

Bureau of Human Resources

State Employee Compensation Presentation
to the Joint Committee on Appropriations

January 16, 2015

Laurie R. Gill, Commissioner

Presentation Overview

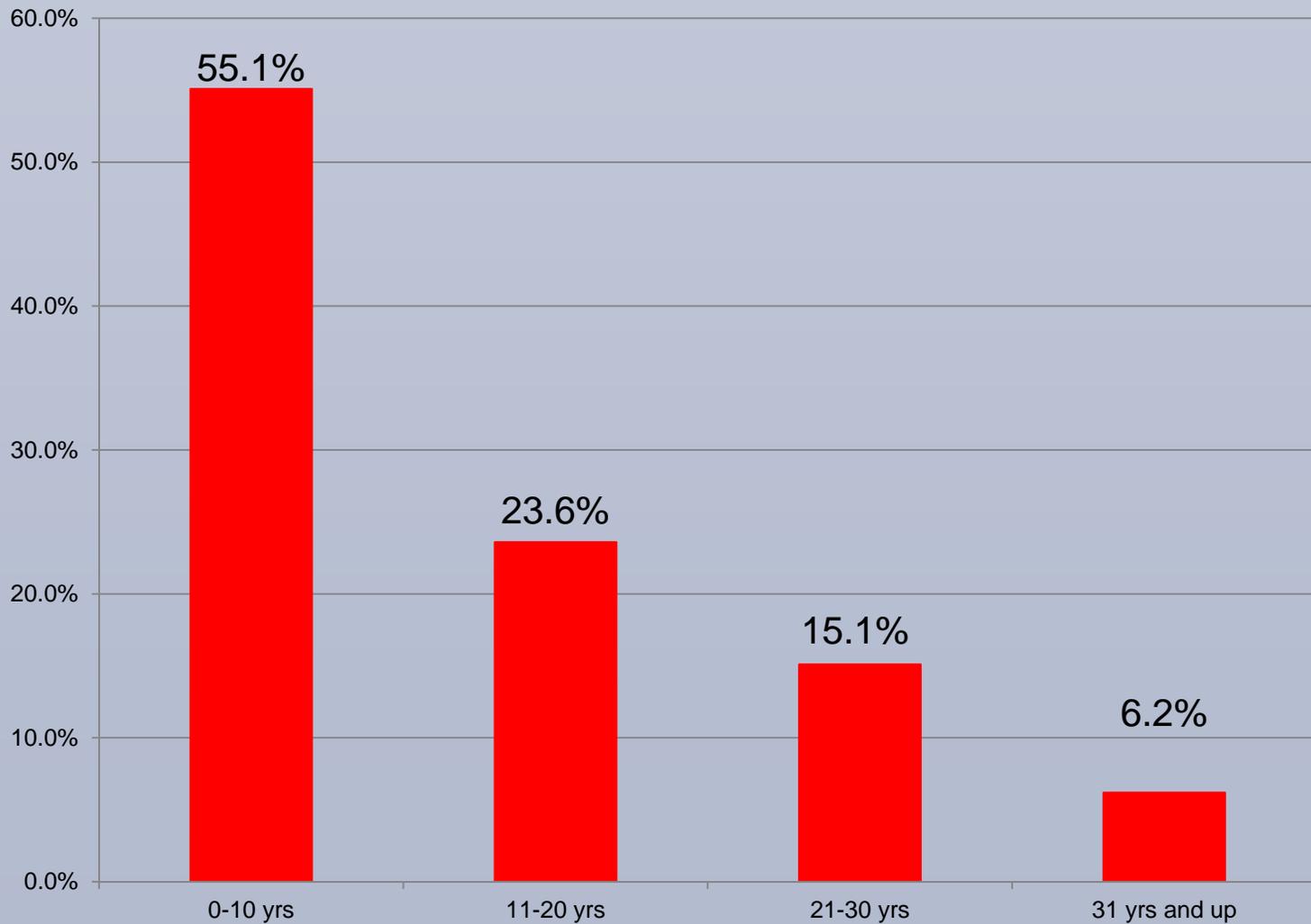
- South Dakota's State Workforce
- Employee Compensation
- Employee Health Plan

South Dakota's State Workforce

Workforce at a Glance

- Workforce Demographics
 - Average years of service – 11.6
 - Average age of state employees – 44.0
 - Matures (before 1946) – 1.0% or 75 emps
 - Baby Boomers (1946 – 1964) – 38.2% or 2,821 emps
 - Generation X (1965 – 1980) – 34.2% or 2,528 emps
 - Generation Y (1981 – 2000) – 26.6% or 1,967 emps

Workforce Years of Service



Data as of November 2014 for Executive Branch agencies under the direct control of the Governor.
Does not include Board of Regents.

