



North Dakota Legislative Council

Prepared for the Employee Benefits Programs Committee

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STATE EMPLOYEE COMPENSATION STUDY- BACKGROUND MEMORANDUM

House Bill No. 1580 (2025) ([Appendix A](#)) provides for a study during the 2025-26 interim regarding the classified state employee total rewards compensation system, including a review of the development and determination of pay grade, classifications, and health care benefits. The study must include a review of:

- The history of changes to classification and pay grade levels;
- Comparisons among state employees across all departments and between state employee compensation levels to similar private sector jobs;
- The use of equity funding and bonuses to retain employees;
- The payment of prevailing wages on state projects;
- Wage levels in awarding contracts for state projects;
- The impact of changes to health plan benefits; and
- Premium rate structures for single and family coverage and the impact of any proposed changes.

The Legislative Management assigned the responsibility for this study to the Employee Benefits Programs Committee.

STATUTES AND RULES

Human Resource Management Services

The Legislative Assembly approved the Central Personnel System Act in House Bill No. 1120 (1975). The Act created the Central Personnel Division of the Office of Management and Budget (OMB) and the State Personnel Board which are provided for in North Dakota Century Code Chapter 54-44.3. The Central Personnel Division was changed to North Dakota Human Resource Management Services (HRMS) pursuant to Senate Bill No. 2092 (2003). The purpose of HRMS is to establish a unified system of human resource management for the classified service of the state based on merit principles and scientific methods, governing the position classification, pay administration, and transfer of its employees. The purpose of the State Personnel Board is to oversee the development and administration of the classification system.

North Dakota Administrative Code Article 4-07 contains the rules relating to the classified state employee compensation system. The policies, rules, and procedures developed by HRMS address the classification and compensation plans, salary administration, personnel administration actions, and compliance with federal laws for merit personnel systems. The federal government requires certain state agencies and units of local government to operate under a merit system of personnel administration because of the federal funds they receive for the programs they administer.

Recent Classification System Changes

The classification system was developed in 1982 by the Central Personnel Division, now HRMS. The factors used to determine the job classes include knowledge and skills required, complexity, responsibilities, and working condition hazards.

Prior to the 2009-11 biennium, the pay grades for the job classification were based on labor market information from Job Service North Dakota and periodic surveys using a 10-state market sample. The

10-state survey included Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Oklahoma, South Dakota, and Wyoming. The midpoint for each pay grade was set using 95 percent of the market-level pay. During the 2009-11 biennium, the salary ranges for the pay grades were recalculated annually to ensure the midpoint was within 5 percent of the market level. Based on recommendations from the 2009-10 interim Government Services Committee and House Bill No. 1031 (2011), HRMS began basing the pay grade midpoints at 100 percent market reflecting local and regional jobs from private and public employers in all industry types and restructured the classification system replacing the numeric grading system based on 20 grades (1 through 20) with an alpha grading system based on 22 grades (A through V).

Effective July 1, 2020, HRMS changed the job classification system for classified state employees. Prior to the change, the job classification system established a standard salary range for classified employees with similar job titles in multiple state agencies. For example, during fiscal year 2020, an employee with a grade D position had an allowable monthly salary range of \$2,085 to \$3,474 while an employee with a grade E position had an allowable monthly salary range of \$2,277 to \$3,794. The current job classification system replaced the 22 letter grades with 10 number grades. For example, employees with a letter grade of D and E were combined into a new grade 102 with an allowable monthly salary range of \$2,318 to \$4,172. The reduction of salary grades from 22 to 10 was intended to provide agencies additional salary flexibility for high-performing state employees without needing to reclassify the employee's salary grade and position. The current job classification system combined more than 850 job titles into 100 standardized job titles within 16 job families, such as administrative and office services, education services, human services, and trade services. A summary of the changes made at that time, as prepared by HRMS, is attached as ([Appendix B](#)).

Compensation Philosophy Statement

Also based on recommendations from the 2009-10 interim Government Services Committee and House Bill No. 1031 (2011), the Legislative Assembly created Section 54-44.3-01.2 ([Appendix C](#)) to establish a compensation philosophy for the compensation program for classified state employees, which 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. The Office of Management and Budget is required to develop and administer the compensation program and ensure state agencies adhere to the state's compensation philosophy. The Office of Management and Budget is required to regularly conduct compensation comparisons to ensure the state's compensation levels are competitive with relevant labor markets.

