

Bureau of Human Resources

Budget Presentation to the Joint Committee on Appropriations

January 17, 2014

Laurie R. Gill, Commissioner

Presentation Overview

- BHR Agency Budget
- Salary Policy
- Employee Benefits

BHR's Strategic Priorities

- **Talent Acquisition**

Provide agencies with the resources needed to attract and hire the best talent available.

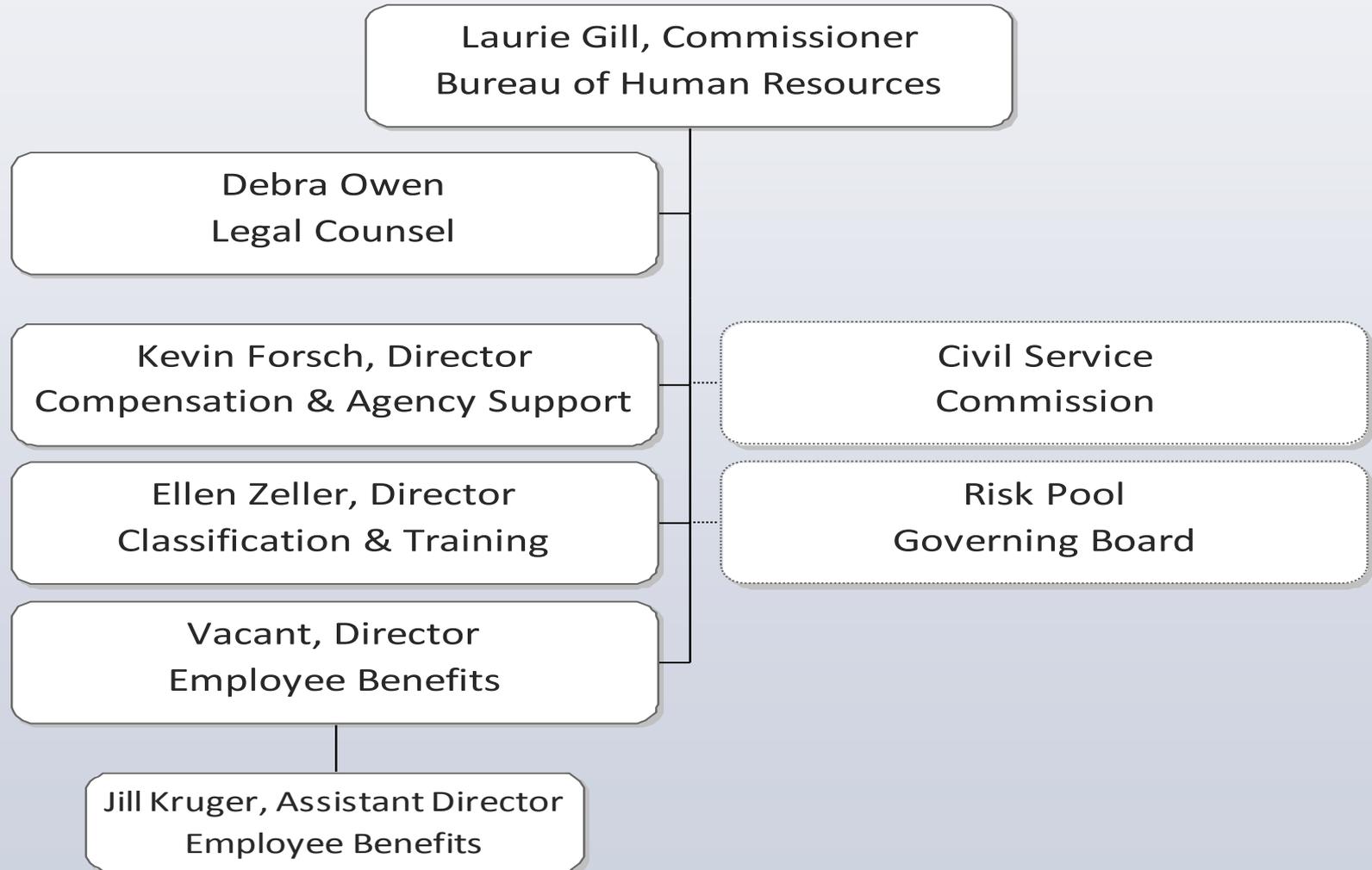
- **Talent Development**

Help agencies develop and effectively use talent to maximize employee performance and increase agency efficiency and productivity.

- **Talent Retention**

Provide agencies with the tools and information needed to retain mission-critical talent.

Bureau of Human Resources



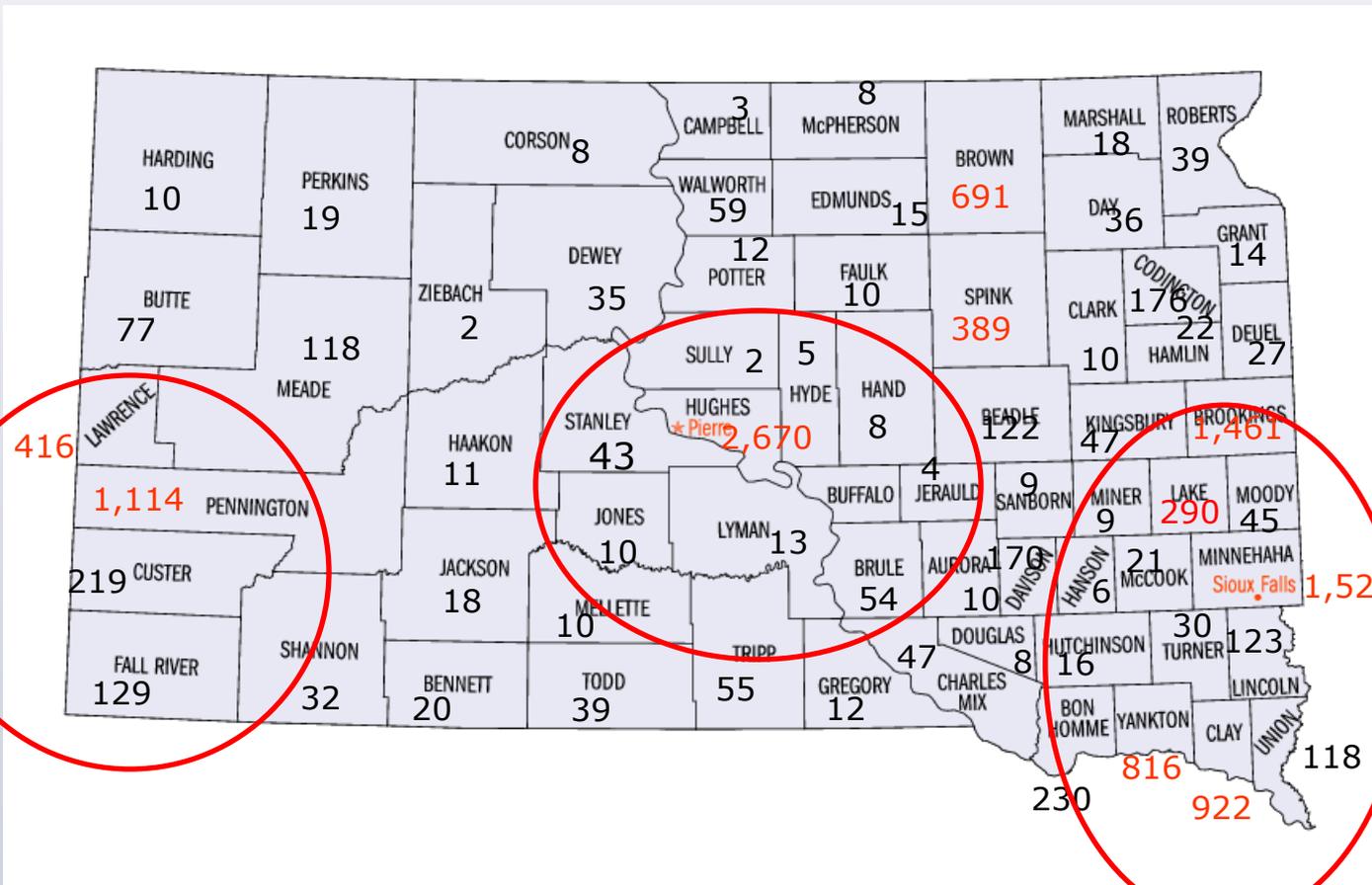
BHR FY2015 Recommended Budget

	<u>General</u>	<u>Federal</u>	<u>Other</u>	<u>Total</u>
0141 Personnel Management/Employee Benefits	\$252,109	\$0	\$5,749,445	\$6,001,554
0143 South Dakota Risk Pool	\$0	\$500,965	\$8,159,429	\$8,660,394
0144 South Dakota Risk Pool Reserve	\$0	\$0	\$1,500,000	\$1,500,000
FY15 Total Recommended Budget*	\$252,109	\$500,965	\$15,408,874	\$16,161,948

*Includes increase of \$22,574 for interagency billings.

South Dakota's State Workforce

State Employees by Location (All State Government, including Board of Regents)



