

Report to the Governor

FY 2017 Change in Employee Compensation & Benefits Report



DHR Idaho Division of
Human Resources
Executive Office of the Governor

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Purpose of Report

Idaho Code Section 67-5309C requires the Division of Human Resources to provide workforce data and total compensation analysis to the Governor and the Legislature for their consideration on an annual basis. The Change in Employee Compensation (CEC) report provides specific recommendations on the salary structure, specific occupational inequity, merit increase, and the employee benefit package. This report reflects economic pay trends and results from various compensation and benefit surveys the Division of Human Resources uses to compile information on state employee salaries and benefits.

State Employee Compensation Philosophy: Idaho Code 67-5309A.

(1) It is hereby declared to be the intent of the legislature of the state of Idaho that the goal of a total compensation system for state employees shall be to fund a competitive employee compensation and benefit package that will attract qualified applicants to the work force; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding performance.

(2) The foundation for this philosophy recognizes that state government is a service enterprise in which the state work force provides the most critical role for Idaho citizens. Maintaining a competitive compensation system is an integral, necessary and expected cost of providing the delivery of state services and is based on the following compensation standards:

- (a) The state's overall compensation system, which includes both a salary and a benefit component, when taken as a whole shall be competitive with relevant labor market averages.
- (b) Advancement in pay shall be based on job performance and market changes.
- (c) Pay for performance shall provide faster salary advancement for higher performers based on a merit increase matrix developed by the Division of Human Resources.
- d) All employees below the state's midpoint market average in a salary range who are meeting expectations in the performance of their jobs shall move through the pay range toward the midpoint market average.

(3) It is hereby declared to be legislative intent that 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, or to prioritize and eliminate certain functions or programs in state government, or to reduce the overall number of state employees in a given year, or any combination of such methods.

Executive Summary

As of October 2015, the State of Idaho’s total workforce consisted of 25,885 employees, with 12,930 of these employees considered as classified employees,¹ and 12,955 of these employees considered as non – classified². The non-classified employees include board members, elected officials, judges, commissioners, higher education, State Insurance Fund Employees, and temporaries.

For purposes of this report, information is categorized by classified, non-classified, and total workforce employees. Appendices will be referenced to provide additional detail to the summary information.

Classified employees work within 65 executive branch agencies (Appendix A). The State recognizes its employees as its most valuable asset as they provide support and services to all Idahoans. Public service represents a career that offers an opportunity for state employees to demonstrate leadership, promote responsible government, and provide customer focused service in a professional manner.

In order for the State of Idaho to recruit and retain highly qualified and dedicated employees, it is necessary to have a competitive total compensation package. As the economy continues to recover, it is imperative that strategies are developed to improve compensation in order to recruit and retain valuable employees while remaining fiscally responsible.

National Economic Data

The Consumer Price Index (CPI) is the most widely cited number for a price level that may be used as an indicator of the cost of living compiled by the Bureau of Labor Statistics of the US Department of Labor. It is an indicator of the changing purchasing power of the dollar. Specifically, it measures the price changes of items in the fixed “market basket” of goods and services purchased by a hypothetical average family.

The CPI-U covers the expenditures of a wide range of urban consumers, and is typically used in Idaho because it closely represents the current cost of living.

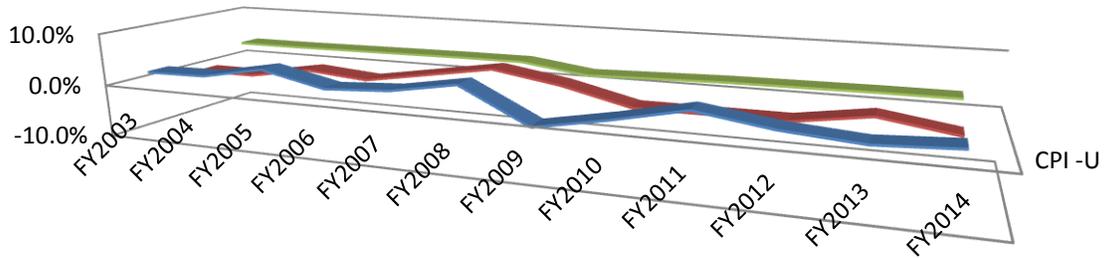
Due to past economic and funding challenges, Idaho has not kept pace with salary increases when compared to either the CPI-U or national salary increases³ as reflected in the graph on the next page. However, even during challenging times, salary increases are important in order to reward performance and retain talent; not explicitly to match inflation.

