

State of North Dakota

Evaluation of Classified Employee Compensation System The Path to Enhancement

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Introduction

Introduction

- In August 2010, Hay Group prepared and presented to the Government Services Committee (GSC) a report setting out the project steps, analysis and findings from an evaluation of the Classified Employee Compensation System
- The purpose of this report is to provide the recommendations and guidance on the importance and the benefits to be gained from the development of a plan to adopt and action these recommendations

Project Objectives

The primary objective of this project was to evaluate the following 10 specific areas of the Classified Employee compensation system:

- A State compensation philosophy statement
- Methods of classification
- Salary inequities
- Methods used to set pay grade minimums, maximums, and midpoints
- Appropriate market comparisons
- Fringe benefits
- Methods of developing and sustaining a consistent long-term salary increase administration policy for state government
- Recruitment and retention tools

Project Objectives

The primary objective of this project was to evaluate the following 10 specific areas of the Classified Employee compensation system (cont'd):

- The budget appropriation process for providing funds to agencies to administer the State's salary increase policy
- The appropriate use of funding available within agency budgets from accumulated savings resulting from vacant positions and employee turnover. Focus is only on Salary Savings during the year

Steps Undertaken

The following steps have been undertaken since the project commenced in March 2010:

- Meeting with the GSC for definition and clarification of what was to be studied in the 10 areas identified by the GSC
- Meeting with Legislative Council Staff for project planning
- Meeting with HRMS staff for identification of data needed and for gaining understanding of the current Classified Employee compensation plan
- Interviews with a cross section of Agency leadership for purposes of gaining an understanding of “what’s working; what’s not” in the design, implementation and administration of the Classified Employee compensation plan
- Extensive analysis in each of the 10 areas identified

Steps Undertaken

The following steps have been undertaken since the project commenced in March 2010 (cont'd):

- Preparation of a preliminary report
- Present analysis and preliminary findings to the GSC
- Development of the recommended changes/enhancements to the system and the outcomes that should be expected from these changes
- Today's presentation to the GSC

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Summary of Analyses

Summary of Component Analysis

The August 17, 2010 presentation set out detailed analysis for each of the components that were part of the scope of this project. A summary of that analysis is as follows:

1. Compensation Philosophy
 - While Chapter 54 of the North Dakota Code has some statements about compensation policies, roles and relationships, there is no clear statement of a Compensation Philosophy
2. Methods of Classification and Job Evaluation
 - While the methods, processes and forms used are sound, there are opportunities for enhancements which will simplify the process and hence, speed up the process
 - Compression in allocation of classifications to grades exists due to the fact that while there are 20 grades, only 14 are primarily used. This also creates internal equity issues as classifications which are perceived to be different in job content are placed in similar grades

Summary of Analyses

- The State has utilized a modified version of the Hay Method of Job Evaluation since 1982. The use of a job evaluation is a strength
- However, analysis showed that while there has been consistent application of this process by HRMS, a review of the evaluations done by Hay Group showed that it is our opinion that evaluations using the Hay Method of Job Evaluation would result in different evaluations and hence potentially different grades

3. Salary Equity

- Overall compa-ratio is 93% relative to range midpoint, with no significant variance across grades
- While the State has one salary structure, analysis shows that there are multiple pay practices, reflective of either occupational groups or job families
- In some cases, there is a wide range of pay for the same classification in different Agencies

Summary of Analyses

4. Market Definition and Pay Ranges

- The current market definition is loosely defined, has been the focus of debate in recent years and is not aligned with the competitive talent needs of the State
- The definition of the market needs to be driven by the State's compensation philosophy, not by just geography considerations
- The current salary ranges are stated as being set at 5% below the average of the market. However, Hay Group analysis shows that midpoints range from 10% below the market to 3% above the market
- Levels of competitiveness must be viewed in conjunction with compa-ratio analysis
- There are a number of classifications where the State's average pay lags the market by more than 15%
- The State utilizes wide pay ranges. This, coupled with the midpoint being set at 95% of the currently defined market, places a significant need to have strong processes for moving employees through their salary ranges

Summary of Analyses

5. Fringe Benefits

- The State offers a sound, comprehensive and cost-effective benefits program with the healthcare and retirement programs being its strength and the Life and Disability programs being less competitive
- It is the opinion of Hay Group that this program does not need significant changes and the focus of changes as an outcome of this review should be on the classification and compensation components