12,708 total employees
10,295, or 81.0% located in 10 counties

16% in Black Hills
21% in Pierre
42% in I-29 Corridor

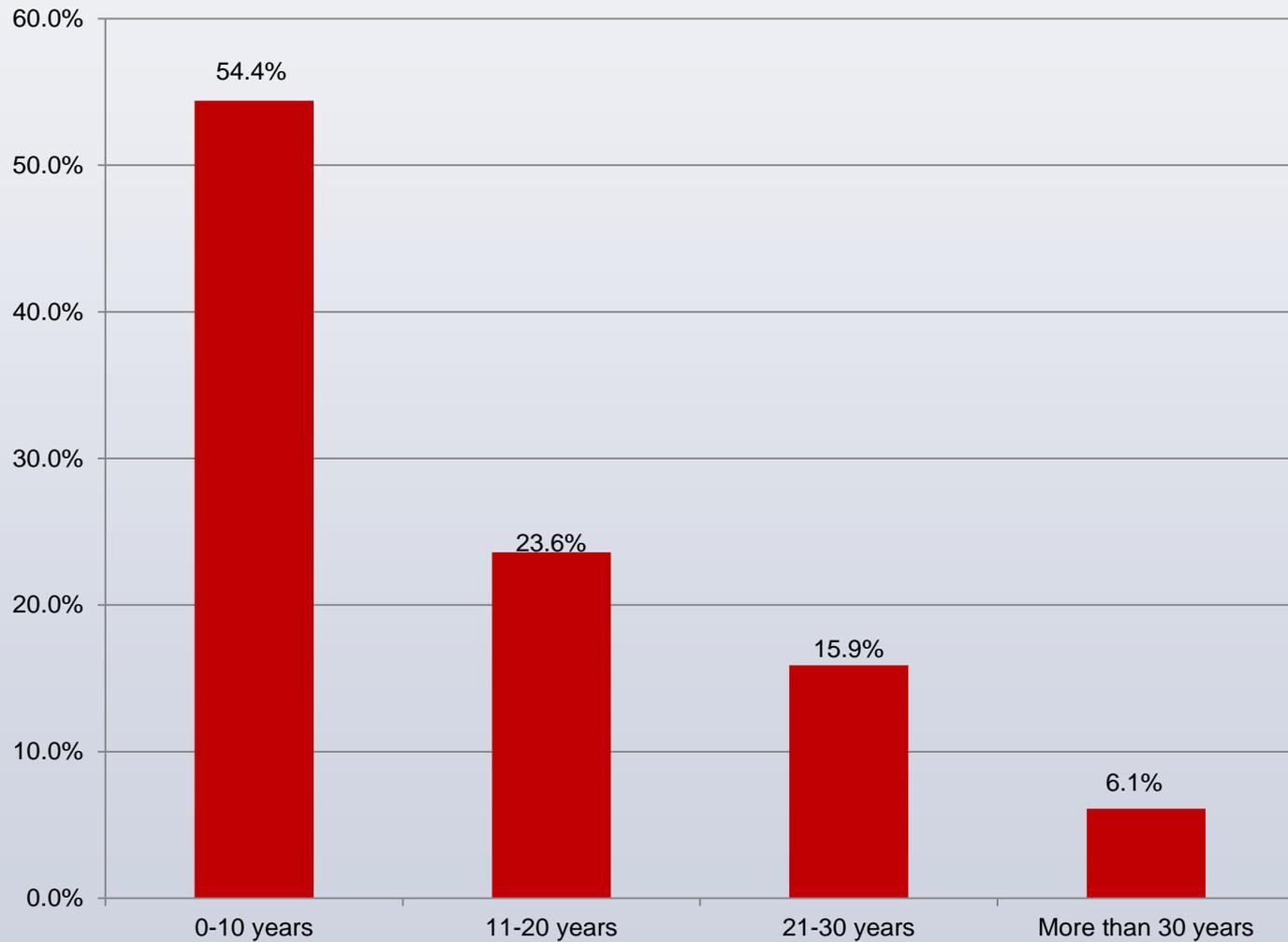
Our Workforce at a Glance

■ Workforce Demographics*

- Average years of service – 11.7 years
- Average age of state employees – 44.1 years
 - Matures (before 1946) – 0.9% or 69 emps
 - Baby Boomers (1946 – 1964) – 40.9% or 3,017 emps
 - Generation X (1965 – 1980) – 34.5% or 2,543 emps
 - Generation Y (1981 – 2000) – 23.7% or 1,747 emps

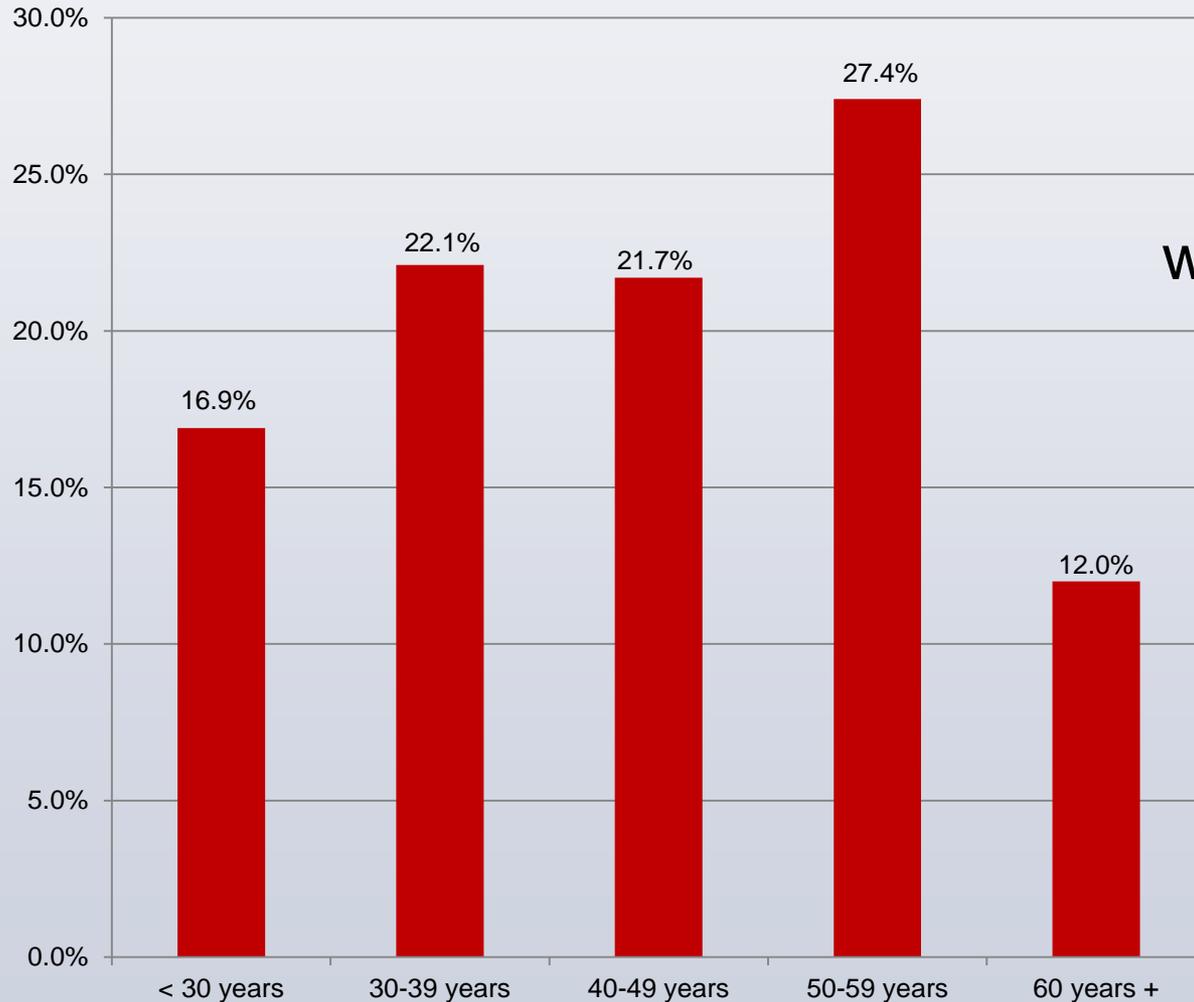
* Data as of November 20, 2013 for Executive Branch agencies under the direct control of the Governor. Does not include Board of Regents.

Years of Service of the Workforce



As of November 20, 2013

Age Distribution



39.4% of the workforce is age 50 or older

As of November 20, 2013

Retirement Eligibility

- 10.4% of the workforce became eligible to retire as of June 30, 2013
- 25.5% will be eligible within 5 years
- 36.0% will be eligible within 10 years
- Potential serious loss of talent and efficiencies

South Dakota Retirement System

Statewide Turnover



State Employee Compensation

Compensation Systems

- Performance and Compensation Equity (PACE)
 - All state employees not included in the Career Bands
 - Salary Schedules
 - N/E Series - MOST civil service and exempt positions
 - T/Q Series – difficult to fill positions experiencing significant market pressure
 - L Series – Law Enforcement positions
 - M Series – high level medical positions
- Career Bands
 - Accounting, Nursing, Environmental Science, Engineering, Software Engineering and Technology Engineering

PACE

Performance and Compensation Equity

- **Across-the-Board Adjustment** - annual salary increase to all employees used to address the competitiveness of the system
- **Movement toward Job Worth Adjustment** – a % salary increase to bring employee pay to job worth within 7 years
- **Longevity Pay** - Lump sum payment to employees with more than 7 years experience.

Illustration of PACE – Moving Through the Range

Maximum of Range

20% above Job Worth

Reserved for:

- performance
- added duties
- special market rates

Job Worth

What State can afford to pay

7 years

6 years

5 years

4 years

3 years

2 years

1 year

6 months

Minimum of Range

20% below Job Worth

17.1% of Workforce

24.2% of Workforce

58.7% of Workforce

Longevity Pay

- Annual Lump Sum Payment to Employees with More than 7 Years Experience
 - \$100 for 7-9 years
 - \$10/year of service for 10-14 years
 - \$15/year of service for 15-19 years (increases in \$5 increments for each 5 year bracket)
 - Example: Employee with 15 years of service receives \$225 (15 years X \$15)
- Provides expression of appreciation for years of service

Career Banding

- Difficulties acquiring talent for high demand jobs
 - Accounting
 - Nursing
 - Engineering
 - Environmental Science
 - Information Technology
- Nationwide demand in both public and private sector

Criteria for Inclusion in Career Banding

- Market competitiveness
- Ability to recruit new employees
- Retention and turnover
- Potential retirement impact

