



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 §24-50-104(1)(a)(III)(A), C.R.S.

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 meeting the statutory mandates for 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 to actual salaries paid to state employees to establish target compensation and base pay. The Division compares the midpoint of the market salary ranges to state salary range midpoints to maintain pay structures that are competitive with the State’s defined labor market. The Division also collects market data on variable pay to assess market trends and practices in establishing non-base performance awards as part of total cash compensation. In addition, planning surveys are used to assess prevailing market practices and trends in actual and projected total salary budget increases. The following measures are used to compare prevailing base pay and pay structures in the market.

- The **median (50th percentile)** of actual salaries paid for the same or similar jobs in the external labor market. The median describes the central tendency of the data and minimizes the effect of extreme values. Extreme values affect the mean; they do not affect the median.
- The **average midpoint** of market salary ranges. The midpoint, or middle-pay value in a pay range, usually represents the competitive market value for a job or group of jobs assigned to a pay range and is commonly established as an estimate of the going market rate.

For group benefit plans, the Division measures the median (50th percentile) dollar rate of market employer contributions to benefit plan premiums; the percentage of the premiums shared between the employer and employee; and cost-related plan design features such as, out-of-pocket deductibles, co-pays, and co-insurance. The Division assesses other measures or indicators of the overall cost of group benefit plans, such as the market average cost of benefits per employee and market trends in health care related cost increases to determine prevailing practices and projections for increases to plan premiums.

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 statutory 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. 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 cycle, the proposed survey process is published for comment. Although statute requires the Division to meet and confer with management and employee representatives in order to establish confidence in the selection of surveys, the Division also invites all 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 business representatives of employee organizations.

The Division scheduled a meet and confer session on April 11, 2011, at 1313 Sherman Street, to review and discuss the proposed FY 2012-2013 annual compensation survey process; however, there were no attendees. A comment period was provided through April 25th for submitting written comments regarding the survey process. The Division received one response, which was related to the compensation survey and report conducted for FY 2011-2012, with questions that were not relevant to the proposed survey process. There was no stakeholder input submitted for consideration on the survey process and the surveys to be used; therefore, the Director 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 the core group of jobs within the State's personnel system used as benchmarks for conducting salary data comparisons with other employers in the market. Benchmark jobs are internal jobs that serve as the market anchor points because they 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 class structure. The selection of core benchmarks provides an element of consistency in pay comparisons conducted year to year. Non-benchmark jobs are linked to the survey benchmarks through the internal job evaluation system that groups jobs based on the nature and level of work. Jobs are placed in pay grades that are based on the internal job evaluation system and pay range values are established through the comparison to market. Integration of the two processes ensures appropriate pay grade placement, maintains internal relationships within the class structure, and maintains 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) Represent a cross-section of employees and the types and levels of work performed in the state personnel system;
- (2) Are well-established and generally have multiple incumbents, representing a significant portion of the workforce;
- (3) Are commonly and easily defined by the State and other employers;
- (4) Are available for comparison in the State's defined labor market; and,
- (5) Pay data for these jobs are readily available in published, professional compensation surveys.

The Division created a working group of its compensation and job evaluation specialists and departmental HR professionals certified in job evaluation, to identify state positions to be benchmarked. This group along with additional information collected from the departments provided knowledge of the jobs, workforce, and recruitment and retention issues, which aided in both the selection of benchmark jobs as well as ensuring appropriate matches are made to jobs in the market surveys.

Labor Market

The next step in the survey process is 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 statute, includes both public and private sector employers within Colorado that the State competes with for the recruitment and retention of employees. In addition, the State also collects data from employers outside Colorado where insufficient data is available, such as those benchmark jobs specific to state government.

Data Collection and Analyses

General guidelines have been incorporated into the compensation profession relative to how compensation surveys are conducted giving consideration to legal issues surrounding data collection. These guidelines include maintaining confidentiality of the data of all participating companies and using a third party to 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 "wage fixing." The guidelines help to ensure that data are not used by competitors for discussion or coordination of compensation and to avoid bias by individual employers in applying data results. The generally accepted compensation guidelines provided below are intended to ensure that the purpose of exchanging data is to gather information about the labor market so that decisions can be made regarding the State's competitive position and adjust wages in response to changing market conditions.

- (1) Utilize third parties rather than exchanging pay information directly with market competitors.
- (2) Ensure there are at least five data responses reported for each benchmark or statistic, with no individual participant's data representing more than 25% of the data.
- (3) Survey output should be aggregated rather than showing individual participant data, directly or indirectly, to protect participant confidentiality.
- (4) Data should reflect historical pay information (at least three months old) rather than future pay intentions.

