



COLORADO

Department of Personnel
& Administration

FY 2018-19 Annual Total Compensation Survey Process

Introduction

By law, most matters related to maintaining prevailing compensation for the State Personnel System, including the annual compensation survey, recommendations to the General Assembly, and rule-making compensation practices are under the authority of the State Personnel Director (Director). The Director has delegated certain authorities to the Division of Human Resources (Division) in the Department of Personnel & Administration (Department). Such authority includes meeting the statutory mandates for establishing technically and professionally sound survey methodologies, conducting surveys, analyzing data, and reporting survey findings. This document describes the methodologies and process for conducting the annual compensation survey for FY 2018-19.

The State of Colorado (State) retained Arthur J. Gallagher & Co. (Gallagher) to complete the FY 2018-19 annual compensation analysis and compare the value of the total compensation package provided to State employees to the prevailing market. Gallagher has 30 years of nationwide experience in providing practical and realistic solutions in compensation and benefits, classification, job evaluation, performance management, organization development, health and welfare benefits, and retirement.

General Compensation Policy Statement

It is the policy of the State to provide prevailing total compensation to employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce. Total compensation includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.

The reference to “prevailing” reflects the State’s commitment to provide total compensation that is competitive with its defined labor market. Specifically, to compensate at a level that falls in the middle of the market rather than to lead or lag the market. The methodology is applied for all classified jobs with the exception of the State Patrol Trooper class series, as required by §24-50-104(1)(a)(III)(A), C.R.S.

To determine prevailing practices in base pay, actual salaries paid in the market are compared to actual salaries paid to state employees to establish target compensation and base pay that is competitive with the State’s defined labor market. The midpoint of the market salary ranges to state salary range midpoints are compared to assess pay practices related to pay structures and pay progression. Data may be collected on variable pay to assess market trends and practices in establishing non-base merit awards (one-time, lump sum payments) as part of total cash compensation. In addition, planning surveys are used to assess prevailing market practices and trends in actual and

projected total annual salary budget increases. The measures used to compare prevailing base pay and pay structures in the market are defined below.

- **The median (50th percentile)** identifies the middle rate in a set of actual salaries paid to employees for the same or similar jobs in the external labor market (public and private). The median describes the central tendency of the data and minimizes the effect of extreme values. Extreme values (reported salary rates much higher or lower than others) affect the mean. They do not affect the median.
- Salary ranges reflect the pay levels (from minimum to maximum) established by employers for similar jobs in the market. **The average midpoint**, or middle-pay value in a pay range, usually represents the competitive aggregate market value for a job or group of jobs assigned to a pay range and is commonly established as an estimate of the common or target market rate.

To determine prevailing practices for group benefit plans, the percentage of the premiums shared between the employer and employee and cost-related plan design features such as, out-of-pocket deductibles, co-pays, and co-insurance are measured. Additional measures or indicators of the overall cost of group benefit plans include the market average cost of benefits per employee and market trends in health care related cost increases to determine prevailing practices and projections for increases to plan premiums and premium contributions.

Purpose of the Annual Compensation Survey

In order to maximize the investment made in State Employees, the annual compensation survey is conducted to maintain an integrated and prevailing compensation package. The statutory purpose of the annual compensation survey is to determine any necessary adjustments of total compensation components that may require increased dollars each year. The result of the annual compensation survey is a published report that reflects an assessment of prevailing total compensation in the labor market and estimated budget adjustments necessary to maintain prevailing pay, pay structures, and employer contributions to group benefit plans for the upcoming fiscal year. The report is not a recommendation or mandate, but rather a measure of prevailing market (public and private).

Meet & Confer

Although statute requires the Division to meet and confer with employees in order to establish confidence in the selection of surveys and foster a better understanding of the entire survey process. The Division notifies the workforce of the Meet and Confer through an announcement to agency human resources directors and representatives of employee organizations.

After reviewing and considering information gathered through the Meet and Confer, the Director makes the final decision regarding the process to conduct the annual compensation survey, and the final survey process is published on the Division's website at www.colorado.gov/dhr/compensationplans.