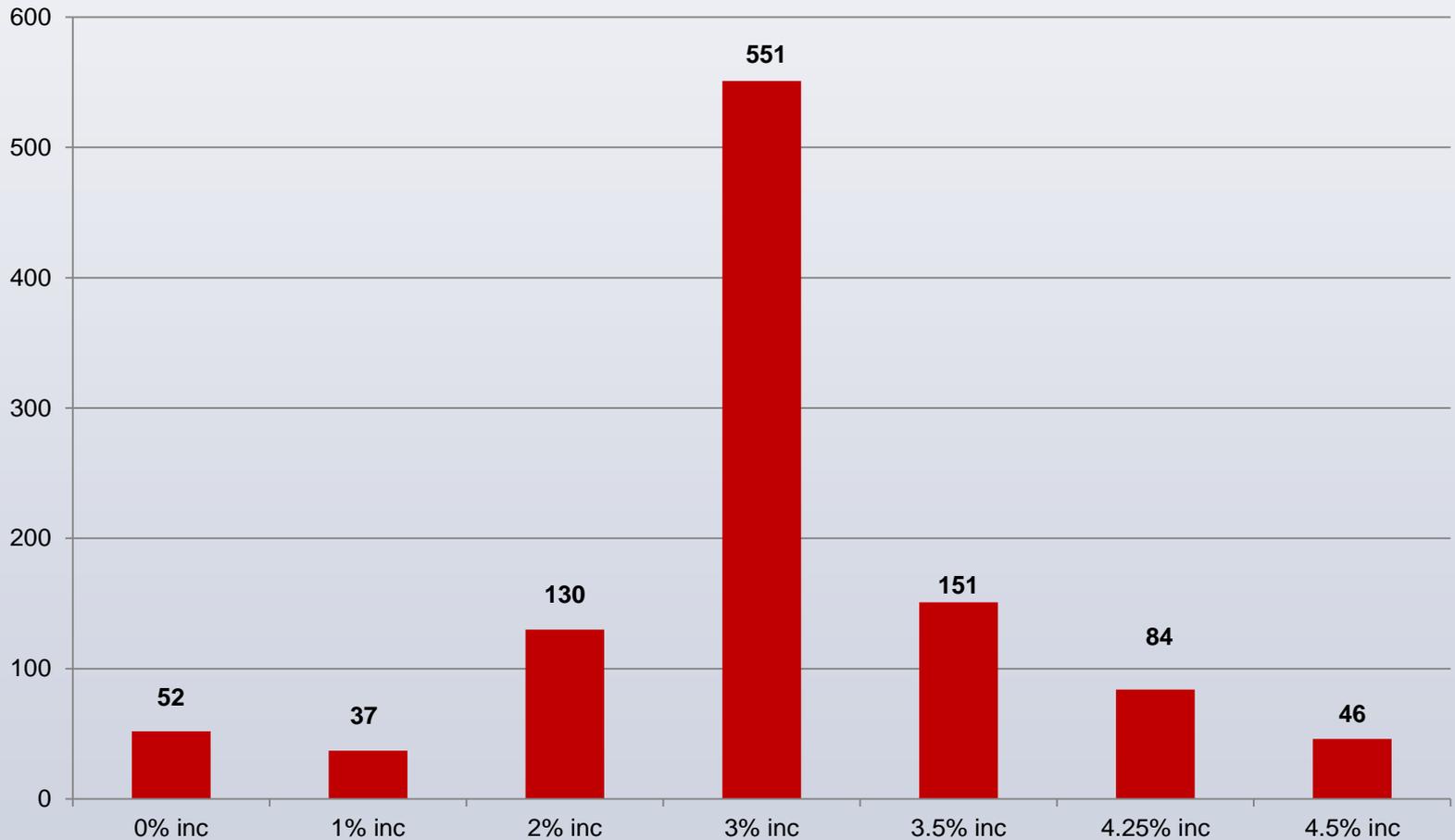
FY14 Career Band Salary Policy Components - Review

- Market Adjustment
- All employees received the market adjustment and the band was adjusted by that percentage
 - Accountants and Nurses – 4.0%
 - Engineers, Environmental Scientists, Software Engineers, and Technology Engineers – 3.5%

FY14 Career Band Salary Policy Components - Review

- Pay for Performance
 - Employees must have successfully completed the probationary period
 - High performers have the ability to move beyond the market target
 - A five-point rating scale with a performance score of 3.00 considered successful performance

FY14 Career Band Pay for Performance Results - Distribution



Career Banding Statistics

- 1,084 employees in career bands as of November 20, 2013
 - 34.6% of employees in career families are at least 10% behind the market
 - 84.1% behind market target
 - 12.1% at market target
 - 3.8% above market target
- Results – Positive Correlation
 - Reduced turnover
 - Better applicant pool

Compensation Philosophy

Compensation Philosophy

- A compensation philosophy statement is intended to provide a foundation for the design and administration of compensation plans in the State of South Dakota. It defines ***what the employer pays for and why.***

Participants

Lt. Governor Matt Michels	Chief Justice David Gilbertson	Attorney General Marty Jackley
Sen. Deb Soholt	Sen. Jim White	Rep. Dan Dryden
Rep. Scott Parsley	Dusty Johnson, GOV	Jason Dilges, BFM
Kim Malsam-Rysdon, DSS	Andy Gerlach, REV	Darin Bergquist, DOT
Sandy Zinter, BHR	Kim Olson, GOV	Eric Matt, GOV
Patricia Duggan, UJS	Beth Urban, UJS	Barbara Basel, BOR
Heather Forney, BOR	Brian Zeeb, ATG	Kevin Forsch, BHR
Toni Richardson, BHR	William Ernst, BHR	Neville Kenning, Kenning Consulting

Components of a Compensation Philosophy

Components that typically exist in a compensation philosophy include:

- Alignment with business and human resources strategy
- Definition of:
 - Plan Design
 - Basis of Establishing Compensation
 - Components of Compensation
 - Market and Level of Competitiveness
 - Basis of Pay Movement
 - Statement of Affordability
 - Statement of Governance and Plan Management Accountability

The Philosophy – Umbrella Statement

The compensation program for employees in the Judicial, Legislative and Executive (including Board of Regents) branches of state government will attract and retain quality employees with competitive total compensation based on relevant labor markets. The compensation program will be administered with fairness, equity and sound fiscal discipline. The program will reinforce a productive work climate and a culture of accountability. It will encourage employees to make the State their employer of choice, and encourage employees to progress in their careers with the State.

Philosophy Components – The Highlights

1. Compensation will be fair and equitable across the state but flexible enough to meet business and HR needs. Multiple pay plans may be used to address needs.
2. Compensation program will be strongly aligned with workforce planning to retain and reward today's workforce and attract the workforce of tomorrow.
3. Compensation will be founded on internal equity and comparable to that of similar positions in relevant markets.
4. Total Compensation is defined as base pay, benefits, lump sum payments and allowances.

Philosophy Components – The Highlights (cont.)

5. The standard labor market is defined as the six surrounding state governments and South Dakota public and private employers, except when a reasonable and appropriate expanded labor market is justified.
6. Pay delivery will be based on a combination of establishing and maintaining relativity to market, achievement of performance objectives, recognition of differences in job content, and the acquisition and application of further skill and education.
7. Market surveys will be conducted at regular intervals.
8. Compensation must be reasonable and affordable.

Total Remuneration Study

Background and Objectives

- A comprehensive market analysis of the competitiveness of the State's compensation and benefits programs to:
 - Compare the State's total compensation market competitiveness and mix;
 - Provide the foundation for making changes to the State's salary and benefits programs
 - Identify market trends pertaining to salary movement and administration, as well as benefits program changes

**The study did not include any of the career banded occupations.

Collecting Data

- 153 benchmark positions
 - A cross section of positions across occupational groups and pay grades
 - 127 of the total benchmarks had sufficient market data for publication
 - Nearly one half of the state employees on central payroll were included in these benchmark jobs
- 111 South Dakota public and private employers
 - Public Sector – cities, counties, and one school district
 - Private Sector – healthcare, banking, retail, manufacturing, and more

Results – Base Salary

	SD vs. In-State Market
Actual Base Salaries	-17.3%
Midpoint	-16.5%

A Sample of Occupations

Occupation	SoSD Avg Pay	% from In-State	In-State Avg Pay
Accounting Assistant	\$28,500	-24%	\$37,700
Chemical Dependency Counselor	\$36,400	-14%	\$42,200
Custodial Worker	\$20,600	-28%	\$28,400
Human Resource Manager	\$59,800	-15%	\$70,100
Licensed Practical Nurse	\$34,700	0%	\$34,700
Pharmacist	\$86,900	-29%	\$122,200
Senior Staff Attorney	\$65,700	-33%	\$98,100

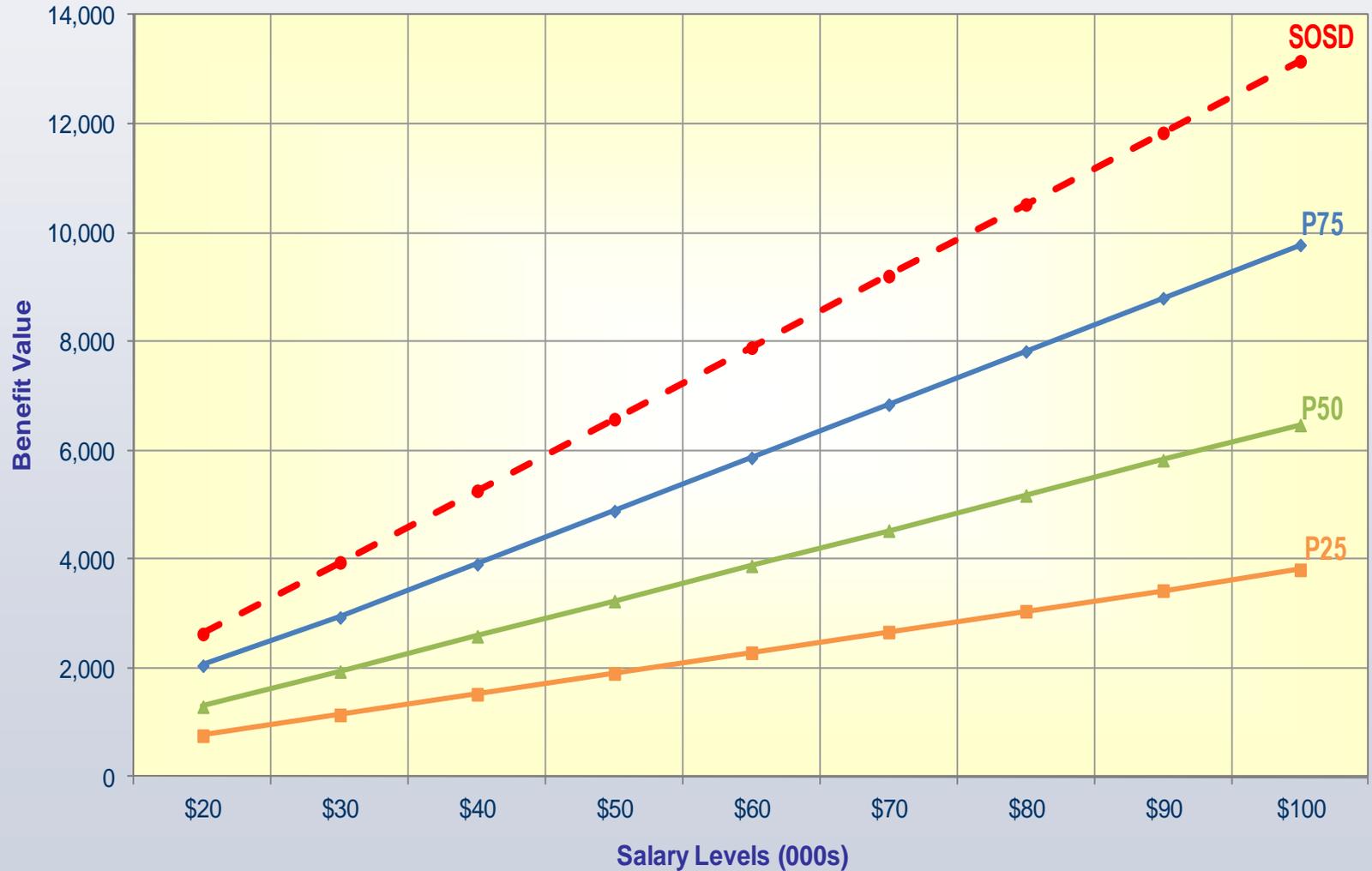
Results - Benefits

Benefit Area	SD vs. In-State Market
Total Benefits	P50 to > P50
Retirement	> P75
Healthcare	P50
Disability	P75
Death	< P25
Other	< P25