6. Recruitment and Retention Tools

- The use of recruitment bonuses is a positive feature of the State's program and has helped the State in its recruitment process
- Similar to the recruitment bonus, the retention bonus is a positive feature
- The performance management process of the State is sound and Hay Group was impressed with the strength of the performance metrics being used. Agencies show a real commitment to agency and employee performance

Summary of Analyses

7. Budget Appropriation Process

- The OMB has a sound and well documented compensation planning process and schedule
- The salary budgeting process takes into consideration various analyses such as internal equity, relativity to market, market movement, etc.
- Once budgets and appropriations have been approved by the Legislature, funding is appropriated on what Hay Group refers to as a “bulk funding” basis. Hay Group commends this approach as it reinforces the accountability of Agency leadership to manage all their resources
- The focus of attention in the future should be on determining whether funding should be based on current employee costs vs. midpoint budgeting and the extent to which vacancies are included in the budgeting process

Summary of Analyses

8. Long-Term Salary Increase Processes

- Performance and Equity have been the basis of salary movement and these are sound and commendable
- An equity pool for addressing internal equity and relativity to market has been used
- However, based in HB 1015 as an example, there has been some “contradictory” statements of intent in setting out the basis for pay delivery
- The State has in place sound fundamentals for future pay delivery mechanisms

Summary of Analyses

9. Vacancy Savings

- The primary use of vacancy savings is for the purpose of paying off leave balances (annual/sick leave) for employees who leave and/or retire
- It is also used for operational costs such as vehicles, employee contractor pay, overtime; funding recruiting, retention, and performance bonuses; and market equity adjustments
- The issue that needs to be addressed in State Governments is the determination of the basis of the funding vacant positions that, in some cases, have been vacant for several years. Hay Group does not have data from this project to make specific comments on whether this is the case in the State of North Dakota. However, the current economic and budgetary challenges are causing an increased focus on this issue in both the Legislative and Executive Branches. This should minimize the focus on whether vacancy savings should be “retained or returned,” which is an “after the fact” consideration and put the focus on the funding of the appropriate number of positions, which is a “front end” consideration

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Recommendations

Recommendations

- Set out in this Section is a list of actions that Hay Group recommends be taken to enhance the current Classified Employee compensation system. The following has been taken into consideration in preparing these actions:
 - It is the opinion of Hay Group that the current system is not broken and the recommendations made can be done within the current system
 - One exception to the above is the need to develop a Statement of Compensation Philosophy. The content and adoption of such a statement may have an impact on the recommended actions as what needs to be addressed within the ten components reviewed must be done within the context of the Statement of Compensation Philosophy
 - Hay Group wants the value of taking actions to be known, rather than just a series of recommendations. Accordingly, the expected outcomes of taking actions is shown for each action. This will also enable Legislative and Executive Branch leadership to be able to measure the degree of success of the implementation of the recommended actions
 - Hay Group welcomes the opportunity to partner with the State in developing a game plan and then implementing that game plan

