COMPONENTS OF A STATE COMPENSATION PHILOSOPHY STATEMENT

This memorandum provides information on possible components to include in a state compensation philosophy statement.

The Hay Group has provided the following definition of a compensation philosophy statement: A compensation philosophy statement is intended to provide a foundation for the design and administration of compensation plans. It defines what you pay for and why. A compensation philosophy should be written in general terms in order to provide a lasting basis for future compensation design and administration decisions.

Human Resource Management Services has summarized the state's classified employee compensation philosophy as follows:

The compensation philosophy applied to the North Dakota classified service can best be described as a combination market and internal equity system. Internal equity in assigning pay grades is based on a job's knowledge and skills, complexity, and accountability. Each of those job factors carries a range of defined point values. Jobs similar in total point values are slotted into the same pay grade.

If the committee chooses to recommend a compensation philosophy statement, it may consider developing the statement during the remainder of its study by:

- 1. Reviewing other states' compensation philosophy statements.
- 2. Identifying the key components and provisions to include in the philosophy statement.
- 3. Incorporating recommendations from the Hay Group resulting from its study of the classified employee compensation system.

- 4. Receiving input from the executive branch, employees, employee groups, and others.
- 5. Finalizing the provisions to include in the philosophy statement.
- Key components of state compensation philosophy statements may include:
- 1. Summary;
- 2. Categories of employees for which the philosophy statement may applies;
- 3. Definition of terms;
- 4. Goals of the compensation system;
- 5. Compensation ideology;
- 6. Compensation methodology;
- 7. Designation of responsibilities; and
- 8. Legislative intent.

Some philosophy statements are general and broad while others are more detailed and specific. Most often compensation philosophy statements identify the goal of the compensation system is to attract, retain, and motivate employees. The statement may express values of the organization to be used as a basis in attaining these goals. The compensation philosophy statement is typically broad enough to encompass all three components of compensation--base pay, incentives, and benefits. Compensation philosophy statements may include components to send a message about the state's expectations of employee performance and related rewards; express legislative intent; or detail specific procedures, policies, or regulations of the compensation system.

A summary of other states' major compensation philosophy statement components is provided in the following chart:

	Colorado	Idaho	Kansas	North Carolina	Oklahoma	Wyoming
	(<u>Appendix A</u>)	(<u>Appendix B</u>)	(<u>Appendix C</u>)	(<u>Appendix D</u>)	(<u>Appendix E</u>)	(<u>Appendix F</u>)
Summary	The compensation philosophy of	The compensation philosophy of	The compensation philosophy of	North Carolina's compensation		The compensation philosophy of
	· · · ·	Idaho identifies that the goal of	Kansas states that the foundation	policy states compensation to its	is to recruit, retain, and motivate a	, ,
	total compensation to officers and			employees should be at a level		quality employees with
		to fund a competitive employee	attract and retain quality	sufficient to encourage excellence		
				of performance and to maintain	citizens of Oklahoma. To achieve	on relevant labor markets. The
		package to attract, retain,	compensation based on relevant	the labor market competitiveness		state of Wyoming was assisted by
			labor markets. State statute	necessary to recruit and retain a		the Hay Group in creating its
		Four compensation standards are		competent workforce.		compensation philosophy.
			component statements. The state		state's fiscal conditions.	
			of Kansas was assisted by the			
	premium pay practices, and leave.	compensation system.	Hay Group in creating its			
			compensation philosophy.			
Applies to		All state employees	Nonelected state employees	State employees		Executive branch employees
	state personnel system				executive branch personnel in the	
					unclassified service of the state	

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Definitions	Total compensation includes but is not limited to salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave. Group benefit plans mean group benefit coverage contracted for or administered by the state personnel director for medical, dental, and life benefits.		Compensation program includes compensation and benefits opportunity and delivery.	Career growth recognition award - An annual salary increase awarded to a state employee whose final annual performance appraisal indicates job performance that meets or exceeds management's expectations and performance requirements Cost-of-living adjustment - A general salary increase given to state employees in response to inflation and labor market factors Performance bonus - Salary increase that is awarded in a lump sum to a state employee whose final annual performance appraisal indicates job performance that exceeds management's expectations and performance requirements		
Goals	Ensure the recruitment, motivation, and retention of a qualified and competent workforce	Attract qualified applicants to the workforce, retain employees who have a commitment to public service excellence, motivate employees to maintain high standards of productivity, and reward employees for outstanding performance The goal of the overall compensation system is to be competitive with relevant labor market averages.	Attract and retain quality employees Compensation program design will support the mission of the various branches of government and the agencies and departments within those branches. Programs will be based upon principles of fairness and equity and administered with sound fiscal discipline.	Encourage excellence of performance and to maintain labor market competitiveness necessary to recruit and retain a competent workforce Salary increases implemented through the comprehensive compensation system based upon individual performance Comprehensive compensation system shall combine salary increases and awards into an interrelated system of compensation that furthers the recruitment, retention, career service, and outstanding performance of state employees	quality workforce for the purpose of providing quality services to the citizens of Oklahoma	Support the mission of the state and the agencies within the executive branch Attract and retain quality employees Programs will be based upon principles of fairness and equity and administered with sound fiscal discipline. The compensation program and its component plans shall reinforce a productive work climate, a culture of accountability, and encourage employees to achieve their care potential with the state. Vision - To provide all state agencies with one consistent comprehensive compensation policy to recruit, retain, and reward state employees Mission - To apply and maintain policies and procedures that provide internal alignment and

