

State of Utah

Total Compensation Market Survey and Analysis Study
Presentation to Legislative Committees

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Why Was the Study Done?

State of Utah (the “State”) requested a total compensation market survey and analysis, study of paid time off (PTO), retiree health insurance benefits, and pay for performance

The findings of the analysis provide the basis for the State to determine:

- The State’s total compensation mix compared to the target market in both cost and value;
- Whether or not the state should shift to a PTO, and if so, what could the PTO structure look like and how should it be funded? Are there any short term or long term cost savings to be realized in a PTO? What would the short term or long term costs of implementing a PTO program be?
- Recommendations that include delinking leave and post retirement medical benefits, should the State offer this type of benefit at all, are there other less costly ways to offer this type of benefit, if the benefit should be eliminated how to shift this cost to salary, identify how to realize savings from modification of this benefits to salary, and assistance should be given to help the State project future cost savings. If an alternative retiree health benefit is recommended what would the short term and long term costs be?

Why Was the Study Done?

The findings of the analysis provide the basis for the State to determine: (cont'd)

- What is the best combination of a salary/benefit mix? How should the State balance being fiscally responsible with maintaining competitiveness in order to attract and retain a quality workforce.
- Where is the State not competitive with the market and what immediate and long-term options should it consider in reorganizing its total compensation mix, in order to position ourselves as competitive but also fiscally responsible. This should include options for what we should do, along with how to do it. (Long-term options should include plans for making incremental changes over a long period of time).
- Enhancements on the Department of Human Resource Management's (DHRM) current practices for gathering and analyzing salary and benefits data and offer idea's for process improvement.

Why Was the Study Done?

The findings of the analysis provide the basis for the State to determine: (cont'd)

- How should the State begin to solve its salary compression problem over the long-term?
- Identify what trends our target market has followed in the last five years in terms of salary increases/decreases and benefits changes. This would include a historical perspective on what organizations have done during the economic downturn. What trends have employers implemented successfully and which have provided unsuccessful results?
- Pay for Performance: From our market comparables and your own experience, which organizations are using a pay for performance system and how does it work? Provide examples of successful pay for performance models that have worked for government entities and could they work for the State of Utah?

How Was the Study Conducted?

The following steps were conducted by Hay Group and the State:

- Initial planning and scoping meeting;
- Mutual agreement on the benchmark positions, the constituency of the comparator market, and data to be collected;
- Collection of current State of Utah salary data;
- Design and distribution of customized salary survey instrument;
- Intensive follow up with identified participants to optimize participation;
- Analysis of salary and benefits data;
- Analysis of PTO, retiree health insurance benefits, and pay for performance;
- Analysis of overall outcomes; and
- Presentation of findings

How Was the Study Conducted?

There was a consistent process used for the market analysis. This included:

- Selection of 162 benchmark positions
- Identification of Comparator organizations:
 - Custom Survey – 63 public and private sector organizations, representing over 115,000 employees.
 - Central States – 15 comparator states (AZ, CO, ID, KS, MT, NE, NV, NM, OK, OR, SD, ND, TX, WA, WY)
 - Hay Group All Organizations database, Utah participants – 171 organizations with employees in Utah
 - Western Management Group – 89 Salt Lake area organizations
 - Compdata Survey of Healthcare Organizations, West Region – 639 healthcare organizations, with 31 organizations in Utah
 - Survey conducted by State of Utah DHRM – 72 organizations primarily in Utah

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – SALARY

Findings from the market competitiveness of current salaries include:

- That current actual pay for State employees is approximately 10.5% behind the market average
- That the current midpoints are approximately 6% behind the market average actual pay
- That the current compa-ratio (State of UT actual pay to current range midpoints) for benchmarks included in this study is 92.9%
- There is a variance from market by Job Family as set out on the following pages

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – SALARY

By Job Family – based on benchmarks

- The majority of job families fall behind market, on average (sorted by furthest below market)

Job Family	Avg Pay % from Market P50 (Avg)	Midpoint % from Market P50 (Avg)
Human Resources and Related	-20%	-11%
Legal	-20%	-8%
Nursing and Related	-18%	-15%
Insurance and Investments	-18%	1%
Therapy and Related	-17%	-20%
Custodial and Related	-17%	-5%
Inspections and Investigations	-16%	-8%
Construction Trades and Related	-16%	-15%
Laboratory and Related	-16%	-1%
Clerical and Related	-16%	-9%
Food Services	-16%	1%
Mental Health Services	-15%	-11%
Forestry and Lands	-14%	-1%
Mechanical Trades and Related	-14%	-17%
Warehouse and Stores	-14%	-6%
Public Information Related	-14%	-14%
Equipment Operations	-14%	-4%
Agriculture	-14%	-8%

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – SALARY

By Job Family – based on benchmarks (cont'd)

