MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Thursday, December 06, 2018
TIME:	3:00 P.M.
PLACE:	EW42
MEMBERS PRESENT:	Senator Co-Chairman Patrick and Representative Co-Chairman Anderson
LEGISLATORS PRESENT:	Senators Agenbroad, Guthrie, Lakey, Souza and Ward-Engelking; Representatives Syme, Armstrong, Raymond, Hartgen, Raybould, Holtzclaw, Gannon, Furniss, Marshall, and Ellis.
ABSENT/ EXCUSED:	None

CONVENED: **Co-Chairman Patrick** called the meeting of the Change in Employee Compensation Committee (CECC) to order at 3:05 p.m. (Note: Attachments can be found at https://legislature.idaho.gov/sessioninfor/2018/joint/cec-materials/.)

Co-Chairman Patrick welcomed all and indicated this was an informational meeting with presentations from Susan Buxton, Administrator, Division of Human Resources (DHR) and Paul Headlee, Manager, Budget and Policy Analysis Division, Legislative Services Office (LSO). **Co-Chairman Patrick** asked all legislators to sign-in for the record of the minutes. He asked all Senators and Representatives on the Commerce and Human Resources Committees to review the materials from the meeting in preparation for the next meeting on December 19, 2018.

Co-Chairman Anderson thanked all for coming. He explained the purpose of the CECC was to decide on employee compensation. He explained the CECC was an offshoot of Commerce Committees from both bodies. He stated the recommendation of the CECC is sent to the Joint-Finance Appropriations Committee (JFAC).

PRESENTATION: **Susan Buxton**, Administrator, DHR, referred to the Report to the Governor, Fiscal Year (FY) 2020 Change in Employee Compensation & Benefits Report (Attachment 1) (DHR Report) required by Idaho Code § 64-5309c and indicated this report can be accessed electronically at https://dhr.idaho.gov/Compensation/StateEmployeeCompensation.html.

Ms. Buxton described the report was to comply with Idaho Code § 67-5309A, which indicates the total compensation system for State employees will be to fund a competitive employee compensation and benefit package that will attract qualified applicants to the workforce; retain employees who have a commitment to public service excellence; motivate employees to maintain high standards of productivity; and reward employees for outstanding performance. She stated the State's overall compensation system, which includes both a salary and a benefit component, when taken as a whole, will be competitive with relevant labor market averages. Advancement in pay is based on job performance and market changes.

Ms. Buxton highlighted the items in the report (Attachments 1 and 2). The DHR Report contains pertinent information that will assist in the work of the CECC. The decision of the CECC will affect state employees as well as other entities across the State. **Ms. Buxton** identified and summarized the four recommendations the CECC is responsible to address.

1. Salary Structure Adjustment.
2. Specific Occupational Inequity/Payline Exception Component.
3. Merit Increase Component.
4. Employee Benefit Package.

Ms. Buxton, using the DHR Report (Attachment 1), explained the State's compensation plan, market factors reviewed for the CECC report, the local salary survey, the Total Compensation Report, and the DHR CECC recommendations. She indicated the State is almost at or near full employment.

Ms. Buxton named the aspects of a competitive compensation plan necessary to attract and retain productive employees, page 2 (Attachment 1). She explained the compensation plan includes benchmark job classifications and pay grades. Directors and agency heads prepare compensation plans within budget to support agency core missions.

Ms. Buxton stated policy rate is intended to represent the mid-point. Idaho's 2018 total compensation analysis demonstrates the current policy rates are no longer at the market average, but are 7.2 percent below the public sector and 21.6 percent below the private sector market average. The 3 percent increases to the pay structure over the last two fiscal years have resulted in a positive move closer to market average, particularly compared to the public sector.

Ms. Buxton explained the State looks at the analysis of compa-ratio as a standard of measurement within the compensation plans. Currently, full-time positions are funded at a fraction of compa-ratio (depending on agency, the average is 80 percent of compa-ratio). In October 2018, the classified statewide average compa-ratio remained at 88.9 percent with a weighted average classified hourly pay rate of $22.73.

DISCUSSION: **Senator Souza** queried if the average is 80 percent and the State is at 88.9 percent, was that positive? **Ms. Buxton** replied that it was positive. **Representative Holtzclaw** and **Ms. Buxton** discussed policy rate, compa-ratio, and average classified weighted pay rates. **Representative Gannon** asked about various salary ranges and **Ms. Buxton** indicated she would provide more information.

PRESENTATION: **Ms. Buxton** pointed out the Milliman Custom Survey found in Appendix E (Attachment 1), which provides a local perspective. The State compensation is 8 percent below market. Geographic adjustments were applied to all non-management jobs from surrounding states to reflect the Idaho State market.