Classified Service Exemptions

Section 54-44.3-20 provides certain positions in state government are exempt from the classified state employee system, including elected officials and employees of boards and commissions, the legislative and judicial branches, institutions of higher education, the Mill and Elevator Association, and the Bank of North Dakota. A complete list of exempted positions and agencies is included as ([Appendix D](#)).

State Employees Compensation Commission

House Bill No. 1469 (1993) created Section 54-06-25 to establish the State Employees Compensation Commission, which consisted of four members of the Legislative Assembly appointed by the Chairman of the Legislative Management, the Governor or the Governor's designee, and four state employees, of which three must be members of the classified system and one must be in a nonclassified position. The commission was responsible for considering proper levels of compensation and fringe benefits for state employees and to make recommendations on these issues to the Governor for consideration in the executive budget and for consideration by the Legislative Assembly. The Legislative Assembly repealed the commission in House Bill No. 1015 (2021).

CURRENT STATE EMPLOYEE SYSTEM AND BENEFITS

Full-Time Equivalent Positions

The Legislative Assembly authorized a total of 16,628.37 full-time equivalent (FTE) positions for the 2025-27 biennium, an increase of 426.83 FTE positions from the 2023-25 authorized level of 16,201.54 FTE positions, including an increase of 129.74 higher education FTE positions and an increase of 297.09 FTE positions in all other state agencies. Of the total 16,628.37 FTE positions, 6,735.65 are higher education FTE positions and 9,892.72 are FTE positions in other state agencies.

Major changes in FTE positions, excluding higher education, are as follows:

Agency	FTE Authorization 2023-25 Biennium	FTE Authorization 2025-27 Biennium	Increase (Decrease)
325 - Department of Health and Human Services	2,483.83	2,688.35	204.52
530 - Department of Corrections and Rehabilitation	929.79	965.29	35.50
160 - Legislative Council	45.00	70.00	25.00
401 - Insurance Commissioner	47.00	60.00	13.00
750 - Parks and Recreation Department	65.00	76.00	11.00
180 - Judicial branch	384.00	394.00	10.00
315 - Office of Guardianship and Conservatorship	0.00	4.00	4.00
117 - State Auditor	65.00	59.00	(6.00)
414 - Securities Department	10.00	0.00	(10.00)
413 - Department of Financial Institutions	35.00	0.00	(35.00)

A history of FTE positions approved from the 1985-87 biennium through the 2025-27 biennium is attached as [\(Appendix E\)](#).

Salaries

The schedule below provides information on state employee salary increases approved by the Legislative Assembly since the 2013-15 biennium. Additional information on state employee salary increases since fiscal year 1973 is attached as [\(Appendix F\)](#).

Biennium	General Salary Increases
2013-15	From 3 to 5 percent based on performance for fiscal year 2013, from 2 to 4 percent based on performance for fiscal year 2014, and up to 2 percent for classified employees in the first quartile of their salary range and up to 1 percent for classified employees in the second quartile of their salary range for market equity for fiscal years 2013 and 2014
2015-17	From 2 to 4 percent based on performance for fiscal years 2015 and 2016
2017-19	0 percent for fiscal years 2017 and 2018
2019-21	2 percent with a minimum monthly increase of \$120 and a maximum monthly increase of \$200 for fiscal year 2019 and 2.5 percent for fiscal year 2020
2021-23	1.5 percent with a minimum monthly increase of \$100 for fiscal year 2021 and 2 percent for fiscal year 2022
2023-25	6 percent for fiscal year 2023 and 4 percent for fiscal year 2024
2025-27	3 percent for fiscal year 2025 and 3 percent for fiscal year 2026

Performance Bonus Program

Summary

Performance bonuses are authorized in Section 54-06-30 [\(Appendix G\)](#). The section provides state agencies may pay bonuses if the agency has had a written employee performance evaluation policy in place for more than 1 year before paying the bonus, the written employee performance evaluation policy has at least three levels of performance criteria, and the agency performance bonus program adopted is a written policy that is communicated to each employee in the agency.

An employee is eligible to receive a performance bonus if the employee has held a position in state government for at least 1 year and the employee's overall annual performance evaluation satisfies the agency's performance bonus program criteria.

An employee may not receive more than one performance bonus each fiscal year and may not receive more than \$1,500 in bonuses each fiscal year. Funding for the performance bonus program must be provided from within each agency's salaries and wages budget.