¹ A classified employee is any person appointed to or holding a position in any department of the State of Idaho and subject to the provisions of the merit examination, selection, retention, promotion, and dismissal requirements of Idaho Code, Title 67, Chapter 53.

² A non-classified employee is any person appointed to or holding a State position in any department and is exempt from the provisions of the merit examination, selection, retention, promotion, and dismissal requirements of Idaho Code, Title 67, Chapter 53.

³ World at Work CPI-U Comparisons, August 2015

CPI-U vs Idaho CEC Increases vs National Increases



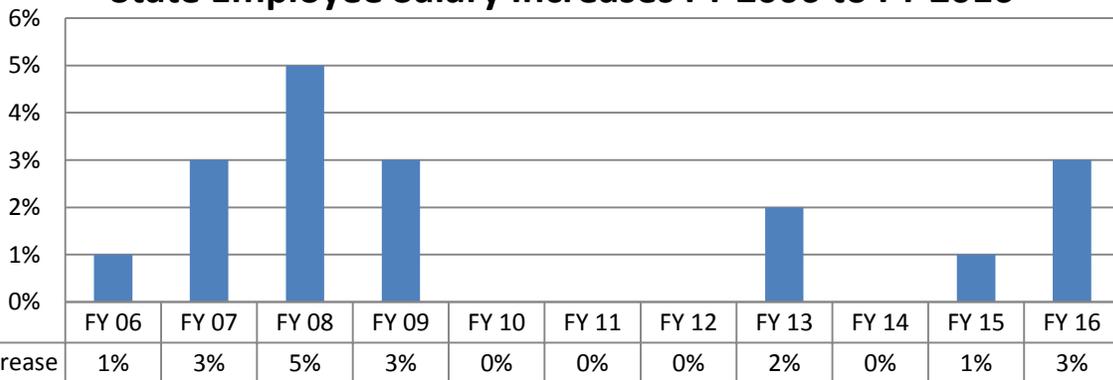
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
■ CPI -U	2.3%	2.5%	4.7%	2.1%	2.8%	4.9%	-1.3%	1.1%	3.9%	2.0%	1.0%	1.7%
■ ID CEC Increases	0.0%	0.0%	2.0%	1.0%	3.0%	5.0%	3.0%	0.0%	0.0%	0.0%	2.0%	0.0%
■ National Increase	3.6%	3.6%	3.7%	3.8%	3.9%	3.9%	2.2%	2.5%	2.8%	2.9%	3.0%	3.0%

Legislative Change in Employee Compensation (CEC) Information

In FY 2016, the Governor recommended a 3% salary increase for permanent state employees and the Legislature’s Joint CEC Committee also recommended a 3% ongoing merit based increase to be distributed at the discretion of each agency head. The CEC Committee also directed the Division of Human Resources to change the minimum amounts on the classified pay schedule from 68% of policy to 70% of policy. The Joint Finance Appropriations Committee (JFAC) approved and funded the 3% merit based increase. The Legislature authorized and funded a 3% increase in the annual salary for appointed officials. In addition, the salary for each of the three public utilities commissioners, four tax commissioners, and three industrial commissioners was statutorily increased by 3%.

The chart below reflects a ten year history of CEC appropriations to state agency personnel budgets (Appendix B).

State Employee Salary Increases FY 2006 to FY 2016



	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
■ Increase	1%	3%	5%	3%	0%	0%	0%	2%	0%	1%	3%

Salary Survey Results

The Division of Human Resources annually participates in five major salary surveys. Salary surveys provide the opportunity to compare state job salaries with similar job salaries in the public and private sectors. The salary surveys are the Western Management Group, Milliman Healthcare, Milliman Management & Professional, Milliman IT, and the National Compensation Association of State Governments (NCASG). The survey summaries are as follows:

1. The Western Management survey includes regional salary data for employers in Colorado, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. A total of 212 organizations from these regions participated in the survey. DHR matched 94 survey jobs; representing a total of 2,791 Idaho classified incumbents.
2. The Milliman Healthcare survey compiled data from 176 Northwest Health Care employers. DHR matched 42 survey jobs; representing a total of 1,754 Idaho classified incumbents.
3. The Milliman Management & Professional survey compiled data from 214 employers. DHR matched 50 survey jobs; representing a total of 867 Idaho classified incumbents.
4. The Milliman IT survey compiled data from 108 Northwest technology employers. DHR matched 29 survey jobs; representing a total of 405 Idaho classified incumbents.
5. The National Compensation Association of State Governments (NCASG) salary survey consists of 41 state employers. This survey allows Idaho to compare state salaries with similar positions in other states (Appendix C). DHR matched 53 survey jobs; representing 2,777 Idaho classified incumbents.

