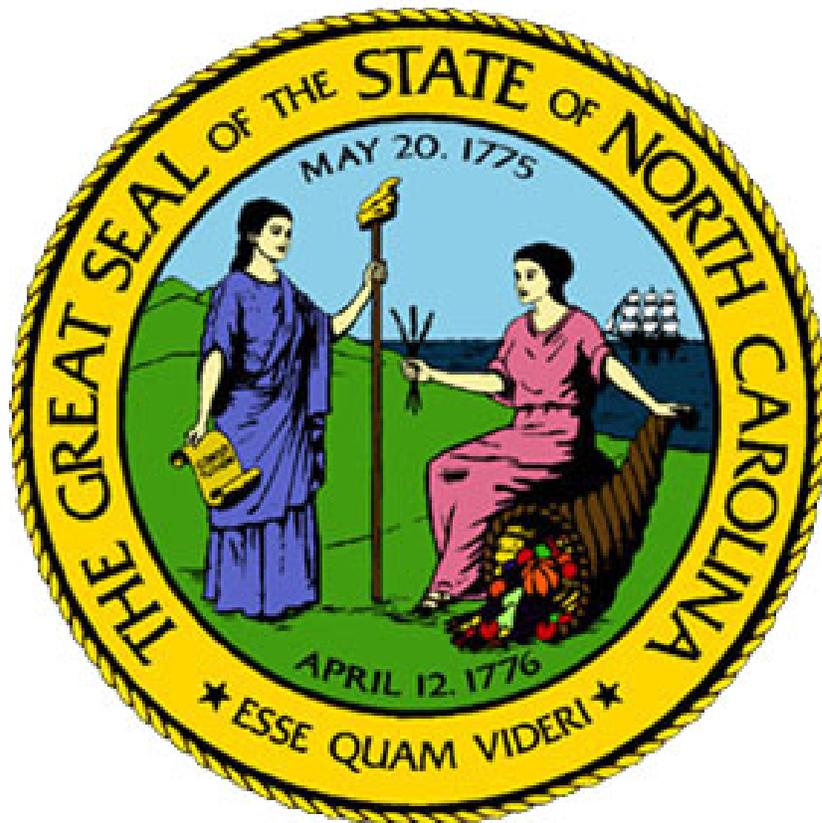


State of North Carolina 2014 Compensation & Benefits Report



Office of State Human Resources

C. Neal Alexander, Jr.
State Human Resources Director
May 2014

Table of Contents

<i>I.</i>	<i>Executive Summary and Recommendations</i>	<i>1</i>
<i>II.</i>	<i>Introduction</i> NC Pay Philosophy	<i>3</i>
<i>III.</i>	<i>Total Compensation</i> Total Compensation Model	<i>3</i>
<i>IV.</i>	<i>Economic Review</i> Wage and Salary Trends Consumer Price and Employment Cost Indices Recruitment and Retention	<i>5</i>
<i>V.</i>	<i>Base Pay and Labor Market Analysis</i> Methodology Findings Additional Analysis Longevity	<i>7</i>
<i>VI.</i>	<i>Benefits Analysis</i> Paid Time Off Analysis Health Insurance Statewide Flexible Benefits Program (NC Flex) Retirement	<i>11</i>
<i>APPENDIX</i>	<i>History of Legislative Increases for N.C. Employees 1992-2013</i> <i>Comparison of Legislative Increases to CPI and Average Market Movement</i> <i>Turnover Trends</i> <i>Workforce Age Trends</i> <i>NC Average Pay Comparison to Southeastern States</i> <i>Benchmark Classes and Labor Market Analysis</i>	<i>16</i>

COMPENSATION & BENEFITS REPORT: MAY 2014

I. EXECUTIVE SUMMARY

This Compensation & Benefits report responds to the requirements expressed in NCGS 126-7.3 [State Human Resources Act] to guide the Governor and the General Assembly in making funding appropriations for State employees' salary increases. The results of the compensation survey are presented to the Appropriations Committee of the House and Senate no later than two weeks after the convening of the legislature in odd years and May 1st of even years. The report addresses current economic and labor market conditions and sets the stage for strategic planning to address them.

No legislative increases of any kind were granted in five of the last six years. Consistent with past legislative increases, 2012's 1.2% adjustment was not reflective of such relevant economic indicators as the Consumer Price Index or average market movement. Across-the-board salary adjustments as typically granted by the Legislature "reward" employees with the same percentage increase regardless of their level of contribution or value to the employing organization.

Legislative restrictions on equity and market-based salary increases were in place for three years prior to 2012 and again in 2013-2014. These continue to seriously affect agency and university efforts to recruit and retain employees. For North Carolina to manage its talent effectively, its compensation programs must eventually change from a "one size fits all" mentality to a performance culture that assigns more value to high-performing employees in key roles. This includes seriously examining options to progress employees within their current grade or band based on their contributions, and utilizing compensation tools other than base pay increases for recognizing and rewarding excellent performance.

In continuing difficult financial times, we must pursue creative ways of attracting and retaining high performing employees. This is especially critical as the "Baby Boomer" generation begins to age out of the labor market over the next several years. The average age of the state workforce continues to increase, and the need to recruit a new generation of employees is paramount. This next generation wants more flexibility in their total rewards package (direct compensation, benefits, development and work-life programs).

Legislative support for pay innovations and funding for a human capital management system, strategic compensation studies, competency-based pay systems, performance-based reward systems, improving benefits and attention to work life balance issues will help create an environment in which state employees can be successful and engaged in serving North Carolina's citizens.

Senate Bill 402, the Appropriations Act of 2013, established a reserve to fund a Statewide Compensation Study by the Office of State Human Resources. A separate report to the legislature is being delivered concurrently with this report and details the status of the study as well as a plan for continued design and implementation. This includes the acquisition of a market analysis and modeling technology tool that will enable OSHR to make more valid, timely and accurate labor market comparisons and costing scenarios. Recommendations below are consistent with the recommendations in the study report.