Annual Survey Process

Survey Benchmarks

The annual survey process begins with identifying the core group of jobs within the state personnel system used as benchmarks for conducting salary data comparisons with other employers in the market. Benchmark jobs are internal jobs that serve as the market anchor points because they are comparable to jobs readily identifiable and commonly found in the marketplace. Benchmark jobs are used to compare the State's salaries in relationship to the market and to validate the State's internal class structure. The selection of core benchmarks provides an element of consistency in pay comparisons conducted year to year. Non-benchmark jobs are linked to the survey benchmarks through the internal job evaluation system that groups jobs based on the nature and level of work. Jobs are placed in pay grades that are based on the internal job evaluation system and pay range values are established through the comparison to the market. Integration of the two processes ensures appropriate pay grade placement, maintains internal relationships within the class structure and maintains external market competitiveness.

The selection of core benchmark jobs also provides the basis for identifying the State's labor market and the appropriate sources for data collection. The following are guidelines for benchmark selection.

- Represent a cross-section of positions and the types and levels of work performed in the state personnel system.
- Are well-established and generally have multiple incumbents, representing a significant portion of the workforce.
- Are commonly and easily defined by the State and other employers.
- Are available for comparison in the State's defined labor market.
- Pay data for these jobs are readily available in published, professional compensation surveys.

Benchmarks are reviewed on an annual basis to ensure consistent data collection, appropriate labor market and survey selection and flexibility to changes in internal structure and external market conditions.

Labor Market

The next step in the survey process is defining the relevant labor market for collecting and comparing prevailing salary and benefits data, market trends, and salary budget planning information. The State's primary labor market, as mandated by statute, includes both public and private sector employers within Colorado that the State competes with for the recruitment and retention of employees. In addition, data is also collected from employers outside Colorado where insufficient data is available within Colorado, such as those benchmark jobs specific to state government.

Survey Sources

General guidelines have been incorporated into the compensation profession relative to how compensation surveys are conducted, giving consideration to legal issues surrounding data collection. These guidelines include maintaining confidentiality of the data of all participating companies and using a third party to conduct the survey. Use of third party survey sources removes the opportunity to bias the data and receive inappropriate information. In addition to the benchmark guidelines above,

the generally accepted compensation guidelines provided below are intended to ensure that the purpose of exchanging data is to gather information about the labor market so that decisions can be made regarding the State's competitive position and adjust wages in response to changing market conditions.

- Published survey sources are identified and approved for compensation research.
- Custom survey developed for collecting benefits and retirement offerings.
- The following criteria must be met:
 - Conducted by a reputable salary survey firm.
 - Survey data is not self-reported.
 - The survey is conducted on a continual basis, not a one-time event.
 - The survey reports its data sources, the effective date of the data and was tested to ensure accurate matches and data.

Survey Data Collection

Pursuant to §24-50-104 (4)(a), C.R.S., the Division utilizes professional compensation and benefit surveys conducted by third-party organizations in the human resources, benefits and compensation industry. The following criteria to select published market surveys are based on standard and accepted practices in the compensation industry to ensure the availability and integrity of compensation and benefits data reported.

- Adequate benchmark job descriptions to ensure appropriate matching.
- Appropriate data necessary for analyses (i.e., salary, benefits, trends, etc.).
- Statistically valid data collection and analysis methods.
- Not "self-reported" by individual employees.
- Identifies the effective date for pay rates or benefit contribution levels.
- Appropriate labor markets for State's personnel.
- Readily available to examine, verify and/or purchase.
- Conducted by a third-party whom regular publication is major part of business.

Because survey data is copyrighted and confidential by statute and/or by professional compensation practice, detailed survey data cannot be released except to the Office of the State Auditor. Results of the data analysis will be reported in aggregate, summary format.

Survey Data Adjustments

The method for collecting data and measuring market values corresponds directly to the State's compensation policy to provide prevailing compensation. Direct benchmark comparisons of the State's salary data in relationship to the aggregate market salary data for similar jobs are made by calculating the percentage difference between the state salary figure and the market salary figure to determine whether the State's actual salaries and salary ranges are above, below, or competitive with the prevailing market.

Strategic Approach

Benchmark Comparisons - Trooper Classes

For the State Patrol Trooper classes, §24-50-104 (1)(a)(III)(A), C.R.S., requires the Division to use methodologies consistent with the other classes to determine and maintain prevailing compensation with two exceptions. First, the labor market to be used for adjustments to actual salaries is uniquely defined as the top three law enforcement agencies within Colorado having more than 100 commissioned officers and the highest actual average salary.

Geographical Adjustments

Because wage and income levels are different across the nation and even within local labor markets, differentials that factor in economic variations are calculated and applied to data that the State collects from employers outside Colorado. Differentials are calculated by referencing the Economic Research Institute (ERI) and figures reflect average wage and income levels by location. The State of Colorado is considered to be the base state and data from the other states are adjusted comparable to the base.