Survey Selection

Pursuant to §24-50-104 (4)(a), C.R.S., the Division utilizes professional compensation and benefit surveys conducted by third-party organizations in the human resources and compensation industry. The following criteria to select published market surveys are based on standard and accepted practices in the compensation industry to ensure the availability and integrity of compensation and benefits data reported. The Division conducts ongoing reviews of published surveys for collecting market data to ensure compliance with statute, industry standards, 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 uses and demonstrates statistically valid data collection and analysis methods and 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). If it can be reasonably concluded based on the surveying organization and its methodology that the data has the requisite integrity, surveys not meeting the requirement regarding identification of survey participants may be considered.
- (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 and/or by professional compensation practice, detailed survey data cannot be released except to the Office of the State Auditor. Results of the data analyses will be reported in aggregate, summary format.

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 data in relationship to the aggregate market salary data for similar jobs by calculating the percentage difference between the state salary figure and the market salary figure to determine whether the State's actual salaries and salary ranges are above, below, or competitive with the prevailing 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. This is also consistent with the industry standard that no individual participant's data represent more than 25% of the data.

Benchmark Comparisons – Trooper Classes

For the Trooper classes, §24-50-104 (1)(a)(III)(A), C.R.S., requires the Division to use methodologies consistent with the other classes to determine and maintain prevailing compensation with two exceptions. First, the labor 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 amount of salary for the Trooper sub-group shall be at least 99% of the average actual salary provided in the defined Trooper market. To ensure statutory intent is met, each class within the Trooper sub-group will be adjusted separately as indicated by the market findings.

Generally, 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. However, 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. While a sufficient number of actual salaries are typically reported for market jobs matching at least four of the six trooper class levels, there are not a minimum of five data points reported for salary range comparisons when using a labor market of three employers.

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 market salary 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 most current annual percentage change of the ECI is used to project all market salary data to the State’s July 1 implementation date.

Wage and Income Differentials

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 that the State collects from employers outside Colorado. Differentials are calculated by referencing the Economic Research Institute (ERI), Geographic Assessor Report and 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 comparable to the base. For instance, if the statewide average wage and income levels for another state are 2.3% above Colorado, the data collected from that state are decreased by 2.3% to be comparable to the State of Colorado’s market. If another state indicates wage and income levels 3.8% below Colorado, data collected from that state 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 reporting local, regional, and national labor market trends in annual salary budget increases. Data collected from these surveys includes, but is not limited to; average employee salary and salary structure increases applied in the market for current and prior years as well as projections for average employee salary and salary structure increases. Total salary increases reported in the market encompass all increases 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. Pay structure adjustments may or may not impact actual 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 what adjustments are necessary to ensure the State's pay structures and actual salaries are competitive with prevailing market. 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 directly 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, basic life, accidental death and dismemberment, and disability. The Division collects and compares market data, including but not limited to, how market employers share premium contributions with employees; the market average dollar employer contribution to premiums; cost-related plan design features such as, out-of-pocket deductibles, co-pays or co-insurance, and out-of-pocket maximums; and, comparisons of the plan benefits. Other information such as employer and employee demographics may be used to assess the State's own plan design, plan options, and affordability. Market trends in health care cost increases are used to project increases to market premium rates to the State's implementation date of July 1. The Director uses the findings included in the annual compensation survey report to recommend the State's contribution levels to premiums.

Compensation Plan

The compensation plan details the pay grades and salary ranges for all classes and occupational groups and provides other applicable premium pay determinations. The compensation plan will reflect any pay structure 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 six occupational groups. Each occupational group has its own pay structure made up of multiple pay grades.

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 and how salaries progress through the assigned pay ranges.

Current Topics of Interest

On occasion, the Director is interested in information on total compensation topics that may result in new or revised policy and programs. These special interest items may be used to support policy decisions on total compensation matters, but are not a recurring survey item each year. The information collected and analyzed is typically found in the same third-party survey sources used for other parts of the annual survey process. Depending upon the topic, additional survey sources may be sought to answer questions or examine issues relating to these topics. There are no special topics included in this year's survey.

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 of the following fiscal year 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 budget 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, a supplement to the report that provides the updated survey data, salary budget planning figures, and most current annual percentage change reported in the ECI is submitted 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.

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; with the most recent audit conducted of the FY 2009-2010 survey. Recommendations stemming from the audit are incorporated into the survey process; specifically, as they relate to benchmark selection, labor market comparisons, and methodologies utilized in the data collection and analyses.