Workforce Retirement Eligibility

- 10.4% eligible to retire as of June 30, 2014
- 25.2% eligible within 5 year
- 36.3% eligible within 10 years
- Potential for serious loss of talent and efficiencies

Workforce Turnover



Data as of November 2014 for Executive Branch agencies under the direct control of the Governor.
Does not include Board of Regents.

Compensation Philosophy

Compensation Philosophy Statement

- Provides a foundation for the design and administration of compensation plans in the State of South Dakota
- Defines what the employer pays for and why
- Align with business and human resources strategy

Compensation Philosophy Components

- Define Components
 - 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

Compensation Philosophy Highlights

- Compensation will be fair and equitable across the state
- Compensation program will be strongly aligned with workforce planning
- Compensation will be founded on internal equity and comparable to relevant markets
- Total Compensation is defined as base pay, benefits, lump sum payments, and allowances

Compensation Philosophy Highlights

- A standard labor market is defined and used as a basis for compensation
- Pay delivery will be based on a combination of factors
- Market surveys will be conducted at regular intervals
- Compensation must be reasonable and affordable

Total Remuneration Study

Remuneration Study Objectives

- Compare the State's total compensation market competitiveness and salary to benefits 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

Remuneration Study Data

- 153 benchmark positions
 - A cross section of positions across occupational groups and pay grades
 - 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
 - Private sector
- Six surrounding state governments

Remuneration Study Sample Occupations

Occupation	SoSD Avg Pay	% from In-State	In-State Avg Pay	% from 6 State Govts	6 State Govt Avg Pay
Accounting Asst	\$28,500	-24%	\$37,700	-26%	\$38,500
Chem Depend Counselor	\$36,400	-14%	\$42,200	-24%	\$48,100
Custodial Worker	\$20,600	-28%	\$28,400	-16%	\$24,600
HR Manager	\$59,800	-15%	\$70,100	-27%	\$82,300
Licensed Practical Nurse	\$34,700	0%	\$34,700	-11%	\$39,000
Pharmacist	\$86,900	-29%	\$122,200	-11%	\$97,300
Sr Staff Attorney	\$65,700	-33%	\$98,100	-11%	\$74,000

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Remuneration Study Results

Component	SD vs In-State	SD vs Surr State Govts	Key Findings
Base Salary	-17.3%	-19.0%	The majority of the State's occupational groups fall well below the median of the market.
Benefits	+7.8%	-5.4%	The State's benefits program is competitive.
Total Remuneration	-11.6%	-13.1%	Low base salaries result in a below market median (P50) position.

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State Employee Compensation

Compensation Background

- Performance And Compensation Equity adopted in FY92
 - Initially created using market data but no on-going focus on market competitiveness
 - Ranges adjusted annually with across the board increases
 - Addressed internal equity issues
- Career Bands adopted in FY06
 - Occupations with high nation-wide demand and significant market pressures
 - Each occupational pay band moves according to its own market

Compensation Overview

- Current Compensation System
 - Performance and Compensation Equity (PACE)
 - N/E Structure - MOST civil service and exempt positions
 - T/Q Structure – Difficult to fill positions experiencing significant market pressure
 - L Structure – Law Enforcement positions
 - M Structure – High level medical positions
- Career Bands
 - Accountants, Nurses, Environmental Scientists, Engineers, and Information Technology

Career Band History

- Difficulty acquiring talent for high demand jobs
 - Accounting
 - Nursing
 - Engineering
 - Environmental Science
 - Information Technology