Ms. Buxton referred to the Korn Ferry (KF) Total Compensation Report, page 15 (Attachment 3) and Appendix F (Attachment 1), which assessed the State's total compensation. She pointed out when compared to the private sector, Idaho's aggregate base salary market position has declined by 1.7 percent from 2017 to 2018 to 25.6 percent below the market average. Idaho's base salary policy rate is 21.6 percent below the market average, which is a 1.4 percent decline from last year. When compared to the public sector, Idaho's aggregate base salary market position has improved by 1.2 percent from 2017 to 2018, which is 12.9 percent below the market average. Idaho's base salary policy rate is 7.2 percent below market average, which is a 2.7 percent improvement from last year. Idaho's total compensation market position is 10.7 percent below the market average, which is an improvement of 0.2 percent compared to last year.

Ms. Buxton cited different positions and exceptions (payline) outlined in Appendix K (Attachment 1) must have a higher pay grade assigned to a job class to address retention or recruitment inequity. Those exceptions are covered within the agency's budget.

Ms. Buxton reported on the Workforce Demographics, page 17, (Attachment 1) stating the workforce for the State consists of 25,541 employees: 12,912 classified and 12,269 non-classified. She cited Gender Demographics, page 18 (Attachment 1) indicating the State's total workforce is comprised of 50.8 percent female and 49.2 percent male employees. The classified workforce is 51.3 percent female and 48.7 percent male. Other demographics, pages 19-21 (Attachment 1) show the State's total workforce is comprised of 84 percent white (not of Hispanic Origin); 8 percent American Indian or Alaskan Native; 5 percent Hispanic; 2 percent Asian or Pacific Islanders; and 1 percent Black (not of Hispanic Origin). The State's total workforce is comprised of 1,861 veterans, which is 7 percent of the total workforce. **Ms. Buxton** stated generational issues and top motivators were also taken into consideration.

Ms. Buxton referred to the Total Compensation Employee Opinion Survey taken in October of 2018 Appendix C (Attachment 1), pointing out that of the 12,354 employees who responded to the survey, 76 percent of the respondents were not interested in greater base pay salary at the cost of reduced benefits. The current employee benefits package ranked as "high priority" are: medical/healthcare, Paid Time Off (PTO), sick leave, and retirement benefits.

Ms. Buxton outlined the DHR recommendations for FY 2020 Appendix C, pages 26-27 (Attachment 1):

1. Salary Structure Adjustment - in order to accurately align with the job market, at least a 2 percent increase to the pay structure;
2. Specific Occupational Inequity/Payline Exception Component - continuing with the job classifications that are currently on payline exception to address specific recruitment and retention issues;
3. Merit Increase Component - at least a 3 percent increase for the salary component of state employee compensation administered in accordance with the State's merit-based pay system;
4. Employee Benefit Package - The State's employee benefit package continues to be a key component of the State's total compensation package for employees. DHR recommends the State maintain the same funding levels and percentage contributions for employee benefits.

PRESENTATION: **Paul Headlee**, Manager, Budget and Policy Analysis Division, LSO, referred to the Appropriation Per FTP and Estimated Asset Reserve Balance at the end of FY 2020 (Attachment 4) and said the objective of his presentation was to broaden the discussion on a fairly narrow topic of the annual State appropriation for State employee health insurance. He explained LSO staff met with the Department of Administration (DOA) staff and discussed the Milliman Report. LSO asked the DOA if they could have Milliman run some additional scenarios based on the amount appropriated and the projected amount that would be in reserves. This would give a broader picture that would provide legislators more options for funding and decision-making. This presentation was developed from that information.

Mr. Headlee reported the estimated reserve amount in the group health insurance fund is $90 million. He explained the horizontal bar (Attachment 4) is the appropriation per FTP and as the appropriation goes up, so do the reserves. The other variable is the actual cost of the claims for each year. He indicated the State requires $11,650 as indicated on the yellow bar, which is a $45,099,160 estimated reserves based on current FY 2020 state agency budget request per FTP, as estimated by LSO.

Mr. Headlee referred to the other colored bars on the Milliman report. The projected actual cost to the State is $13,870 for employees. There are three variables: 1. The actual cost; 2. an appropriation less than the actual cost; and 3. the reserve balance. Those variables interact with each other depending on the amount of claims, the actual cost, how much is appropriated, and what is in reserves.

Mr. Headlee explained the different colors on the bar chart (Attachment 4). He referred to the blue bar for Blue Cross stating contractually there is a required 10 percent minimum for reserves, as estimated in the November 2, 2018 Milliman Report. The green bar is the actuarial recommendation. He referred to the red bar or the Federal allowable reserve, as the discounted reserve requirement. The federal payback could begin in the amount of 20 percent of any reserve balance exceeding $53.7 million. The orange bar is the initial amount needed to move from a fully-insured plan to a self-funded plan, based on the June 30, 2016

"Self Funding Analysis," Milliman Report. He stated this is the most current information available.

CLOSING REMARKS: **Co-Chairman Patrick** remarked there was a lot of information to consider before the next meeting. He thanked the LSO staff for their efforts. **Co-Chairman Anderson** thanked the LSO staff and all for coming.

ADJOURNED: There being no further business at this time, **Co-Chairman Patrick** adjourned the meeting at 4:08 p.m.

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Representative Neil Anderson, Co-Chairman

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Linda Kambeitz
Secretary

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Senator Jim Patrick, Co-Chairman