

STATE OF NORTH CAROLINA 2017 Compensation and Benefits Report

SUBMITTED BY
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COMPENSATION AND BENEFITS REPORT

April 2018

I. EXECUTIVE SUMMARY

This Compensation and 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 by May 1 of even years. The report addresses current economic and labor market conditions and sets the stage for strategic planning to address them.

Key to the discussion of State employee compensation is OSHR's ongoing Statewide Compensation System Project. Senate Bill 402, the Appropriations Act of 2013, established a reserve to fund this study. The legislation required a status report to the General Assembly in May 2014, which was delivered along with that year's Compensation and Benefits Report. Since that time, OSHR has acquired and implemented both (1) a market analysis and modeling technology tool (MarketPay) that has enabled more valid, timely and accurate labor market comparisons and costing scenarios; and (2) a position description collection/workflow tool (PeopleAdmin) that has enabled the electronic collection and storage of descriptive and analytical information on all State agency positions. In collaboration with State agencies, OSHR has developed all-new classification concepts to be used in the new system, reducing the overall number of concepts from more than 2,300 to approximately 1,400. Some 65,000 agency positions have been allocated to these new concepts, and OSHR has used the market pricing tool to assign the jobs to levels in new market-aligned pay structures. The project was expected to be implemented in June 2016 but was delayed by legislative action to no earlier than February 2017. An implementation date of June 1, 2018 is planned.

With legislative support for the new Statewide Compensation System, we will be able to implement a flexible classification and compensation program that can be utilized more effectively within an ever changing workforce than current structures. Adaptive classifications, pay innovations and market related-compensation systems; aligning benefits programs with the market; and attention to work life balance issues will continue to foster an environment in which State employees can be successful and engaged in serving North Carolina's citizens.

A \$1,000 legislative increase was awarded to State employees across the board in 2017. In 2016, a merit bonus was granted to employees with performance ratings meeting or exceeding expectations. Those exceeding expectations received slightly more (\$700) than those meeting expectations (\$475). The latter was a significant step towards implementing a "pay for performance" culture in State government. For North Carolina to manage its talent effectively, its compensation programs must continue to shift from a "one size fits all" mentality to a performance culture that assigns more value to high-performing employees in key roles. Among the recommendations from the Statewide Compensation System Study, this includes examining options to progress employees within their salary range based on their market worth and contributions, and utilizing contemporary compensation tools in addition to across-the-board base pay increases for recognizing and rewarding excellent performance.

Recommendations:

- Provide resources to fully implement the pending Statewide Compensation Program in order to have a single structure that will support the career needs of the State's workforce from recruitment to development and retention.
- Provide resources to implement the revised Salary Administration Policy, which will ensure a fair, equitable and consistently funded mechanism that is needed to progress State employees within their pay grade. Employees need a "line of sight" for career growth and salary advancement.
- Continue to support Salary Adjustment Fund (SAF) recommendations for critically identified business needs.
- Consider apportioning future legislative increases using a three-pronged approach to include (1) an across-the-board increase, (2) market-based increase and (3) performance based lump sum payment.
- To ensure market-related competitiveness, State leaders should continue to 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, retention, recruitment difficulties and market position. OSHR and State agencies should regularly evaluate job-specific turnover in order to identify critical needs.
- Continue to support OSHR in exploring new and innovative pay practices in conjunction with agencies' needs.
- Continue to be provide allocations for merit-based bonus to reward employees for performance in addition to market. State agencies completed the second year of using a new performance management system; a merit bonus in 2016 was a step toward aligning pay with performance.
- Continue to evaluate the use of the longevity bonus as a pay delivery mechanism going forward.
- Support the ongoing funding of OSHR's Human Capital Management System, Learning Management System (LMS) and Performance Management components; and the Statewide Compensation System Project's Market Analysis and Modeling tool (MarketPay) and Position Description Writing and Workflow tool (PeopleAdmin).
- Support OSHR's 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.
- Support acquisition and implementation of an organizational management tool.
- 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. Key findings and comparative data summarize 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 Compensation Vision

A Compensation Vision was established out of the Statewide Compensation System Project:

The State of North Carolina is committed to attracting and retaining a diverse workforce of high performing employees with the competencies, skills, knowledge, and dedication needed to consistently meet continually evolving strategic goals. The State's compensation system should be reflective of occupational trends and best practices. It should be meaningful and easily understood by employees and managers, and administered by Human Resources professionals in a consistent manner.