Recommendations:

- End restrictions on market and equity-based salary increases. As competitors' salaries continue to increase, N.C.'s salary restrictions have seriously hampered recruitment and retention efforts and created internal inequities that have become increasingly difficult to remedy the longer the restrictions stay in place.
- The Office of State Human Resources should be charged with implementing a fully funded and unified compensation system across state government.
- In order to ensure market competitiveness, state leaders should charge the Office of State Human Resources (in consultation with the Office of State Budget and Management) with establishing a process to set priorities and request funding for labor market increases and salary adjustment funds based on criticality, turnover and market position. OSHR and state agencies should evaluate job-specific turnover in order to identify critical needs.
- A fair, equitable and consistently funded mechanism is needed for moving state employees within their salary grade or band. Employees need a "line of sight" for career growth and salary advancement.
- Explore new and innovative pay practices and make appropriate modifications to the State Human Resources Act to allow for their use.
- Implement a clear and comprehensive performance management system. Provide an allocation to each agency and university to use to reward employees based on performance and competencies. This allocation differs from the traditional career-growth increase and performance bonus.
- Across-the-board increases should be discontinued and the funding repurposed for market and performance based increases. Consideration should be given to funding future legislative increases based on the Consumer Price Index (CPI) and/or average market movement in order to keep state employees' salaries in line with overall labor market trends and maintain market competitiveness.
- Evaluate the continued use of the longevity bonus as a pay delivery mechanism.
- Support the ongoing funding of the Office of State Human Resources' Human Capital Management System, Learning Management System (LMS) and Performance Management components; and the Statewide Compensation System Project's Market Analysis and Modeling tool and Job Description Writing and Workflow tool.
- Support the Office of State Human Resources' development of an intern program with the community college and university systems that would offer the opportunity to supplement workforce needs while exposing students to state government operations.
- Research coordination of post-tax supplemental benefits and consolidate all supplemental benefit plan offerings in a menu approach for portability and cost savings. A consolidation would allow employees to see all benefits offerings in one place and select plan products that meet their needs.

II. INTRODUCTION

This report conveys economic and pay trends, findings and data derived from compensation and benefits surveys that the Office of State Human Resources regularly analyzes to determine whether or not salary ranges, rates and average salaries for state classifications and benefits for employees are competitive in the labor market. The report summarizes key findings and comparative data showing the relationship of the state's wages and compensation programs to those of competitors in both the private and public sectors, as well as in relation to talent management trends both nationally and internationally.

North Carolina's Pay Philosophy

The State Human Resources Act, G.S. 126, states *"It is the policy of the State to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce."*

Currently there are legislative budgetary restrictions in place which limit salary adjustments based on market or equity. Traditionally, statewide salary adjustments have come in the form of an across-the-board increase granted by the legislature which recognizes neither market conditions nor employee performance. Also, the State Human Resources Act prohibits such modern-day pay programs as monetary incentive awards. Pay increases are determined by the Legislature. Organizations continue to look to variable pay as they struggle to afford and sustain compensation levels. Additional flexibility in this area will help the state to remain competitive. ***An allocation should be provided to each agency and university to use to reward employees based on performance.*** Pay as a performance reward – even small lump sum payments for milestone achievements -- is widely utilized in the modern workplace and is considered more effective than across-the-board base pay increases. However, implementing programs like this for N.C. state government would require strong support from the legislature.

The State Human Resources Act needs to continue to be modified to allow for innovative pay practices to occur, and the Office of State Human Resources should be charged with fully implementing compensation systems across state government.

III. TOTAL COMPENSATION

The concept of *Total Compensation* is integral to any review or discussion of the state's compensation system. Total compensation measures an employee's base salary, benefits and other perquisites that the employer provides. When comparing compensation with that of other employers, whether public or private, the focus is on total compensation rather than base pay. This report includes comparisons of base pay as well as fringe benefits. It is important for employees to be knowledgeable of the value of their employment in terms of base pay, benefits, and other pay-related assets. When analyzing compensation surveys, base pay is often the common denominator in developing a comparative standard by which we can determine whether or not North Carolina state government compensation is competitive in various labor markets.

Employee benefits are key ingredients in a total compensation package. A competitive benefits package is a primary attractor in the recruitment of prospective employees, particularly in difficult-to-recruit occupations. Benefits are equally critical in the retention of high performing employees. Benefits as a percentage of average base pay are depicted in the chart below.

The state communicates this important aspect of employees' compensation to both current and prospective employees through the use of a web-based total compensation calculator. OSHR is currently examining the feasibility and cost of implementing a unified total compensation statement for employees.

Total Compensation Model

**Table 1: BENEFITS AS AN PERCENTAGE OF AVERAGE SALARY & WAGES
(CALCULATED AS OF 12-31-13)**

BENEFIT CATEGORY	PERCENTAGE OF AVERAGE SALARY	AVERAGE VALUE
Holidays (12 days)	4.62%	\$1,975
Sick Leave (12 days)	4.62%	\$1,975
Vacation Leave (17 days)	7.69%	\$3,288
OASI – DI [Social Security]	7.65%	\$3,271
Retirement & Disability <ul style="list-style-type: none"> • Retirement Systems Pension Fund 8.69% • Death Benefit Trust Fund 0.16% • Retiree Health Plan Reserve 5.40% • Disability Income Plan 0.44% 	14.69%	\$6,280
Health Insurance	12.14%	\$5,192
Longevity Pay	1.50%	\$641
Total Benefit Value	52.91%	\$22,622
In determining the <i>Percentage of Average Salary</i>, the average state employee's years of service are 11.2 years and average state employee salary is \$42,753. The total benefit value is added to employees' base pay to determine <i>Total Compensation</i>.		
	Average Base Pay	\$42,753
	Average Benefit Value	\$22,622
	Average Total Compensation	\$65,375

Sources: Office of State Human Resources, State Health Plan, Office of State Budget and Management and the NC Retirement Systems Division

Once Average Total Compensation is derived, Salary and Benefits can in turn be calculated as a *Percentage of Total Compensation*. This allows for comparisons to be made between N.C.'s Average Percentage of Total Compensation and national trends, as seen in Table 2. This analysis indicates that North Carolina's salary and wages generally do not make up quite as large a portion of total compensation as is seen nationally, while N.C.'s paid time off and retirement benefits generally outpace national averages when expressed as a percentage of total compensation. N.C.'s portion of total compensation dedicated to health insurance and

social security lags the national average. Note that this analysis generally includes only annually budgeted compensation items; other “variable” compensation and benefits such as overtime pay, workers compensation and unemployment are not included.

Table 2: **SALARY AND BENEFITS AS A PERCENTAGE OF TOTAL COMPENSATION**

BENEFIT CATEGORY	BLS PERCENTAGE OF TOTAL COMPENSATION 2013	N.C. AVERAGE PERCENTAGE OF TOTAL COMPENSATION 2013	N.C. CHANGE FROM 2012
Salary & Wages	71.0%	66.5%	-0.2%
Paid Time Off	7.2%	11.2%	-0.1%
Health Insurance	8.8%	8.1%	-----
Retirement	5.0%	9.3%	+0.2%
OASI-DI (Social Security)	8.0%	5.1%	-----

Sources: Office of State Human Resources, Office of State Budget and Management and the NC Retirement Systems Div., U.S. DOL Bureau of Labor Statistics “Employer Costs for Employee Compensation – December 2013.”

