Employee Benefits Programs Committee
Status of Compensation System (Hay) Implementation

Human Resource Management Services
September 25, 2012

September 2011 Employee Benefit Programs Committee

Classified State Employee Compensation Study

- **October 2010** – Hay Group presented final report with recommendations to Gov't Services Committee:
  - Adopt a Compensation Philosophy
  - Streamline & Simplify the Classification Process
  - Minimize Salary Inequities Through Job Evaluation Training
  - Appropriate Market Comparisons and Methods Used to Set Pay Grade Minimums, Midpoints, & Maximums
  - Develop Cost Estimates for Fringe Benefit Adjustments
  - Improve Guidelines for Recruitment & Retention Tools (bonuses)
  - Develop a Consistent Long-Term Salary Increase Administration Policy
  - Analyze the Effect of Appropriating Funds for Accrued Annual & Sick Leave and Funding of Vacant Positions

Legislative direction for implementing the recommendations of the study were contained in HB1031 from the 2011 Legislative Session. The Compensation Philosophy was codified as NDCC 54-44.3-01.2 and is included in this document at p4. The other areas of study implementation were contained in Section 2 of HB1031 and are included at p5.

Classified State Employee Compensation Study

- **January – April 2011** – Hay Group & ND HRMS Focused on Implementation of the Primary Study Recommendations
  - Revised/Modified the Process and Forms used in Job Classification & Analysis
  - Formed Job Evaluation Committee (**7 HRMS & 8 Agency HR Staff**) and received training in the Hay Guide Chart-Profile Method of Job Evaluation
  - **Hay Group & JEC evaluated all 900 ND Job Classifications**
  - Hay Group conducted a Custom Salary Survey to focus market analysis on appropriate employment market
  - Hay Group developed a revised grade structure based on the job evaluations and market-based ranges from the custom salary survey

Classified State Employee Compensation Study

The alternate implementation plan provides for:

- Retaining the existing classification grades & range structure through June 30, 2012
- Adopting the revised classification plan, grades, & ranges on July 1, 2012
  - Revised structure will place each salary range 'Market Policy Point' at 100% of market
    - Minimums at 75% of Market Policy Point
      - (vs original recommendation of 80%)
    - Maximums at 125% of Market Policy Point
  - Estimated total cost to meet new range minimums on July 1, 2012 is estimated between **$1.3 & $1.9 mill** (in addition to appropriations for general increases)

Classified State Employee Compensation Study

A significant impact of the new system will be employees whose **salary falls below the new salary range minimum**.

- HRMS, OMB Budget Staff, & affected Agencies have met to review the impact and give agencies time to develop plans to address salaries below the range.

A second, significant impact is more **'compression' of salaries at the low end of the salary ranges**.

- With the more direct market relationship in the salary ranges, HRMS & OMB Budget Staff will be able to **recommend more effective distribution of salary appropriations to address compression**
- The compression issue is significant and **will require several bienniums to address** if funding is provided

As we approached July 1, all agencies indicated that they would be able to meet the new minimums. However, nearly all agencies also expressed concern that implementing the new ranges is resulting in extreme compression of employees in the low end of their respective salary range. According to July 1 payroll records, 681 employees received increases totaling about $1.85 million to reach the minimum of their new range. The table at right summarizes the changes in grades effective July 1.

Change	# of Job Classes	# of Employees
Salary Range Lower	134	1,106
Up Less than 1%	20	125
Up 1.1 - 5%	66	288
Up 5.1 - 10%	311	2,323
Up 10.1 - 15%	36	557
Up 15.2 - 20%	266	2,200
Up 20.1 - 30%	45	391
Up 30.1 - 42.4%	12	53
	890	7,043

After implementation of the new grade and salary range structure and distribution of salary increases on July 1, 73% of classified employees are below the Market Policy Point (Midpoint) of their assigned salary range; 43% are in the 1st quarter of their range. Overall, ND has a very experienced workforce averaging 13.2 year of service with the state. The last page of this document is a graph showing the percent of employees in each quartile by agency and it also contains a line showing the average years of service in each agency. That data is part of the picture in determining the biggest lags related to market.

HRMS & Budget staff are now working on options and plans for distribution of salary appropriations in the 2013-15 Executive Budget. Strategic priorities being analyzed include:

- Maintaining salary ranges in a competitive position with market
  - Need to increment ranges in 2013 & 2014
  - Plan to update Market Survey for ranges effective July 1, 2015
- Identify the most significant situations of Compression (See Quartile Agency Chart)
- Develop distribution plans and models based on HayGroup 'Market Policy/Performance Pay Matrix' from the study recommendations

HayGroup

Example Matrix

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%

+

Level of Performance	% Increase
Exceeds Expectations	4%
Achieves Expectations	2%
Needs Improvement	0%

= Increase

Percentages in this table are for example only, actual percentages will be based on analysis and Budget available each year/biennium.