Job Family	Avg Pay % from Market P50 (Avg)	Midpoint % from Market P50 (Avg)
Research and Statistics	-14%	-4%
Heating Plant Operations	-12%	-9%
Fiscal Accounting and Examining	-12%	-8%
Dental and Related	-11%	-17%
Parks and Recreation	-11%	-2%
Medical and Related	-10%	-9%
Environment and Related	-9%	-1%
Buildings and Grounds Maintenance	-9%	-7%
Taxation and Collecting	-8%	10%
Professional Engineer	-8%	-4%
Family Assistance Services	-7%	0%
Public Safety and Emergency Services	-5%	-6%
Data Processing and Related	-5%	-6%
Libraries, Archives, Fine Arts Museums	-5%	8%
Disabled Services	-3%	-17%
Engineering Related	-3%	-3%
Claims and Related	-3%	-10%
State Planning, Programs and Facilities	-1%	-9%

Job Family	Avg Pay % from Market P50 (Avg)	Midpoint % from Market P50 (Avg)
Purchasing and Supply	1%	-1%
Wildlife Resources	1%	-2%
Laundry Services	3%	-14%
Corrections	6%	6%
Vocational Rehabilitation	6%	10%

What Does the Analysis Show?

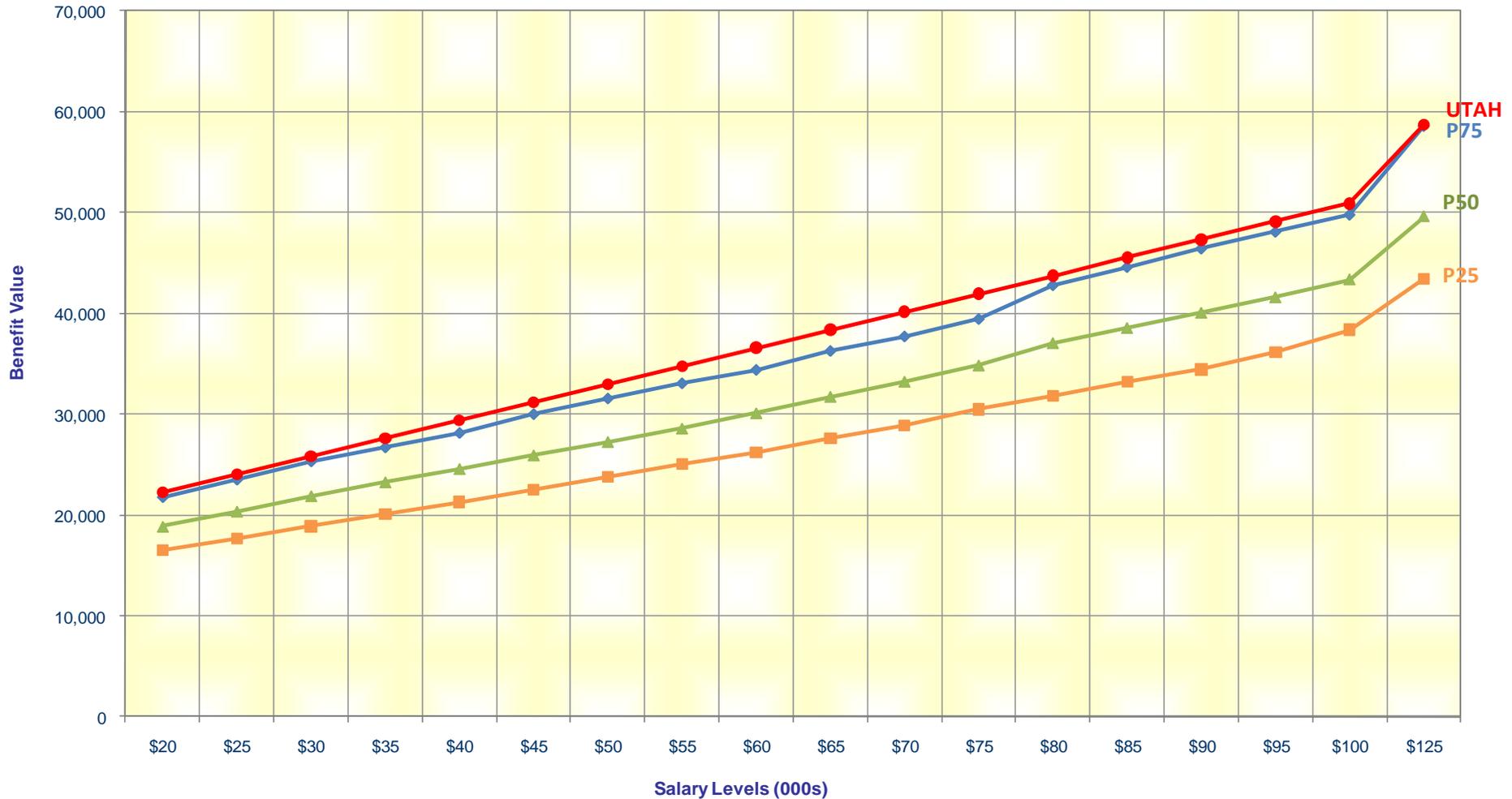
MARKET ANALYSIS FINDINGS – BENEFITS

Findings from the market competitiveness of current benefits include:

- The State's benefits program is at the market P75 when compared to the Utah employer market
- The State's benefit program is between the market P50 and P75 when compared to Central States
- Health care and retirement, the two primary drivers of overall market competitiveness, are at or above market median relative to both the Utah and Central States markets
- Death, disability and paid leave (holiday/vacation) are also competitive relative to both comparator groups; however, these benefits comprise a smaller portion of the total benefit package
- Other benefits are below market, as the State does not provide any consistent employer paid benefits in the area of tuition reimbursement, dependent care or commuter subsidies

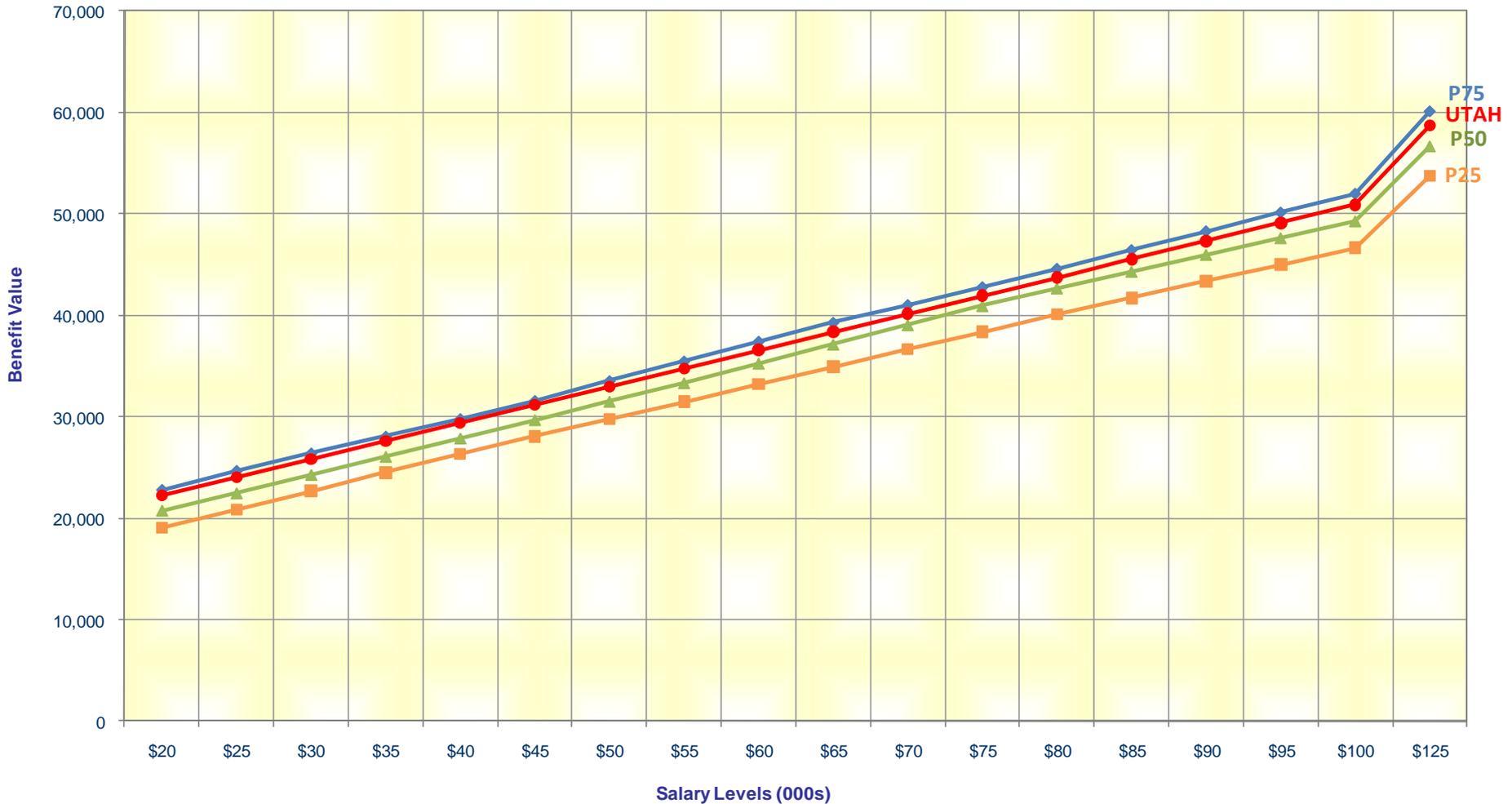
Market Competitiveness – Benefits

EMPLOYER PAID TOTAL BENEFITS VALUES – Salary Levels \$20,000 - \$125,000 Hay Group Market (UT)



Market Competitiveness – Benefits

EMPLOYER PAID TOTAL BENEFITS VALUES – Salary Levels \$20,000 - \$125,000 Central States Market