Overall, Idaho state classified wages for the 172 jobs (does not include duplicate job matches) combined are, on average, 22.6% below the market and Idaho policy rates are, on average, 15.98% below market. These comparisons are based on salaries only. Employee benefits and other cost of living factors are not included (Appendix E).

In 2015, Idaho ranked seventh in the eight state government comparator markets consisting of Colorado, Montana, New Mexico, Oregon, Utah, Washington, and Wyoming based on our salary survey comparisons. The following table reflects the weighted average salaries of 53 jobs matched in all of comparator states (Appendix D).

NCASG 8 Comparator States - 53 Jobs Matched		
State	Number of Incumbents	Weighted Average Salary
Oregon	5,730	\$68,341.72
Colorado	16,347	\$62,793.66
Washington	7,668	\$59,762.34
Wyoming	1,498	\$56,248.74
Montana	2,258	\$51,521.04
Utah	3,501	\$51,369.53
Idaho	2,721	\$51,026.00
New Mexico	2,584	\$48,021.58

Classified Employee Salary Structure

Idaho’s salary structure consists of 19 pay grades with minimum, policy, and maximum rates (Appendix F). Idaho uses the Hay methodology⁴ per Idaho Code 67-5309B(1) in order to determine appropriate pay grades for classification of state positions. Each pay grade range, except for pay grade D (minimum wage requirement) is currently 78.5% wide; meaning the maximum rate of pay is 78.5% greater than the minimum rate of pay. The pay grades are developed to help minimize the impact of market increases upon hiring rates when properly managed.

The policy pay rate is used as the target market rate. Since FY 2009, policy rates have been adjusted twice. In FY 2010, policy rates were increased by 3% and in FY 2015 policy rates were increased by 1%, as was the entire pay structure. Currently, Idaho’s policy pay rates are on average, 6.5% below surrounding comparator state governments; last year Idaho’s policy pay rates were 1.2% below these states. Overall, when compared regionally with public and private employers, Idaho’s policy pay rates are on average, 15.98% below market.

Compa-ratio⁵ information illustrates how employees are paid in relation to the policy pay rate⁶. In October 2015, the classified statewide average compa-ratio was 87.1% and the average classified hourly pay rate was \$20.55. In the previous year, October 2014, the classified statewide average compa-ratio was 85% and the average classified hourly rate was \$19.86. The table below reflects classified employees’ average wage and compa-ratio for the past six years (Appendix H).

Year	Classified Employees	Average Pay Rate	Average Policy Pay Rate	Compa-Ratio	Average Years of Service
2010	12,697	\$19.08	\$22.87	83.4%	11.0
2011	12,604	\$18.98	\$22.92	82.8%	11.0
2012	12,588	\$19.47	\$22.96	84.8%	10.9
2013	12,657	\$19.56	\$23.03	85.0%	10.8
2014	12,888	\$19.86	\$23.37	85.0%	10.4
2015	12,930	\$20.55	\$23.46	87.1%	10.2

The table below reflects the compa-ratio and pay rate averages for classified new hires for the past six fiscal years (Appendix I).

Fiscal Year	Classified New Hires	Average Pay Rate at Time of Hire	Average Policy Rate	Compa-ratio at Time of Hire
FY 2010	1,093	\$15.33	\$20.10	76.2%
FY 2011	1,355	\$14.94	\$19.84	75.3%
FY 2012	1,622	\$15.47	\$20.27	76.3%
FY 2013	1,580	\$15.65	\$20.23	77.3%
FY 2014	2,061	\$15.30	\$20.04	76.3%
FY 2015	1,747	\$15.84	\$20.59	76.7%

⁴ The Hay Group’s Methodology is the most widely used process for the evaluation of management, professional, technical and administrative jobs in measuring the aspects of the State’s classified positions.

⁵ The relationship between an employee’s salary and the policy pay rate of their job. For example: If an employee in pay grade K earns \$17.26 per hour, and the policy pay rate for pay grade K is \$24.65, their compa-ratio is 70% (hourly rate divided by policy rate equals compa-ratio).