History

Section 54-06-30 was created in House Bill No. 1119 (2001), which limited performance bonuses to \$1,000 per biennium to classified employees. The bill provided agencies may not pay performance

bonuses to 25 percent or more of its classified employees. Section 2 of the bill included an expiration date of June 30, 2005.

House Bill No. 1093 (2003) amended Section 54-06-30 to authorize nonclassified employees to receive performance bonuses and removed the June 30, 2005, expiration date.

House Bill No. 1030 (2009) amended Section 54-06-30 to allow employees to receive performance bonuses of \$1,000 each fiscal year rather than each biennium. The bill also authorized agencies to receive approval from the HRMS to pay 25 percent or more of the agency's employees. Human Resource Management Services was required to report any approved requests to the Budget Section.

Senate Bill No. 2015 (2019) amended Section 54-06-30 to increase the allowable performance bonus award from \$1,000 to \$1,500 each fiscal year and removed all requirements related to agencies providing bonuses to 25 percent or more of its employees.

Recruitment, Retention, and Referral Bonus Programs

Summary

Recruitment and retention bonuses are authorized by Section 54-06-31 ([Appendix H](#)). The section provides state agencies may develop programs to provide bonuses to recruit or retain employees in hard-to-fill occupations, which is considered an occupation or position in which:

- Demand exceeds supply;
- Special qualifications are required;
- Competition with other employers is the strongest;
- There is a risk of losing an incumbent with rare skills;
- The position is filled by a highly skilled employee who is in high demand in the marketplace;
- Loss of the employee would result in significant replacement costs;
- The position is filled by key personnel; or
- The position has other unique recruitment or retention issues identified and documented by the agency.

The agency must have a written policy identifying positions or occupations eligible for recruitment or retention bonuses. The agency must submit a copy of the policy and a report regarding all recruitment and retention bonuses provided to HRMS. Funding for recruitment and retention bonus programs must be provided from within each agency's salaries and wages budget.

History

Section 54-06-31 was created in House Bill No. 1120 (2001), which provided only classified positions could receive recruitment and retention bonuses. Section 2 of the bill included an expiration date of June 30, 2003.

House Bill No. 1093 (2003) amended Section 54-06-31 to also authorize nonclassified employees to receive recruitment and retention bonuses and removed the June 30, 2003, expiration date.

House Bill No. 1031 (2009) amended Section 54-06-31 to define a hard-to-fill occupation.

Salary Equity Increases

Recent funding appropriated by the Legislative Assembly for salary equity increases is as follows:

2023 Legislative Session

The Legislative Assembly appropriated \$82.5 million, of which \$45.1 million was from the general fund and \$37.4 million was from other funds, to OMB in a targeted market equity pool for the purpose of providing compensation adjustments for executive branch state employees during the 2023-25 biennium.

The salary equity increases were to be prioritized based on a statewide plan prepared by OMB based on the funding available in the pool. The plan was to address occupational market disparities, recruitment and retention challenges, and external pay inequities for employees who are critical to the mission of the agency.

The salary equity increases had to be provided by July 1, 2023. The funding transferred from OMB to each agency had to be used for the cost to continue the salary equity increases for the 2023-25 biennium, including the effect of salary equity increases on regular salary increases authorized by the Legislative Assembly.

In addition to the funding in the targeted market equity pool appropriated to OMB, the Legislative Assembly appropriated \$4.2 million, of which \$3.8 million was from the general fund and approximately \$400,000 was from other funds, to 16 state agencies for salary equity increases, providing a total of \$86.7 million for salary equity increases for the 2023-25 biennium, of which \$48.9 million was from the general fund and \$37.8 million was from other funds.

2025 Legislative Session

The Legislative Assembly appropriated \$13.6 million, of which \$11.7 million is from the general fund and \$1.9 million is from other funds, to 18 agencies for salary equity increases during the 2025-27 biennium, as follows:

	General Fund	Other Funds	Total
101 - Governor	\$176,000	\$0	\$176,000
110 - Office of Management and Budget	0	110,114	110,114
120 - State Treasurer	100,000	0	100,000
125 - Attorney General	254,317	37,460	291,777
127 - Tax Commissioner	246,789	0	246,789
180 - Judicial branch	3,430,986	7,093	3,438,079
188 - Commission on Legal Counsel for Indigents	500,000	0	500,000
195 - Ethics Commission	24,434	0	24,434
204 - Center for Distance Education	0	100,000	100,000
226 - Department of Trust Lands	0	550,000	550,000
250 - State Library	128,000	0	128,000
313 - Veterans' Home	0	750,000	750,000
321 - Department of Veterans' Affairs	50,000	0	50,000
325 - Department of Health and Human Services	250,536	0	250,536
401 - Insurance Commissioner	0	115,000	115,000
405 - Industrial Commission	0	175,000	175,000
408 - Public Service Commission	40,000	0	40,000
530 - Department of Corrections and Rehabilitation	6,528,187	0	6,528,187
Total	\$11,729,249	\$1,844,667	\$13,573,916

Health Insurance

Health Insurance Plans

The Public Employees Retirement System (PERS) provides for a preferred provider organization basic grandfathered health insurance plan. A state employee is eligible for the grandfathered health plan if the individual is at least 18 years of age, works at least 20 hours per week for 20 or more weeks per year, and whose position is regularly funded.

The Public Employees Retirement System also provides for a high-deductible health insurance plan that includes a health savings account. Permanent state employees may participate in the plan but temporary state employees and employees of political subdivisions are not eligible.

Senate Bill No. 2160 (2025) provided PERS offer state employees and non-Medicare retirees a nongrandfathered health insurance plan under the federal Patient Protection and Affordable Care Act of 2010 rather than the current grandfathered health insurance plan, beginning January 1, 2027. Political subdivisions would continue to be offered the grandfathered health insurance plan. The Governor vetoed

this bill, resulting in PERS continuing to offer the current grandfathered health insurance plan to all plan participants.

Premiums

The Legislative Assembly continued to provide funding for the cost of health insurance premiums for state employees for the 2025-27 biennium. The appropriations provide \$1,893.30 per month for employee health insurance, an increase of \$250.22, or 15.23 percent, compared to the 2023-25 biennium premium rate of \$1,643.08 per month. A recent history of monthly health insurance premiums provided for each employee is listed below.

Biennium	Monthly Premium	Percentage Change from Previous Biennium
1995-97	\$265	N/A
1997-99	\$301	13.6%
1999-2000	\$350	16.3%
2001-03	\$409	16.9%
2003-05	\$489	19.6%
2005-07	\$554	13.3%
2007-09	\$658	18.8%
2009-11	\$826	25.5%
2011-13	\$887	7.4%
2013-15	\$982	10.7%
2015-17	\$1,130	15.1%
2017-19	\$1,241	9.8%
2019-21	\$1,427	15.0%
2021-23	\$1,429	0.1%
2023-25	\$1,643	15.0%
2025-27	\$1,893	15.2%

Health Insurance Reserve Fund

House Bill No. 1114 (2025) provided for a \$25 per month limit on the cost of insulin or diabetic drugs and supplies for plan participants, resulting in a shift in the cost of the benefit from participants to the health insurance plan. The estimated fiscal impact of the bill is \$833,955 and the estimated monthly premium increase as a result of increased benefits under the health insurance plan is \$2.07 for the 2025-27 biennium.

House Bill No. 1216 (2025) limited the maximum amount a member of the health insurance plan can be charged for prescription drugs, resulting in a shift in the cost of the benefit from participants to the state health insurance plan. The estimated fiscal impact of the bill is \$4,458,088 and the estimated monthly premium increase as a result of increased benefits under the health insurance plan is \$11.05 for the 2025-27 biennium.

The Legislative Assembly provided that PERS use funds available in the health insurance reserve fund established in Section 54-52.1-06 for these increased costs. During the 2025 legislative session, the estimated health insurance reserve balance on July 1, 2025, was approximately \$60.3 million. Of this amount, \$2 million was for estimated administrative expenses and \$3.1 million was reserved by the PERS Board for the potential buydown of life insurance plan premiums, resulting in approximately \$55.2 million available for health insurance premium buydowns during the 2025-27 biennium. Reducing the \$55.2 million available reserve fund balance by approximately \$5.3 million for the estimated cost of House Bill Nos. 1114 and 1216 during the 2025-27 biennium, the remaining available balance in the health insurance reserve fund is approximately \$49.9 million.

