

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 apply;
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 (Appendix A)	Idaho (Appendix B)	Kansas (Appendix C)	North Carolina (Appendix D)	Oklahoma (Appendix E)	Wyoming (Appendix F)
Summary	The compensation philosophy of Colorado is to provide prevailing total compensation to officers and employees as its focus to ensure the recruitment and retention of a qualified and competent workforce. Total compensation includes salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.	The compensation philosophy of Idaho identifies that the goal of the total compensation system is to fund a competitive employee compensation and benefit package to attract, retain, motivate, and reward employees. Four compensation standards are identified to support the foundation for this competitive compensation system.	The compensation philosophy of Kansas states that the foundation of the compensation program is to attract and retain quality employees with competitive compensation based on relevant labor markets. State statute includes eight key philosophy component statements. The state of Kansas was assisted by the Hay Group in creating its compensation philosophy.	North Carolina's compensation policy states compensation to its employees should be at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce.	The pay philosophy of Oklahoma is to recruit, retain, and motivate a quality workforce for the purpose of providing quality services to the citizens of Oklahoma. To achieve this, pay structure is based on internal equity and external competitiveness balanced by the state's fiscal conditions.	The compensation philosophy of Wyoming is to attract and retain quality employees with competitive compensation based on relevant labor markets. The state of Wyoming was assisted by the Hay Group in creating its compensation philosophy.
Applies to	Officers and employees in the state personnel system	All state employees	Nonelected state employees	State employees	Classified employees and executive branch personnel in the unclassified service of the state	Executive branch employees

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Definitions	<p>Total compensation includes but is not limited to salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.</p> <p>Group benefit plans mean group benefit coverage contracted for or administered by the state personnel director for medical, dental, and life benefits.</p>	<p>Compensation system includes both a salary and a benefit component.</p>	<p>Compensation program includes compensation and benefits opportunity and delivery.</p>	<p>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</p> <p>Cost-of-living adjustment - A general salary increase given to state employees in response to inflation and labor market factors</p> <p>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</p>		
Goals	<p>Ensure the recruitment, motivation, and retention of a qualified and competent workforce</p>	<p>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</p> <p>The goal of the overall compensation system is to be competitive with relevant labor market averages.</p>	<p>Attract and retain quality employees</p> <p>Compensation program design will support the mission of the various branches of government and the agencies and departments within those branches.</p> <p>Programs will be based upon principles of fairness and equity and administered with sound fiscal discipline.</p>	<p>Encourage excellence of performance and to maintain labor market competitiveness necessary to recruit and retain a competent workforce</p> <p>Salary increases implemented through the comprehensive compensation system based upon individual performance</p> <p>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</p>	<p>Recruit, retain, and motivate a quality workforce for the purpose of providing quality services to the citizens of Oklahoma</p>	<p>Support the mission of the state and the agencies within the executive branch</p> <p>Attract and retain quality employees</p> <p>Programs will be based upon principles of fairness and equity and administered with sound fiscal discipline.</p> <p>The compensation program and its component plans shall reinforce a productive work climate, a culture of accountability, and encourage employees to achieve their career potential with the state.</p> <p>Vision - To provide all state agencies with one consistent comprehensive compensation policy to recruit, retain, and reward state employees</p> <p>Mission - To apply and maintain policies and procedures that provide internal alignment and</p>

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						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
Compensation ideology	Prevailing total compensation	Provide a competitive employee compensation and benefit package	Competitive compensation based on relevant labor markets	Compensate at a level sufficient to attain above-mentioned goals	Base the pay structure on internal equity and external competitiveness balanced by the state's fiscal conditions	Competitive compensation based on relevant labor markets One statewide compensation policy with multiple pay plans to address different job specialties
Compensation methodology	<p>Specific details of the following are included in state statute:</p> <ul style="list-style-type: none"> • Annual compensation process review • Pay plans • Job evaluation • Leaves • Payroll • Liability 	<p>Advancement in pay is based on job performance and market changes</p> <p>Pay for performance provides faster salary advancement for higher performers based on the merit increase matrix developed by the Division of Human Resources</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>All aspects of compensation (base salary, benefits, lump sum payments, allowances, and other variable elements of compensation) will be considered</p>	<p>The comprehensive compensation system shall consist of the following components:</p> <ul style="list-style-type: none"> • The career growth recognition award. • The cost-of-living adjustment. • The performance bonus. <p>These components shall be awarded based on annual performance appraisals of all employees.</p> <p>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.</p>	<p>Proposed initial assignments of pay bands and pay band adjustments may be adopted by the administrator of the Office of Personnel Management after a public hearing. Such actions shall 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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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			<p>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.</p> <p>Total compensation, as 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 commitments to its citizens.</p> <p>The state is committed 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 ensure that the classification structure and classification of employees is kept current.</p> <p>The compensation programs will reinforce a work culture and 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.</p>			<p>The state is committed to ensuring that its salary structures and rates of pay are up to date. To accomplish this, the Department of Administration and Information shall conduct market surveys at regular intervals. There shall be a planned approach to ensure that the classification of employees and allocation to grades based on principles of job evaluation is kept current.</p> <p>The compensation program and its component plans shall reinforce a work culture and climate where employees are recognized and rewarded competitively as compared to market for achievement of their expected level of contribution. Any changes to compensation must be reasonable and take into consideration both the needs of the state as an employer and the citizens receiving services from the state.</p>
Executive responsibilities	<p>State personnel director is responsible for the following:</p> <ul style="list-style-type: none"> • Salary survey methodologies • Administer and review annual salary surveys • Position class determinations • Periodic salary increases based on system of performance management and evaluation • Assist in annual employee performance evaluations 	<p>The Division of Human Resources is responsible for the development of a merit increase matrix to assist in pay for performance. The matrix is to assure faster salary advancement for higher performers.</p>	<p>Executive branch - Consistent administration of the program for classified employees</p> <p>Agency heads are to provide proper administration of the program within their agencies</p> <p>Chief Justice - Consistent administration of the program for judicial branch employees</p> <p>State Board of Regents - Consistent administration of</p>	<p>State Personnel Commission shall:</p> <ul style="list-style-type: none"> • Conduct annual compensation surveys to guide the Governor and the General Assembly in making appropriations to fund the comprehensive compensation system. Results of the survey are to be presented to the Appropriations Committees of the House and Senate annually. 	<p>The administrator of the Office of Personnel Management shall develop a salary schedule for the classified service and pay lines as appropriate to meet the needs of agencies as well as design a compensation system for all classified employees.</p> <p>All executive branch state agencies who employ personnel in the unclassified service of the state, whose salaries are not</p>	<p>The Department of Administration and Information with the oversight of the Governor is accountable for the development and consistent administration of the compensation program and its component plans within their agencies.</p> <p>The Department of Administration and Information shall conduct market surveys at regular intervals.</p>

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	<ul style="list-style-type: none"> Determination of total compensation practices 		<p>program for higher education faculty and nonclassified employees</p> <p>Respective appointing authorities - Consistent administration of compensation for nonclassified employees</p>	<ul style="list-style-type: none"> 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. 	prescribed by law, shall establish salary schedules for these employees.	
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.			