What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – BENEFITS

UTAH VS. HAY GROUP MARKET

Benefit Area	Market Comparison	Key Findings
Total Benefits	P75	Market position of health care, retirement weigh heavily in overall benefit program competitiveness
Death	Varies based on salary	The State's flat dollar benefit of \$25,000 is above the market P50 for employees earning up to \$45K and is below P50 for employees more than \$45K. The value falls below P25 for employees earning more than \$65K. UT market typically provides benefit based on salary
Disability (Includes Sick Leave)	P75	The State provides short term disability benefits primarily through sick leave accrual (13 days per year with no maximum) while the Utah market typically provides less accrued leave and provides an employer paid STD benefit. The State's LTD has a similar structure to the UT market, but the benefit is slightly above the UT market
Health Care	P75	Market position is driven primarily by low employee contributions. State employees pay 10% while the UT market typically pays between 15-29%
Retirement	Above P75	New Tier 2 Hybrid retirement benefit is above market, as only 31% of the UT market provides a Defined Benefit plan. Tier 2 DC plan, while less valuable than the Hybrid plan, is also competitive against the UT market due to the State's contribution of 10%
Paid Leave	P50	The number of paid holidays and vacation schedule is at the median of the UT market
Other	Below P25	Limited offering of flexible spending accounts and no consistent employer paid benefits is below the UT market

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – BENEFITS

UTAH VS. CENTRAL STATES

Benefit Area	Market Comparison	Key Findings
Total Benefits	Between P50 and P75	Market position of health care, retirement and time-off weigh heavily in overall benefit program competitiveness
Death	Varies based on salary	The State's flat dollar benefit of \$25,000 is above the market P75 for employees earning up to \$55K and is between P50 and P75 for employees earning more than \$55K. Central States typically provide flat dollar death benefits that are less than \$25,000
Disability (Includes Sick Leave)	P75	The State provides short term disability benefits primarily through sick leave accrual as do Central States. Utah's sick leave accrual is above the market. In addition Utah's LTD has a shorter waiting period than most Central States
Health Care	P75	Market position is driven primarily by low employee contributions, especially for dependent coverage. State employees pay 10% while 60% of the Central States require employees to pay more than 30% for dependent coverage
Retirement	P50	New Tier 2 Hybrid retirement benefit is at the median of the Central States, while the Tier 2 DC plan is just above the market P25. 85% of the market continues to provide a DB plan
Paid Leave	P75	The number of paid holidays is consistent with other states, The vacation schedule is above P50 of the Central States market. There is little variation between P25 and P75
Other	Below P25	Limited offering of flexible spending accounts and no consistent employer paid benefits is below the Central States market

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – TOTAL COMPENSATION

- The State's **total compensation** program is market competitive when compared to both the Hay Group market as well as the Central States market. Below are key findings regarding specific aspects of the State's compensation program:
 - **Cash compensation** lags the Hay Group market by an average of 10%, with lower paid employees (those earning less than \$50,000), lagging the market by 10% or more. The State of Utah is more aligned with Central States on average; however, employees at lower salary levels trail their counterparts in other States, while higher paid employees are slightly above the market median of other States
 - **Benefits** are at or above the market median of both markets for all employees driven by strong retirement and health care programs
 - **Total Compensation** is at or below market median in the Hay Group Market, as the higher benefits program value does not fully offset the low cash compensation. The State of Utah is between P50 and P75 against the Central States market, which is a result of more competitive cash compensation and benefits

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – TOTAL COMPENSATION

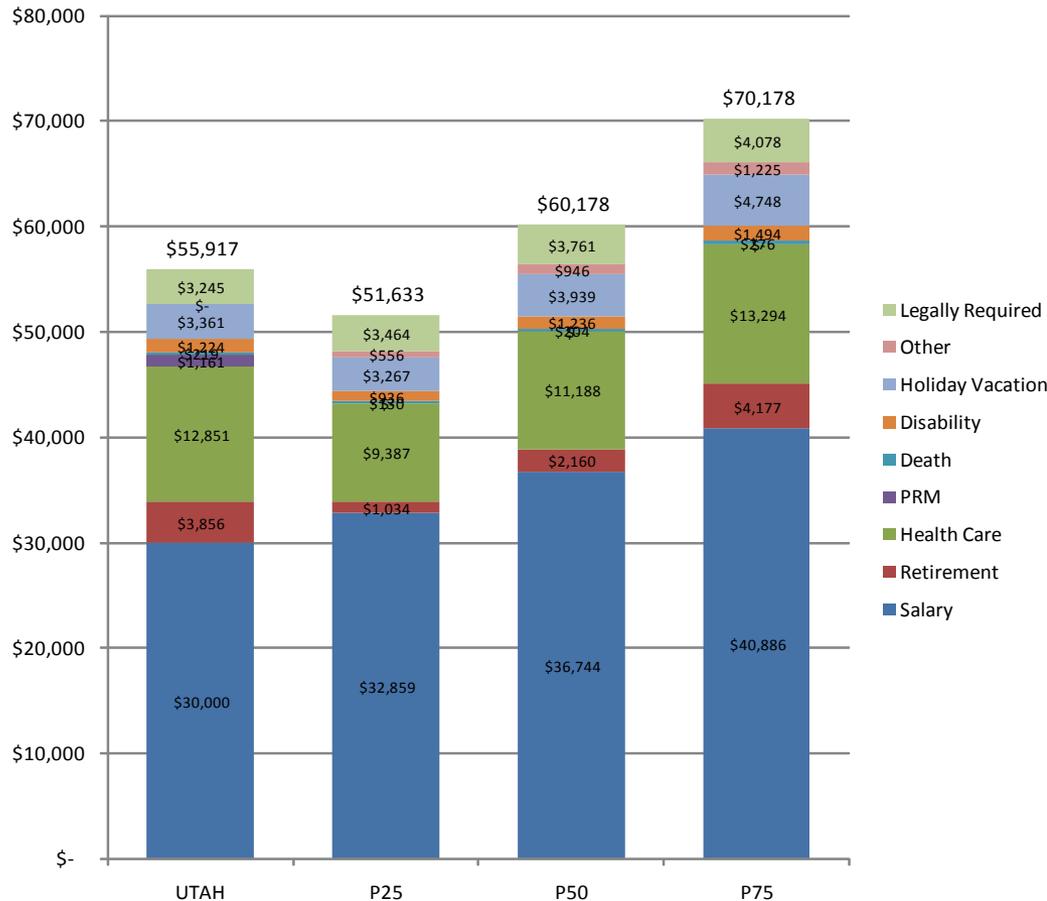
- The State's **total compensation** program is market competitive when compared to both the Hay Group market as well as the Central States market. Below are key findings regarding specific aspects of the State's compensation program:
 - **Pay Mix** for State employees varies against the market depending on salary.
 - **Note:** Only those components of pay provided by the State are included in total compensation. It is common in the private sector to pay annual incentives, which if included would make the State less competitive relative to the Hay Group Market