Retirement

Main System Defined Benefit Plan

In House Bill No. 1040 (2023), the Legislative Assembly closed the main system defined benefit (DB) retirement plan to new hires beginning January 1, 2025. The bill increased employer contributions by 1 percent beginning January 1, 2024, resulting in total employer contributions of 8.12 percent for employees hired on or before December 31, 2019. For employees hired after December 31, 2019, the employer

contribution rate is 9.26 percent, which includes the 1.14 percent that was reallocated from the retiree health insurance credit beginning in the 2019-21 biennium. Employee contributions remain at 7 percent, of which 4 percent is paid by the state on behalf of employees.

Beginning January 1, 2026, the employer contribution rate for state agencies will change to the actuarially determined employer contribution (ADEC) rate to begin paying the unfunded liability of the main system DB retirement plan over a closed period of 31.5 years. The state will pay for the political subdivision portion of the unfunded liability. The estimated ADEC rate on January 1, 2026, is 5.92 percent.

Defined Contribution Plan

House Bill No. 1040 (2023) provided employees hired after December 31, 2024, be enrolled in a new defined contribution (DC) plan. The default employee contribution rate of the new DC plan is 4 percent; however, the employee may elect to contribute up to an additional 3 percent. The employer is required to match the employee contribution up to 7 percent. If a state employee in the new DC plan contributes less than 7 percent but participates in the PERS 457 deferred compensation plan, the state employer is required to match contributions from the deferred compensation plan up to a total of 7 percent. The deferred compensation plan option is not available for political subdivision employees. For employees participating in the (existing) DC plan before January 1, 2025, the employee contribution rate remains at 7 percent and the employer contribution rate remains at 7.12 percent.

Main System - 2025 Legislative Session

The Legislative Assembly approved the following bills affecting the PERS main system retirement plan:

- **House Bill No. 1015 (2025)** - This bill includes a \$1 million general fund appropriation to OMB to provide payments to state employees who elected to transfer from the PERS main system DB retirement plan to the new DC. House Bill No. 1040 (2023) provided state employees with no more than 5 years of experience who are enrolled in the main system DB retirement plan and elect to transfer to the new DC plan between January 1, 2025, through March 31, 2025, are eligible for a \$3,333 additional annual contribution in January 2026, January 2027, and January 2028.

There were 144 state employees that elected to transfer to the new DC plan. The \$1 million appropriation in House Bill No. 1015 is to provide the first two annual incentive payments to the employees who elected the transfer. The incentive payments to the 144 state employees who elected the transfer will total \$960,000 during the 2025-27 biennium.

- **House Bill No. 1146 (2025)** - This bill authorizes political subdivisions that are not participating in the PERS main system DB retirement plan to join the new DC retirement plan and clarifies that only state agencies that receive budgetary approval from the Legislative Assembly are required to pay for the ADEC rate for the incentive payment for state employees to transfer from the DB plan to the DC plan. The bill allows the Legislative Assembly to transfer funding to the PERS fund that is equal to or greater than the ADEC amount most recently published by the PERS Board, rather than appropriating funding to each state agency to contribute the ADEC amount to PERS.
- **House Bill No. 1234 (2025)** - This bill transfers \$25 million from the strategic investment and improvements fund to the PERS fund to reduce the unfunded liability of the PERS main system DB retirement plan. A section of legislative intent is provided that the \$65 million of oil and gas tax revenues projected to be deposited in the PERS fund during the 2025-27 biennium pursuant to Section 57-51.1-07.5 is also for reducing the unfunded liability of the PERS main system DB retirement plan. The combined amounts result in \$90 million being provided for reducing the unfunded liability of the plan.
- **House Bill No. 1602 (2025)** - This bill allows political subdivisions currently participating in the new DC retirement plan to withdraw from the plan at no cost to the political subdivision.

Public Safety Plan

The Legislative Assembly approved the following bills affecting the PERS public safety retirement plan:

- **House Bill No. 1274 (2025)** - This bill expands the eligibility in the PERS public safety DB retirement plan to include correctional officers employed by state agencies and participating political subdivisions.
- **House Bill No. 1419 (2025)** - This bill expands eligibility in the PERS public safety DB retirement plan to include State Radio dispatchers in the state public safety DB retirement plan and allows political subdivisions to offer the public safety DB retirement plan to dispatchers and emergency personnel.

Highway Patrol Plan

Senate Bill No. 2120 (2025) transferred \$15 million from the strategic investment and improvements fund to the Highway Patrol troopers' DB retirement plan to reduce the unfunded liability of the plan.