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
A State compensation philosophy statement	<p>Develop a Compensation Philosophy that serves as an umbrella statement, linking compensation to the State's Mission, Vision, Values and its human resources objectives</p> <p>The Compensation Philosophy statement should include:</p> <ul style="list-style-type: none"> • Definition of the market • Definition of compensation • Definition of how pay ranges will be established • Definition of how pay will move • Definition of roles and accountabilities • Definition of what will be stated in code, policy, procedure, etc. <p>Involve key leadership from the Legislative and Executive Branches in the development of the Compensation Philosophy</p>	<ul style="list-style-type: none"> • Sets the Legislative intent for the State's compensation system and program • Increased consistency across the State, as all compensation decisions will be made according to the philosophy statement • Creation of a more balanced approach to compensation by ensuring budgeting and pay administration decisions take into consideration both an external (market) and internal (internal equity and performance) factors • Establishes the appropriate balance between centralization and decentralization of compensation plan administration • Creates a framework within which to consider total reward • Clearly states the roles and accountabilities of the Legislative and Executive Branches of government 	Must Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
Methods used to develop and determine classifications	Simplify/Modify the overall Classification/ Reclassification Process (e.g., how decisions are made, constituency of decision-makers, accountability and responsibility of the State Personnel Board) <ul style="list-style-type: none"> Creation of a classification/reclassification committee that includes agency and HRMS staff. Agency representatives would be comprised of both HR and non-HR staff 	<ul style="list-style-type: none"> Less complicated Quicker decisions Increased fairness Enhanced partnership between agencies and HRMS Classification/Reclassification decisions will have a stronger link the job evaluation methodology (i.e., sound decision making) rather than subjective whole job comparisons 	Should Do
	Revise/Modify Classification/Reclassification Forms	<ul style="list-style-type: none"> Streamlined forms depending on the “type” of review request Stronger link to the information required for a decision Greater input from the employee versus the supervisor 	Should Do
	Revise Classification Specifications: <ul style="list-style-type: none"> Duties/responsibilities should increase in complexity within a series. “Duties Performed At All Levels” is at times inaccurate as some of these duties are performed at higher levels Review minimum qualifications for appropriateness Remove “Class Evaluation” section 	<ul style="list-style-type: none"> Greater clarity of the duties/responsibilities performed at the first level within a series Stronger link between minimum qualifications and actual responsibilities performed Employees or Agency Authorities can no longer misinterpret or use the “Class Evaluation” to influence a reclassification decision 	Should Do
	Communication/education on the new process	Positive perceptions of the process – perceived as sound and fair	Should Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
Methods to minimize salary inequities both within an agency and within State government	Job Evaluation training for HRMS job evaluators and classification/reclassification committee members	<ul style="list-style-type: none"> Authorized users of the Hay Guide Chart-Profile Method of Job Evaluation Consistency and calibration of methodology and application 	Must Do
	Benchmark job evaluation review and refinement	<ul style="list-style-type: none"> Defined benchmark framework of classified positions to serve as internal equity comparisons for non-benchmark jobs 	Must Do
	Review of non-benchmark classifications & develop a revised classification schema	<ul style="list-style-type: none"> All classifications are appropriately evaluated and leveled to ensure internal equity across the State Decrease in the number of classification requests Classification schema is used to support or assist in classification/reclassification decisions and to ensure integrity of the system is maintained overtime 	Must Do
	Identify “catch all” classifications to assess appropriateness	<ul style="list-style-type: none"> Broad classifications represent a similar level of work performed Truly different jobs are reclassified to ensure levels of complexity are recognized in the classification system 	Should Do
	Identify jobs that are unique to an agency (a core part of the service they provide) to assess appropriateness of state-wide classifications	<ul style="list-style-type: none"> Core service jobs for an agency are appropriately classified Increased Agency capability to recruit and retain key agency jobs 	Should Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
Methods used to set pay grade minimums, maximums, and midpoints AND Appropriate market comparisons	Grade structure redesign & grade re-assignment of benchmark and non-benchmark classifications	<ul style="list-style-type: none"> • Reduce compression and create more “distance” between levels of work (analogy: the current compressed, accordion-like structure will be expanded) • Enhanced internal equity (jobs that require the same level of knowledge, complexity, and accountability are in the same grade) • Grade structure in which all the grades are available for use 	Must Do
	Custom salary survey & market analyses for the “local” market <ul style="list-style-type: none"> • Discontinue or limit use of the Job Service ND Labor Market Survey 	<ul style="list-style-type: none"> • Appropriate “local” comparator market to establish the foundation (in addition to other state comparisons) for the pay strategies • Increased number and/or quality of job matches to salary survey data 	Must Do
	Identify Job Family/Occupational groups that require different pay strategies from “general” pay classifications	<ul style="list-style-type: none"> • Discontinued use of a “one size fits all” salary structure to one that recognizes different pay markets for certain Job Family/Occupational groups • Increased ability to identify and address internal equity issues 	Must Do
	Develop salary ranges for the “general” pay structure and the Job Family/Occupational group structure(s)	<ul style="list-style-type: none"> • Enhanced recruitment and retention efforts • Increased market competitiveness 	Must Do
	Decrease width of the salary ranges and perform cost-to-implement analyses	<ul style="list-style-type: none"> • Enhanced recruitment efforts • Enable competent employees to reach market target within a reasonable timeframe • Inform the budgeting process 	Must Do
	Perform an State-wide, Agency, and Job Family/Occupational group internal equity analyses against the new pay strategies to develop a more detailed implementation plan	Enable HRMS staff to provide direct advice and guidance to the agencies on ways to address implementation and internal equity issues	Should Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
Fringe benefits	Increase basic life insurance benefit from current level of \$1,3000 to 1 times pay (or a flat dollar benefit of at least \$25,000)	More competitive benefit will provide adequate coverage for basic expenses.	Must Do
	Consider implementing a separate long term disability benefit outside the pension plan.	If defined benefit plan is modified in the future, a separate LTD program will be easier to administer and communicate to employees.	Should Do
	Consider introducing premium contributions toward health care	Rather than using plan design elements (copayments, deductibles, etc.) exclusively to increase employee cost share, a balanced approach of using plan design and premiums provides more flexibility to the State and is more in line with market practice.	Should Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
Recruitment and retention tools	Develop more detailed guidelines and amounts for the Recruitment and Retention Bonuses	Consistent application of the use of recruitment and retention bonuses across Agencies	Should do
	Define the “type” of performance (e.g., performance of core job responsibilities or achievement of specific goals or areas of desired discretionary effort) to be recognized and rewarded through a Performance Bonus	The same “type” of performance is being recognized and rewarded across the State	Should Do
	Review the dollar cap for the Performance Bonus and consider performance amounts that are commensurate with the job level (classifications with higher requirements for knowledge, complexity and accountability might receive a larger amount than those with lower requirements)	<ul style="list-style-type: none"> To help create a performance based culture there needs to be performance goals that are aligned with the level of contribution a job provides to State, Department, etc objectives. The achievement of these goals also need to be rewarded according to the level of contribution Support internal equity. A smaller job with lower level contribution receives a different payout than a larger job with a higher level of contribution. Currently, every job could receives the same amount 	Should Do
	HRMS to continue to consult with agencies on the utilization of non-monetary rewards for retention efforts	Increase retention	Should Do
	Develop a targeted retention program for those employees that have between 3-5 years of service	Increase retention and lower costs associated with recruiting, hiring and training new employees	Nice To Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
Methods of developing and sustaining a consistent long-term salary increase administration policy for state government, including cost-of-living increases, across-the-board increases, merit increases, equity increases, and performance increases	<p>Continue to utilize two key components: performance and equity for movement of pay. However, going forward, fund pay movement through one pot of money rather than two separate allocations of funds. This will allow a greater linkage between relativity to market and performance, it is recommended that the following principles be applied:</p> <ul style="list-style-type: none"> • 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 <p>This concept is illustrated on page 28</p>	<p>Agencies will be better able to administer pay in a way that recognizes both equity and performance</p> <p>The Legislature will know that the salary dollars appropriated are being distributed in accordance with its philosophy and within the fiscal parameters it has established</p>	Must Do

