

Special Advisor

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Division of Human Resources



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

TOTAL COMPENSATION CHANGES SET FOR 07/08

The General Assembly has appropriated funds for the FY 07-08 annual compensation increases, both salaries and benefits, and the Long Bill has been sent to the Governor for signature. This *Special Bulletin* provides an update on what the total compensation picture will look like on July 1, 2007. *Please note that the appropriations and resulting figures in this document are not final until after the legislative session. While the amounts may change, the remaining information is accurate. Watch for the Advisor with final information, including any updates to salary or benefits contributions.*

Changes in Actual Salaries

The Long Bill (SB07-239) increases payroll by 5.07% through Achievement Pay: 3.70% for market salary adjustments and 1.37% for payments related to performance. Achievement Pay has two components: base and non-base building. Base Achievement Pay consists of market salary increases by occupational group, adjusted for the Supplemental Amortization Equalization Disbursement (SAED), and a single uniform statewide percentage of 1.00% to recognize performance. Permanent state personnel system employees will receive base-building salary increases, except those rated Level 1 (Needs Improvement). Achievement Pay also includes a non-base payment of 2.00% to those rated at Level 4 (Outstanding). The following table shows changes to actual base salaries. For more information on SAED and other details, read on.

Occupational Group	Base Building Achievement Pay			
	December Market Salary %	Revised Market Salary % After the PERA SAED	Performance Base Pay %	Total Base Pay Adjustment %
Enforcement & Protective Services	3.60	3.34	1.00	4.38
Troopers	6.90	6.63		7.70
Financial Services	2.80	2.54		3.57
Health Care Services	4.40	4.14		5.18
Labor, Trades, Crafts	2.80	2.54		3.57
Administrative Support & Related	3.00	2.74		3.77
Professional Services	3.70	3.44		4.48
Physical Sciences & Engineering	3.90	3.64		4.68
Teachers	3.70	3.44		4.48
<i>Non-Base Building Lump-sum Achievement Payment for 'Outstanding' Performers</i>				2.00%

Notes:

- "Total Base Pay Adjustment %" is different from simply adding the revised market salary and performance base percentages due to mathematical compounding at each step in the calculation. (See example calculations below.)

- “December Market Salary %” is the market achievement pay component recommended by the Personnel Director for occupational groups. The statewide average for this adjustment is 3.70%.
- The “Revised Market Salary % After the PERA SAED” indicates the slight decreases made to the December recommendations so that payments could be made to PERA for SAED. The mathematical result is a .26% reduction based on June 30 payroll.
- The “Performance Base Pay %” is the performance achievement pay component recommended by the State Personnel Director for all occupational groups. This is a base building adjustment.
- The “Total Base Pay Adjustment %” shows the final combined base adjustment to eligible employees’ salaries.
- The “**Non-Base Building Lump-sum Achievement Payment**” is the performance achievement pay component recommended by the State Personnel Director for Level 4 (Outstanding) performers. It is not a base building adjustment, but may be earned (at the appropriated level) in future years by all employees rated at the highest level.
- Employees who are rated Level 1 (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 meet the new range minimum.

What’s This Thing Called SAED?

Before distributing the new salary dollars to the workforce, Senate Bill 06-235 requires that we first deduct the amount necessary to fund the Supplemental Amortization Equalization Distribution (SAED) to be paid the Public Employees Retirement Association (PERA). This legislation calls for .50% of the State’s total payroll to be paid to PERA on behalf of employees annually to improve its financial health, starting January 1, 2008. This amount is to be funded each year from amounts appropriated for salary increases under 24-50-104 C.R.S. Since PERA is on a calendar year cycle and the funding mechanism is on state fiscal year cycle, about .25% is due in this first year of implementation.

In accordance with the implementation of this bill, funding for these payments will be deducted from appropriations for FY 07-08 market salary increases (i.e., the 3.70% element). The above table shows how the December recommendations for occupational group market salary adjustments have been revised to account for SAED, sending a portion of the appropriations for salary increases to provide for the additional payments to PERA as required by SB06-235. The result is slightly lower market salary adjustments.

Here is an example of how SAED funding impacts the market salary adjustment using an employee in Financial Services (FS) with a June 30, 2007, salary of \$40,000. Without SAED, the market salary adjustment (2.80%) would have resulted in a salary of \$41,120. The revised market salary adjustment (2.54%) results in a salary of \$41,017 with \$103 paid to PERA on behalf of the employees.

Achievement Pay – A Fresh Perspective

Achievement pay meets two fundamental compensation principles that are also contained in statute: keep salaries competitive with the market and recognize performance. It addresses concerns with the State’s performance pay system.