What Does the Analysis Show?

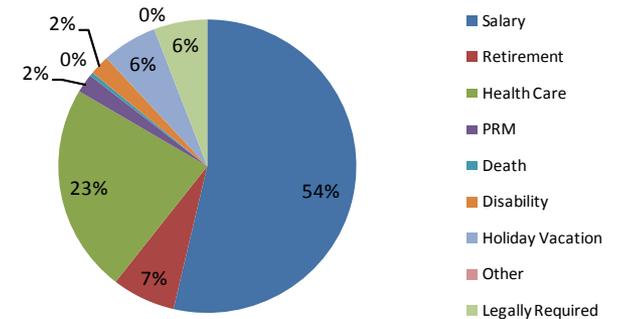
MARKET ANALYSIS FINDINGS – TOTAL COMPENSATION

STATE VS. HAY GROUP MARKET

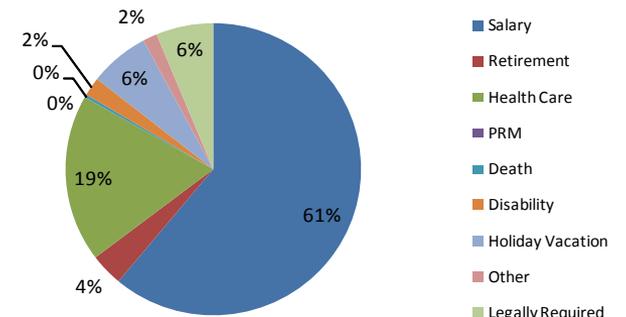
Total Compensation Comparison - \$30,000