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Compensation	Prevailing total compensation	Provide a competitive employee	Competitive compensation based	Compensate at a level sufficient	Base the pay structure on internal	incorporate market-based data into pay ranges while establishing consistent and equitable base pay and non-base pay actions that will be consistently applied for all state employees Competitive compensation based
ideology		compensation and benefit package	on relevant labor markets	to attain above-mentioned goals	equity and external competitiveness balanced by the state's fiscal conditions	on relevant labor markets One statewide compensation policy with multiple pay plans to address different job specialties
Compensation methodology	review	job performance and market changes Pay for performance provides faster salary advancement for higher performers based on the merit increase matrix developed by the Division of Human Resources Employees below the state's midpoint market average in a salary range, who are meeting job performance expectations, shall move through the pay range toward the midpoint market average.	The compensation program will be based on consistent principles of fairness throughout the state, yet will be flexible to meet changing needs. This will allow for multiple pay plans to fit different needs and market variables for the different branches of government and within those branches. Establishing the value of compensation will be primarily based on establishing the appropriate market value of the job. For positions for which a market value cannot be readily identified, the value of compensation for those positions will be based on a fair, defensible, and understandable method. While recognizing that service and tenure yields valued experience, pay delivery mechanisms will be based on a combination of achievement of performance objectives, recognition of differences in job content, acquisition and application of further skill, and education and pay for the achievement of team/unit or department goals. All aspects of compensation (base salary, benefits, lump sum payments, allowances, and other variable elements of compensation) will be considered	The comprehensive compensation system shall consist of the following components: • The career growth recognition award. • The cost-of-living adjustment. • The performance bonus. These components shall be awarded based on annual performance appraisals of all employees. The State Personnel Commission is charged with the responsibility to adopt policy and regulations for performance appraisals. The state statute contains specific details of the performance appraisal policies and regulations.	be reported to the Governor, President Pro Tempore of the Senate, and Speaker of the House of Representatives. The report shall include the justification and financial impact of the action.	Establishing the value of compensation shall be based both on principles of internal equity as measured by a defensible method of job evaluation and external value as measured by competitive compensation in the relevant market. All aspects of compensation (base salary, benefits, allowances, and incentives) shall be considered as a total compensation package for state employees. The state's pay programs shall allow both fixed and variable compensation as well as non-cash reward and recognition programs. Total compensation shall be targeted at a competitive level when compared to the appropriate labor markets to allow the state to attract and retain the quality and quantity of employees needed to fulfill its service commitments to its citizens. Pay delivery mechanisms shall be based on a combination of establishing and maintaining relativity to market; achievement of performance objectives; recognition of differences in job content; and the acquisition and application of further knowledge, skills, and abilities.

(Appendix A) (Appendix B) (Appendix C) (Appendix D) (Appendix E) (Appendix E) as a total compensation package for state employees. The state's pay programs will utilize both fixed and variable compensation as well as non-cash reward and recognition programs. The state is committed as one-cash reward and recognition state as a defined above, will be targeted at a competitive level when compared to the appropriate labor markets to allow the state to attract and retain the quality and quantity of employees needed to fulfill service committers to its citizens. The compensation, as velf as promoted to ensuring that its salary structures are up to date through the conduct of market surveys at regular intervals. There will be a planned approach to ensuring that its salary structure and classification of employees is kept current. (Appendix E) (Appendix E) (Appendix E)	g
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The compensation programs will citizens receiving ser reinforce a work culture and the state.	vices from
climate where employees are	
recognized and rewarded for their contribution. Any changes to	
compensation must be reasonable	
and take into consideration the	
needs of the state as an employer,	
the work culture afforded to the employees as public service	
providers, and the citizens	
receiving services from the state.	
Executive State personnel director is responsible for the following: The Division of Human Resources Executive branch - Consistent administration of the program for shall: The administration of the Office of and Information with	
• Salary survey methodologies of a merit increase matrix to assist classified employees • Conduct annual compensation develop a salary schedule for the of the Governor is ac	countable for
Administer and review annual in pay for performance. The matrix is to assure faster salary Agency heads are to provide Agency heads are to provide and the General Assumption in the matrix is to assure faster salary	
salary surveys advancement for higher proper administration of the advancement for higher	
Position class determinations performers. program within their agencies the comprehensive compen- compensation system for all plans within their agencies	
Periodic salary increases based on system of performance Chief Justice - Consistent administration of the program for survey are to be presented to All even ution branch state The Department of A	dministration
management and evaluation and information shall branch ampleviage the Appropriations Committees All executive branch state and information shall	
• Assist in annual employee	Jular
performance evaluations State Board of Regents - annually. In the unclassified service of the intervals.	

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	Determination of total compensation practices		program for higher education faculty and nonclassified employees Respective appointing authorities - Consistent administration of compensation for nonclassified employees	 Monitor the performance appraisal system and the distribution of salary increases and awards within each department, agency, and institution Report annually on the comprehensive compensation system to the commission. This report includes recommendations for improving the performance appraisal system and alleviating inequities. The Governor, Lieutenant Governor, President Pro Tempore of the Senate, Speaker of the House of Representatives, the standing personnel committees of the House of Representatives and the Senate, and the State Auditor receive this report. 		
Legislative responsibilities			The Legislature is accountable for the adoption of the compensation philosophy and framework.			The Legislature is responsible for the adoption of the state's compensation philosophy and the provision of funding for the compensation program.
Legislative intent		Regardless of specific budgetary conditions from year to year, it is vital to fund necessary compensation adjustments each year to maintain market competitiveness in the compensation system. In order to provide this funding commitment in difficult fiscal conditions, it may be necessary to increase revenues, to prioritize and eliminate certain functions or programs in state government, to reduce the overall number of state employees in a given year, or any combination of such methods.	Longevity bonus payments shall not be considered as part of base pay.			