- Nationwide demand in both public and private sector

Career Band Criteria

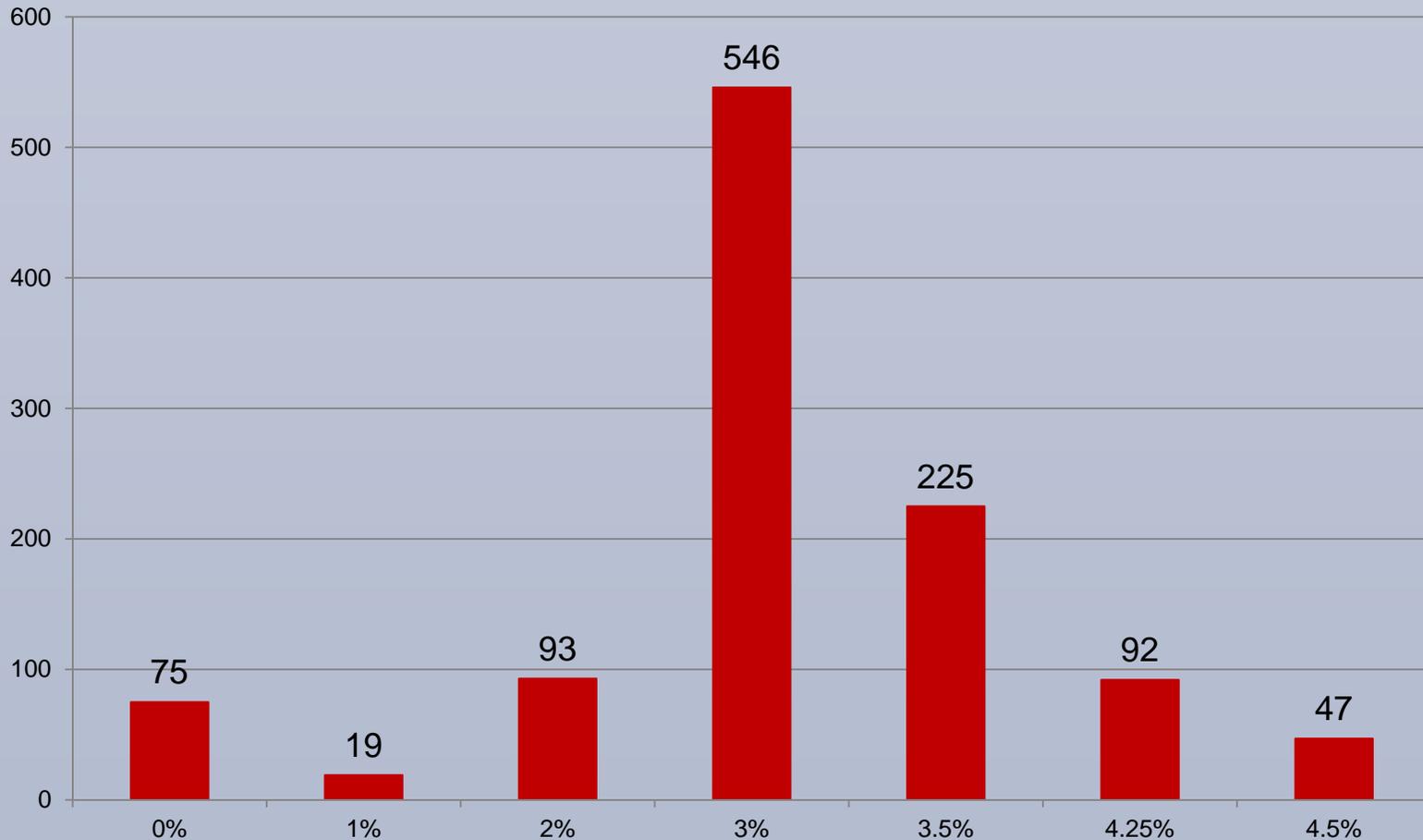
- Market competitiveness
- Ability to recruit new employees
- Retention and turnover
- Potential retirement impact

Career Band Salary Policy Components

- Market Adjustment
 - All employees received the market adjustment and the band was adjusted by that percentage

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

Career Band Pay for Performance Distribution Results for FY15



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Career Band Statistics

- 1,112 employees in career bands as of December 2014
 - 33.6% of employees in career families are at least 10% behind the market
 - 77.2% behind market target
 - 16.8% at market target
 - 6.0% above market target

Career Band Results

- Reduced turnover
 - Turnover among nurses cut in half in three years
- Better applicant pool
 - Number of applicants for engineering positions declining interviews or job offers reduced by two-thirds
- Improved ability to hire
 - Bureau of Information and Telecommunications fully staffed with Software Engineers for the first time