- Is simple and understandable.
- Restores the mechanism to move salaries through pay ranges by allowing the opportunity for salary growth in ranges based on competent, successful performance.
- Shows consistent and clear commitment to the statutory policy of performance-driven government.
- Offers uniformity in the system through single statewide rates set by the State Personnel Director, which minimizes variance with consistency while being flexible enough to respond to the market and budget realities of the State.
- Takes advantage of the strengths of base and non-base increases; the most effective use of funding and preserves the integrity of the pay structure and ranges.

The intent base Achievement Pay is to simply combine the two elements, market, and performance, to get one amount for each occupational group that becomes a permanent part of base salary for all Level 2 and above performers. In keeping with current practice, increases to base salary are subject to range maximums.

Market salary adjustment

This element reflects the average salary increases found in the market for each occupational group. The amount received will vary by the eight occupational groups (no change from current practice).

Performance

This element is a single uniform statewide percentage set by the State Personnel Director each year. The value of performance is not intended to vary by occupational group.

This year, 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) because that is the way we have historically done the calculations and the budget was set accordingly before Achievement Pay was introduced.

Non-base Achievement Pay is intended to differentiate and reward excellence to the greatest extent possible. It is a one-time lump sum paid in July to those rated Level 4 (Outstanding) and must be re-earned each year. It is not subject to a range maximum or salary lid. The State Personnel Director sets this single uniform statewide percentage that is at least equal to the base performance rate, preferably double like this year. The non-base performance element is intended to reflect the concept that the value of performance does not vary by virtue of occupational group. As a means to further differentiate to the greatest extent possible, the Level 4 (Outstanding) who is at, near, or above the new range maximum will also receive any remaining portion of base Achievement Pay that would have taken the base salary above the range maximum as a one-time lump sum payment.

Transition of Number of Performance Rating Levels

The annual performance evaluation cycle for employees in the state personnel system runs from April 1 to March 31. Pay increases based on the March 31 ratings are paid out in the next ensuing fiscal year starting July 1. Until March 31, 2007, the State used a 4-level rating system. Effective April 1, 2007, the State has moved to a 3-level rating system. The following table describes the rating levels for each approach.

Old Performance Rating System Ending March 31, 2007*	New Performance Rating System April 1, 2007 to March 31, 2008 and beyond
Level 1 – Needs Improvement Level 2 – Satisfactory Level 3 – Above Satisfactory Level 4 – Outstanding	Level 1 – Needs Improvement Level 2 – Successful Level 3 – Exceptional

* Note: Individual departments had the discretion to use their own labels for performance levels.

The following table illustrates how the market salary and performance elements of base Achievement Pay will be applied under both the final year of the 4-level rating system (payout July 2007) and the new 3-level rating system (payouts July 2008, and beyond). In essence, employees rated at Levels 2 and 3 in the performance cycle just ended will be combined for payout purposes July 2007. In both approaches, top performers are eligible for a non-base payment that must be re-earned each year.

Ratings and Payout Components	Performance Rating Level			
March 31, 2007 Rating Paid July 2007	1	2	3	4
Market Adjustment (salary survey)	0%	Market	Market	Market
Performance Base percentage*	0%	1%	1%	1%
Performance Non-base percentage *	0%	0%	0%	2%
March 31, 2008 Rating Paid July 2008	1	2	3	

* Note: the percentages shown are for FY 2007-08 only. The actual percentages for FY 2008-09 and beyond will be based upon appropriated funding levels.

* Note: Employees who are rated Level 1 (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 meet the new range minimum.

Achievement Pay Calculations

The simple way to calculate the new base salary is June 30 base x Total Base Pay Adjustment % (page 1 chart) = new base salary, subject to range maximum. For example, an employee in Financial Services with a June 30 base of \$4000 would have a new base of \$4143 (\$4000 x 1.0357). A more detailed formula that shows the market

salary and performance base steps is June 30 base x market salary %, then x 1% performance base = new base salary, subject to range maximum. Using the same employee as an example, the new base is still \$4143 ($\$4000 \times 1.0254 = \$4101.6 \times 1.01 = \4143). Salary figures are rounded to whole dollars at the end of the calculation. Non-base payments are made by separate check. Below are three *hypothetical* examples of how Achievement Pay is calculated. Each individual's pay situation is different, so exercise care in applying any of these illustrations to a specific employee.

Employee A - Nurse I Base salary is \$4000 on June 30 and Level 2 performance rating. Health Care Services Achievement Base Pay is 5.18% for all Level 2, 3, and 4 employees. Employee A is not eligible for non-base Achievement Pay.

On July 1: New pay range is \$3999 (min.) to \$5785 (max.)
New base salary – **\$4207** ($\4000×1.0518)

Employee B - Correctional Officer I Base salary is \$4000 on June 30 and Level 4 performance rating. Enforcement and Protective Services Achievement Base Pay is 4.38% for all Level 2, 3, and 4 employees. In addition, Employee B will receive the non-base Achievement Pay, 2% of new annual salary, paid as a lump sum in July.