UT - \$30,000 Benefit Mix



Market P50 - \$36,744 Benefit Mix

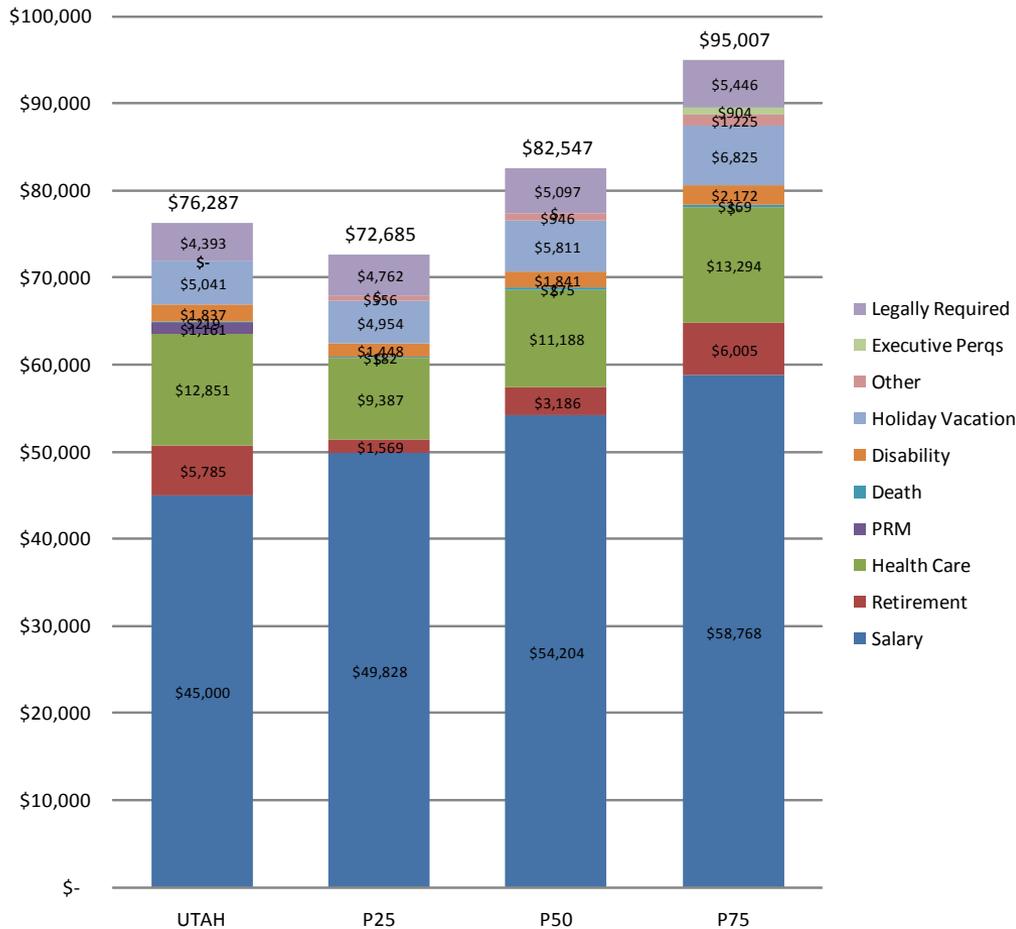


PRM = Post-Retirement Medical

What Does the Analysis Show?

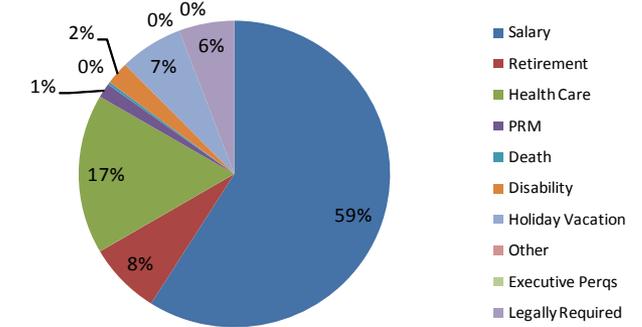
MARKET ANALYSIS FINDINGS – TOTAL COMPENSATION