Compensation Structure Proposal

- General Pay Structure
 - All employees except Law Enforcement, Medical, or Career Band structures
- Medical Structure
 - High level medical positions
- Law Enforcement Structure
 - Primarily Highway Patrol and Division of Criminal Investigation
- Maintain Career Bands
 - Accountants, Nurses, Environmental Scientists, Engineers, and Information Technology

General Pay Structure Proposal

- Covers MOST jobs in state government
 - Does not include:
 - Medical Structure
 - Law Enforcement Structure
 - Career Bands
- Replaces the N, E, Q, and T Structures with 17 pay grades driven by market competitiveness

General Pay Structure Proposal

Grade	Minimum*	Market Value	Maximum
B	\$21,080	\$24,800	\$29,760
C	\$23,375	\$27,500	\$33,000
D	\$26,435	\$31,100	\$37,320
E	\$29,070	\$34,200	\$41,040
F	\$31,875	\$37,500	\$45,000
G	\$35,275	\$41,500	\$49,800
H	\$36,720	\$45,900	\$55,080
I	\$40,400	\$50,500	\$60,600
J	\$44,880	\$56,100	\$67,320
K	\$50,560	\$63,200	\$75,840

93%

* True market minimums.

General Pay Structure Proposal

Grade	Minimum*	Market Value	Maximum
L	\$57,040	\$71,300	\$85,560
M	\$65,680	\$82,100	\$102,625
N	\$75,920	\$94,900	\$118,625
O	\$83,840	\$104,800	\$131,000
P	\$92,080	\$115,100	\$143,875
Q	\$98,720	\$123,400	\$154,250
R	\$108,080	\$135,100	\$168,875

* True market minimums.

Medical Structure Proposal

- Moving to a “rate of pay” or “going rate” pay structure for high level medical positions
- Market Value by occupation, rather than by groups of similarly evaluated jobs
- Approximately 70 employees affected

Medical Structure Proposal

Occupation	Min*	Market Value	Max
Occupational Therapist	\$58,500	\$65,000	\$71,500
Physical Therapist	\$65,700	\$73,000	\$80,300
Psychologist	\$70,650	\$78,500	\$86,350
Veterinarian	\$76,500	\$85,000	\$93,500
Epidemiologist	\$76,500	\$85,000	\$93,500
Physician Assistant	\$82,800	\$92,000	\$101,200
Nurse Practitioner	\$86,400	\$96,000	\$105,600
State Veterinarian	\$99,000	\$110,000	\$121,000
State Epidemiologist	\$99,000	\$110,000	\$121,000
Pharmacist	\$103,500	\$115,000	\$126,500
Dentist	\$109,350	\$121,500	\$133,650
Chief Dentist	\$131,220	\$145,800	\$160,380
Physician	\$194,400	\$216,000	\$237,600
Psychiatrist	\$252,000	\$280,000	\$308,000
Medical Director	\$274,500	\$305,000	\$335,500

* True market minimums.

Law Enforcement Structure Proposal

- Includes Highway Patrol, DCI Agents, and some Board of Regents Law Enforcement
- Updates the current compensation ranges
- Maintains the current grade structure

Law Enforcement Structure Proposal

	Minimum*	Market Value	Maximum
02	\$36,880	\$46,100	\$57,625
03	\$40,560	\$50,700	\$63,375
04	\$44,960	\$56,200	\$70,250
05	\$54,240	\$67,800	\$84,750
06	\$62,800	\$78,500	\$94,200
07	\$69,520	\$86,900	\$104,280
08	\$75,400	\$94,300	\$113,160
09	\$89,920	\$112,400	\$134,880

* True market minimums.

Compensation Proposal Components

- Market Adjustment
 - Employees will receive the market adjustment and pay ranges will be adjusted by the same amount

- Movement toward Market Value
 - Employees will receive this component to move through their pay range toward market value
 - Based on performance beginning in FY18

- Driven by market and affordability

Salary Policy Recommendations

Salary Policy Proposal for FY16

- General, Medical, and Law Enforcement Structures
 - 2% Market Adjustment
 - Moves entire structure
 - 2.5% Movement toward Market Value
 - Moves employees through the structure

Salary Policy Proposal for FY16

- Career Bands
 - Market Adjustment
 - Nursing - 0%
 - Software/Technology Engineers - 1.1%
 - Accounting - 1.7%
 - Engineering - 2%
 - Environmental Science - 6.6%
 - Movement toward Market Value
 - Based on performance increase - up to 4.5%