On July 1: New pay range is \$3175 (min.) to \$4512 (max.)
New base salary – **\$4175** ($\4000×1.0438)
Achievement Non-Base Pay - **\$1002** ($\$4175 \times 12 \times .02$)

Employee C - Administrative Assistant III Base salary is \$3800 on June 30 and Level 4 performance rating. Administrative Support and Related Achievement Base Pay is 3.77% for all Level 2, 3, and 4 employees. 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 also receive the Achievement Non-Base Pay, 2% of new annual salary, paid as a lump sum in July.

On July 1: New pay range is \$2791 (min.) to \$3916 (max.)
New base salary – **\$3916** ($\$3800 \times 1.0377 = \3943 but base cannot exceed range maximum)
Remaining Achievement Base as non-base lump sum - **\$324** ($\$3943 - \$3916 = \27×12)
Achievement Non-Base Pay - **\$940** ($\$3916 \times 12 \times .02$)
Total non-base lump sum paid in July - **\$1264** ($\$940 + \324)

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 mid-point movement. These amounts vary by occupational group and are less than the base Achievement Pay market salary increases because they measure the change in market range midpoints. Thus, actual salaries will move upward in the pay ranges. Statutory salary lid values have been adjusted and will be published in the new compensation plan: \$12,288 for medical classes, \$11,390 for senior executive service positions, and \$9,112 for all other classes. The official 2007-2008 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 HR directors.

<i>Occupational Group</i>	Average Range Midpoint Movement
Enforcement & Protective Services *	3.4%
Financial Services	2.7%
Health Care Services (and Medical)	4.2%
Labor, Trades, & Crafts	2.7%
Administrative Support & Related	2.9%
Professional Services (and Teachers)	3.5%
Physical Sciences & Engineering	3.7%

*Per 24-50-104(1)(a)(III)(A), Troopers are adjusted separately with a 3.7% 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 a State Personnel Director's rule. Rule 3-8 was revised for Achievement Pay and will be effective July 1, 2007. Here is the order for computing salaries. Please remember that rules supersede a department's performance management program.

- System Maintenance Studies. There is one study for July 1, Air Traffic Controllers. Actual pay is not impacted at this step unless base salary is below the minimum of the new pay grade, in which case it will be raised to the new range minimum.
- Individual employee changes due to upward, downward, or lateral movements, followed by any base pay changes for employees in the Teacher I class.
- Pay Structure. Range minimums and maximums are adjusted for each occupational group in accordance with the average range midpoint movement. Actual pay does not change at this step.
Note: there are several individual class adjustments as a result of the annual compensation survey that are listed in the *2007-2008 Annual Compensation Survey Report* on the Web at www.colorado.gov/dpa/dhr/comp/pay.
- Achievement Pay (base). Actual base pay is adjusted, subject to new range maximums. Employees rated Level 4 will receive any remaining portion that would exceed range maximum as a one-time lump sum paid in July.
- Bring any base salaries below the new range minimums up to minimums.
- Non-base Achievement Pay for Level 4 employees. The 2% is applied to the new annual base salary from previous steps.

Changes in Contributions to Benefits

The General Assembly is continuing their strong support towards employee benefits as again this year there is an increase in State contributions to medical plans to approximately 85% of the prevailing average market employer contribution. State contributions, including dental and basic life insurance, are listed below. More specific details on benefits and open enrollment were in the April *Healthline* mailed to all benefits-eligible employees' homes and available on the benefits Web site.

<i>Benefit Type</i>	State Contribution Starting 7/1/07
Medical – Employee only	\$283.58
Medical – Employee + spouse	\$488.92
Medical – Employee + child(ren)	\$440.58
Medical – Employee + spouse + child(ren)	\$661.70
Dental – Employee only	\$18.88
Dental – Employee + spouse	\$27.96
Dental – Employee + child(ren)	\$31.72
Dental – Employee + spouse + child(ren)	\$41.40
Life – Employee death benefit is one times annual salary, but not less than \$33,000 nor more than \$40,000.	\$8.04

New this year, State Defined Contribution (DC) Plan participants can change providers during open enrollment, including temporary employees enrolled in the State DC Plan.

Reminders

- Open enrollment for benefits continues through **May 18, 2007**, and is completed *only* in the online benefit system.
- Open enrollment this year is PASSIVE, which means that your current choices will roll into the next plan year, except for Flexible Spending Accounts (FSAs) that must be elected *every* year.
- Open enrollment is the *only time* to make changes in benefits, except in very limited circumstances. Forgetting to enroll, not confirming online elections, user error, or just a change of mind are **not** reasons to make changes outside of open enrollment.

Benefits Web site: www.colorado.gov/dpa/dhr/benefits

For additional information or questions, contact your department HR office.

Please share this information with all employees.