54-44.3-01.2. Compensation philosophy statement.

The compensation program for classified state employees must be designed to recruit, retain, and motivate a quality workforce for the purpose of providing efficient and effective services to the citizens of North Dakota. For purposes of this section, "compensation" is defined as base salary and related fringe benefits.

The compensation program must:

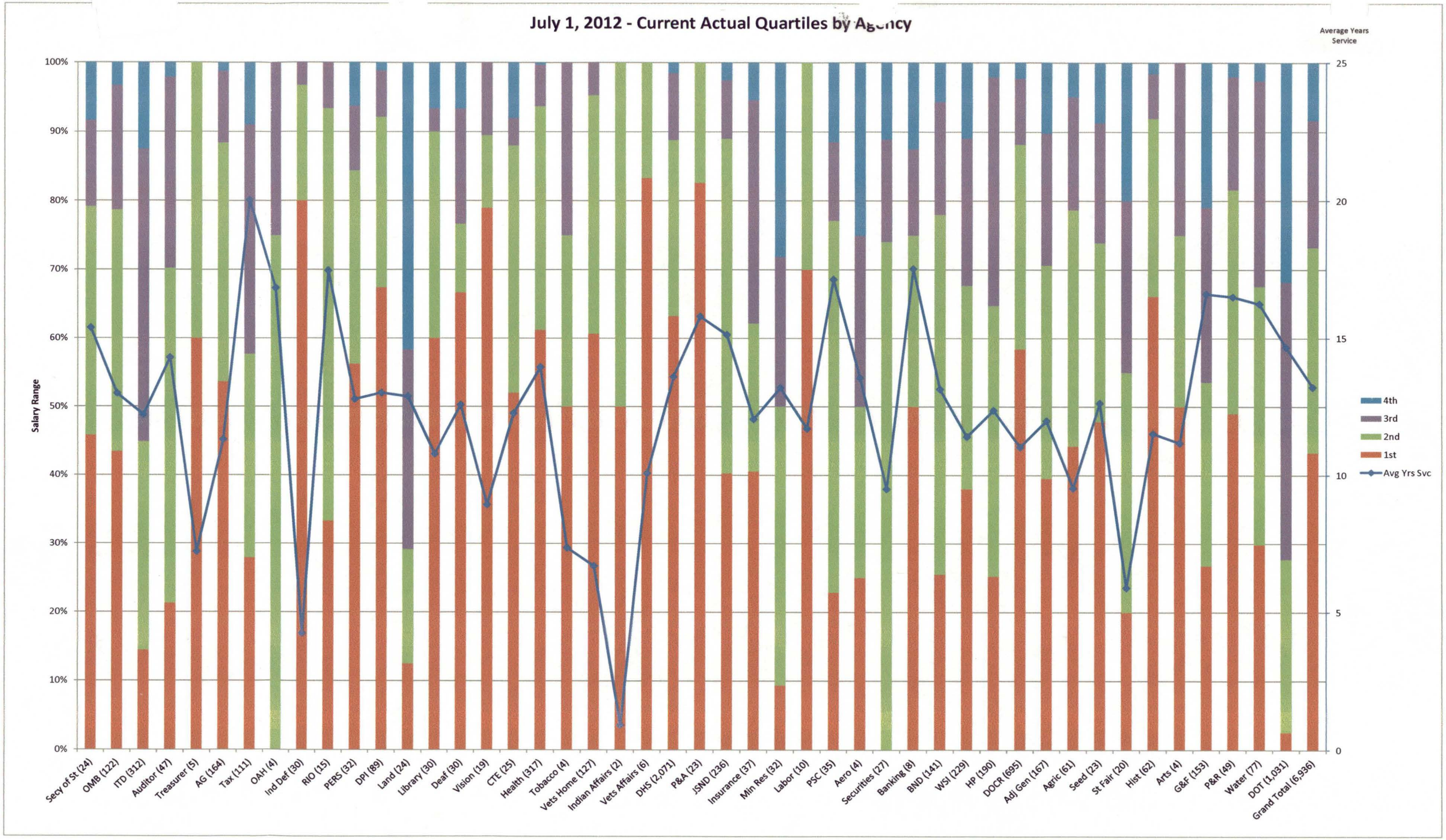
1. Provide a competitive employee compensation package based on job content evaluation, internal equity, and external competitiveness balanced by the state's fiscal conditions.
2. Be based on principles of fairness and equity.
3. Include a consistent compensation policy which allows for multiple pay structures to address varying occupational specialties.
4. Set the external competitiveness target for salary range midpoints at a competitive level of relevant labor markets. For purposes of this section, "relevant labor markets" is defined as the labor markets from which the state attracts employees in similar positions and the labor markets to which the state loses employees in similar positions.
5. Include a process for providing compensation adjustments that considers a combination of factors, including achievement of performance objectives or results, competency determinations, recognition of changes in job content, and acquisition and application of advanced skills or knowledge.
6. Provide funding for compensation adjustments based on the dollar amounts determined necessary to provide competitive compensation in accordance with the state's compensation philosophy. Funding for compensation adjustments may not be provided as a statewide percentage increase attributable to all employees nor as part of a statewide pool of funds designated for addressing equity issues.
7. Consider the needs of the state as an employer and the tax effect on North Dakota citizens.