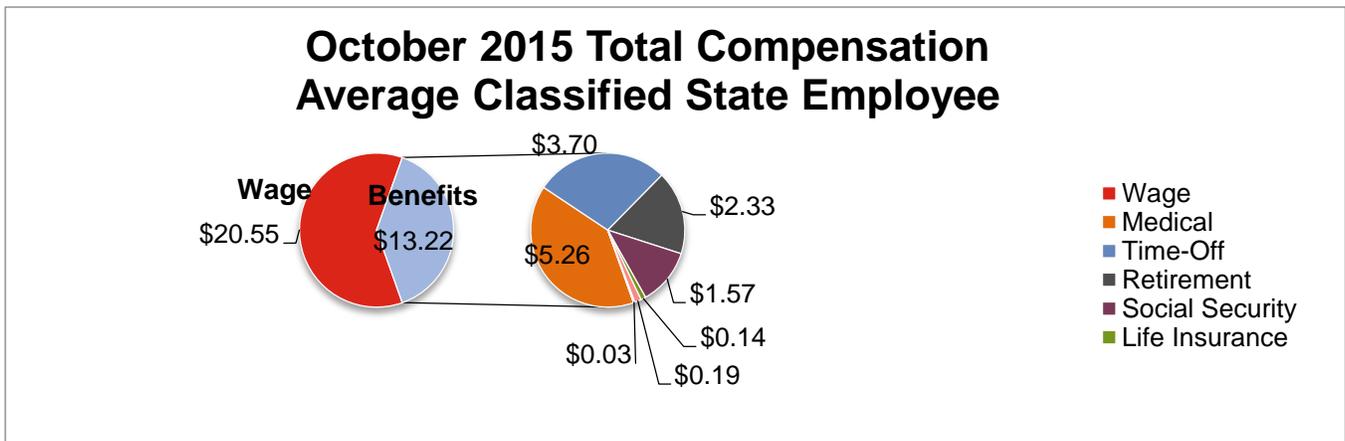
⁶ The salary relative to the external labor market (public and private sector) as determined by salary surveys of similar jobs. “Policy” and “market” are often used synonymously.

Total Compensation

Total Compensation is the complete compensation package for employees, including all forms of compensation and benefits. The State of Idaho provides a competitive employee benefit package that includes: employer-paid medical insurance contributions, retirement contributions, basic life insurance, paid leave allowances for vacation days, sick leave, and paid holidays. Additionally, state employees may take advantage of Flexible Spending Accounts, short-term and long-term disability, supplemental life insurance, a 401(K) choice plan, and a (457) deferred compensation plan. The employer provided employee benefits remain an important part of the total compensation package in recruiting and retaining valuable employees.

A total compensation analysis was last completed for the State in 2013 by the HayGroup. The results of their analysis at that time indicated that the State’s total compensation program was below market average when compared to both private and public sector markets. The State’s total benefits program was at the 75th percentile compared to the private sector, driven primarily by strong retirement and health care programs, and at the 50th percentile (median) when compared to the public sector. Hay reported that wages for State employees lagged the private sector by an average of 29% and trailed the surrounding States by an average of 10%. The Division of Human Resources has contracted with the HayGroup for a total compensation analysis to be completed in January 2016.

The following chart and detailed table reflect the value of a classified employee’s total compensation package based on the average hourly wage of \$20.55, or annual salary of \$42,744, as of October 2015.



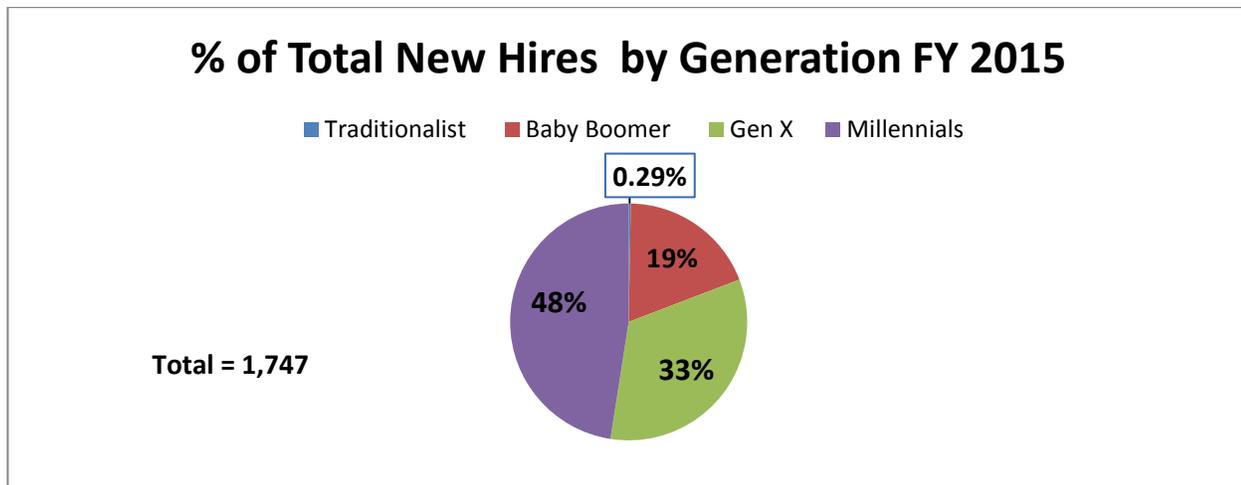
Average Annual Base Salary of \$42,744		
Employee Sponsored Benefits:	State of Idaho Costs	% of Benefit Compared to Wage
18 Vacation Days	\$1.67	8.11%
12 Sick Leave Days	\$1.11	5.41%
10 Holidays	\$0.93	4.50%
Medical	\$5.26	25.60%
Retirement/PERSI	\$2.33	11.32%
Social Security	\$1.57	7.65%
Life Insurance	\$0.14	0.68%
Workers Comp	\$0.19	0.91%
Unemployment	\$0.03	0.17%
Total Benefits	\$13.22	64.34%
Base Hourly Rate	\$20.55	Total Compensation: \$33.77