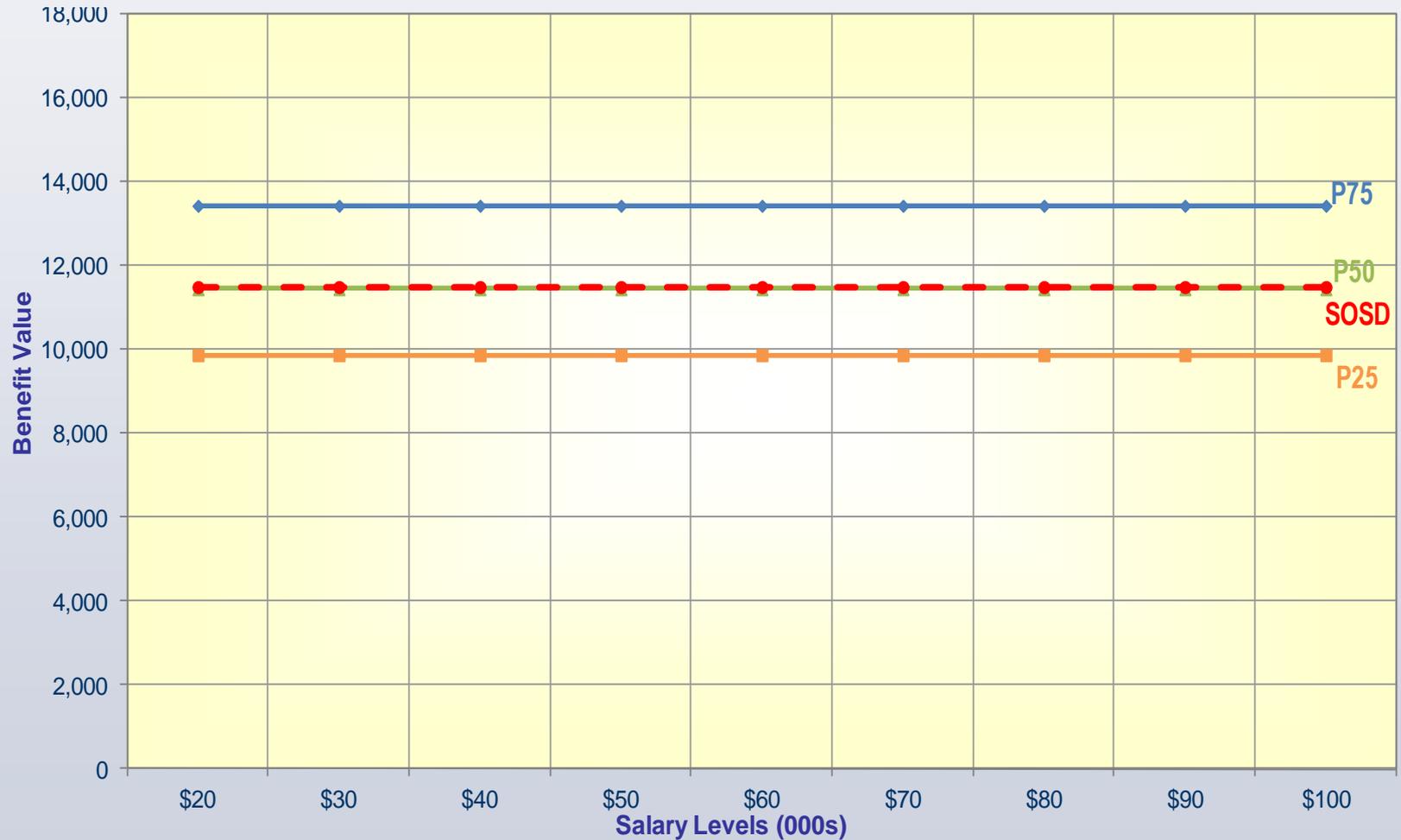
P25 = 25th percentile = 75% of market above this point and 25% below
 P50 = 50th percentile = 50% of market above this point and 50% below
 P75 = 75th percentile = 25% of market above this point and 75% below

