in progress.

Annual Survey Report and Director's Recommendations

The Division conducts an analysis and review of the market data and compiles the survey results to report market findings. The results of the annual compensation survey are contained in a report published on August 1. The Director considers this report in requesting increased funding from the General Assembly and recommending the distribution of those appropriations between the major components of employee salaries and employer contributions to group benefit plans. The effective date is July 1 for any changes unless the General Assembly, acting by bill, establishes a different date. The review of any survey, the survey report, and recommendations regarding the annual compensation survey are not subject to appeal.

The Director is required to report the survey findings and make the recommendations to the Governor and the Joint Budget Committee by August 1. However, the ECI used in rate projections is at least 15 months away from the survey implementation date (July) of the following year. In addition, other major survey publications and more recent salary planning figures are only available to the Division after submission of the August survey report and Director's recommendation. In order to reflect the market as accurately as possible, the Division updates the ECI and survey findings and submits a supplement to the report to the Director around the end of the calendar year. The Director may use the updated findings to revise the survey recommendations, which will be published and communicated to the workforce.