IV. ECONOMIC REVIEW

Wage & Salary Trends

According to salary surveys conducted by national firms engaged in the practice of compensation planning and consultation, data collected for calendar year 2014 (budgeted) project base pay increase budgets shown in Table 3. Figures include merit, across-the-board, and cost-of-living pay increases.

Table 3: **PROJECTED & ACTUAL BASE PAY INCREASE BUDGETS**

National Firm	2011 Actual	2012 Actual	2013 Actual	2014 Projected
William Mercer	2.7%	2.7%	2.8%	2.9%

Note: The above are projected and actual base pay salary increase percentages of payroll.
Source: Mercer Human Resources Consulting 2013-2014 US Compensation Planning Survey

Projected and actual wage increases have remained fairly stable at the national level for the best part of the past decade at or about the 4% percent level. However, with worsening economic conditions, actual wage increases declined dramatically in 2009. They increased slightly in 2010 and 2011, then held fairly steady, but still are not approaching historical levels. A study conducted by Mercer Human Resources Consulting, *2013-2014 US Compensation Planning Survey*, revealed that during the calendar year 2013, pay increase budgets increased only slightly from 2012, after holding steady the previous year.

Analysis of data from a variety of national consulting and business firms places the projected budgeted average wage increase for 2014 at 2.9%.

In North Carolina, annual salary increases for state employees were less than average market movement in all but two of the last ten years. Even when factoring in the above-market

legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed average market increases by 10.45% since 2006. A history of legislative increases and chart comparing legislative increases to average market movement is included in the appendix of this report.

Consideration should be given to consistently budgeting funds for year-to-year base pay increases in order to close these market gaps.

Consumer Price and Employment Cost Indices

In addition to general labor market movement, the increase in the Consumer Price Index-Urban (CPI-U) for the 12-month period ending in December 2013 was 1.6%. This percentage measures the average change over a specific period of time in the prices paid by urban consumers for goods and services. The CPI-U includes all urban consumers that are roughly 87% of the population in the United States. Most pay increases for state employees have included a cost-of-living component, but these have never been reflective of CPI.

The cost-of-living portion of annual legislative increases from 2003 to 2013 trails the CPI-U percentages for the same time period, with the exception of 2006-2008. This differential reflects that compensation for state employees has historically not kept pace with the consumer price index. Even when factoring in above-market legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed CPI by 8.3% over the last ten years, effectively decreasing employee “buying power.” A chart comparing legislative increases with CPI is included in the appendix of this report.

Recruitment & Retention

Many factors affect the capacity of an organization to recruit and retain a competent and qualified workforce. Given the organizational and occupational diversity of North Carolina's state government, there is no “one size fits all” solution to the myriad recruitment and retention issues facing its managers.

A key challenge to the state and employers in general is the “silver tsunami” expected to occur as the baby boomer generation ages out of the workforce. It is anticipated that in the next ten to twenty years this will mean a tremendous and potentially crippling loss of organizational knowledge as senior employees leave the workforce at an accelerated pace. An analysis of this anticipated trend is included in the “Turnover Rates” section of this report.

A significant improvement for state government recruitment occurred when the State of North Carolina launched the Enterprise e-Recruit system on January 9th 2012. The State was successful in moving from a resource intensive application process to an automated process that significantly increased efficiencies and produced a better overall customer experience. The system has been fully implemented by all Cabinet and Council of State Agencies and supports the full recruitment lifecycle. On January 23rd 2013 the State of North Carolina reached a milestone in exceeding 1,000,000 job applications received since launch, greatly affirming the ease of use for our applicants and stability of the system.

V. **BASE PAY - LABOR MARKET ANALYSIS**

Methodology

Public and private sector organizations rely upon salary and benefits surveys to ensure that they are making informed decisions about employee total compensation in terms of cost-effectiveness, recruitment and retention. Sound total compensation practices ultimately result in a workforce comprised of competent, skilled employees across multiple occupational areas. Their collective knowledge, skills and abilities directly relate to the accomplishment of the organization's mission and vision. Salary surveys are therefore critical in pricing jobs, diagnosing compensation problems, determining wage parity with market competitors, and in monitoring internal pay equity. Survey data is also essential to organizations in terms of analyzing pay trends, identifying effective pay practices, and establishing a systematic method for setting competitive pay ranges for job classes. This report on North Carolina's compensation practices conforms to these purposes for conducting salary and benefits surveys.

The methodology for analyzing data and identifying pay trends is equally important. The information presented in this report derives from multiple national and local surveys, and it reflects benchmark classes that were deliberately selected to represent the ten major occupational areas in the state's pay plan. This year the survey sample included sixteen benchmark classes – a small cross-section spanning ten major occupational areas -- that represent more than 1/4 of all employees subject to the State Human Resources Act. After identifying the benchmark classes, appropriate labor markets were determined. This and other data can be found in the appendix.

Market data was collected from the following published sources:

- **William Mercer Human Resource Consulting – 2013-2014 US Compensation Planning Survey – A Study of Pay Increases, Incentive Compensation, and Emerging Practices.** More than 1,500 organizations provided data for the 2012-2013 US Compensation Planning Survey, representing pay practices of more than 12 million workers.
- **Capital Associated Industries – 2013 North Carolina Wage & Salary Survey –** Wage and salary information from designated areas in North Carolina, with pacesetter organizations (600 or more employees) in an area including Wake, Durham, Orange and Alamance counties. Survey provides area-to-area compensation rates.
- **League of Municipalities Survey 2012** - A compilation of salary data for specific municipal jobs located throughout the state.
- **MAPS Group for the Institute of Government – County Salaries in North Carolina – 2013 - Salaries** and wage profiles by position and information about fringe benefits offered by North Carolina counties.
- **National Compensation Association of State Governments Survey 2013;** salary, benefits and pay practice survey information compiled from 41 states.

- **Compdata Surveys – Compensation Data 2012 – Carolinas – Pay and Benefits Survey Results** – survey analysis, pay practices and benefit practices for 284 non-profit organizations in North and South Carolina.
- **Towers Watson Data Services – Accounting and Finance and Engineering Compensation Survey Reports 2012**
- **2013 Mercer Benchmark Database Southeast Region Survey**

Professional survey methodology standards were used to collect and analyze available salary survey data or to conduct surveys to gather pertinent market information. Survey methodology recognizes the following concepts that have been defined for informational purposes:

- *Composite Market Rate* is the average rate of pay that competitors have reported through surveying in a classification similar to that found in state government.
- *Labor Market Pay Gap* is the relationship expressed in percentage terms between the state’s average salary for a benchmark class and the average wage reported for a relevant labor market for that class.
- *Turnover Rate* is a percentage reflecting all separations from employment for both voluntary and involuntary reasons compared to the total number of employees over a span of 1 year.