South Dakota State Employee Health Plan

Health Plan Overview

- Self-funded health plan
- Employer assumes the risk
- No premiums paid to an insurance company
- Self-funding avoids built-in profit margin
- Allows for greater flexibility in plan design

Health Plan Challenges

- Contracting with providers and vendors
- Managing vendors
- Risk mitigation
- Claims volatility

Health Plan Opportunities

- Promotes Wellness
- Addresses medical trends
- Enhances delivery of benefits
- Encourages appropriate utilization

Health Plan Options

- \$750 Deductible*
- \$1,250 Deductible*
- \$1,800 Deductible (HSA Compatible)

* Pharmacy - \$50.00 deductible per person

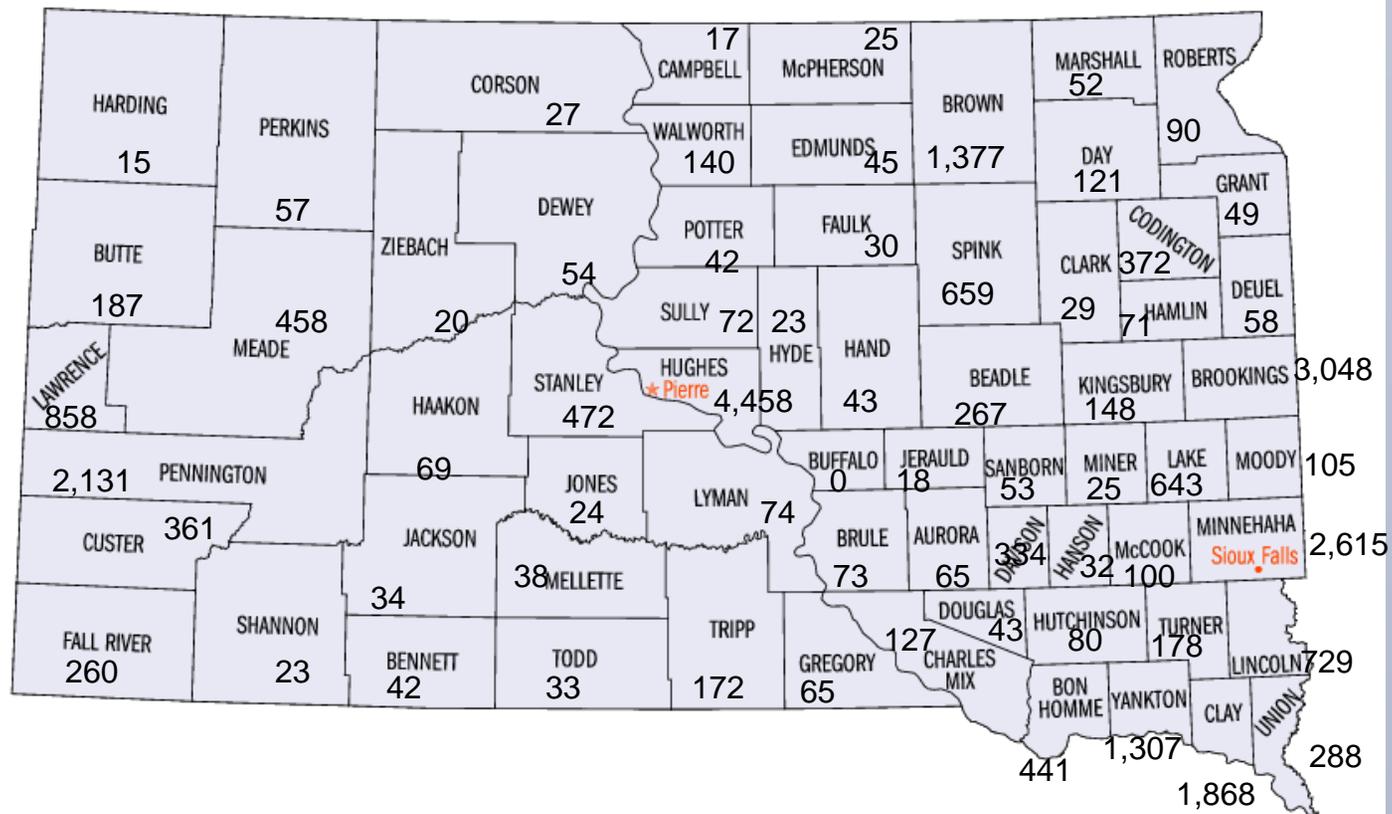
Health Plan Qualifications for the Lowest Deductible