Recommendations

Project Component	Work to Be Done	Outcomes	Priority
A budget and appropriation process for providing funds to agencies to administer the state's salary increase policy	Communicate appropriated funds as a dollar amount rather than a percentage	<ul style="list-style-type: none"> Agencies will no longer have to “battle” the expectation that every employee will receive the appropriated % increase Agencies will have an easier time in adopting the Performance to Equity Matrix 	Must Do
	Fund employee salary increases at the beginning of the budget and appropriation process	Sends a strong message regarding the State's commitment to its largest investment, being its employees	Should Do
The appropriate use of funding available within agency budgets from accumulated savings resulting from vacant positions and employee turnover. Focus is only on Salary Savings during the year	Fund annual/sick leave	Funding for what is a known commitment of the State	Must Do
	Define “vacancy” positions. It is Hay Group's opinion that the period between one employee leaving a position and another employee filling that position constitutes genuine vacancy savings and the Agency should have the flexibility to utilize those salary dollars	Clarifies what is a genuine vacancy saving and continues the practices of allowing Agencies to be accountable for managing their resources	Should Do

Recommendations

Illustrative Only

Relativity to Market Policy Position	% Increase
100% or Above	0%
92.1 – 99.9% of Market Target	1%
Less than 92% Below Market Policy Position	2%

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Level of Performance	% Increase
Exceeds Expectations	6%
Achieves Expectations	4%
Needs Improvement	0%

= Increase