Findings

Market data collected for sixteen benchmark classes -- representing approximately 26% of the state’s workforce (agencies only, universities not included) -- in this report were analyzed by staff in the Office of State Human Resources and indicate that the 2014 average wage for 4 of the 16 (25%) classes trailed the composite market rate by at least 5%. Table 6 lists the benchmark classes that trail the market as shown under “Market Pay Gap”. Data indicating turnover for fiscal year 2013 also have been included to give a more complete view of potential recruitment and retention issues for these classes.

Table 6: SELECTED BENCHMARK CLASSES

Class Title	NC Average	Composite Market Rate	Market Pay Gap	# Incumbents	Turnover Rate
Info & Communications Spec II	45,909	52,010	-13.3%	47	8.3%
Public Safety Officer	36,988	40,818	-10.4%	65	22.4%
Social Worker III (MSW)	42,384	47,639	-12.4%	123	9.9%
Mechanic II + Vehicle Equipment Repair Tech (CB)	40,830	43,313	-6.1%	624	8.1%

Source: BEACON and OSHR

Note: The State's average turnover rate for all occupations in fiscal year 2012-2013 was determined to be **9.7%**

New Graduates Starting Pay

It is critical that the state attract and retain high quality younger employees to its workforce. With national trends showing a wave of retirements about to occur, younger employees will be more sought after in coming years than ever before. See analysis of turnover among 18-25 year old employees in the following section.

One way to address this critical issue is through establishment and maintenance of an intern and co-operative education program. The Office of State Human Resources is currently exploring development of an intern program with the community college and university systems that would offer the opportunity to supplement workforce needs while exposing students to state government operations.

Use of Salary Adjustment Funding

One tool that has helped keep salaries competitive in the past is the Salary Adjustment Fund. The Salary Adjustment Fund is used to increase salaries in occupational fields, such as those listed in Table 6, where some salaries are significantly below the market and turnover is trending up. The primary funding mechanism, transferring legislative increase funds remaining after employees receive their legislative increase, is often inadequate to address occupational areas where salaries are below the market. Due to economic instability, no Salary Adjustment Fund moneys were allocated 2008-2012. In 2007, \$17.6 million was allocated to the SAF for agency and university requests totaling \$24.4 million. Total needs were considerably higher in 2007, and increased in 2008. \$7.5 million was allotted in 2013.

In order to ensure market competitiveness, state leaders should charge the Office of State Human Resources (in consultation with the Office of State Budget and Management) with establishing a process to set priorities and request funding for labor market increases and salary adjustment funds based on criticality, turnover and market position. OSHR and state agencies should evaluate job-specific turnover in order to identify critical needs.

Additional Analysis

Turnover Rates and Cost

Turnover rates vary among industries, organizations, geographic locations, departments, occupations, and by employee characteristics such as age, education, and organizational tenure. For example, younger, newer, unskilled, and blue-collar employees tend to have higher turnover rates than their contrasting groups. For this reason, turnover should be calculated for various categories of interest, as well as for the organization as a whole. For example, an organization may not have a severe organization-wide turnover rate, but may have a severe departmental turnover rate or a high professional employee turnover rate, which requires appropriate action to alleviate. Source: Society for Human Resources Management (SHRM)

The cost to an organization for each position turnover has been estimated by experts at anywhere from 50% to 250% of the departing employee's annual salary depending on the type of position being filled and the performance level of the departing employee. The Human Capital Institute places the average value of turnover at 150%. Turnover of

top performers may be valued at an exponentially higher rate. There are many factors included in estimating the cost of turnover. Some obvious costs include advertising the vacancy; salaries of employment screening panels; and managers' time spent interviewing candidates. Other costs are not so easily quantified such as lost productivity – particularly during the time that a position is left vacant during recruitment -- or lost knowledge from the organization. Other costs include required onboarding, training, and higher rates of mistakes made by new hires. The high cost of turnover presents a clear argument for agencies and universities to engage in rigorous workforce and succession planning.

Turnover is a measure of employee separations from an agency or university most often expressed as turnover rate. Two types of turnover are tracked: Total Turnover and Voluntary Turnover. Total turnover includes all separations for any reason. The total turnover rate is calculated by dividing the number of separations by the total number of employees at the beginning of a fiscal year. Voluntary turnover includes separations for reasons that the employee has control of such as resigning to take a job with another employer. Voluntary turnover rate is calculated by dividing the number of voluntary separations by the total number of employees at the beginning of the fiscal year.

Statewide turnover is simply a marker by which to compare job-specific turnover. The Office of State Human Resources should work with agencies and universities to evaluate job-specific turnover and the reasons behind it, which may or may not relate to pay.

Table 7: FIVE YEARS OF TURNOVER RATES – STATE OF NORTH CAROLINA

	FY 2008-2009	FY 2009-2010	FY 2010-2011	FY 2011-2012	FY 2012-2013
Voluntary T/O	5.6%	5.6%	5.8%	5.0%	5.3%
Retirement T/O	1.8%	2.2%	2.6%	3.0%	3.0%
Involuntary T/O	2.6%	2.4%	1.9%	3.1%	1.3%
Total T/O	9.9%	10.2%	10.3%	11.1%	9.7%

NOTE: The continued transitioning of positions and employees from PMIS to the BEACON system in 2007 and 2008, along with the transitioning of many positions and employees to Career-banding – make the 2007-2009 data potentially questionable. Retirement turnover is also questionable for 2008-2013 because of inconsistent reporting in BEACON and the University System's HR Datamart. However, data appear to be relatively consistent with past years and economic trends.

In FY 2012-2013, the State had a 5.3% voluntary turnover rate. Using the HCI turnover value of 150% cost of turnover, the cost to the state would be more than **\$295.5 million** (5.3% of state 86,945 employees is approximately 4,608, multiplied by average state salary \$42,753, multiplied by 150%). Because the cost of replacing human capital is so high, this underscores the need to closely monitor turnover, strive for competitive salaries, and maintain a positive work environment with high employee engagement levels. Simply put, uncompetitive salaries, poor working conditions and the low employee engagement that can come along with those conditions exacerbate turnover and needlessly cost the state hundreds of millions of dollars.

While the retirement rate has remained relatively steady in recent years, it is widely anticipated that the “baby boomer” generation will be leaving the workforce at a more accelerated rate in the next 3 to 10 years. This is especially critical in light of the fact that the state consistently has difficulty attracting younger employees entering the workforce. Turnover among 18-25 year olds has generally outpaced overall state employee turnover until FY 2012. Meanwhile,

the average age of N.C. state employees steadily increased from 2000 to 2007, but has recently held steady at around age 46 for the past few years.

Charts showing turnover and workforce age trends are included in the appendix of this report.