P50 is also referred to as the Median

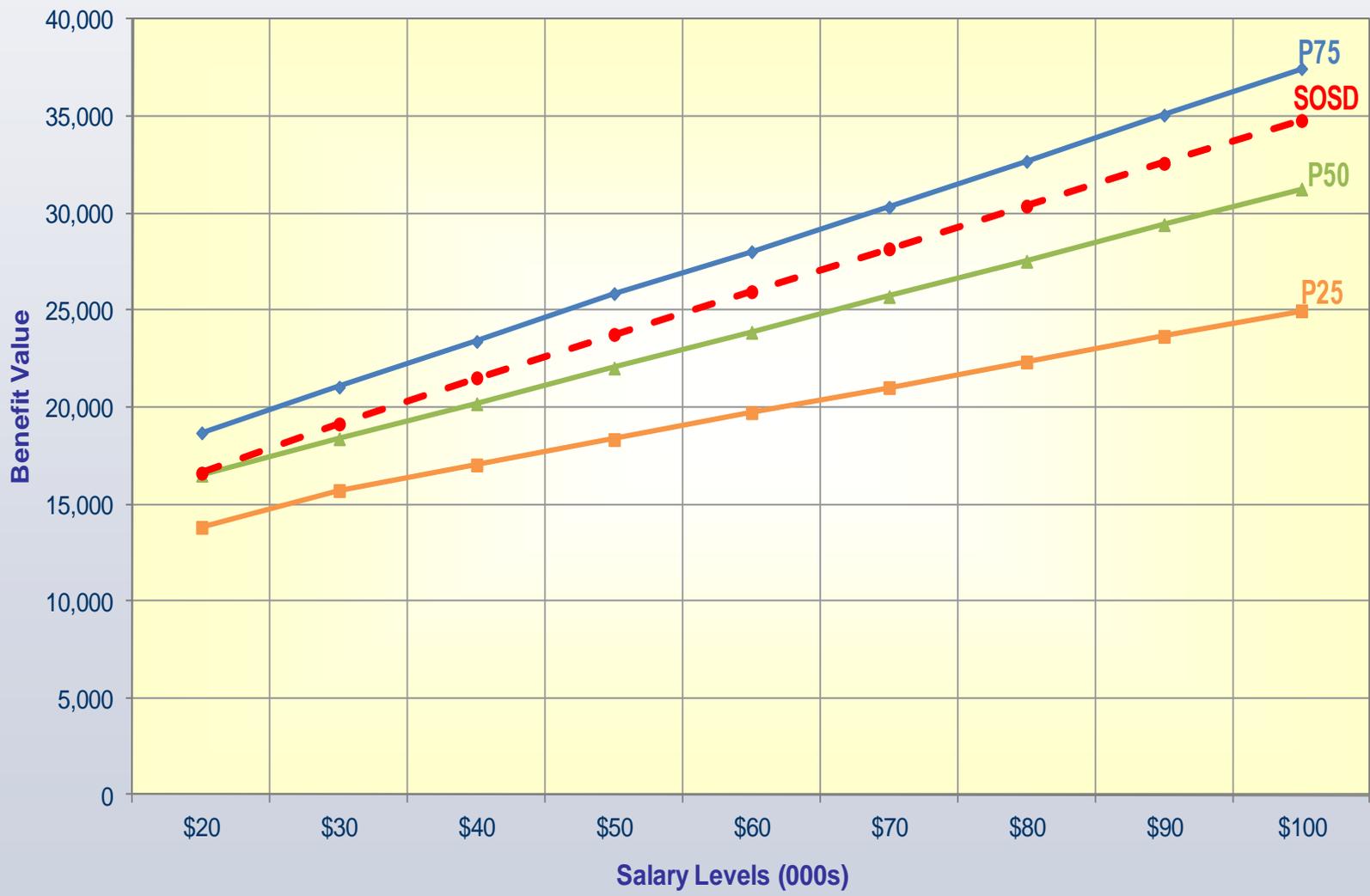
Retirement – SD vs. In-State Market



Healthcare – SD vs. In-State Market



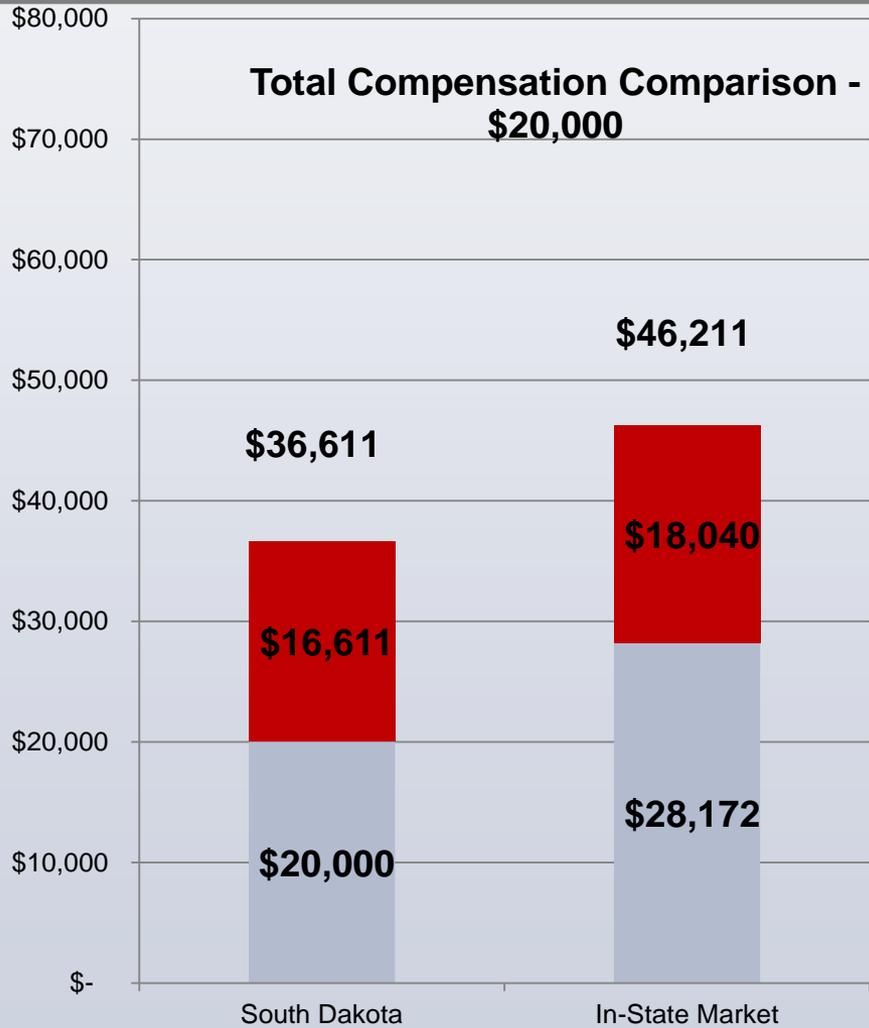
Total Benefits – SD vs. In-State Market



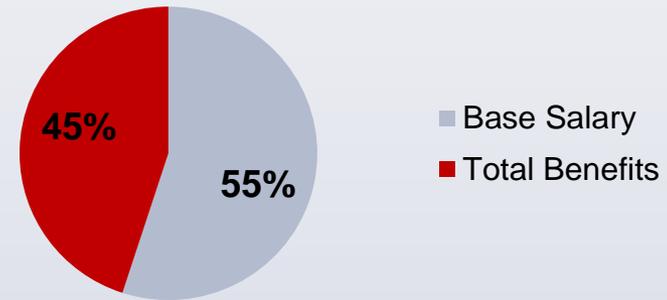
Results – Total Remuneration

Component	SD vs In-State	Key Findings
Base Salary	-17.3%	The majority of the State’s occupational groups fall well below the median of the market, with very few exceptions.
Benefits	+7.8%	Considered on its own, the State’s benefits program is competitive, with Retirement and Disability program influencing the overall market position.
Total Remuneration	-11.6%	While the competitive benefits program enhances the total remuneration market position, the low base salaries result in a below market median (P50) position.

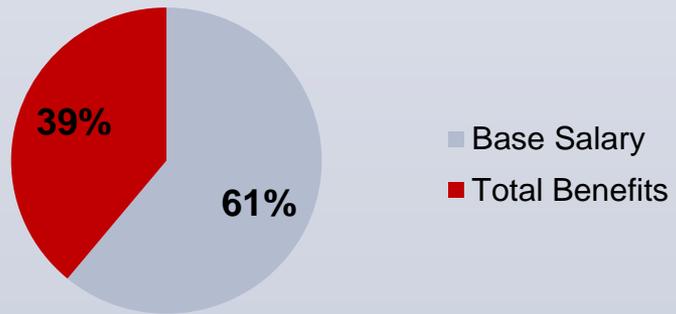
Market Competitiveness - \$20,000



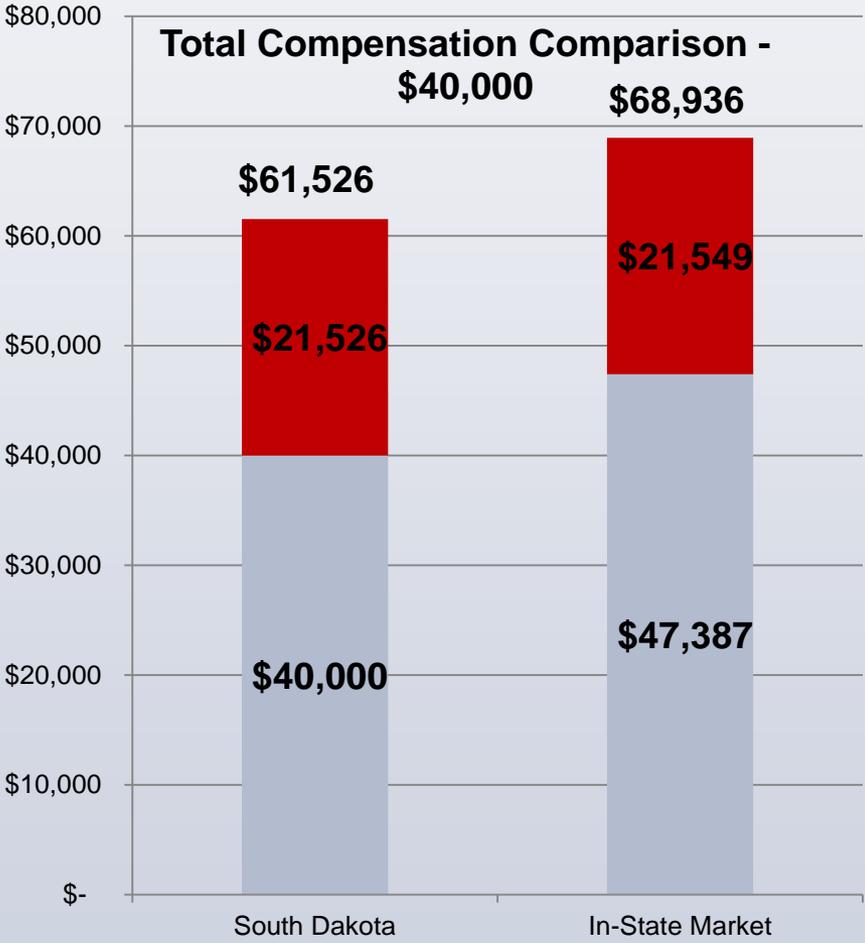
South Dakota Pay Mix - \$20,000



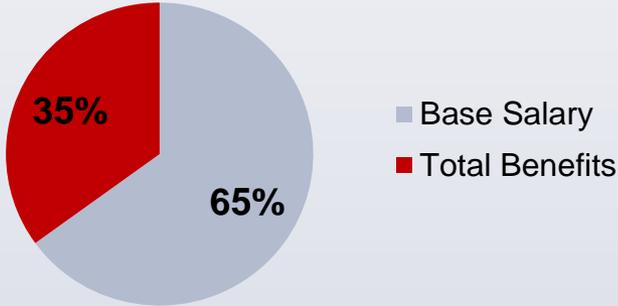
In-State Market Pay Mix - \$20,000



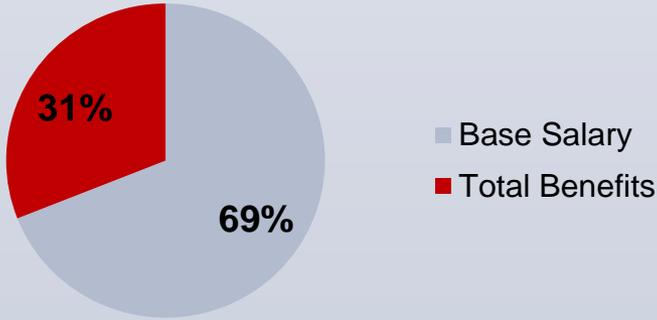
Market Competitiveness - \$40,000



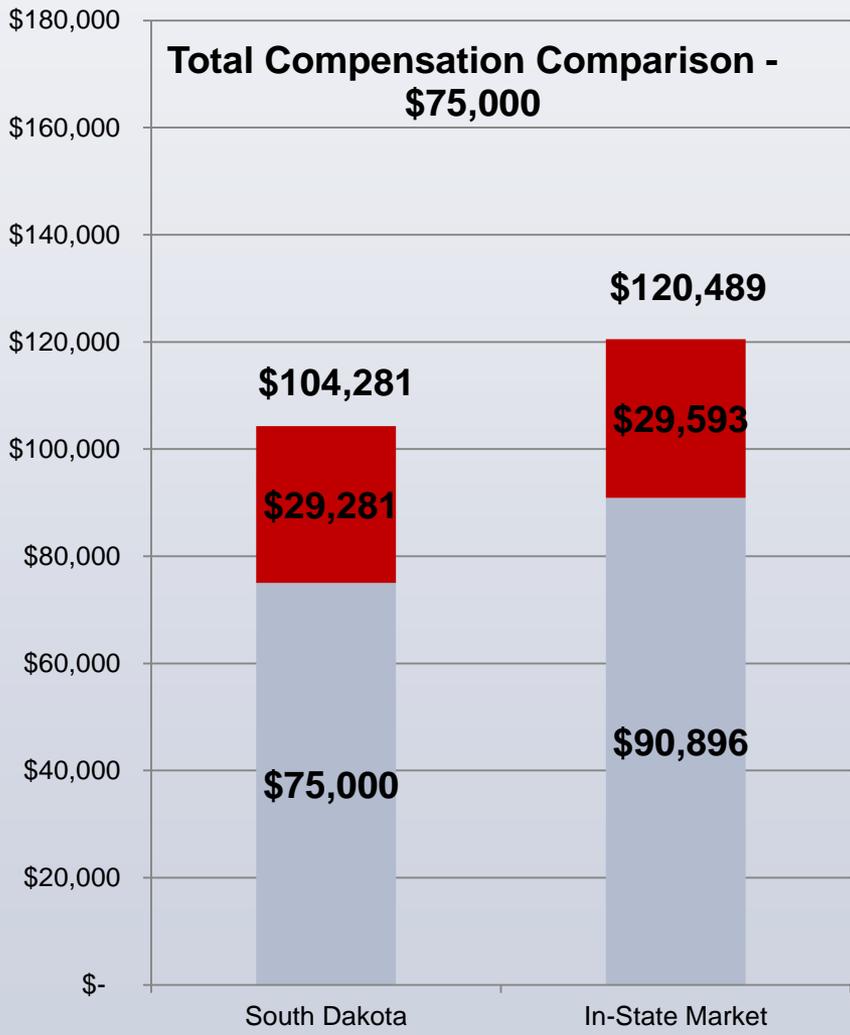
South Dakota Pay Mix - \$40,000



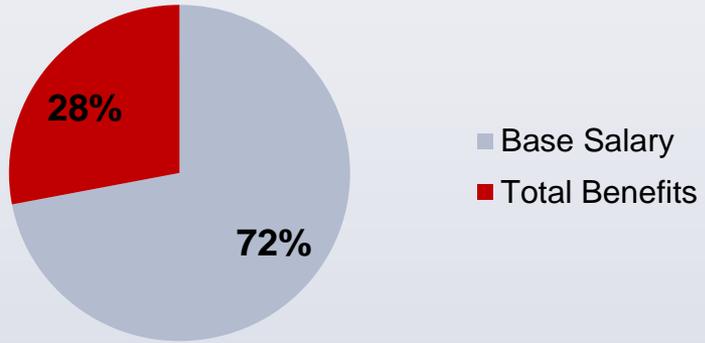
In-State Market Pay Mix - \$40,000



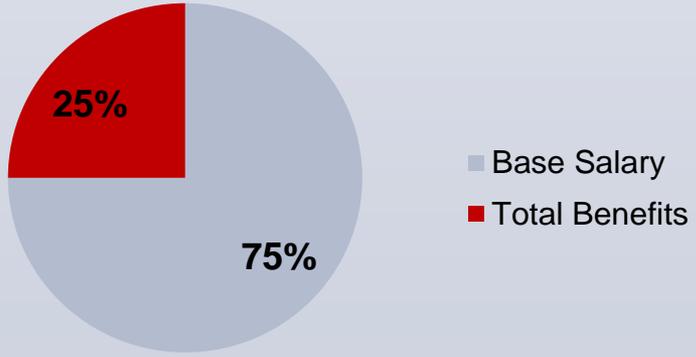
Market Competitiveness - \$75,000



South Dakota Pay Mix - \$75,000



In-State Pay Mix - \$75,000



Compensation Planning

- FY2015 – Targeted Compensation Adjustments
- FY2016 – Examination of PACE system to identify system adjustments needed to improve competitiveness

