

Overview of the State Employee Pay Plan

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By the Department of Administration,
Division of Personnel Services

1. History of the Compensation System in the Last 20 Years

- The most recent comprehensive classification and compensation study took place between 1986 through 1995.
- This was the first comprehensive revision of the classification system since the PAS Study in the early 1970's.
- Goals of the study:
 - 1) Reduce the number of job classes (1,200 to 700),
 - 2) Update job classes to accurately reflect work,
 - 3) Reallocate individual positions on the basis of new position descriptions (achieve classification equity), and
 - 4) Assign classes to competitive wage rates.
- This was a phased study and implementation began with the administrative support classes, then maintenance & trades, and continued through the rest of the job classes.
- During the ensuing 12 years, the Division of Personnel Services (DPS) has relied primarily on the data obtained from the Central States Compensation Association in order to determine market rates. – *See Attachment I*
- Based on this data as well as the inability of agencies to compete in the market place, the first three steps (steps 1, 2 & 3) of the pay plan were eliminated in February 2001 in order to address difficulty in recruitment due to low hiring rates.
 - This was the first action of a plan that involved the further removal of lower pay steps and the addition of higher pay steps in subsequent years, but the additional phases of the plan were not able to be implemented due to economic difficulties.
- Since that time, there has been no funding for step movement until the current Fiscal Year.
- The effect of all of these issues has been a dramatic increase in wage compression, which has resulted in turnover among newer employees and increases the costs when pay grades are changed. – see *Attachments II & III*

- Prior to the Hay Group’s comprehensive survey, in those few instances that DPS had been able to conduct targeted surveys, the results indicated that many of the State’s job classes were significantly below market.
- Criteria used by DPS for conducting classification/compensation studies:
 - 1) Legislative Action
 - 2) Significant turnover (potentially due to pay)
 - 3) Significant recruitment issues (beyond above Step 4)
 - 4) Meet & Confer
- The following examples are the results of those surveys and demonstrates how far below market some of the State’s job classes were at the time of the surveys:
 - 1) Maintenance & Trades – June 2001 – \$6.1 million (*non-union*)
 - 2) Administrative Support – June 2001 – \$812,000
 - 3) Personal Service – June 2001 - \$370,000
 - 4) Registered nurse and medical occupations - 2002 - \$3.1 million
- The Legislative Research Department provided the Committee with a summary of the compensation initiatives that were proposed for all classified employees over the past 20 years, but there have also been a number of initiatives proposed for specific classes/groups of employees. – see *Attachment IV*

2. The Operation of the Pay Plan

- As the Hay Group discussed in their presentation, the State of Kansas has a very simple pay structure that is easy to understand. – see *Attachment V*
- The classified pay matrix has 34 pay grades and 13 steps and the steps are approximately 2.5 % apart and there is a difference of approximately 5% between each pay grade.
- The pay matrix works in combination with the State’s job classification system, with every job class being assigned to a particular pay grade based on market data and the internal alignment of job classes.
- Employees are hired at the starting step (currently step 4), which is approximately 15% below the market rate of the range.
- Newly hired employees require training and experience to become fully proficient in their job with the State of Kansas. Step movement provides a method by which employees receive wage increases as they gain experience and reach higher levels of performance in their job duties.

- When step movement was in place, after six months of at least satisfactory performance, a new employee would receive a step increase (to step 5) and would then receive another step increase (to step 6) six months after that.
- This would amount to an approximate 5% increase from the rate at which the employee was hired after one year of at least satisfactory performance.
 - However, this 5% increase is offset by the 4% KPERS deduction that takes effect after an employee's first year, so the employee only sees a 1% increase.
- After the first year, provided the maintenance of at least satisfactory performance, an employee would receive a step increase on the same calendar day that they were hired (their anniversary date).
- This practice would continue until the employee reached the maximum rate (currently step 16) of the pay grade assigned to the job class in which the employee worked. – *see Attachment VI*
- Each year in developing budgetary proposals for employee compensation, the State of Kansas must evaluate the following three compensation needs: general increases, adjustments to the pay grades of specific job classes and step movement.
 - General increases are used as a method for maintaining competitive wage rates for all job classes. General increases also secure the purchasing power of all employees.
 - Despite the funding of general increases, the “market rate” for some occupations increases at a more rapid rate than can be covered with a general increase. When the wage rates for such jobs are no longer competitive, the State of Kansas seeks to readjust the pay grades of these jobs to provide competitive wage rates.
 - Step increases are used to provide wage increases to employees as a reward for their continued service and at least satisfactory performance. Employees at the maximum of the pay grade or those with wages above the pay grade maximum are not eligible for step movement.
- Due to budget limitations in the past few years, it was not possible to address each of these items annually.
- Given the choice between the three, it was determined that the general increase was the best choice since it affected all employees and also maintained the hiring rate for all jobs.