Classified Workforce Demographics

The chart below reflects classified new hires for FY2015 by generation and average age.

Generation	Number of New Hires	% of total new hires	Average Age at Time of Hire
Traditionalist	5	0.29%	71.2
Baby Boomer	330	18.90%	55.6
Gen X	581	33.28%	41.6
Millennials	830	47.54%	27.6
Grand Total	1,747	100.00%	37.7

The chart below reflects the percentage of new hires by generation.



Classified Turnover Data

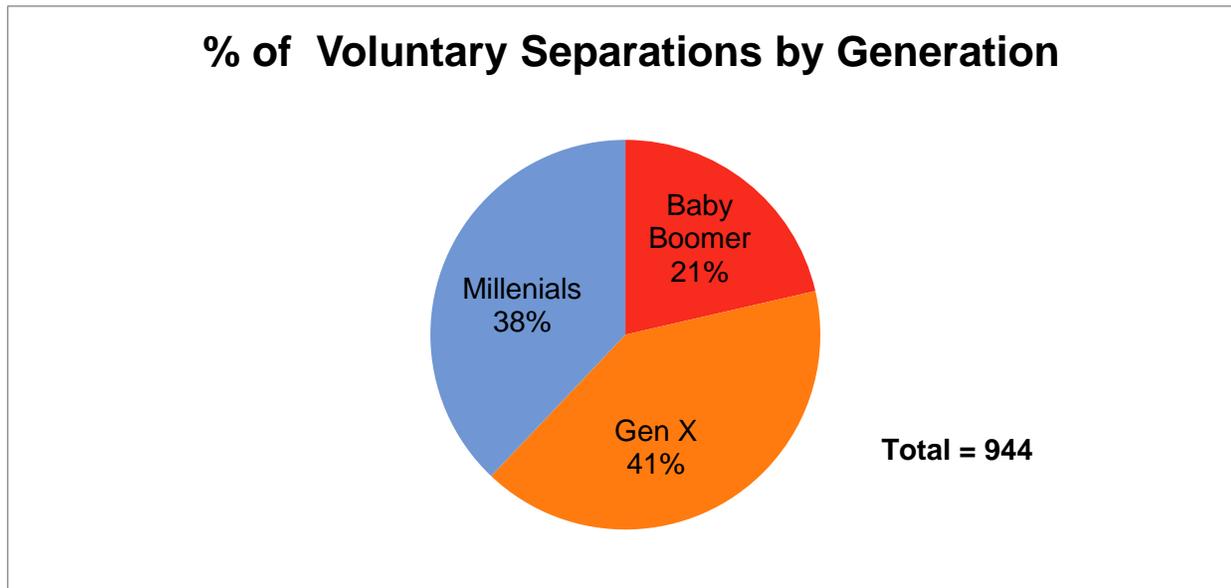
The table below reflects the 1,970 classified employee separation categories of voluntary, retirement, probationary and involuntary.

Separation Category	FY 2015 Separations	% of Total Separations	Average Years of Service	Average Age
Voluntary	944	47.9%	6	39.7
Retirement	400	20.3%	22.3	62.1
Probationary	429	21.8%	1.1	37.4
Involuntary	197	10.0%	10.4	48.4
Total	1,970			

The table below reflects classified separations by Occupational Category.

