MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Friday, January 03, 2020
TIME:	10:00 A.M.
PLACE:	Room EW42
MEMBERS PRESENT:	Senators Co-chairman Patrick, Agenbroad, Lakey, Guthrie, Ward-Engelking
	Representatives Co-chairman Anderson, Holtzclaw, Syme, Kingsley, Gannon
ABSENT/ EXCUSED:	None

Co-chairman Patrick called the meeting to order at 10:05 am.

Susan Buxton, Administrator, Division of Human Resources (DHR), presented DHR's change in employee compensation (CEC) recommendations for FY 2021. She noted the goal is to ensure a competitive total compensation package for state employees by first, increasing the salary structure by 3% to continue toward the market average. The estimated fiscal impact would be $91,000 from the general fund and $157,000 in other funds, totalling $248,000. Second, continue current payline exceptions, which will have no impact on the general fund. Third, implement at least a 2% merit increase to keep pace with the current job market. A 2% increase would cost approximately $30 million, $14 million from the general fund and $16 million from other funds. The final recommendation is to maintain the overall design of the benefits package and percentage contributions for employee benefits.

Ms. Buxton summarized the findings of Idaho's annual compensation surveys, conducted by Milliman and Korn Ferry. State employees lag the Idaho market by 11% in base salaries, according to Milliman. She introduced **Malinda Riley** to provide Korn Ferry's Total Compensation Report summary.

Malinda Riley, Senior Principal, Korn Ferry, reviewed the survey sources used and noted they come from within Idaho and neighboring western states, while the private sector data is focused on employers with workers in Idaho. In response to Committee questions about the reliability of the private sector data, she noted it is quality assured and gathered by an independent third party to ensure confidentiality. She stated the benefits program continues to be an area of strength, but below market salaries continue to depress the overall value of benefits, resulting in a total compensation market position 12% below the private, and 11.7% below the public sector market averages. Base salaries alone lag the public sector by 12.4% and the private sector by 26.2%.

In response to Committee questions, **Ms. Buxton** noted the employee health insurance deductible increased, but had not been changed since 2004. She stated DHR did not receive any complaints from agencies or employees.

Ms. Buxton was recognized to close the presentation. She stated the steady raises seen by state employees over the past several years contribute to the wellbeing of the state workforce and have been fiscally responsible. DHR's 2018 Employee Benefits Survey shows state employees generally accept a lower salary due to competitive benefits, but base pay does need to increase to maintain this. In response to Committee questions she noted changing the salary structure costs much less than a merit increase and adjustment is important for morale so new hires don't receive a higher salary than long-time employees. A merit increase means an increase in each agency's personnel fund; the distribution of that money is at the director's discretion. Ms. Buxton stated she tried to balance economic factors, competitiveness and sustainability when making the recommendations.

Co-chairman Patrick called a recess of the Committee at 11:42 am.

Co-chairman Patrick reconvened the meeting at 1:01 pm.

Jennifer Pike, Administrator, Office of Group Insurance, gave an overview of health plan changes, which are projected to reduce claims by $9 million. FY 2020 changes included: increased individual and family deductibles, doubling the number of allowable physical therapy visits, establishing an out-of-pocket maximum for prescriptions and increasing the dental maximum allowance. Proposed changes include an enhancement to the vision benefit, the establishment of an ER copay and an increase in the specialist copay. She discussed options for managing the medical and dental reserve balances.

Don Drum, Director, Public Employee Retirement System of Idaho (PERSI), explained how market volatility impacts decisions about contribution rates and cost-of-living adjustments (COLAs). The PERSI Board decided to provide all retroactive COLAs (i.e. they were available, but not awarded) this year, resulting in a total COLA of 6.54%. This decision must be accepted or rejected by the legislature. The cost of COLAs has steadily increased, so he stated the intention going forward is to reset the expectation that retroactive COLAs will continue to be awarded. The PERSI Board will gather input and establish a standard to protect the purchasing power of retirees, while ensuring the fund and contribution rates are stabilized.

Mr. Drum also discussed the balance of the Sick Leave Fund for state and school employees. The weighted funded status is 163%, so an 18-month rate holiday began January 1, 2020. He stated the goal is to reach 175% funded status, which would allow the Fund to absorb a Great Recession-type downturn without raising rates; if the market continues to grow then it could become self-sustaining. He noted the rate holiday will save the state $8 million and schools $16 million.

Maggie Smith, Senior Budget and Policy Analyst, Legislative Services Office, further explained the balance of the Sick Leave Fund. She noted the Fund is made available as a benefit to retirees by allowing 50% of their unused hours to be converted to cash to cover eligible medical expenses during retirement.

Randy Hoffman, Vice President of Policyholder Services, State Insurance Fund (SIF), provided an overview of worker's compensation insurance. SIF maintains policies for 115 state agencies, and is regulated by the Industrial Commission and the Department of Insurance. The rating organization used to set rates is the National Council on Compensation Insurance; average Idaho rates are currently 13% lower than in 2000. He also noted that SIF's processing systems are highly integrated with the state's Employee Information System, allowing for automatic collection of payroll, premium calculation and billing.

In response to Committee questions, **Mr. Hoffman** stated SIF is not a state agency and they operate solely on the premiums they collect. He noted his belief that Idaho code does not require SIF to maintain a minimum amount of reserves.

Robyn Lockett, Principal Budget and Policy Analyst, Legislative Services Office, reviewed personnel cost (PC) considerations. There are approximately 20,000 state employees, with a PC appropriation of $1.7 billion annually. She reviewed the actions taken by the Committee for FY 2020: a 2% merit pay increase and a $550 increase for each permanent employee. She noted 87% of new salary dollars were a result of CEC.

In response to Committee questions, **Ms. Buxton** confirmed each employee with a rating of "achieves" or higher, received a portion of the merit pay increase. She stated the $550 increase led some employees to feel their performance was less important, because it was provided to everyone.

Christine Otto, Senior Budget and Policy Analyst, Legislative Services Office, explained the difference between personnel costs and full-time equivalent positions (FTP). PC covers all types of employees and can be moved to operating or capital costs. FTP are authorized in the agency appropriation bill and are permanent positions. Multiple part-time positions could equal 1 FTP. She provided an example of how an agency could use the same appropriation and authorized FTP to staff its operations two different ways.

Ms. Lockett provided six different methods of funding a CEC. Option A is the traditional approach of appropriating a specific percentage increase to be allocated based on merit. Option B was the Committee's FY 2020 recommendation, to not pay CEC on vacant positions, as based on a single count. This does not reflect seasonal changes in an agency's employees. Option C is to fund CEC on filled positions only, based on an average of multiple counts per year. For each 1% CEC the state would avoid funding $275,000 for vacant positions. Option D would base the CEC increase on actual personnel costs from previous years. Option E reflects what was done in FY 2020, namely funding a specific across-the-board increase, plus a percentage to be distributed based on merit. Option F is other considerations, such as targeting CEC at specific agencies or positions. Ms. Lockett suggested this would need to be proposed prior to the legislative session. She noted several of these options would need historical data, which current tracking systems are not well equipped to do.

In response to Committee questions, **Ms. Lockett** noted 12-15 agencies this year are requesting additional money for specific purposes.

ADJOURN: There being no further business to come before the Committee, the meeting adjourned at 3:52 pm.

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Co-chair

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Erica McGinnis
Secretary

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Co-chair