Other Benefits

Employee Assistance Program

The Public Employees Retirement System contracts with Bree Health, CHI St. Alexius, CompPsych, and the Village, to provide an employee assistance program, including intervention, assessment, referral, and ongoing consultation services. The program is intended to be a confidential, voluntary, short-term counseling option for employees and families experiencing workplace or personal challenges. The monthly rate paid by state employers for the employee assistance program is \$1.54 per month, or \$18.48 annually.

Life Insurance

The Public Employees Retirement System contracts with Voya Financial to provide state employees with life insurance. A state employee is eligible for life insurance if the individual is at least 18 years of age, works at least 20 hours per week for 20 or more weeks per year, and whose position is regularly funded. The monthly rate for life insurance provided to state employees is \$0.28 per month, or \$3.36 annually. Active state employees are eligible for \$12,000 of basic life insurance coverage and may elect to purchase a total of \$600,000 of basic and supplemental life insurance coverage. The spouse of an employee is eligible for a maximum of \$300,000 of life insurance coverage or 50 percent of the employee's supplemental life insurance coverage.

Dental Insurance

The Public Employees Retirement System contracts with Delta Dental to provide state employees with dental insurance. A state employee is responsible for paying the cost of the insurance and is eligible for dental insurance if the individual is at least 18 years of age, works at least 20 hours per week for 20 or more weeks per year, and whose position is regularly funded.

Vision Insurance

The Public Employees Retirement System contracts with Superior Vision to provide state employees with vision insurance. A state employee is responsible for paying the cost of the insurance and is eligible for vision insurance if the individual is at least 18 years of age, works at least 20 hours per week for 20 or more weeks per year, and whose position is regularly funded.

Flex Comp

The Public Employees Retirement System contracts with ASIFlex to provide medical flexible spending account and dependent care flexible spending care account services. A state employee may participate in flexible spending if the individual is at least 18 years of age, works at least 20 hours per week for 20 or more weeks per year, and whose position is regularly funded. The annual contribution limits for 2025 are \$3,200 for medical flexible spending accounts and \$5,000 for dependent care flexible spending accounts for individuals filing a joint tax return.

Annual Leave and Sick Leave

Section 54-06-14 provides annual leave and sick leave must be provided for all state employees in permanent positions. House Bill No. 1170 (2025) provided that effective after April 30, 2026, state agencies will be required to provide 40 hours of new hire leave for employees to use within the 1st year

of employment. Any new hire leave remaining after completion of the 1st year of employment is eliminated. New hire leave is not earned paid time off and is not paid out upon separation of employment.

Annual leave for an employee entitled to it must be within a range of a minimum of 1 working day per month of employment to a maximum of 2 working days per month of employment, based on tenure of employment, to be fixed by rules adopted by the employing unit. Sick leave for an employee entitled to it must be within a range of a minimum of 1 working day per month of employment to a maximum of 1.5 working days per month of employment, based on tenure of employment, to be fixed by rules adopted by the employing unit.

PREVIOUS STUDIES

1967-68 Interim

The Legislative Assembly approved Senate Concurrent Resolution "PPP" (1967), which directed the Legislative Research Committee (Legislative Management) to study and review the feasibility of adopting a merit system for all state employees. During the 1967-68 interim, the Subcommittee on State and Federal Government received information regarding job classification and salary levels of state employees. The information included an analysis of various state agency's job classifications, a comparison of compensation among similar positions in different agencies, and how an employee's length of service should affect compensation levels. The study revealed employees generally were being compensated for length of service and experience but positional compensation and related position titles varied widely between agencies.

The committee determined that an employee position classification system was a prerequisite to any complete personnel system and recommended a bill to create such a system to establish a personnel division within the Office of the Budget to continually supervise the classification system. The committee made no recommendation regarding a statewide merit system.

1997-98 Interim

During the 1997-98 interim, the Budget Committee on Government Services received a report from OMB regarding state employee compensation issues. The committee recommended the Legislative Assembly provide salary increases to state employees based on performance and consider options to increase the salary level for lower-paid employees while lowering health insurance deductibles and coinsurance percentages in the state health insurance contract.

2005-06 Interim

The Employee Benefits Programs Committee studied issues related to state employee compensation during the 2005-06 interim. The committee learned the judicial branch, Department of Career and Technical Education, Workforce Safety and Insurance, Highway Patrol, and Adjutant General used their own system for providing salary increases separate from the legislatively authorized increases. The committee made no recommendation regarding the study of state employee compensation.

