

Information for Human Resources and Business Risk Professionals in the Colorado State Personnel System

ANNUAL COMPENSATION ADJUSTMENTS FOR FY 2008-09

The General Assembly has appropriated funds for the FY 08-09 annual compensation increases, both salaries and benefits, and the Long Bill (HB 08-1375) has been signed by the Governor. This document provides an update on what the annual compensation changes look like for July 1, 2008.

Changes in Actual Salaries

Thanks in large part to the commitment of the Governor, State Personnel Director, and General Assembly, specifically the Joint Budget Committee, the Long Bill appropriates an overall average base achievement pay increase of 4.31%. Base achievement pay consists of two elements; market-based salary increases by occupational group, adjusted for the Supplemental Amortization Equalization Disbursement (SAED), and a single uniform statewide percentage of 1% to further recognize performance. All permanent state personnel system employees (except for Temporary Aide, and SES and Medical pay plan employees) will receive base-building achievement pay, subject to the range maximum, except for those employees rated Needs Improvement. The second component of achievement pay is the non-base payment to those employees rated as Exceptional, which is 2%. The following table shows planned changes to actual base salaries, by occupational group. A more detailed breakdown of achievement pay percentages is on the last page.

Occupational Group	Total Base Achievement Pay
Enforcement & Protective Services*	3.69%
Financial Services	5.06%
Health Care Services	4.18%
Labor, Trades, & Crafts	3.33%
Administrative Support & Related	4.43%
Professional Services**	5.13%
Physical Sciences & Engineering	3.25%
Overall Average	4.31%

*Per C.R.S. 24-50-104(1)(a)(III)(A), Troopers are adjusted separately with a total base pay adjustment of 7.12%.

**Teachers are consolidated into the Professional Services occupational group effective 7/1/08.

Note: adding the percentage to current base salary will vary slightly from actual calculations due to mathematical compounding in the budgeting process (see examples below).

A Recap of Achievement Pay

Achievement pay is intended to meet two fundamental compensation principles that are also contained in statute: keep salaries competitive with the market and recognize performance, which is the current mechanism to move salaries through the pay ranges. Achievement pay has two components; base and non-base building. The intent of base achievement pay is to combine two elements, market and performance, into one simple adjustment amount for an occupational group. It becomes part of base salary so it is subject to range maximums. Increasing base salary is justified based on the expectation that all employees will continue to be successful. Non-base achievement pay is intended to differentiate and reward excellent performance to the greatest extent possible. It is a one-time lump sum paid in July to employees with a final rating of Exceptional and must be earned each year. Non-base achievement pay is not subject to a range maximum or salary lid.

Achievement Pay Calculation Examples

A simple way to calculate the new base salary is to take the June 30 base and multiply it by the Total Base Achievement Pay Adjustment percentage (page 1 chart), subject to range maximum. For example, an employee in Financial Services with a June 30 base of \$4000 and a base achievement pay increase of 5.06% would have a new base salary of \$4202 (\$4000 x 1.0506). Salary figures involve compounding and are rounded to whole dollars

at the end of the calculation. Below are three *hypothetical* examples showing the detailed calculation. *They are examples only so exercise care in applying any of these illustrations to individual employees.*

Employee A - Nurse I: Base salary is \$4200 on June 30 with a Successful performance rating. Health Care Services base achievement pay is 4.18% for all employees, except Needs Improvement, subject to the range maximum. Employee A is not eligible for non-base achievement pay.

On July 1: New pay range is \$4141 (min.) to \$5991 (max.)
New base salary is **\$4376** ($\4200×1.0418)

Employee B - Correctional Officer I: Base salary is \$3500 on June 30 with an Exceptional performance rating. Enforcement and Protective Services base achievement pay is 3.69% for all employees, except Needs Improvement, subject to the range maximum. In addition, Employee B will receive non-base achievement pay, which is 2% of the new annual salary, paid as a lump sum in July.

On July 1: New pay range is \$3273 (min.) to \$4651 (max.)
New base salary is **\$3629** ($\3500×1.0369)
Non-base achievement pay is **\$871** ($\$3629 \times 12 \times .02$)

Employee C - Administrative Assistant III: Base salary is \$3900 on June 30 with an Exceptional performance rating. Administrative Support and Related achievement base pay is 4.43% for all employees, except Needs Improvement. However, because Employee C's salary is very close to the range maximum, Employee C will only receive a portion of achievement base pay (up to range maximum) and the remainder will be paid as a one-time non-base lump sum in July. In addition, Employee C will receive non-base achievement pay, which is 2% of the new annual salary, also paid as a lump sum in July.

On July 1: New pay range is \$2897 (min.) to \$4065 (max.)
New base salary is **\$4065** ($\$3900 \times 1.0443 = \4073 , but base pay cannot exceed range maximum)
Remaining Achievement Base as non-base lump sum is **\$96** ($\$4073 - \$4065 = \8×12)
Achievement Non-Base Pay is **\$976** ($\$4065 \times 12 \times .02$)
Total non-base lump sum paid in July is **\$1072** ($\$976 + \96)

Changes to Pay Ranges (Pay Structure)

As in years past, all pay range minimums and maximums will be adjusted based on the occupational group market midpoint movement. These amounts vary by occupational group and are different from the market adjustment portion of base achievement pay because they measure the change in market range midpoints as opposed to salary increases.