Occupational Group	Average Number of Employees FY2015	FY2015 Separations	Turnover Rate FY2015	Average Years of Service at Separation	Average Age at Separation
ADMINISTRATIVE	2,290	391	17.1%	8.2	47.1
ENGINEERING	901	94	10.4%	16.4	50.9
FINANCE AND ACCOUNTING	652	80	12.3%	10.9	47.7
HEALTH CARE – MEDICAL	8	1	13.3%		50.0
HEALTH CARE - SERVICES	1,247	246	19.7%	8.2	42.8
INFORMATION TECHNOLOGY	568	68	12.0%	10.1	48.0
LABOR TRADES AND CRAFTS	1,115	156	14.0%	8.2	47.0
MANAGEMENT SUB GROUP	194	16	8.2%	13.3	51.7
NURSES	425	115	27.1%	4.5	43.6
PARA-PROFESSIONAL SUB GROUP	963	116	12.1%	9.6	43.9
PROFESSIONAL SERVICES	2,075	259	12.5%	11.1	47.9
PROTECTIVE SERVICES	1,843	374	20.3%	5.0	36.6
SCIENCE/ENVIRONMENTAL	543	54	10.0%	14.2	48.1
Grand Total	12,821	1,970	15.4%	10.0	46.6

The chart below reflects classified voluntary separations by generation.

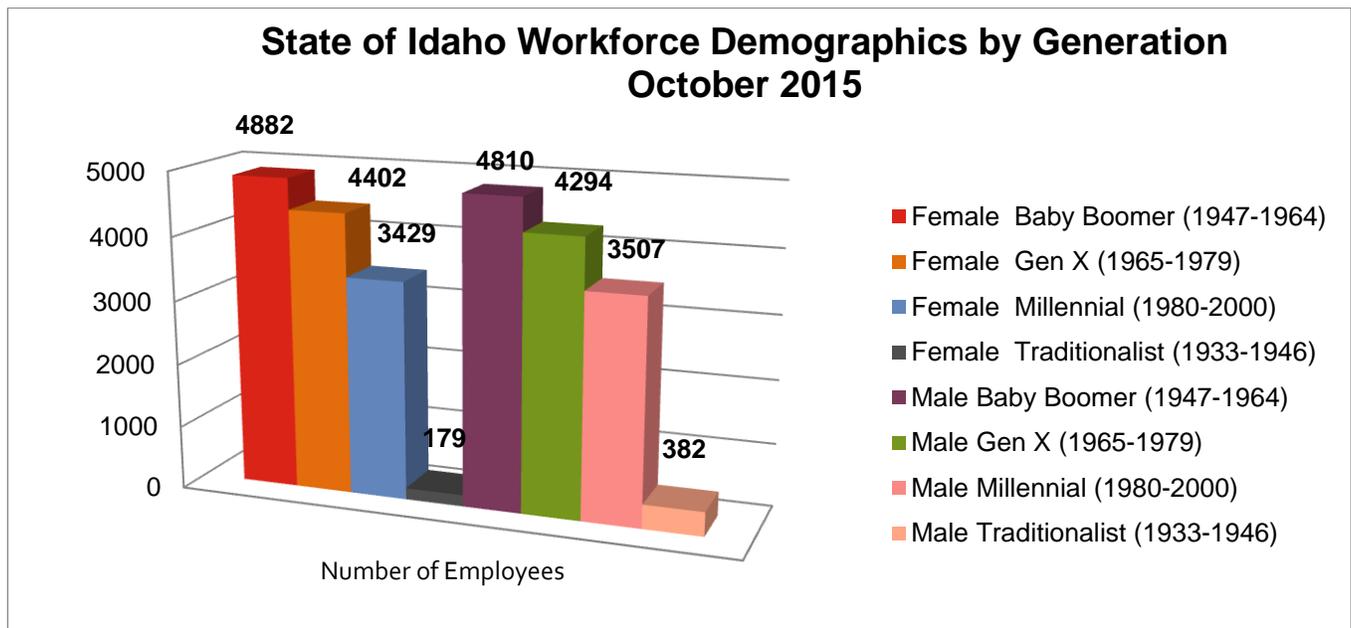


Within Idaho’s salary structure, 72.4% of Idaho’s classified employees are within pay grades H through M and they earn on average between \$30,761.98 and \$58,706.95 annually. The following table reflects this information (Appendix Q).