Longevity

Currently the state pays a longevity bonus to career employees with more than ten years of service. **As this is a “time in service” benefit with no basis in market or performance, it is recommended that the practice be evaluated.** About 45% of employees subject to the State Human Resources act are currently eligible for longevity bonuses at a cost of \$48.9 million per year. N.C. pays the average state employee a \$641 longevity bonus. This is based on a graduated percentage-based schedule starting at 1.50% of annual salary for ten years of service and increasing every five years to 4.5% for twenty-five years of service. Table 8 shows the comparison between N.C.’s longevity bonus program and other Southeastern states (states not listed either do not have a longevity bonus program or did not report):

Table 8: A comparison of longevity pay practices among Southeastern states

State	Minimum # Years to Qualify for Longevity	Starting Longevity Amount	Formula for Increase in Bonus	Maximum Longevity Amount
Alabama	5	\$600	Time-based, set lump sums	\$1,000
Arkansas	10	\$600	Time-based, set lump sums	\$900
North Carolina	10	1.5% of annual salary	Time-based, increased percentage of base pay	No Maximum (4.5% of annual salary)
Tennessee	3	\$300	Time-based, set lump sums (\$100 per year of service)	\$3,000
West Virginia	3	\$180	Time-based, set lump sums (\$60 per year of service)	No Maximum (likely tops out around \$1,800 for 30 years of service based on formula)

Source: 2013 NCASG Survey

VI. BENEFITS ANALYSIS

Paid Time Off Analysis

Paid time off referred to here is employees’ time off for which they continue to receive pay. Categories of Paid Time Off include Vacation Leave, Sick Leave, and Holiday pay. The contiguous states of South Carolina, Tennessee and Virginia report similar responses to the figure shown for the southeastern states, and so, were not reflected separately.

Vacation

When last surveyed in 2009, southeastern states average 13.77 days of vacation leave based on 1-5 years of service. Similar to North Carolina the average accrual rate progressively increases to reflect the concurrent increases in years of service. North Carolina's vacation accrual rates are considered to be competitive.

Table 9: **VACATION LEAVE**

Years of State Service	North Carolina	SE States	Differential in Days
0 but less than 5 years	14.00	12.71	+1.29
5 but less than 10 years	17.00	16.46	Negligible
10 but less than 15 years	20.00	19.50	Negligible
15 but less than 20 years	23.00	22.00	+1.00
20 but less than 25 years	26.00	24.07	+1.93
25 years or greater	26.00	24.25	+1.75

2013 NCASG Survey

Sick Leave

Southeastern states grant an average of 13.8 days per year sick leave for employees with up to 3 years of service. North Carolina is below the average for all southeastern states at 12 days per year of employee sick leave.

Table 10: **SICK LEAVE**

Sick Leave	North Carolina	SE States	Differential
Accrual	12 Days	13.8 Days	-1.8 Days

2013 NCASG Survey

Holidays

North Carolina is competitive with the other southeastern states in recognized holidays. The total average for all southeastern states in the survey was 11.25 holidays. As of 2013, North Carolina now grants a consistent 12 holidays per year.

Table 11: **HOLIDAYS**

Holiday Leave	North Carolina	Southeastern States
Days per Year	12	11.25

2013 NCASG Survey

Health Insurance

The information below is used to compare North Carolina's current standard PPO plan to other organizations.

Comparison to Southeastern States

. Most other states provide a higher percentage contribution for family coverage than for individual coverage. NC's employer contribution for family coverage lags the average for Southeastern states by 33%.

Table 12: SURVEY OF HEALTH INSURANCE COVERAGE FOR DEPENDENT CARE AND CHOICE OF PLAN

SE States Contribution for Family Coverage	NC Employer Contribution for Family Coverage
77.1%	44.3%

Source: 2013 NCASG Survey

Comparison to Local Government Practices

County governments report on choice of health plan, deductibles and employee and agency cost. Based on an analysis of the 10 most populous N.C. counties, the comparative results suggest that N.C. compares favorably in normal deductible and premium amounts, but unfavorably in employer contribution.

Table 13: SURVEY OF LOCAL GOVERNMENT’S HEALTH INSURANCE PRACTICES

Type of Agency	Normal Deductible (if flat \$ amount reported)	Normal Co-pay (if flat \$ amount reported)	Average Annual Amount Employee Pays	Average Annual Amount Agency Pays
10 Counties	\$800	\$25	\$504	\$7,476
State of North Carolina	\$700	\$30	\$163	\$5,192

The above information applies to employee only coverage; NC data applies to the standard 80/20 PPO plan with participation in all three wellness activities.

Source: County Salaries in North Carolina 2013

Statewide Flexible Benefits Program (NCFlex)

The NCFlex program is administered by the Office of State Human Resources. Currently over 105,000 employees from the agencies, universities, and community colleges are enrolled. During the fall annual enrollment period employees select benefits and enroll in the program on a calendar year basis through BEACON and eEnroll web enrollment systems.

The State's Flexible Benefits Program includes the following pre-tax plans:

- Health Care Flexible Spending Account allows for a pre-tax payroll deduction to place money in an account to pay for out of pocket eligible health, dental and vision care expenses not covered by insurance (note: employees may opt to use a debit convenience card for eligible spending account expenses). Employees also have online account access and claim submittal available.
- Dependent Day Care Flexible Spending Account allows for a pre-tax payroll deduction to place money in an account to pay for day care expenses.

- Dental Plan has two options available, High Option and Low Option. Depending on the plan chosen, these options cover expenses for preventive, basic, major, and children orthodontia. Employees may also view claims online and print an ID card.
- Vision Care Plan has three options, Core, Basic and Enhanced. The Basic and Enhanced plans cover eye exams and materials such as eyeglass lenses and frames, or contact lenses. Coverage levels vary depending on the chosen plan. Beginning in 2014, employees can choose the No-cost Core Vision Plan –Coverage which includes an annual eye exam for \$20 co-payment and a discount plan for materials (glasses or contacts). Employees may also view when they last used the vision benefit online and print an ID card.
- Voluntary Accidental Death & Dismemberment Insurance (for employees and family) pays a benefit if a loss is suffered as the result of a covered accident, as well as a certain dismemberment injuries. Starting in 2009, \$10,000 of Core AD&D coverage (for employees only) was provided at no cost to employees electing the coverage.
- Voluntary Group Term Life Insurance provides new employees (within 30 days of hire) the option to purchase up to \$100,000 of term life insurance without providing evidence of insurability. Employees may elect coverage with a minimum of \$20,000 and a maximum of \$500,000. Beginning in 2014, employees can cover themselves, their eligible spouse and dependent children on a post-tax basis. Employee-only coverage remains on a pre-tax basis.
- Cancer Insurance offers, Premium, High and Low Option, depending on the desired coverage. Each plan contains a cancer prevention benefit that compensates the employee for getting a cancer screening. This plan also provides benefits for 29 other specified diseases, such as Muscular Dystrophy, Multiple Sclerosis, Tuberculosis, Sickle Cell Anemia and Cystic Fibrosis. New hires have 30 days to elect coverage and no evidence of insurability is required.
- Critical Illness coverage is designed to complement existing medical coverage and makes a lump sum payment to the covered employee illness meets certain criteria on diagnosis in any one of three areas: Cancer, Heart Disease and Other serious conditions to assist employees.