Statute sets a cap on the salary amount for three pay plans. Legislation from last year changed the calculation of these "lid" values to address salary compression that was causing critical issues in high-level management positions. It allows the lid to begin catching up with market pay structures. Again, pay structure adjustments are different from actual salary increases so the lid value may adjust by a figure such as 6%, but actual pay will be adjusted by the base achievement pay amount for the occupational group. Statutory salary lid values have been adjusted and will be published in the new FY 2008-2009 compensation plan. These lid values are \$13,025 for medical classes, \$12,073 for senior executive service positions, and \$9,659 for all other classes. The official FY 2008-2009 compensation plan will be available on the DPA/DHR Web site as soon as it is finalized and a separate announcement will be sent to all employees through HR directors.

<i>Occupational Group</i>	Average Range Midpoint Movement
Enforcement & Protective Services *	3.08%
Financial Services	4.41%
Health Care Services	3.56%
Labor, Trades, & Crafts	2.74%
Administrative Support & Related	3.81%
Professional Services	4.48%
Physical Sciences & Engineering	2.66%

**Per 24-50-104(1)(a)(III)(A), Troopers are adjusted separately with a 2.86% structure movement.*

Implementation of Multiple Salary and Range Changes

When a number of actions related to salary are taking place on the same date, July 1, it often raises questions on the order in which changes take place. The sequence of multiple actions occurring on the same date is defined by State Personnel Director’s rule. Here is the ordered sequence for computing salaries on July 1. Please remember that rules supersede a department’s performance management program.

1. System Maintenance Studies. There are two studies for July 1; Teachers and Physical Science and Engineering Phase II. Actual pay is not impacted at this step unless base salary is below the minimum of the new pay grade, in which case base salary will be raised to the new grade minimum. In cases where actual pay is above the maximum of the new pay grade, the salary will not change and the employee is placed in saved pay status.
2. Individual employee changes due to upward, downward, or lateral movements. This includes those coming out of saved pay on July 1.
3. Pay Structure. Range minimums and maximums are adjusted for each occupational group in accordance with the average market pay structure midpoint movement, including any individual class adjustments (i.e., Transportation Maintenance I – III). Actual pay does not change at this step.
4. Base achievement pay. Actual base pay is adjusted, subject to new range maximums. The Exceptional level will receive any remaining portion of base achievement pay that would exceed range maximum as a one-time lump sum paid in July.
5. Bring any base salaries below the new range minimums up to minimums.
6. Non-base achievement pay for the Exceptional level. The 2% is applied to the new annual base salary from previous steps.

Changes in Contributions to Benefits

The General Assembly and Joint Budget Committee are continuing their strong support towards employee benefits. The increase in state contributions to medical plans this year brings the state contribution to approximately 90% of the prevailing average market employer contribution. State contributions, including dental and basic life insurance, as well as other specific details on benefits are available on the DPA/DHR Web site at www.colorado.gov/dpa/dhr/benefits.

Performance Rating Levels

March 31, 2008, marked the end of the first annual performance evaluation cycle using the 3-level rating system adopted on July 1, 2006. Before making any decisions as important as the number of rating levels, DPA reviewed a large body of research spanning decades and also looked at the best practices of other employers to gain insight on their experiences. In addition, input from three prior taskforces, various forums, and town halls were reviewed. We also examined the State’s actual ratings distribution data since implementation in 2002. While the top rating level reflected industry standard distribution, we found persistent rating inflation in the middle levels with no sign of letting up. This confirmed reports by a number of departments who said they were using the third level (in the former 4-level rating system) as an extension of the second level for successful performance, and indeed, when levels 2 and 3 were combined it reflected the industry standard for expected ratings distribution. So what are some of the things we learned, especially for our work setting?

- Perceived gradations between the middle two ratings in a 4-level scale are not supported empirically, resulting in less reliability because of a greater degree of subjectivity and inconsistency.

- Three levels is all the information needed for pay administration. The greater the number of rating levels coupled with rating inflation, the smaller the reward for each rating level. Three levels better distributes the limited funds and makes rewards more meaningful.
- Outside of work environments with production numbers that are easily quantified, employers do not have the data, metrics or measurements, or tools to precisely distinguish among successful performers (middle ratings).
- Most supervisors and managers have difficulty making fine distinctions between similar performance levels with any reliability or consistency, but can accurately identify the extremes. The remaining majority of employees are solid, successful contributors constituting the backbone of a workforce.
- Attempting to make fine distinctions based on non-existent precision leads to unnecessary and counterproductive rating bias. Using a simpler rating scale means less time spent justifying gradations and defending disputes, leaving more time for critical communication and coaching.