Pay Grade	Number of Employees	% of Total Workforce	Average Hourly Pay Rate	Average Years of Service
H	1756	11.9%	\$14.79	9.1
I	2279	15.5%	\$16.31	8.0
J	1627	11.0%	\$18.79	10.8
K	1586	10.8%	\$20.89	10.7
L	2013	13.7%	\$24.24	10.4
M	1406	9.5%	\$28.22	12.6
Grand Total	10667	72.4%	\$20.20	10.1

General Workforce Demographics

The following graph reflects the total workforce of 25,885 classified and non-classified employees by gender and generation.



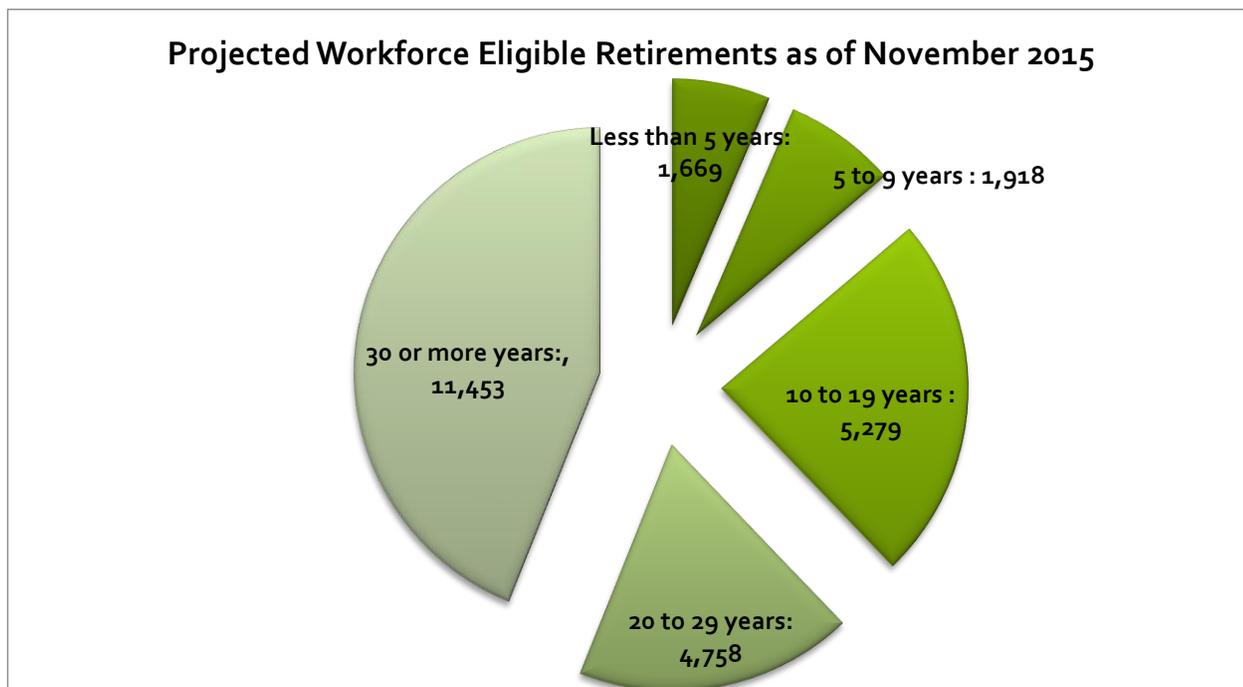
Exit Survey Results

When leaving state service voluntarily, employees have the opportunity to complete an exit survey (Appendix S). The table on the next page reflects the responses provided from 342 out of 1773 (not including 197 involuntary separations) exiting state employees from July 2014 through June 2015. The responses reflect the top three responses on why employees are leaving state employment and the top three responses on what employees liked best about state employment.

Exit Reasons - Why I'm Leaving State Employment*	1	2	3
Pay	59	40	32
Career Opportunities	25	45	37
Management	22	14	17
*does not include retirement responses			
Exit Reasons - What I Liked Best About State Employment	1	2	3
Benefits	87	51	34
The Work Itself	50	41	37
Relationships with Colleagues	43	37	38

Retirement Forecasts

Retirements comprised 20.3% of the total turnover for employees leaving state employment in FY2015. The average age of retirement for the past five years was 62.1 years. The following chart reflects the projected employees count eligible for retirement as of November 2015, excluding judicial branch employees (Appendix T).



Public Employee Retirement System of Idaho (PERSI) - Employee Pension Plan Information

The Public Employee Retirement System of Idaho (PERSI) was created in 1963 by the Idaho Legislature with funding effective July 1, 1965. Since that time, PERSI has provided a Defined Benefit (DB) plan designed to provide secure, long-term retirement benefits for career public service employees. PERSI is directed by a five member Retirement Board appointed by the Governor for a term of five-years.

