

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 administrative support, then maintenance & trades, and continued through the rest of the job classes.
- During the ensuing 11 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.
- 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 I & II*

- In those few instances that DPS has been able to conduct targeted surveys, the results indicated that many of the State's job classes are 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
- Compensation initiatives over the past 12 years. – see ***Attachment III***

2. The Operation of the Pay Plan

- The classified pay matrix has 34 pay grades and 13 steps. – see ***Attachment IV***
- 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 market rate.
- 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 V*
- 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 system combined with the lack of funding has left them without options to address issues in the workforce.
- As a result, agencies have increasingly used the classification system to get around wage issues by reallocating positions in order to provide increases to employees. – see *Attachment VI*
- 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 is a step in the right direction as it addresses all three of the areas that need to be maintained.
- The FY07 Pay Plan provides 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 addresses 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.
 - 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 is being positively received by agencies and employees alike.

5. Plans for the Future

- The Department of Administration is currently working with the Legislative Research Department and the Revisor's Office, who are in the process of securing the services of a consultant to analyze the pay plan in the coming months.
- The Legislative Coordinating Council approved the scope statement that was developed for the project at their July 25, 2006 meeting. – see *Attachment VII*
- The plan approved by the LCC involves the consultant conducting comprehensive market studies in order to determine where the State's pay grades should be, and also assisting with the development of a new pay plan.
- We are currently gathering information from other states about their pay plans and compensation systems for use in the development stage.
- We are hopeful that the consultant will be able to present a conceptual model of a new pay plan to the Legislature by the end of the 2007 Session, but since the particulars of the contract have not been finalized, we are not sure that will be possible.
- Because of the uncertain timeline and the numerous implementation issues that would still need to be addressed, we do not believe that a new pay plan will be ready for adoption until FY 2009, at the earliest.
- As a result, we believe that the current pay plan will still be in effect for FY 2008.
- Our goal for FY 2008 is to recommend provisions to the Governor that will not only address the issues mentioned in this overview, but will also position the State of Kansas to be better able to make the transition to a new pay plan in FY 2009, and to make such a transition more affordable.

6. Issues to Consider for the Future

- Annual employee compensation adjustments have historically been tied to the Consumer Price Index (CPI), which has caused slippage of competitive wage rates.
 - Instead, it is recommended that we begin using the Employee Cost Index (ECI) which measures changes in the compensation rate provided by employers (market rate). – see *Attachment VIII*
- 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 competition among employers in the labor market.