Salary Policy Recommendations

Proposed Salary Policy – FY15

- PACE
 - 3% Across the Board Increase
 - 3% Movement toward Job Worth
 - Targeted Compensation Adjustments
- Career Bands
 - 3% Market Adjustment for all bands
 - Up to 4.5% performance-based increase

Targeted Compensation Adjustments

- \$0.50 per hour increase added after salary policy applied
- Targeted occupational series identified through the Total Remuneration Study
 - Custodial Services Series
 - Building Maintenance Series
 - Driver License Examiner Series
 - Direct Care Series
 - Selected Health Positions (Dietitian/Nutritionist, Public Health Specialist, Health/Sr Health Facilities Surveyors)
 - Grounds Keeper Series

Criteria for Selection

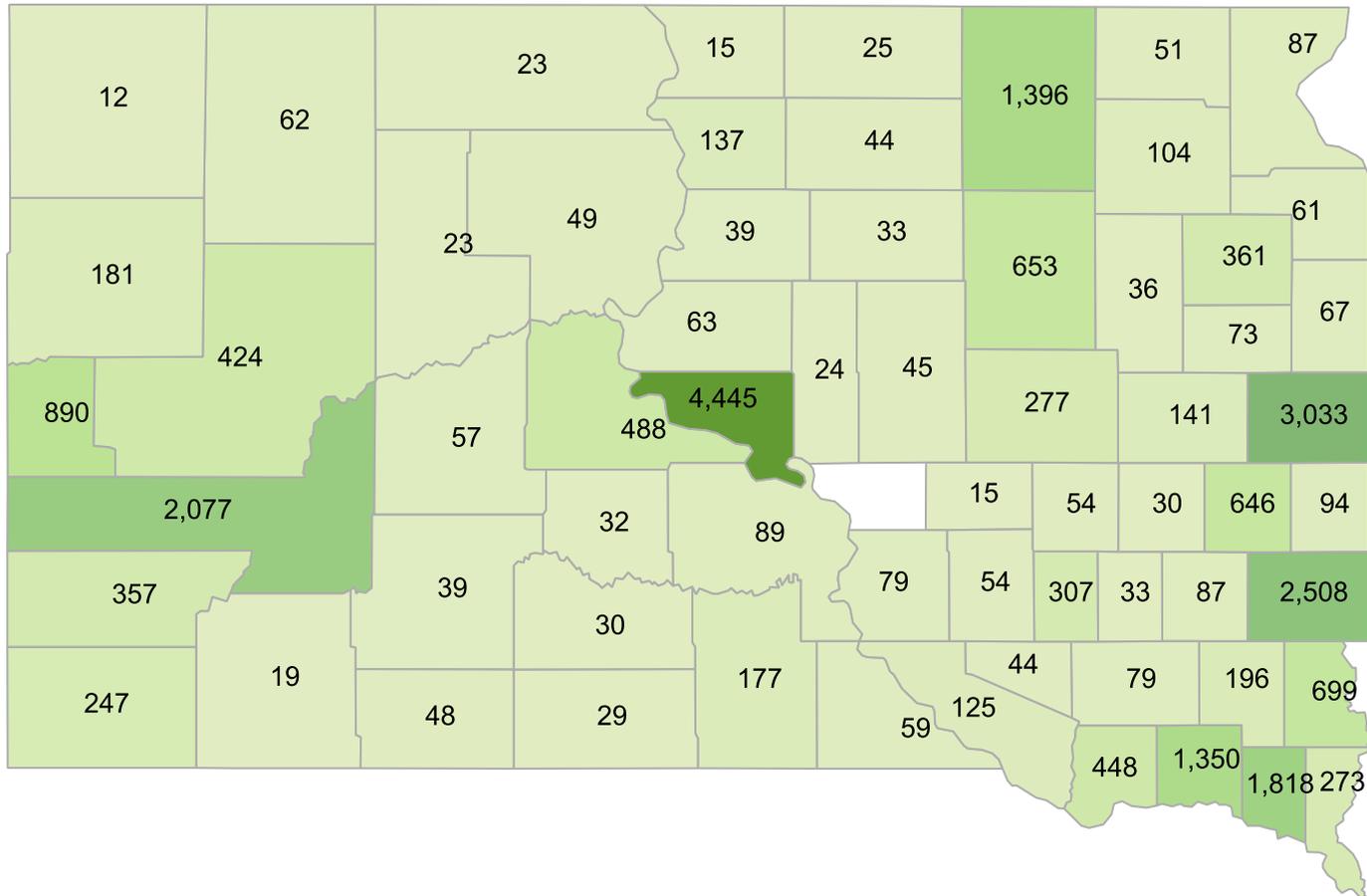
- **Position relative to market**
 - On average 25% behind the market
 - Some benchmarks up to 40% behind the market
- **Turnover**
 - Nearly 40% turnover in Direct Care Series
 - One classification experienced 142% turnover in FY13
- **Difficulty to Fill**
 - Reduced number of applicants per list
 - Inability to hire from lists
 - Increased number of applicants declining interviews or job offers

South Dakota State Employee Health Plan

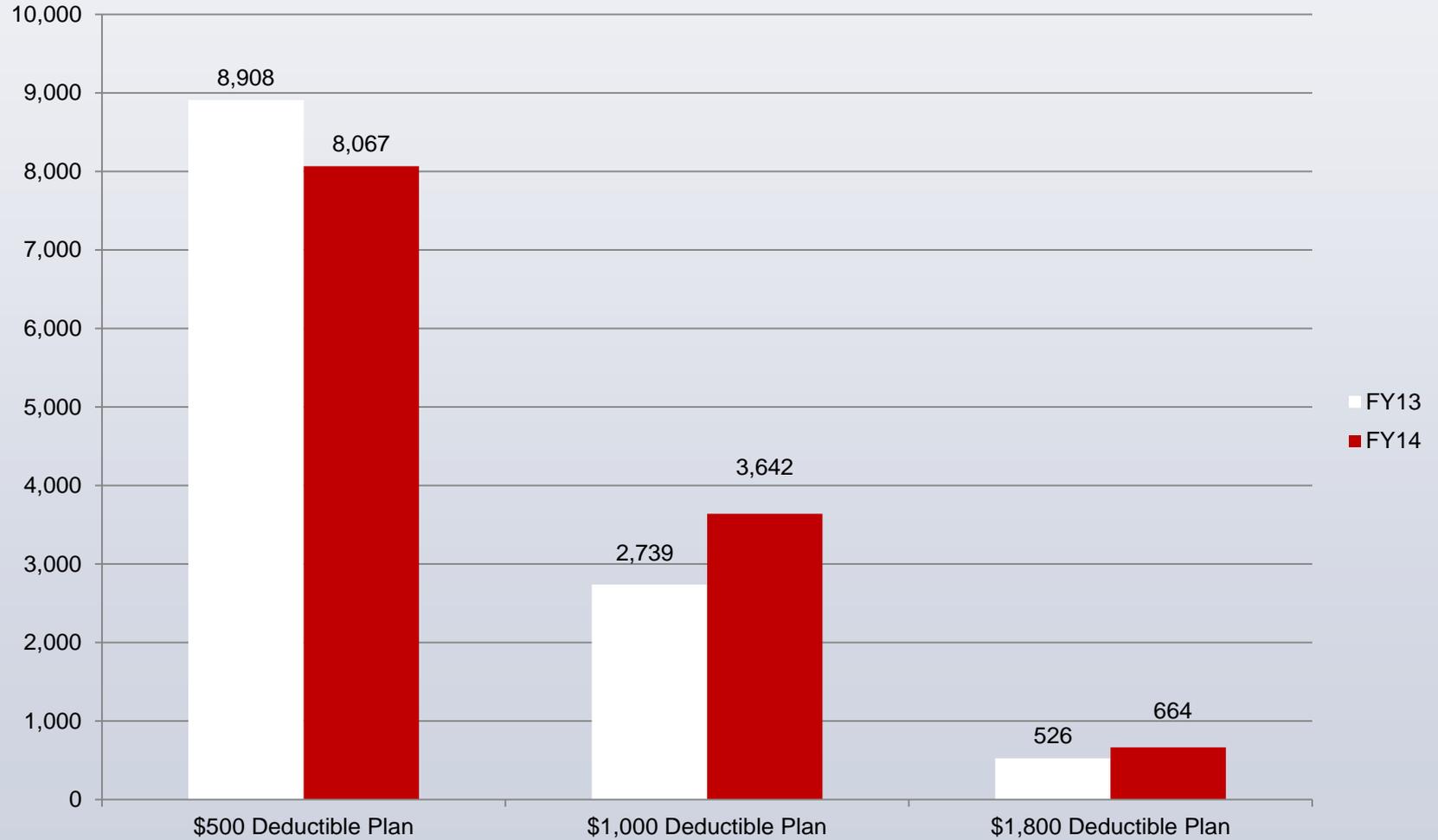
Total Health Plan Membership by County

State of South Dakota Total Membership by SD County

July 2013



Enrollment Demographics FY13 & FY14



Requirements for Lowest Deductible Plan

Step 1. Complete Health Screening

Step 2. Complete online Health Assessment

Step 3. **NEW** Complete a Latitude Wellness Program

- Wellness program that requires members to participate in a wellness activity.
 - Participatory programs
 - Worksite Wellness programs
 - Enrollment programs