Total Compensation Comparison - \$45,000

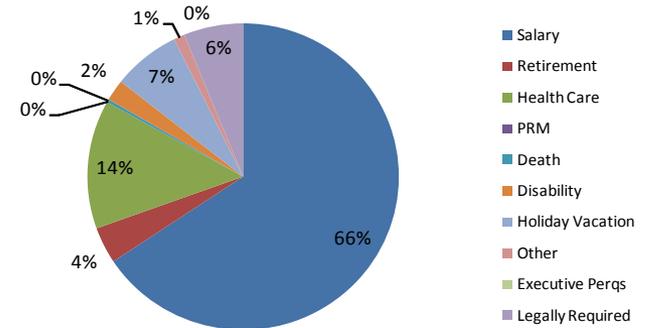


STATE VS. HAY GROUP MARKET

UT - \$45,000 Benefit Mix



Market P50 - \$54,204 Benefit Mix

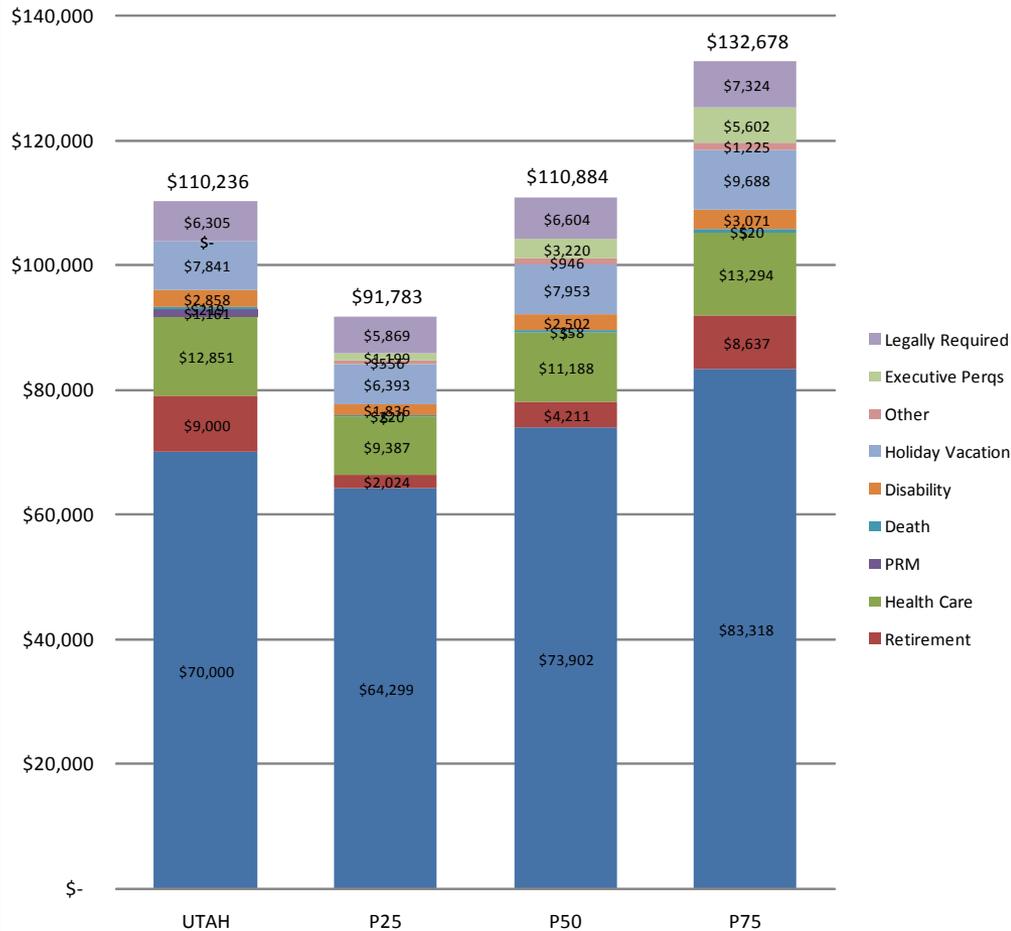


PRM = Post-Retirement Medical

What Does the Analysis Show?

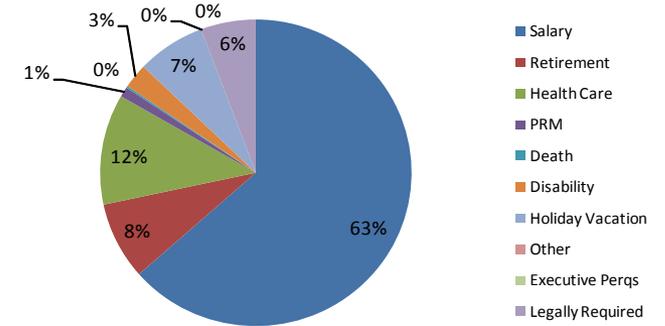
MARKET ANALYSIS FINDINGS – TOTAL COMPENSATION

Total Compensation Comparison - \$70,000

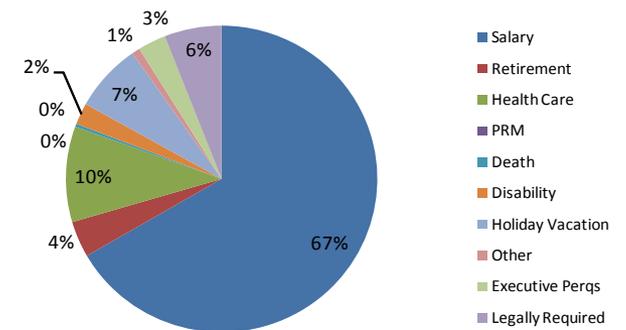


STATE VS. HAY GROUP MARKET

UT - \$70,000 Benefit Mix



Market P50 - \$73,902 Benefit Mix



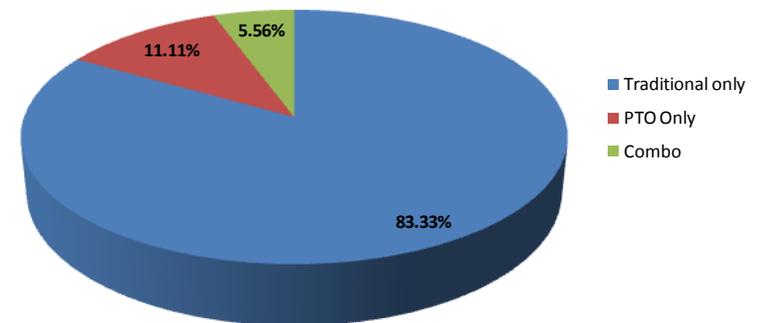
PRM = Post-Retirement Medical

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – PAID TIME OFF (PTO)

- Hay Group surveyed UT based organizations about their paid time off policies to get a better understanding of market trends.
- The State's traditional system includes vacation, sick time, and holidays, which is in line with market practice for both the UT and Central States markets
 - Only 16% (9 of 54 respondents) have a PTO program in place (see chart below)
- In the market, PTO programs are growing in prevalence. According to the 2010 WorldatWork Survey of Paid Time Off practices, 40% of employers provide a PTO bank-type system, up from 28% in 2002. 54% of employers offer a traditional system of vacation, sick time and personal time, down from 71% in 2002
- However, this trend does not hold true for public sector organizations. A traditional system is offered by 88% of organizations, while only 12% provide a PTO system

What type of paid time off program does your organization provide?



What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – PAID TIME OFF (PTO)

- Hay Group does not recommend changes to the State’s vacation and holiday policy for the following reasons:
 - The traditional structure of the State’s program reflects current market practice
 - Market data does not suggest PTO programs are increasing in prevalence among public sector organizations
- In addition, there may be unintended consequences if the State moved from a traditional paid leave system to a PTO program:
 - PTO limits and “use or lose it” provisions may prompt employees to use time off when they otherwise would not have creating resource issues
 - Employees who exhaust PTO may be forced to come to work ill
- With regard to the State’s sick leave policy, changes to the policy must be considered in conjunction with the post-retirement medical benefit (PRM) due to its linkage to the subsidy of PRM

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – POST RETIREMENT MEDICAL (PRM)