2009-10 Interim

Pursuant to Senate Bill No. 2001 (2009) and House Bill No. 1005 (2009), the Government Services Committee studied the classified state employee compensation system and salaries of state elected officials during the 2009-10 interim. The committee contracted with the Hay Group for \$100,000 to evaluate the classified state employee compensation system, including the methods used to develop the job classifications and pay grades, options to minimize salary inequities within agencies and state government, processes to provide consistent practices for salary increases, fringe benefits, recruitment and retention tools, and a state compensation philosophy statement. The Hay Group's major recommendations include:

- Simplify the process for classifying and reclassifying positions;
- Redesign the pay grade structure to reduce compression and provide consistency across agencies;
- Use relevant labor markets to determine the midpoints for salary grades;

- Group similar jobs into job families and occupational groups, but separately identify unique jobs;
- Decrease the width of salary ranges to enable competent employees to reach market targets in a reasonable time frame;
- Include performance and equity components in salary adjustments;
- Identify funding for accrued annual and sick leave;
- Increase the basic life insurance benefit; and
- Develop a state compensation philosophy statement to establish clear guidelines for the classified state employee compensation system.

Based on the Hay Group's study, the Government Services Committee recommended the Legislative Management contract with the Hay Group for \$198,000 to start implementing the recommended changes to the classified state employee compensation system during the 2009-11 biennium. The committee also recommended House Bill No. 1031 (2011) to codify a compensation philosophy statement, to direct OMB to implement the recommendations of the Hay Group study, and to require periodic reports from OMB during the 2011-13 biennium regarding the status of the implementation of the recommendations. The Legislative Assembly approved House Bill No. 1031.

2021-22 Interim

Pursuant to Section 44 of House Bill No. 1015 (2021), the Government Finance Committee studied the classified state employee compensation system, including a review of the development and determination of pay grades and classifications during the 2021-22 interim.

The committee received information from OMB regarding the results of a state employee benefits survey. The top response for the most valued compensation reward was fully paid health insurance while the top response for most desired change was more competitive pay.

Job Service North Dakota provided information on the labor market in North Dakota and comparisons to other states. Based on 2021 salary and wage data, the average annual wage in North Dakota was \$53,380 compared to \$60,480 in Minnesota and \$46,810 in South Dakota.

The committee received information from the Department of Human Services, Information Technology Department, Department of Corrections and Rehabilitation, and Retirement and Investment Office regarding recent classification and reclassification requests since the implementation of the changes to the classification system in July 2020. The Department of Human Services had 204 classifications and reclassifications for the 18-month period following the classification system changes compared to 130 for the 18-month period before the classification system changes while the Information Technology Department had 68 classifications and reclassifications for the 18-month period following the classification system changes compared to 23 for the 18-month period before the changes. In 2021, the Department of Corrections and Rehabilitation had a turnover rate of 30 percent, and the primary reason correctional officers leave is related to a higher salary with another employer. Based on comments from the state agencies, the classification system changes provide more flexibility with pay ranges but do not address compensation issues. Employee feedback indicated compensation ratios are less relevant with the broader pay ranges.

The committee made no recommendation regarding the study of the classified state employee compensation system.

PROPOSED STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study regarding the classified state employee total rewards compensation system:

1. Receive information from HRMS regarding the current state employee job classification system and any recent changes to job classifications, including the pay grades, other employee

compensation benefits, and comparisons of salaries among state agencies and the private market.

2. Receive information from HRMS regarding the recent use of equity funding and performance, recruitment, retention, and referral bonuses among state agencies.
3. Receive information from OMB regarding payment of prevailing wages on state projects and wage levels in awarding contracts for state projects.
4. Receive information from PERS regarding current health plan benefits available to state employees, premium rate structures for single and family coverage, the status of health plan contracts, and any proposed changes to the health plans.
5. Receive information from Job Service North Dakota regarding labor market information, including any data available regarding job classifications in other state governments.
6. Receive information from state agencies regarding the state employee job classification system, benefits available to state employees, and any proposed changes.
7. Receive information regarding job classification structure and state employee benefits in other states.
8. Receive testimony from interested persons regarding the study.
9. Develop recommendations and any bill drafts necessary to implement the recommendations.
10. Prepare a final report for submission to the Legislative Management.

ATTACH:8