3. Actions and Reactions Attributed to the Current Pay Plan

- Due to the budget limitations that resulted in a lack of maintenance to the pay plan, there have been a number of issues that have arisen with respect to compensation over the last few years.
- Agencies have expressed disappointment and frustration with a lack of action to address these matters and have complained that the inflexibility of the compensation system, combined with the lack of funding, has left them without options to address issues in the workforce.
- As the Hay Group stated in their presentation, the State's classification structure is very sound and we continue to look at efforts to further improve the system.
- However, the limitations and inflexibility of the pay plan have caused the classification system to be used as a "work around" in order to provide increases to employees.
- This is evidenced by the increasing number of reallocations that have occurred over the past few years. – see *Attachment VII*
- In addition, employees' gains have varied substantially between various represented groups as well as between represented employees and non-represented employees.
- Select agencies or represented employees have gained significant wage increases which are not supportable based on the standard criteria of market rates, turnover and recruitment.
- Many of those increases have been part of multiple-year wage enhancements from negotiations and are on top of what all other employees receive.
- Agencies and employees who have not received these enhancements have taken notice and many are now seeking parity with those groups that have received increases or have demanded answers why these groups have received the increases when the increases were not supportable by data.
- Citing the stagnation of the pay plan as one of their reasons, the University of Kansas opted out of the civil service system in 2005 and there is the possibility that other Regents institutions may do the same.

4. The FY07 Pay Plan

- The FY07 Pay Plan was a step in the right direction as it addressed all three of the areas that need to be maintained.

- The FY07 Pay Plan provided for a 1.5% general increase for the entire Fiscal Year as well as a step increase on September 10, 2006 for all employees on the matrix with a satisfactory performance rating.
- The plan also addressed specific job classes in need of attention by providing additional step increases to Corrections, JJA and security employees of SRS as well as instituting a \$0.30 an hour retention incentive bonus for employees in maintenance and trades classes.
 - As the Hay Group pointed out in their presentation, wage rates for the building trades jobs have been significantly low and are in need to adjustment. The \$0.30 per hour retention incentive was provided as the first step in addressing this issue. Subsequent action will be needed (as funding is available) in order to fully address this matter.
- These provisions demonstrate a recognition of the issues facing the State's pay plan and a willingness to address them.
- Based on the feedback that we have heard, the FY07 Pay Plan was positively received by agencies and employees alike.

5. Initial Reactions to the Hay Group Survey Data

- First of all, we have nothing but praise for the efforts of the Hay Group and see now why they came so highly recommended by our colleagues in other states.
 - The Department of Administration is grateful to have been invited into this process and look forward to continuing to work with the Hay Group and the Legislative Research Department on this matter.
- Overall, we were not surprised by the findings of the Hay Group with respect to our market position. While the findings are not positive, we were glad to see that our perception of the situation was borne out by the data.
- We are extremely glad to have this data, as we believe it represents the best comprehensive salary data that the State of Kansas has had in many years.
 - We are also pleased that there is a single, validated set of data that can be relied upon by all parties in analyzing compensation and market issues.

6. Issues to Consider for the Future

- In over half of the agencies, 40% of their workforce is now eligible for retirement.

- Because of this, it is anticipated that the State will see substantial losses of long-term employees due to this reason over the next 4 years
- Due to the age demographics of the entire nation, this is not something unique to the State but is more pronounced due to the fact that government employees are traditionally longer-term employees.
- In addition, turnover data shows that 25% of all employee turnover occurs within the employee's 1st year of service and 57% of employee turnover occurs within the first 5 years of service (and rising).
- Finally, in order to maintain a system wide focus to insure as much equity and consistency with market data, it is imperative that compensation efforts are coordinated through a central perspective.
- The status of the current compensation rates and the rigid system now in place will create difficulties for agencies to recruit, retain and reward a qualified workforce due to increased competitive among employers in the labor market.

7. Closing

- The Hay Group's data is a great starting place from which to move forward with further analysis of the compensation system.
- This data provides all of us with a good understanding of where we are currently from a compensation perspective, and we are confident that we can work together to address the issues highlighted by the data as we progress through Phase II of the compensation study.