Rate Projection (Aging Salary Data)

Not all survey publications utilize the same effective date for their pay rates. In order for all survey data to have common effective date (e.g., July 1), market salary data is aged by applying the standard cost-of-labor indices as reported by *WorldatWork*. This projection is an estimate of wage adjustment based on labor market trends.

Salary Budget Planning

In addition to compensation surveys used for direct benchmark analysis, third-party salary budget planning surveys reporting local, regional, and national labor market trends in annual salary budget increases are used. Data collected from these surveys includes, but is not limited to employee salary and salary structure increases applied in the market for current and prior years, projections for employee salary and salary structure increases. Total salary increases reported in the market encompass all increases employers apply to employee salaries throughout the year, which may include merit, market adjustments, performance based pay, cost-of-living adjustments, and other base and non-base building salary increases. Pay structure adjustments may or may not affect actual salary increases.

Individual Class Adjustments

In addition to surveying and conducting market comparisons of the core benchmark jobs each year, additional jobs may be directly surveyed as appropriate, to address potential compensation issues resulting from changes in the labor market or internal concerns identified, such as recruitment or retention of specific jobs. The following are guidelines, based on standard compensation practices, to identify and determine whether individual class adjustments are necessary to realign state classes both internally and externally with the market.

- The magnitude of the difference. Discretion is used in considering all of the factors, but generally, under this factor, a review does not begin until the magnitude is $\pm 7.5\%$.
- Stability of the rate difference from one year to the next. Does the difference fluctuate or is it steadily above or below the market?
- Duration of the difference. Has the difference appeared suddenly or been sustained for a number of years?
- Nature of, or changes in, the labor market sample for the survey class, (e.g., type of market or organizations reporting data, number and size of firms reported, comparability with state jobs, and actual average salary levels for matched classes).
- Historical internal and market pay relationships that exist between the class and other related classes.
- Documented recruitment or retention (turnover) difficulties for the survey class.
- Significant market trend differences in pay practices.

If the analysis indicates that an individual class adjustment is warranted, additional data may be collected to verify the findings or appropriate adjustments recommended in the annual compensation survey report. In cases where the market salary data is inconclusive for specific classes or series of classes, system maintenance studies may be conducted in a subsequent year when internal alignment (relationship among state classes) needs to be examined and verified with external alignment (market pay). The system maintenance studies that have fiscal impact are included as part of the subsequent annual compensation survey report.

Medical - Total Effective Cost Share

A holistic approach is taken to compare the overall medical value being provided to employees. Third-party benefits surveys and trend reports are used to collect data and review group benefit plans including medical, dental, basic life, accidental death and dismemberment, and disability. This data includes, but is not limited to, how market employers share premium contributions with employees, the market average dollar employer contribution to premiums, cost-related plan design features such as, out-of-pocket deductibles, co-pays or co-insurance, and out-of-pocket maximums. Other information such as employer and employee demographics may be used to assess the State's own plan design, plan options, and affordability.

Compensation Plan

The compensation plan details the pay grades, salary ranges for all classes and occupational groups, and provides other applicable premium pay determinations. The compensation plan will reflect any pay structure adjustments, individual class adjustments, salary lid values, and is published prior to the implementation of the annual compensation adjustments.

Pay Structures

The state personnel system currently categorizes similar classes of jobs into nine occupational groups. Each occupational group has its own pay structure made up of multiple pay grades.

Pay Ranges

A pay range is the formal range of pay or value established as the lowest (range minimum) and highest (range maximum) base salary an employer will pay for a given job. Range width is the percentage difference between the minimum and maximum of the pay range. Statute directs setting the maximum base salary (salary lid) the State will compensate an employee in any class in the non-medical pay plan, and medical pay plan.

Market practices around pay ranges and pay structures for different occupations or classes are reviewed. Review of market practices in the use of ranges, control points within the ranges, and range widths provides useful information for assessing the overall design of the State's pay structures.

Annual Survey Report and Recommendations

The results of the annual compensation survey are contained in a report published by the Department. The Director considers this report in requesting increased funding from the General Assembly and recommending the distribution of those appropriations between the major components of employee salaries and employer contributions to group benefit plans. The effective date is July 1 of the following fiscal year for any changes, unless the General Assembly, acting by bill, establishes a different date. The review of any survey report is not subject to appeal.