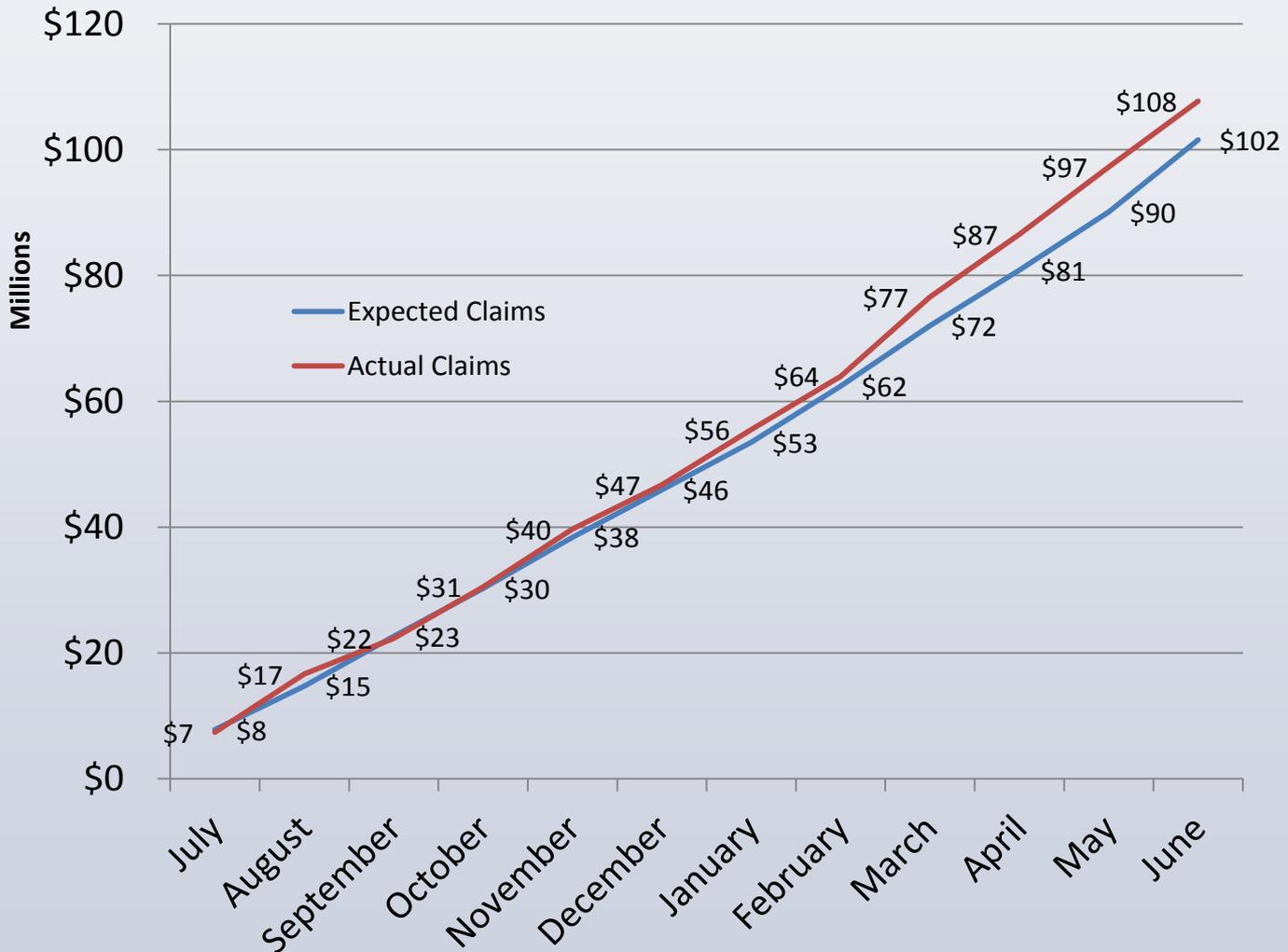
New Consultant

AON Hewitt

- Provides both actuarial and benefit design consulting services
- Demonstrates quality service and work products to other state and local government entities
- Serves 26 state clients including MT, NE, IA, and KS
- Provides data to support state comparisons, analytic tools, benchmarking and other measurement tools
- Recognized as a national firm with broad expertise in our market and across the US, specifically in national policy changes and Patient Protection and Affordable Care Act (PPACA)
- Selected through an RFP process by the local BHR team over 5 other vendors

FY13 Review

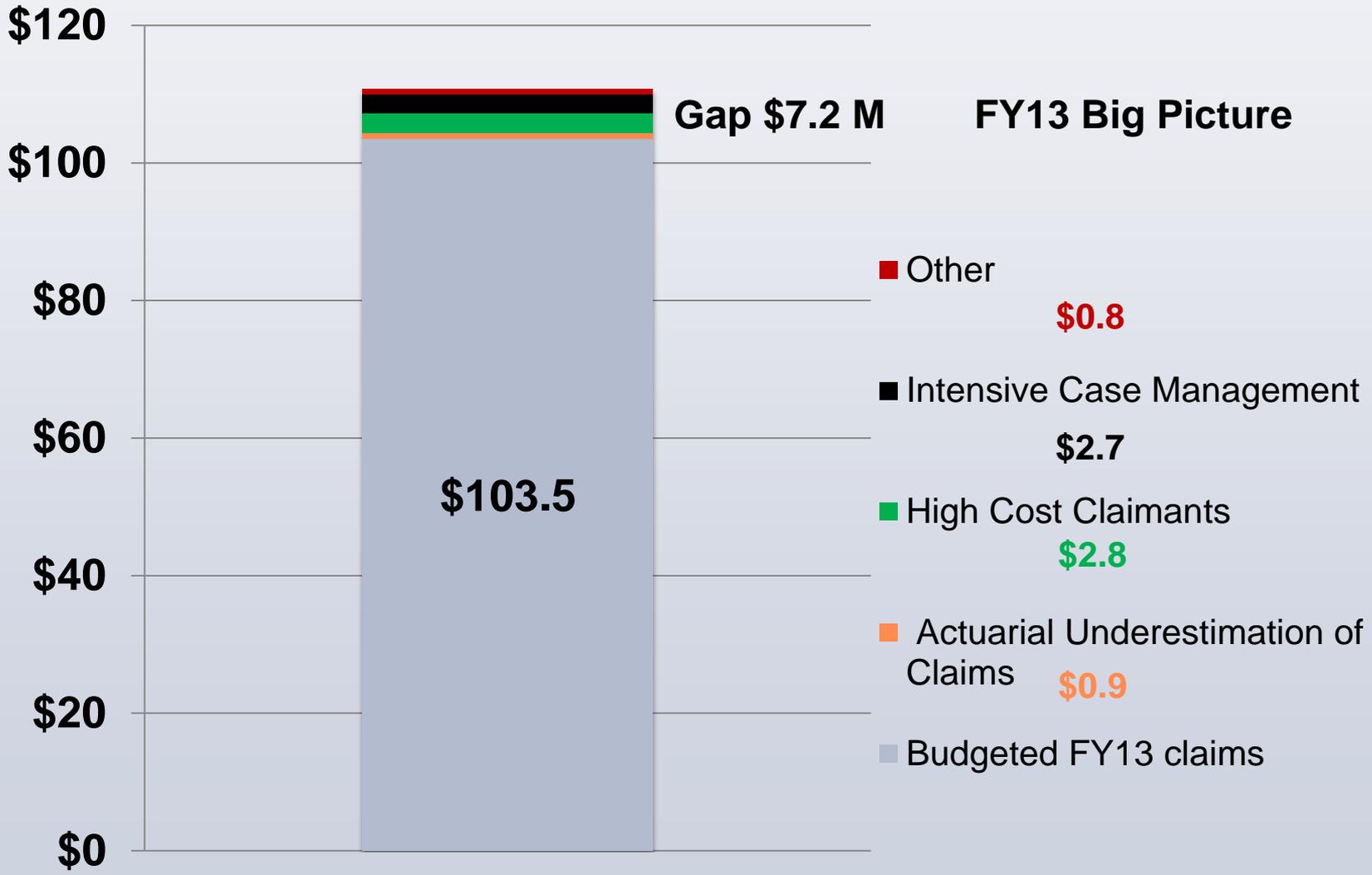
FY13 Paid Claims Pace



FY13 Big Picture

FY13 revised claims budget	\$103.5
<u>FY13 actual claims</u>	<u>\$111.1</u>
Main Impact to Gap	\$ 7.6
Additional Factors	
Higher Administration	\$.7
Lower Employer Life Claims	(\$.1)
Higher Revenue	(\$1.0)
Total FY13 Gap	\$ 7.2

FY13 Big Picture



FY14 Budget

FY14 Changes Presented During 2013 Session

Employee: Plan Design Changes with estimated savings

\$5.6 M

- Eliminated copays (except ER)
- Increase in dependent rates
- Expanded to 5-tier Rx