Post-tax supplemental insurance products are currently administered by each agency's "Employee Insurance Committee." The efficiency and effectiveness of providing these benefit options should be reviewed as some may duplicate the States benefits package.

OSHR and the NCFlex Program organize and administer the Sensible Saving Sessions (SSS) in conjunction with the State Retirement System and the State Employees Credit Union. These sessions are provided throughout the state and promote financial wellness and greater understanding of the State Benefits Package available to State Employees and their families.

Retirement

The percent factor used by southeastern states to calculate retirement benefits ranges from 1.6% to 2.5% times Average Final Compensation. North Carolina's factor used to calculate pension benefits is 1.82%.

In North Carolina, the 2013-2014 employer contribution on behalf of employees in the Teachers & State Employees Retirement System (TSERS) is 14.69%. This includes contributions to the retirement systems pension fund, death benefit trust fund, retiree health plan reserve and disability income plan. The state's contribution to the pension fund only is currently 8.69%.

Supplemental Retirement Programs

Besides the traditional retirement program, the State offers voluntary supplemental retirement programs (**a 401(k) plan, a 457(b) plan and a 403(b) plan.**) North Carolina does not match employee contributions. According to Mercer Consulting, 78% of public and private organizations offer an employer match that averages 4% of an employee's pay. The amount of an employer's contributions drives the value of a Deferred Contribution plan.

A review of the past three years reveal that more than half of North Carolina's 100 counties have consistently made matching 401(k) contributions . In 2013, 60% of 90 reporting counties offered an employer match or contribution. Overall contributions (including 0's) averaged 2.24%. North Carolina State Government provides no contribution to 401(k) except for law enforcement employees. By not offering a match, the State of North Carolina is not considered competitive in this area.

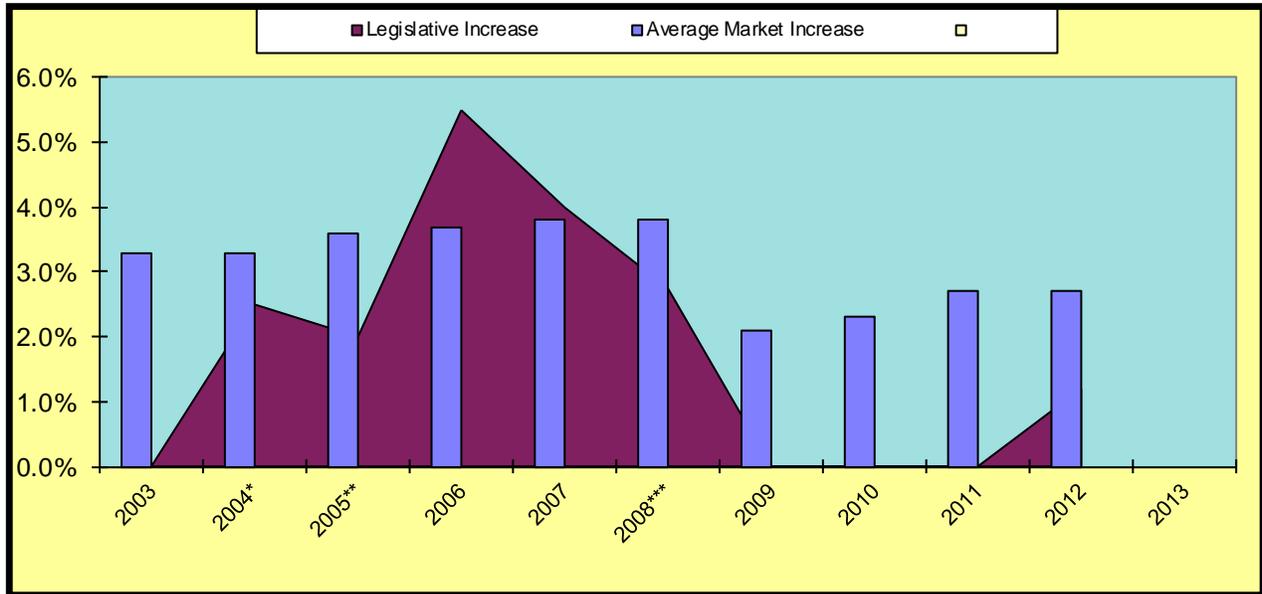
Appendix

- ◆ *History of Legislative Increases 1992-2013*
- ◆ *NC Pay comparison to CPI and Average Market Movement*
- ◆ *Turnover and aging trends*
- ◆ *NC Pay Comparison to Southeast States and Local Governments*
- ◆ *List of Benchmark Classes and Labor Market Analysis*

History of Legislative Increases 1992-2013

Year	Cost-of-Living Increase	Career Growth Increase	Bonus/Other
1992	\$522	0	0
1993	2%	0	1% bonus
1994	4%	0	1% bonus
1995	2%	0	0
1996	2.5%	2%	0
1997	2%	2%	0
1998	1%	2%	1% performance bonus
1999	1%	2%	\$125 performance bonus
2000	2.2%	2%	\$500 bonus
2001	\$625	0	0
2002	0	0	10 days bonus leave
2003	0	0	\$550 bonus plus 10 days bonus leave
2004	2.5% for salaries over \$40K; or \$1000 / yr for salaries under \$40K	0	0
2005	the greater of \$850 or 2.0%	0	5 days bonus leave
2006	5.5%	0	0
2007	4.0%	0	0
2008	the greater of \$1100 or 2.75%	0	0
2009	0	0	0
2010	0	0	0
2011	0	0	0
2012	1.2%	0	5 days "special leave"
2013	0	0	5 days "special leave"