- Hay Group surveyed UT based organizations about their retiree health care programs to get a better understanding of market practice and trends:
 - The survey sample, which is slightly smaller than the UT market, indicates only 42% (or 22 of 53 organizations) provide some type of retiree health care coverage
 - 35% of these programs are fully retiree paid and 63% share the cost with retirees
- The State's retiree health care program is in line with Central States market practice, as 92% offer some type of retiree coverage. However, only 48% of the UT market provides retiree coverage
- With regard to eligibility determination for PRM, the State is not aligned with market practice
 - Age (73%) and/or Service (47%) are the most prevalent ways of determining eligibility, not accumulation of sick leave (7%) as the State does

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – POST RETIREMENT MEDICAL (PRM)

Key Questions to be Considered:

- Is sick leave the appropriate basis for post retirement subsidy determination?
 - This structure is not prevalent in the market
 - Rewards healthier employees, those that take less leave during their career, with more employer subsidy
- Does the current structure raise any issues with respect to regulatory compliance?
 - Are certain employee groups treated less favorably than others – i.e. lower paid employees, females
 - Does PPACA have an impact on the use of an HRA to fund post retirement medical costs for Utah retirees?
- Does the State want to continue offering post retirement medical coverage?
- Regardless of how the State's subsidy toward PRM is determined, what is the target subsidy level?
- The following page outlines the full spectrum of options for consideration

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – POST RETIREMENT MEDICAL (PRM)

- **The following four criteria form the basis for Hay Group's recommendations regarding the State's the sick leave / post retirement medical program:**

Financially Sustainable

- Can the program be sustained over the long term?
- What are the appropriate financial parameters for the program?

Market Competitive

- Does the benefit maintain the State's ability to attract employees?
- What's the appropriate trade off if PRM were modified?

Employee Focused

- Will the change cause significant employee disruption?
- To what extent can previously promised benefits be retained?

Regulatory Compliant

- Does the program meet all applicable federal and state requirements, especially related to taxation and nondiscrimination requirements?

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – POST RETIREMENT MEDICAL (PRM)



Option 1	Option 2	Option 3	Option 4	Option 5
<ul style="list-style-type: none"> No changes to the program 	<ul style="list-style-type: none"> Increase Program I hours required for subsidy from 8 to 16 hours 	<ul style="list-style-type: none"> Keep leave to PRM link Implement a maximum number of 1040 hours that may be converted at retirement (401(k) and HRA) Employee may accrue more than 1040 for use as leave while still employed 	<ul style="list-style-type: none"> Remove leave to PRM link Employees earn \$500 per year of service toward HRA at retirement Freeze Program II as of 7/1/2012 Current Program I and II participants may use balances at retirement 	<ul style="list-style-type: none"> Remove leave to PRM link Current Program II participants may accrue up to 1040 maximum (refer to option 3) New hires after 7/1/2012 will be eligible for retiree pay all PRM

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – PAY FOR PERFORMANCE

Characteristics of Effective Performance Management Processes

A performance management process needs to ensure:

- **Alignment.** That teams and individuals understand broader organizational goals and strategies, and understand how what they do contributes to achieving those goals and strategies
- **Agreement.** Individuals and team members understand and are in agreement about each other's responsibilities and accountabilities, and processes are in place to ensure that teams and/or individuals are not duplicating each others' efforts
- **Accountability.** Individuals and teams understand that they are responsible for accomplishing the agreed upon results and activities, and that they will be held accountable for accomplishing them
- **Adjustment.** Employees and teams monitor their progress against expected results and take action to ensure that the expected results are achieved. This does not mean changing the goals or adjusting them down. It means doing what it takes, given the situation, to ensure that the goals are met

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – PAY FOR PERFORMANCE

Prevalence of Pay for Performance in State Governments

- The economic downturn and lack financial resources for compensation changes in the past few years has led to limited use of performance based pay
- However, in the 2010 Central States Compensation Association Survey, 59% of the participants reported that they have a performance based pay system with performance/merit being the primary driver of changes in pay
- Of those, 81% reported that their performance based system allowed for different levels of pay for different levels of performance
- It is the experience of Hay Group that with the increased focus on accountability and measurable outcomes for government, the % of States that will move to a performance based pay plan is likely to increase
- This will allow States to reinforce their performance management processes and move away from across the board and/or cost of living increases for all employees
- Such increases do not recognize either performance or where an employee is paid relative to market
- In addition, they do not help in alleviating compression issues, particularly for employees who are low in their salary ranges

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – PAY FOR PERFORMANCE

How to effectively link pay and performance, taking into consideration both relativity to market and performance

- To ensure that salary increase dollars recognize relativity to market and performance, it is recommended that the following principles be applied:
 - for positions which are below market target, both a market adjustment and a performance payment be made;
 - for positions where the incumbent is above market target, a performance payment be made; and
 - for positions which are high in their salary range, the performance payment may be made with a mix of base salary and lump sum payment
- This concept is illustrated on the following page

What Does the Analysis Show?

MARKET ANALYSIS FINDINGS – PAY FOR PERFORMANCE

Illustrative Only

Relativity to Market Policy Position	% Increase		Level of Performance	% Increase	
100% or Above	0%	+	Exceeds Expectations	4%	= Increase
90% of Market Target	1%		Achieves Expectations	2%	
Less than 90% Below Market Policy Position	2%		Needs Improvement	0%	