Provider: Administrative Changes with estimated savings

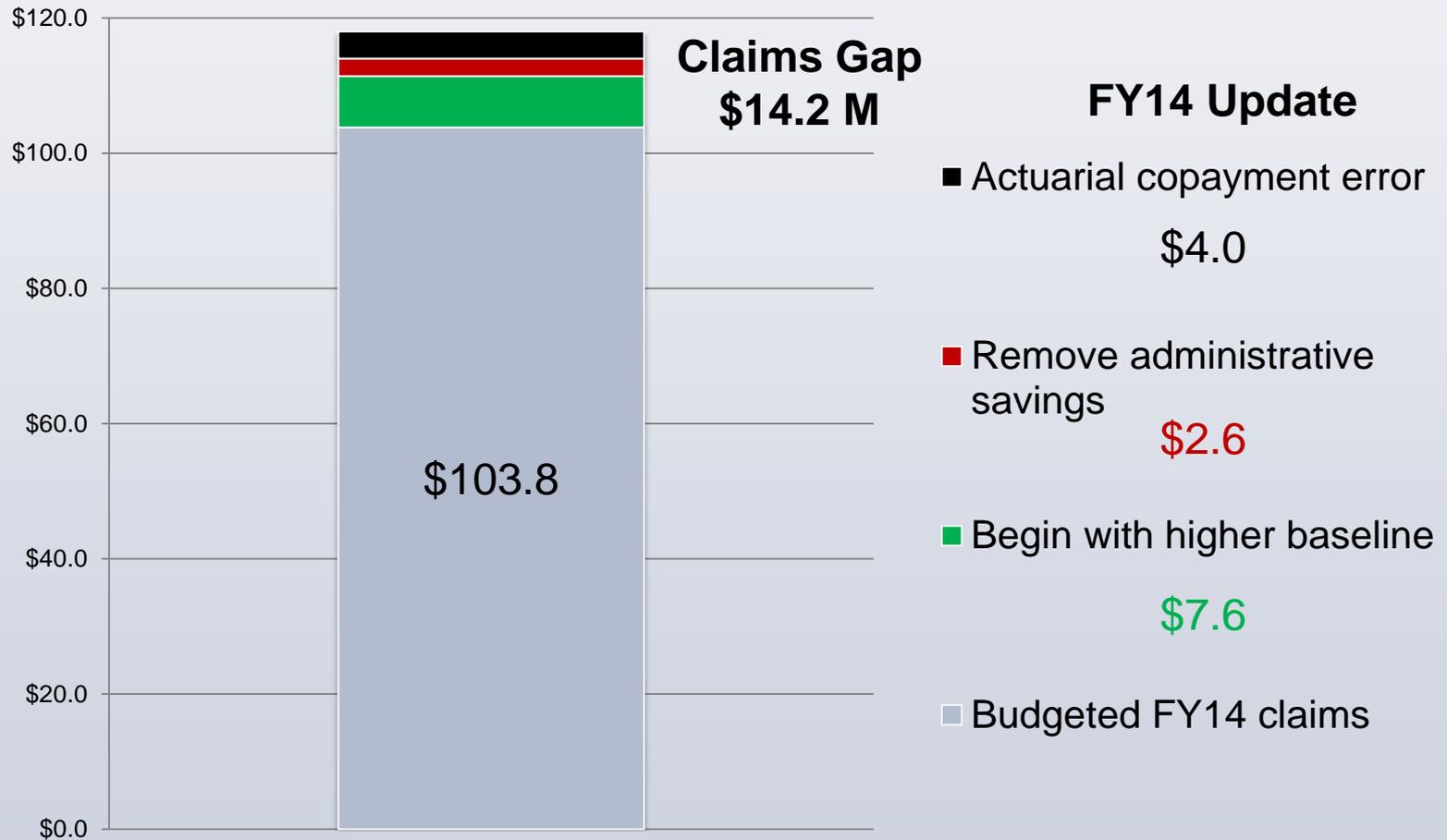
\$2.6 M

- Provider RFPs
- Rx Benefit Manager RFP

Employer: Increased Contribution

General	\$4.4 M
Federal	\$2.8 M
Other	\$4.7 M

FY14 Update



FY14 Update

Impact of the Patient Protection and Affordable Care Act (PPACA)

PPACA created 2 admin fee

Patient Centered Outcomes Research
Institute (PCORI) + \$ 26,000

Transitional Reinsurance + \$838,000

FY14 Update Summary

Budgeted FY14 claims	\$103.8 M
Begin with higher baseline	+ 7.6 M
Actuarial copay error	+ 4.0 M
Remove administrative savings	+ 2.6 M
New proposed FY14 claims	\$118.0 M

**With administrative costs, the projected
FY14 program gap is \$16.9 M.**

FY14 Mid-Year Changes

FY14 Mid Year Changes

Administrative

- Update areas of drug coverage
- Update system facility contract
- Expand contracting to add some ND facilities
- Change to a fully insured life insurance product

Provider

- Tier 1 contracts
- SF Primary Care Clinics

Incorporate \$1 M of savings in budget

FY14 Update

Budgeted FY14 claims **\$103.8 M**

Begin with higher baseline + 7.6 M

Actuarial copay error + 4.0 M

Remove administrative savings + 2.6 M

Add back conservative savings - 1.0 M

New proposed FY14 claims **\$117.0 M**

With administrative costs, the projected FY14 program gap is \$15.9 M.

Recap Program Shortfall

FY13 Gap	\$ 7.2 M
<u>FY14 Gap</u>	<u>\$15.9 M</u>
Total Shortfall	\$23.1 M

FY15 Budget

FY15 Big Picture

FY14 Base Claims Projection \$ 117 M

FY15 with projected claims growth + 6.5 M

Proposed FY15 total claims \$123.5 M

**With no revenue increase and no plan changes,
FY15 starting program gap is \$21.6 M.**

FY15 Proposed Plan Changes

\$500 to \$750 Deductible	\$ 1.6 M
\$1,000 to \$1,250 Deductible	.7 M
Raise medical OOP by \$750	1.7 M
Raise Rx Copayments	1.3 M
Increased other rates	.5 M
(Eliminate retiree subsidy \$.2 M)	
(Eliminate COBRA subsidy \$.3 M)	
<hr/> Employee Total	<hr/> \$ 5.8 M

FY15 General Bill Recommendations

Health Insurance Increase* **\$ 17.9 M**

General Funds \$ 6.7 M

Federal Funds \$ 3.9 M

Other Funds \$ 7.3 M

* State total includes interagency billings and correctional health.

FY15 Plan Changes

Proposed Health Plan Changes

- Increase deductible from \$500 to \$750
- Increase deductible from \$1,000 to \$1,250
- Increase medical out-of-pocket maximum
 - \$500 plan: \$2,500 to \$3,250
 - \$1,000 plan: \$3,500 to \$4,250
 - \$1,800 plan: \$3,600 to \$4,350

FY15 Plan Changes

Proposed Pharmacy Plan Changes

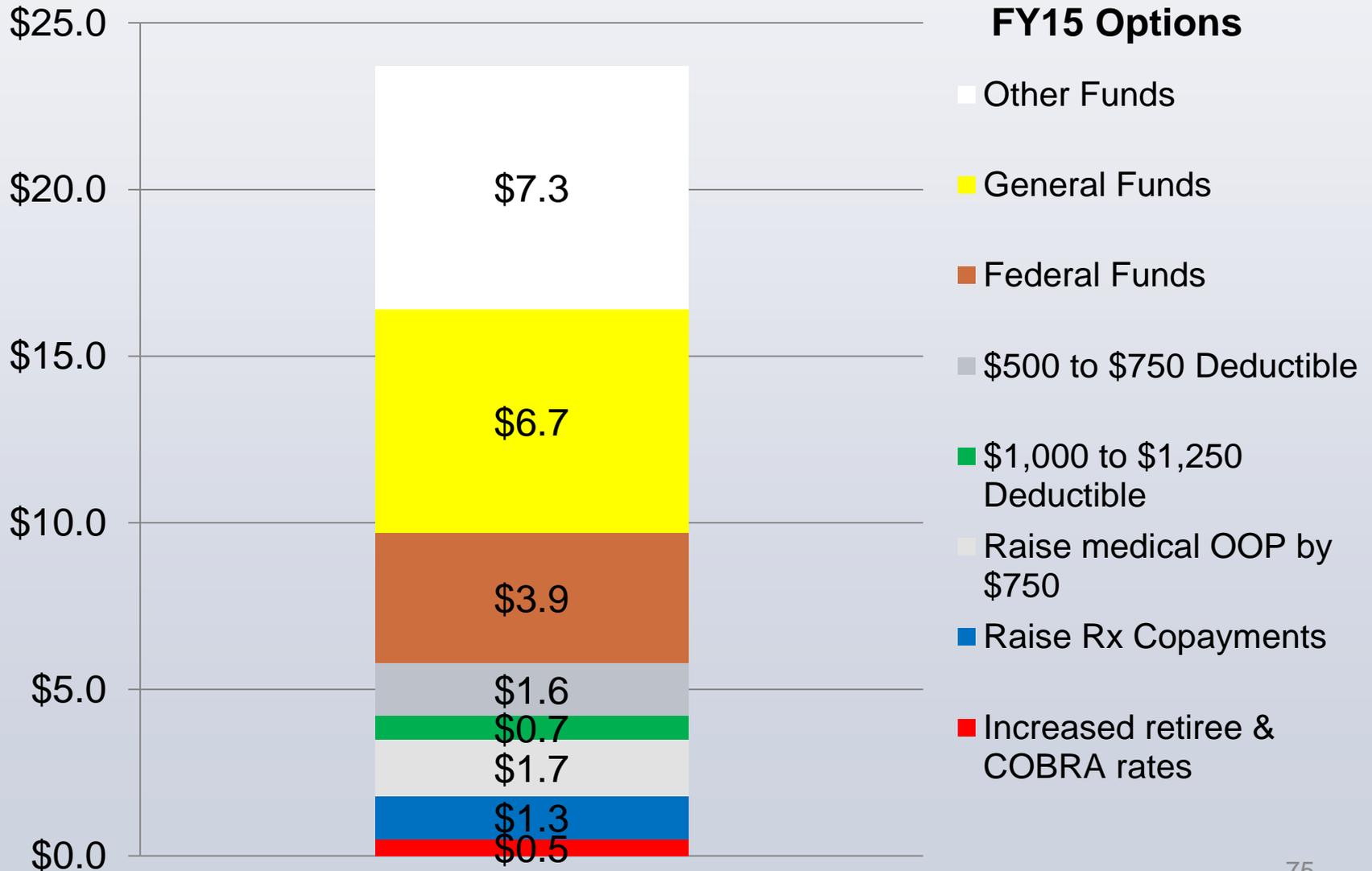
- Increase Tier 1 generic from \$7 to \$10
- Increase Tier 2 Brand preferred from \$32 to \$40
- Remove cost benefit of picking up a 31+ day fill
 - Member will pay 3x the 30 day fill to pick up a 3 month supply

FY15 Plan Changes

Proposed Rate Changes

- Change COBRA and Retiree rate structure
 - Eliminate 50% of the Retiree subsidization
 - Adjust COBRA rates
- Continue current dependent contribution rates

FY15 Proposed Plan



Risk Mitigation and Future Planning

Risk Mitigation

During Session, the Appropriations Committee and Sub Committee on Insurance tasked BHR with reviewing stop loss coverage for the State Employee Health Plan.

BHR welcomes the opportunity to meet with the Subcommittee to review stop loss and other risk mitigation strategies.

Future Planning

Over the course of the last year, we have worked to create a new approach or a shift in our philosophy.

- Partner with Aon Hewitt
- Practice more conservative budgeting
- Create a strategic plan
- Establish benchmarks and better reporting

Thank You!