NC Legislative Increases compared to actual average market movement 2003-2013



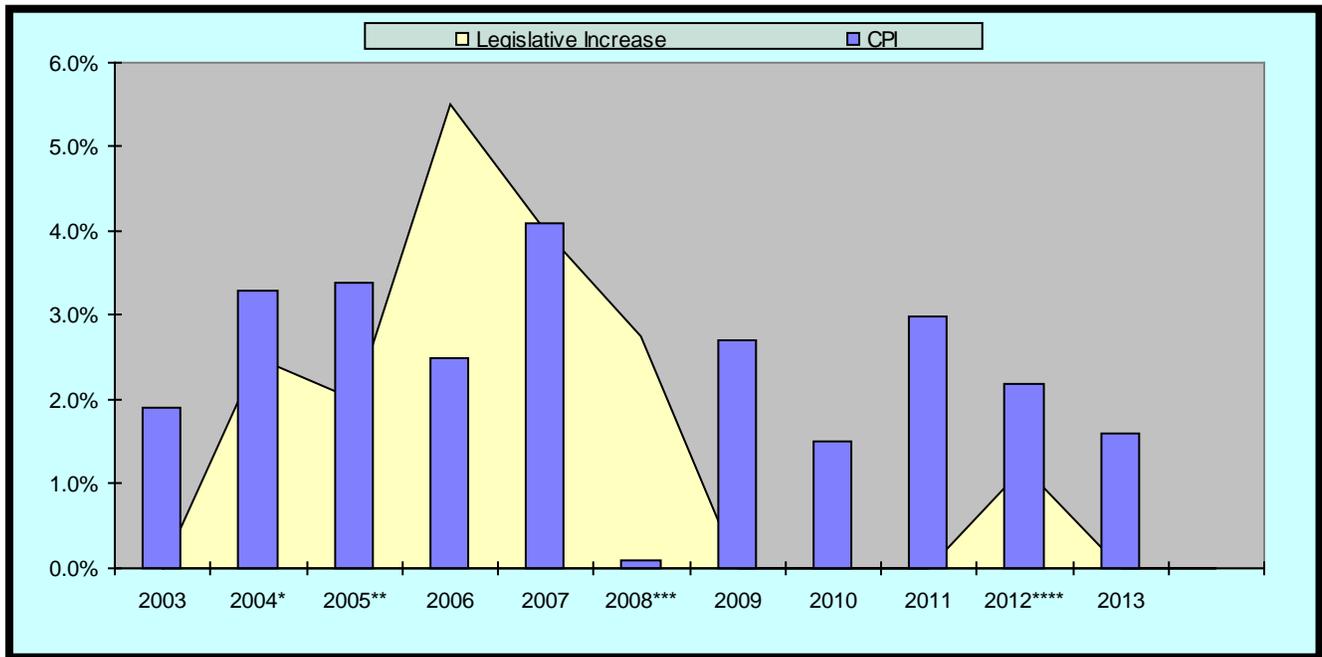
Source: Mercer US Compensation Planning Survey 2013-2014

*2.5% for employees with salaries over \$40K; \$1000 increase for employees with salaries below \$40K during 2004.

**The greater of \$850 or 2% for 2005, plus 5 days bonus leave.

***The greater of \$1100 or 2.75% for 2008

Comparison of CPI with Legislative Increases (COLA only) 2003-2013



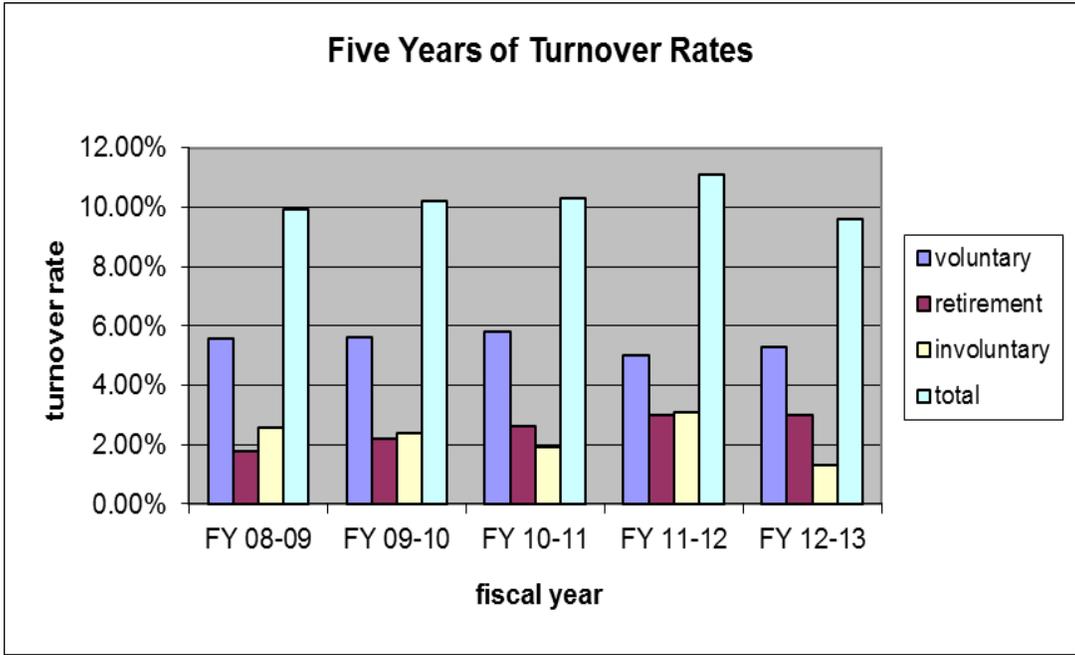
Sources: US Department of Labor/Bureau of Labor Statistics and the N.C. Office of State Human Resources

*2.5% for employees with salaries over \$40K; \$1000 increase for employees with salaries below \$40K during 2004.

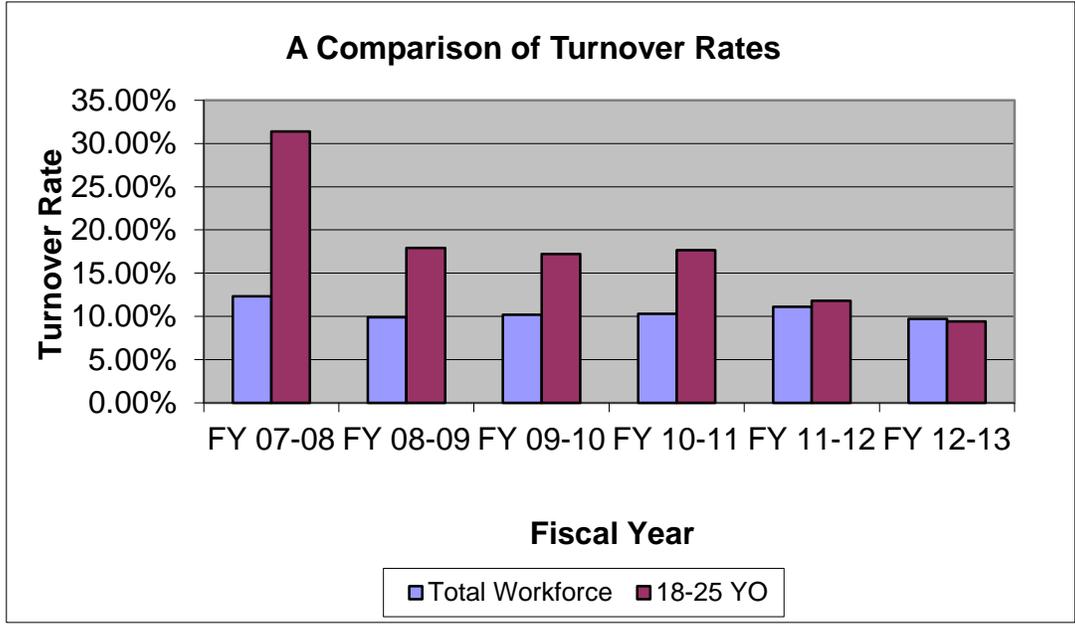
**The greater of \$850 or 2% for 2005, plus 5 days bonus vacation.