As part of the study leading to the change, DPA had an opportunity to work with the Colorado Association of Public Employees (CAPE) and the Association of Colorado State Patrol Professionals (ACSPP) and during a presentation to the JBC in December 2005; they stated their support for three levels as making more sense in accomplishing their goals of consistency and uniformity, citing fewer disputes over the middle levels and making more funds available for rewards over fewer levels. DPA also discussed the proposal of switching to a 3-level rating system with HR directors in the spring of 2006 where most preferred three levels, recognizing the importance of training, orientation, and communication in addressing issues. Finally, formal rulemaking was conducted where employees and departments were given the opportunity to provide public testimony and written comment prior to any final decision. The decision was not made in isolation or lightly and there are a number of goals in switching from four rating levels to three.

One, the State must adhere to a statutorily mandated system of periodic salary increases based on performance management and evaluation that is simple and consistently applied. Three rating levels assist raters with the application of performance management principles and employees in understanding the difference between levels. More time can be focused on the critical aspects of performance management, such as communication, coaching, and development.

Two, reduce the number of disputes for all departments. Many performance management disputes were related to the perceived ambiguities between the two middle levels in the previous 4-level rating system. Unless production and performance is easily quantified, making the distinction between those two middle levels was very difficult for raters to complete with any reliability or consistency. Three levels are more easily recognized; the extremes (poor and exceptional performers) along with the full range of successful performers.

Three, help alleviate subjective rating bias. Performance evaluations are inherently subjective, however, three easily identifiable rating levels alleviates pressure to over-rate. More importantly, there will be more time to focus on the critical aspects of performance management, such as communication, coaching, and development, rather than raters focusing on fine distinctions based on often non-existent precision.

Four, help to relieve the pressure of limited funding while adhering to basic compensation principles, and providing more meaningful award distinction between rating levels. Successful performers who show strong or exceptional performance at times during a cycle should be recognized at that time with incentives that are meaningful to those individuals (e.g., spot awards). The most meaningful rewards are the ones that employees value the most, which may not always be monetary.

The number of rating levels will never completely eliminate rating inflation or substitute for sound performance management. On the other hand, a 3-level rating system has a positive impact with the distribution of dollars on the pay side, while also benefiting the performance management side. When coupled with other measures like training, quality control reviews, strong definitions and goal setting, it can only help to strengthen performance management.

What Does the Future Hold?

DPA will continue to work on funding for employee annual compensation adjustments and is committed to identifying and improving mechanisms to move employee salaries through the pay ranges. DPA is undertaking a

comprehensive review and study of all compensation and performance evaluation policies, including performance pay.

It is time to look at improvements with performance management, as performance management has not received the attention it deserves and needs. Performance management occurs regardless of pay or the number of rating levels and permeates every aspect of people or human capital management. Further, organizational performance cannot happen until the State can effectively manage individual performance, taxpayers are demanding increased accountability, and lawmakers and executives are focused on performance-driven government.

The State is not alone in its quest to improve performance management, both on an individual and organizational level. Work has begun in terms of examining the process so it is as streamlined as possible while strengthening manager/supervisor accountability, and providing support through training, tools and consultation, including looking at ways to incorporate teamwork and a focus on outcomes instead of outputs.

All of us need to encourage and practice true performance management. It should be happening every day through informal communication, coaching and development, instead of condensing performance management and feedback into an annual meeting that produces a paper document. If done well, there are no surprises and documentation can be done relatively quickly and more efficiently.

In addition to continuing to listen to your concerns and ideas, DPA will study and learn about best practices from employers who are successful at performance management and pay. DPA will also learn practices, strategies, and processes from state managers and employees. You will see more information and have opportunities for input as this initiative progresses.

Detailed Achievement Pay Breakdown

Occupational Group	Market Element	Avg. Market Salary Adjustment After SAED	Performance Element	Total Base Achievement Pay
Enforcement & Protective Services*	3.18%	2.66%	1%	3.69%
Financial Services	4.55%	4.02%		5.06%
Health Care Services	3.67%	3.15%		4.18%
Labor, Trades, & Crafts	2.83%	2.31%		3.33%
Administrative Support & Related	3.93%	3.40%		4.43%
Professional Services (and Teachers)**	4.62%	4.09%		5.13%
Physical Sciences & Engineering	2.74%	2.23%		3.25%
Overall Average	3.80%	3.28%		4.31%
2% Non-base (lump sum) achievement pay for Exceptional performance				
Notes				
<ul style="list-style-type: none"> • SAED paid to the Public Employees Retirement Association (PERA) is funded from amounts appropriated for salary increases. The result is slightly lower market adjustments. • The single uniform statewide percentage for the performance element of achievement pay (1%) will vary slightly when applied by occupational group (hundredths of a percent) as a result of how the calculations and budget are set, which is a process in place prior to achievement pay. • Base achievement pay varies slightly from simply adding the percentage to current base salary due to mathematical compounding in the budgeting process in place. • Those rated Needs Improvement are not eligible for salary increases unless their base salary is below the new minimum of the pay range, in which case, salary will be raised to the new range minimum. 				

For additional information or questions, contact your department HR office or DPA/DHR at job.eval.comp@state.co.us.