PERSI funds are separate from all public monies or funds of the State. Funding comes from three sources: contributions from employees, employers, and investment income. Generally, investments account for 59% of PERSI's revenue, with employers (26%) and employees (15%) making up the balance. The Board is responsible for overseeing the fund's investment activities. This includes hiring investment managers and setting the asset allocation and funding policy for both the Base and Choice Plans; approving proposed legislation; setting contribution rates; determining annual cost-of-living adjustments (COLAs) for retirees; determining gain sharing distribution amounts, if any; reviewing and adopting actuarial assumptions; overseeing PERSI's administrative activities, including approving PERSI's annual budget; ensuring overall fund stability.

In 2009, in response to adverse market conditions, PERSI's Retirement Board approved a series of three contribution rate increases of 1.5%, 1.5%, and 2.31% consecutively in order to ensure fund stabilization. The first increase took effect July 1, 2013 and is split between employers and employees – respectively 2/3 and 1/3.

Since then, market conditions have improved and the fund has stabilized. In October 2013, the Board voted to postpone the second contribution rate increase for one year. In September 2014, all future contribution rate increases were canceled by the Board, which kept contributions for the general member at 11.31% for employers and 6.79% for employees. Public safety rates were set at 11.66% for employers and 8.36% for employees. In making that decision, the Board took several factors into account, including:

- PERSI's strong earnings performances and favorable funded ratio,
- Fiscal Year 2013 Actuarial valuation, and
- Budget flexibility for the State of Idaho, its employers and employees

In October of 2015, the Board approved the most current actuarial valuation of the system which was as of June 30, 2015. The valuation shows that the current contribution rates will meet the normal costs of the system as they accrue. The current rates are sufficient to amortize the unfunded actuarial accrued liability (UAAL) in 18.5 years. Therefore, the amortization period is less than the 25-year maximum permitted under Section 59-1322, Idaho Code. The actuarial accrued liability (AAL) is \$15.5 billion and actuarial value of assets is \$14 billion, making an unfunded actuarial accrued liability (UAAL) of \$1.5 billion which results in a funding ratio of 90.0%.

Overall, PERSI has 67,008 contributing active members (increase of 785 from 2014), 42,657 members receiving benefits (increase of 1881 from 2014), 11,859 vested terminated members, and 17,968 non-vested terminated members, for a total of 139,492 members.

Department of Administration - Employee Benefit Information

The State of Idaho currently offers a full range of group insurance benefits including medical, dental, vision, Flexible Spending Accounts, short-term and long term disability and life insurance. Total State spending for these plans is projected to be nearly \$210 million in FY2016.

The Office of Group Insurance continually seeks out opportunities to provide new or enhanced benefits and encourage the health and wellness of all state employees. In FY2015, the State wrapped up its first year of thriveidaho, a health promotion program that “promote[s] a healthy Idaho by engaging and empowering employees to take responsibility for their own health.” The program also rewards those who complete the program requirements with a \$250 cash reward and more than 3,500 employees received their reward in FY2015.

Following the Office of Group Insurance’s statewide verification of all dependents covered by the State’s medical plans, in FY2015 OGI implemented a point of enrollment dependent eligibility verification process for all dependents as they are added to coverage.

The State continues to maintain its grandfathered status under the Affordable Care Act and shifted no additional costs to employees in FY2016.

DHR Recommendations

Per Idaho Code Section 67-5309C, the Division of Human Resources must include recommendations on the following components: salary structure adjustment, specific occupational inequity (pay line exception), merit increase, and the employee benefit package.

1. Salary structure adjustment: DHR recommends that the current salary structure remains in place.
 2. Specific occupational inequity (pay line exception) component: DHR recommends continuing with the job classifications that are currently on pay line exception to address specific recruitment or retention issues (Appendix U).
 3. Merit increase component: DHR recommends that if adequate funding is available, a 3% increase for the salary component of state employee compensation administered in accordance with the State’s merit based pay philosophy be considered as an appropriate level in an effort to keep pace with current market rate increases. A 3% increase would amount to an estimated cost of \$17,314,400 million to the General Fund and an estimated cost of \$20,794,900 million in other funds, for a total of \$38,109,300 million.
 4. Employee benefit package: The State’s employee benefit package continues to be a key component of the State’s total compensation package for employees. DHR recommends that the State continue to maintain the current funding for the employer cost of group insurance benefits.
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Appendices A – V