***The greater of \$1100 or 2.75% for 2008

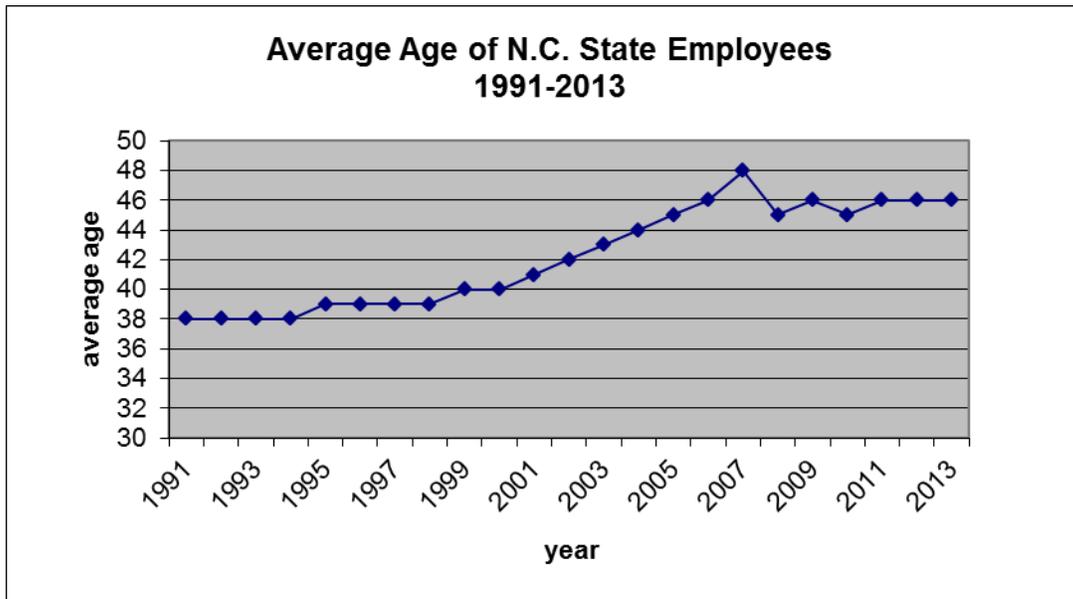
****CPI 2.2% as of end of October 2012



Source: PMIS, University HR Datamart and BEACON



source: PMIS, University HR Datamart and BEACON



source: PMIS, University HR Data Mart and BEACON

NC Pay comparison to Southeastern States

COMPARISON TO GEORGIA (CLASSIFIED EMPLOYEES ONLY)

	2009	2010	2011	2012	2013
Georgia	40,297	36,920	unavailable	38,698	unavailable
North Carolina	41,804	41,714		42,371	
NC Differential	+3.7%	+12.9%		+9.5%	

COMPARISON TO SOUTH CAROLINA (CLASSIFIED EMPLOYEES ONLY)

	2009	2010	2011	2012	2013
South Carolina	36,906	32,273	unavailable	38,672	unavailable
North Carolina	41,804	41,714		42,371	
NC Differential	+13.3%	+29.3%		+9.6%	

COMPARISON TO TENNESSEE (CLASSIFIED EMPLOYEES ONLY)

	2009	2010	2011	2012	2013
Tennessee	35,945	38,443	unavailable	40,549	37,546
North Carolina	41,804	41,714		42,371	42,753
NC Differential	+16.3%	+8.5%		+4.5%	+13.9%

COMPARISON TO VIRGINIA (CLASSIFIED EMPLOYEES ONLY)

	2009	2010	2011	2012	2013
Virginia	42,953	41,941	unavailable	44,149	44,049
North Carolina	41,804	41,714		42,371	42,753
NC Differential	-2.7%	-0.5%		-4.2%	-2.9%

NOTE: Virginia average includes the Washington, D.C. metro area, where employees receive generally higher pay than in other parts of the state.

Source: BEACON, University HR DataMart and NCASG Survey 2013

Benchmark Classes Labor Market Data Summary (State Agencies Only, Does Not Include Universities)

Class Titles	North Carolina Salary	Composite Market Rate	Labor Market Pay Gap	Turnover Rate * (FY 12-13)	EEs (3/2014)
Administrative & Managerial					
Accountant (banded; Journey level only)	55,538	50,440	+9.2%	6.4%	115
Attorney III	86,308	89,939	-4.2%	7.9%	130
Office Assistant IV	32,537	33,801	-3.9%	10.0%	914
Engineering & Architecture					
Engineer (banded; Journey level only)	63,980	66,770	-4.4%	6.9%	536
Human Services					
Social Worker III (MSW)	42,384	47,639	-12.4%	9.9%	123
Information & Education					
Information and Communication Spec II	45,909	52,010	-13.3%	8.3%	47
Information Technology					
Business & Technology Applications Analyst (banded)	67,616	63,262	+6.4%	9.0%	223
Institutional Services					
Cook II	26,324	26,748	-1.6%	16.7%	139
Housekeeper	23,856	23,374	+2.0%	12.3%	447
Law Enforcement & Public Safety					
Correctional Officer	29,648	30,149	-1.7%	17.3%	8,970
Public Safety Officer (banded)	36,988	40,818	-10.4%	22.4%	65
Medical & Health					
Health Care Tech I	25,863	26,222	-1.4%	13.8%	3,531
Professional Nurse (banded; Journey level only)	55,197	53,881	+2.4%	22.6%	708
Natural Resources & Scientific					
Forester I	41,270	38,423	+6.9%	16.1%	31
Operations & Trades					
Facility Maintenance Technician – Mechanical (banded) + Maintenance Mechanic IV	38,533	40,172	-4.3%	10.2%	340
Vehicle/Equipment Repair Technician (banded) + Mechanic II	40,830	43,313	-6.1%	8.1%	624