The office of management and budget shall develop and consistently administer the compensation program for classified state employees and ensure that state agencies adhere to the components of the state's compensation philosophy. The office of management and budget shall regularly conduct compensation comparisons to ensure that the state's compensation levels are competitive with relevant labor markets.

The legislative assembly recognizes the importance of providing annual compensation adjustments to employees based on performance and equity to maintain the market competitiveness of the compensation system.

SECTION 2. COMPENSATION SYSTEM INITIATIVES - IMPLEMENTATION. The office of management and budget shall implement the following initiatives relating to the classified state employee compensation system for the period beginning with the effective date of this Act and ending June 30, 2011:

1. Adjust the methods used to determine classified state employee classifications by:
    a. Simplifying the classification and reclassification process.
    b. Revising classification and reclassification forms to collect additional information, including information from the employee.
    c. Revising classification specifications to ensure duties and responsibilities increase in complexity within a classification series and that minimum qualifications are appropriate.
    d. Communicating and educating employees on the classification process.
2. Minimize salary inequities both within an agency and within state government by:
    a. Providing job evaluation training for human resource management services job evaluators.
    b. Evaluating, reviewing, and refining common job classifications to create a framework of classified positions.
    c. Reviewing unique job classifications and developing a classification framework that ensures internal equity exists and that all classifications are appropriate.
    d. Identifying broad compensation system classifications and determining the appropriateness of the classification.
    e. Identifying jobs that are unique to an agency and assessing the appropriateness of these jobs being included in statewide classifications.
3. Develop appropriate market comparisons and methods to set pay grade minimums, maximums, and midpoints by:
    a. Redesigning the grade structure and reassigning common and unique job classifications.
    b. Customizing salary surveys and market analyses for the determined relevant labor market.
    c. Identifying job family and occupational groups that require different pay strategies from regular pay classifications.
    d. Developing salary ranges for the general pay structure and for job family and occupational group structures.
    e. Decreasing the width of salary ranges and performing cost-to-implement analyses.
    f. Performing statewide, agency, and job family and occupational group internal equity analyses.
4. Develop cost estimates for potential fringe benefits adjustments relating to:
    a. Increasing the basic life insurance benefit from the current level of one thousand three hundred dollars to an amount equal to each employee's annual salary level or a benefit level of at least twenty-five thousand dollars.
    b. Implementing a long-term disability benefit separate from the pension plan.
    c. Requiring employees to share in the cost of health care insurance premiums.
5. Expand recruitment and retention tools by:
    a. Developing guidelines and amounts for recruitment and retention bonuses.
    b. Defining the type of performance to be recognized and rewarded through a performance bonus.
    c. Reviewing the appropriateness of performance bonus maximums.
    d. Continuing to assist agencies in determining the appropriate utilization of nonmonetary rewards for employee retention efforts.
    e. Developing a targeted retention program for employees with three to five years of service.
6. Develop a consistent long-term salary increase administration policy by determining the funding request for salary adjustments using a single funding allocation method that includes performance and equity components.
7. Analyze the effect of:
    a. Appropriating funds to agencies for accrued employee annual leave and sick leave.
    b. Defining "vacant" positions and excluding long-term vacant positions from agency budget requests.


July 1, 2012 - Current Actual Quartiles by Agency
Average Years Service
Salary Range
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
25
20
15
10
5
0
4th
3rd
2nd
1st
Avg Yrs Svc
Secy of St (24)
OMB (122)
ITD (312)
Auditor (47)
Treasurer (5)
AG (164)
Tax (111)
OAH (4)
Ind Def (30)
RIO (15)
PERS (32)
DPI (89)
Land (24)
Library (30)
Deaf (30)
Vision (19)
CTE (25)
Health (317)
Tobacco (4)
Vets Home (127)
Indian Affairs (2)
Vets Affairs (6)
DHS (2,071)
P&A (23)
JSND (236)
Insurance (37)
Min Res (32)
Labor (10)
PSC (35)
Aero (4)
Securities (27)
Banking (8)
BND (141)
WSI (229)
HP (190)
DOCR (695)
Adj Gen (167)
Agric (61)
Seed (23)
St Fair (20)
Hist (62)
Arts (4)
G&F (153)
P&R (49)
Water (77)
DOT (1,031)
Grand Total (6,936)