- Complete onsite Health Screening
- Complete online Health Assessment
- Complete Latitude Wellness Programs
 - Members participate in designated wellness activities to accumulate 75 points
- Members who complete all of the qualifications are eligible to enroll in the \$750 Deductible Health Plan

Health Plan Participation

- FY15 YTD average monthly enrollment includes actives, pre-65 retirees, and COBRA-**13,149**
- Only **364** (2.6%) employees opt-out of the South Dakota State Employee Health Plan
- Opt-outs must provide proof of coverage in an alternative group health plan

Health Plan Members by County



- 855 members reside in surrounding states
- 26,689 total members covered by the health plan

Data as of December 2014 for Actives, pre-65 Retirees, and COBRA members including employees, spouses, and dependents.

Health Plan Full Accrual Basis Financial Statement

	Estimate Presented to JCA February 2014		Difference
	Employer Rate		
	\$7,269 Base \$2,035 One-time \$9,304	\$7,269 Base \$2,035 One-time \$9,304	
	FY 2014	Unaudited FY 2014	
Revenue			
Contributions to Plan			
Employer Paid	\$118,502,499	\$119,338,160	\$835,661
Retiree, COBRA, and Employee Paid for Dependents	\$19,591,141	\$19,428,379	(\$162,762)
Administrative Fee	\$150,000	\$151,421	\$1,421
Interest Revenue	\$70,000	\$186,015	\$116,015
Refund of Prior Years Expenses*	\$1,500,000	\$1,054,483	(\$445,517)
Total Revenue	\$139,813,640	\$140,158,458	\$344,818
Expenses			
Claims	\$117,000,422	\$106,286,028	(\$10,714,394)
Employer Life Claims	\$550,000	\$182,500	(\$367,500)
Administration	\$12,003,538	\$12,045,075	\$41,537
Total Expenses	\$129,553,960	\$118,513,603	(\$11,040,357)
Reserve Obligation	\$3,000,000	\$13,300,000	\$10,300,000
Current Year Over/(Underrecovery)	\$7,259,680	\$8,344,855	\$1,085,175
Prior Period Adjustment Overstatement of FY13 Claims**	\$0	\$3,708,848	\$3,708,848
Prior Year Over/(Underrecovery)	(\$7,247,318)	(\$7,247,318)	\$0
Cumulative Over/(Underrecovery)***	\$12,362	\$4,806,385	\$4,794,023
IBNP-Incurred But Not Paid included in claims amount	\$14,055,000	\$14,055,000	

*Includes subrogation, adjustment of prior year claims and pharmacy rebates.

**AON estimated the FY13 IBNP at \$15,952,000 and Actual is \$12,243,152

***Cumulative Over/(Underrecovery) is the analysis of the revenues and expenses since the beginning of the program.

Health Plan Full Accrual Basis Financial Statement

	Employer Rate	Retirees Excluded
	\$8,622 Estimated FY 2015	\$8,622 Estimated FY 2016
Revenue		
Contributions to Plan		
Employer Paid	\$110,127,791	\$111,611,790
Retiree, COBRA, and Employee Paid for Dependents	\$19,608,159	\$14,718,366
Administrative Fee	\$142,000	\$142,000
Interest Revenue	\$100,000	\$100,000
Refund of Prior Years Expenses*	\$1,000,000	\$1,000,000
Total Revenue	\$130,977,950	\$127,572,156
Expenses		
Claims	\$118,169,664	\$111,725,954
Administration	\$12,931,715	\$12,162,364
Total Expenses	\$131,101,379	\$123,888,318
Reserve Obligation	\$13,300,000	\$13,300,000
Current Year Over/(Underrecovery)	(\$13,423,429)	(\$9,616,162)
Prior Year Over/(Underrecovery)	\$18,106,385	\$17,982,956
Cumulative Over/(Underrecovery)**	\$4,682,956	\$8,366,794
IBNP-Incurred But Not Paid included in claims amount	\$14,420,000	\$15,691,000

*Includes subrogation, adjustment of prior year claims and pharmacy rebates.

**Cumulative Over/(Underrecovery) is the analysis of the revenues and expenses since the beginning of the program.

Questions



Photo courtesy of South Dakota Tourism.