

Implementation of Study Recommendations for Classified Employee Compensation System Presentation to the Budget Section Committee

September 14, 2011



Neville Kenning
Vice President
Public Sector Consulting
Hay Group

In conjunction with

Ken Purdy
Classification and Compensation Manager
State of North Dakota

- In February 2010, the Government Services Committee (GSC) of the Legislature of the State of North Dakota contracted with Hay Group to conduct an audit of 10 components of the Classified Employee Compensation plan
- In August 2010, Hay Group presented to the GSC a report setting out the project steps, analysis and findings from an evaluation of the 10 components
- In September 2010, Hay Group presented to the GSC recommendations as a result of this evaluation, guidance on how to implement the recommendations and the benefits to be achieved by actioning the recommendations
- In October 2010, Hay Group provided a final report presentation to the GSC, which adopted the key recommendations made
- In November 2010, the Legislative Council contracted with Hay Group to partner with the State in the work to be done to implement the recommendations made and adopted in the Audit

- In April 2011, House Bill No. 1031, Section 2. Compensation System Initiatives – Implementation documented the classified state employee compensation initiatives to be implemented
- On April 5, 2011 a preliminary report on progress to date and preliminary fiscal impact of proposed changes to grade and salary structures was presented to the State Employee Compensation System Oversight Committee (SECSOC)
- On April 14, 2011 a further report on fiscal impact was presented to enable the SECSOC to determine what action the Legislature may need to take in terms of implementation of recommendations that require Legislative action
- The purpose of this presentation is to provide the Budget Section with a summary of work completed

A State compensation philosophy statement

Develop a Compensation Philosophy that serves as an umbrella statement, linking compensation to the State's Mission, Vision, Values and its human resources objectives

The Compensation Philosophy statement should include:

- 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.

Involve key leadership from the Legislative and Executive Branches in the development of the Compensation Philosophy

- Adopted by the 62nd Legislative Assembly in Section 1 of HB 1031 (NDCC 54-44.2-01.2)
- Implementation and administration of the Compensation Philosophy is covered in the initiatives in Section 2 of HB 1031

Adjust the methods used to determine classified state employee classifications by:

- a. Simplifying the classification and reclassification process (e.g., how decisions are made, constituency of decision-makers, accountability and responsibility of the State Personnel Board)
 - Preliminary process redesign and forms done by Hay Group in December 2010
 - Meeting held with HRMS and Agency HR leaders and classification staff in January, 2011
 - Feedback from Agencies in January, 2011
- b. Revising classification and reclassification forms to collect additional information, including information from the employee
 - Consolidation of feedback from Agencies
 - Hay Group reviewed feedback and determined what changes should be made to the process and forms
 - Hay Group made modifications to preliminary process and forms per feedback
- c. Revising classification specifications to ensure duties and responsibilities increase in complexity within a classification series and that minimum qualifications are appropriate
 - HRMS staff and Hay Group finalized process and forms in August, 2011
 - Roll out of the new process and forms to the Agencies is ongoing by HRMS
- d. Communicating and educating employees on the classification process

Minimize salary inequities both within an agency and within state government by:

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| a. | Providing job evaluation training for HRMS job evaluators and classification/reclassification committee members | Formation and training of Job Evaluation Committee consisting of 7 HRMS staff and 8 Agency HR staff

Purchase of the Hay Job Evaluation Manager (JEM) technology to enhance the speed and efficiency of the job evaluation process |
| b. | Evaluating, reviewing, and refining leveling for common/benchmark job classifications to create a framework of classified positions | Evaluation of benchmark classification job evaluations by Hay Group completed by early January

Review of benchmark job evaluations and slotting of the remaining classifications by the Job Evaluation Committee |
| c. | Evaluating, reviewing and refining leveling for unique/non-benchmark job classifications to develop a classification framework that ensures internal equity and that all classifications are appropriate | Review of the job evaluations for all 900+ classifications by Hay Group and the Job Evaluation Committee

Development of a new grade structure

Allocation of classifications to the new grade structure |
| d. | Identifying broad compensation system classifications and determining the appropriateness of classification | Plan developed by HRMS to implement the new grade structure effective July 1, 2011; subsequently deferred to July 1, 2012

Ongoing work by HRMS to address classification issues identified during the job evaluation process |
| e. | Identifying jobs that are unique to an agency and assessing the appropriateness of these jobs being included in statewide classifications | (e.g consolidation of selected direct care classifications) |

Develop appropriate market comparisons and methods to set pay grade minimums, maximums, and midpoints by:

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| <p>a. Redesigning the grade structure and reassigning common/benchmark and unique/non-benchmark job classifications</p> | <p>Identification of major sectors of employment and employers in North Dakota for participation in salary survey (112 employers)
Selection of salary survey benchmark positions (103 benchmark positions)</p> |
| <p>b. Customizing salary surveys and market analyses for the determined relevant labor market</p> | <p>Reviewed survey data from other sources such as: Central States Compensation Survey; Job Service Survey; Hay Group PayNet Database; Healthcare Survey for a total of 162 benchmark positions
Analyzed data from all surveys</p> |
| <p>c. Identifying job family and occupational groups that require different pay strategies from regular pay classifications</p> | <p>Reviewed benefits analysis (done as part of the 2010 review) for complete total pay competitive comparison
Development of new salary structures options and costing implications of new salary structure options
Presentation of impact of costing to SECSOC in April 2011</p> |
| <p>d. Developing salary ranges for the general pay structure and for job family and occupational group structures</p> | <p>Legislative decision to not appropriate funds for implementation</p> |
| <p>e. Decreasing the width of salary ranges and performing cost-to-implement analyses</p> | <p>As a result of this decision, the new grade and salary structure will be implemented effective July 1, 2012</p> |
| <p>f. Performing statewide, agency, and job family and occupational group internal equity analyses</p> | |

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 healthcare insurance premiums

Any actions to be taken will be under the jurisdiction of the Employee Benefits Programs Committee

Any potential significant changes to the healthcare program are deferred pending the impact of changes in healthcare initiated at the federal level

Expand recruitment and retention tools by:

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| <ul style="list-style-type: none"> a. Developing guidelines and amounts for recruitment and retention bonuses | <p>Further analysis has been completed and given the degree of volatility in the employment in North Dakota, it is the conclusion of Hay Group that the current statute, policies and practices are allowing Agencies to address recruitment and retention bonuses</p> |
| <ul style="list-style-type: none"> b. Defining the type of performance to be recognized and rewarded through a performance bonus | <p>NDCC 54-06-31 sets the establishes the framework within which Agencies can develop programs</p> |
| <ul style="list-style-type: none"> c. Reviewing the appropriateness of performance bonus maximums | <p>Agencies must file their policies with HRMS and HRMS reports to the Legislative Committees on a regular basis. (e.g. in the past 2 years, one third of retention bonuses have been paid in the Department of Mineral Resources)</p> |
| <ul style="list-style-type: none"> d. Continuing to assist agencies in determining the appropriate utilization of nonmonetary rewards for employee retention efforts | <p>To the extent to which pay ranges are set at the market average, the need for recruitment and retention bonuses may be reduced.</p> |
| <ul style="list-style-type: none"> e. Developing a targeted retention program for employees with three to five years of service | <p>The same commentary on recruitment and retention bonuses also applies to performance bonuses.</p> |

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

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:

- 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

The Compensation Philosophy adopted in HB 1031 provides for setting salary ranges at a competitive level in the relevant labor market and pay movement to be primarily based on performance

HRMS will continue to provide recommendations regarding by how much the salary ranges should move and the amount of funding for salary changes.

The intent of the compensation philosophy is that funding should be at a level greater than the amount by which the salary ranges change so that employees can move through their pay range, based on performance.

Each year, HRMS will prepare a Pay/Performance Matrix that will be the basis for pay change. An example of this matrix is set out on page 13

Analyze the effect of:

- a. Appropriating funds to agencies for accrued employee and annual leave and sick leave

This should be addressed through the budget process. While retirement cannot be specifically planned, Agencies should review their employee demographic data as part of the budgeting process and be predictive as to the extent to which they will have a cost for accrued employee, annual and sick leave. This cost should be considered for inclusion in the budget.

- b. Defining “vacant” positions and excluding long-term vacant positions from agency budget requests

As stated in the report to the Government Services Committee in October 2010 report, it is the opinion of Hay Group that the period between one employee leaving a position and another employee filling that position constitutes a genuine vacancy, and Agencies should have the flexibility to utilize those salary dollars. Longer term vacancies should be monitored on a case by case basis within the budgeting process.

Sample Pay/Performance Matrix

Relativity to Market Policy Position	% Increase		Level of Performance	% Increase	
100% or Above	0%	+	Exceeds Expectations	4%	= Increase
92.1 – 99.9% of Market Target	1%		Achieves Expectations	2%	
Less than 92% Below Market Policy Position	2%		Needs Improvement	0%	