North Carolina's total compensation system should be guided by the following key principles:

MARKET RESPONSIVENESS

- *Position total compensation competitively with relevant labor markets*
- *Recognize that labor market factors differ for specific occupations*

EQUITABLE AND AFFORDABLE COMPENSATION

- *Align internal pay within occupational groups while avoiding adverse impacts*
- *Maintain internal classification structure alignment*
- *Maintain fiscal responsibility*

PAY FOR PERFORMANCE

- *Recognize and reward employee performance*

Traditionally, statewide salary adjustments have come in the form of an across-the-board increase granted by the legislature. Until recently, the State Human Resources Act prohibited such modern-day pay programs as monetary incentive awards. Business critical areas within the State's workforce should be considered when determining pay increases. Organizations continue to look to flexible compensation systems that include broad classifications that are driven by market-related pay structures and variable pay plans as they strive to afford and sustain compensation levels. Additional flexibility in this area will help the State to remain competitive.

In the future, it is recommended that *an allocation continue to be provided 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, it is important to note that pay for performance is only effective for those being paid according to market.

III. TOTAL COMPENSATION

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. 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.

Benefits as a percentage of average base pay are depicted in the chart below.

Table 1: Benefits as a Percentage of AVERAGE SALARY AND WAGES (Calculated as of 12-31-17)

BENEFIT CATEGORY	PERCENTAGE OF AVERAGE SALARY	AVERAGE VALUE
Holidays (12 days)	4.62%	\$2,187
Sick Leave (12 days)	4.62%	\$2,187
Vacation Leave (17 days)	7.69%	\$3,640
OASI – DI [Social Security]	7.65%	\$3,621
Retirement & Disability	17.13%	\$8,108
Health Insurance	12.64%	\$5,984
Longevity Pay	1.50%	\$710
Total Benefit Value	55.85%	\$26,437
In determining the <i>Percentage of Average Salary</i> , the average State employee’s years of service is 11 years and average State employee salary is \$47,333. The total benefit value is added to employees' base pay to determine <i>Total Compensation</i> .		
	Average Base Pay	\$47,333
	Average Benefit Value	\$26,437
	Average Total Compensation	\$73,770

Sources: Office of State Human Resources, State Health Plan, Office of State Budget and Management and the N.C. 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 North Carolina’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 the State’s paid time off and retirement benefits generally outpace national averages when expressed as a percentage of total compensation. North Carolina’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 2016	N.C. Average Percentage of Total Compensation 2017	N.C. Change From 2016
Salary and Wages	70.9%	64.9%	-0.6%
Paid Time Off	7.4%	11.0%	-.1%
Health Insurance	8.7%	8.2%	---
Retirement	5.5%	10.9%	+0.7%
OASI-DI (Social Security)	7.6%	5.0%	---

Sources: Office of State Human Resources, Office of State Budget and Management and the N.C. Retirement Systems Division, U.S. DOL Bureau of Labor Statistics “Employer Costs for Employee Compensation – December 2017

IV. ECONOMIC REVIEW

Wage and Salary Trends

OSHR uses the annual Mercer Human Resources Consulting U.S. Compensation Planning Survey to benchmark and track average market movement. For calendar year 2017, projected base pay increase budgets are shown in Table 3. Figures include merit, across-the-board, and cost-of-living pay increases (average includes \$0 adjustments).

Table 3: Projected and Actual Base Pay Increase Budgets

National Firm	2015 Actual	2016 Actual	2017 Actual	2018 Projected
William Mercer	2.8%	2.8%	2.8%	2.9%

Source: Mercer Human Resources Consulting 2017-2018 U.S. Compensation Planning Survey Preliminary Report

Note: The above are projected and actual base pay salary increase percentages of payroll.

Projected and actual wage increases remained fairly stable at the national level for the better part of 2000-2009 at or about the 4% percent level. However, with worsening economic conditions at the end of that decade, actual wage increases declined dramatically in 2009. They have increased slightly each year since, but still are not approaching historical levels. Analysis of data from a variety of national consulting and business firms in the Mercer Human Resources Consulting 2017-2018 U.S. Compensation Planning Survey places the projected budgeted average wage increase for **2018 at 2.9%, only slightly higher than 2017’s actual increase of 2.8%**, as seen in Table 3 above.

In North Carolina, annual salary increases for State employees were less than the average market movement in all but one of the last 10 years. Even when factoring in the above-market legislative increase in 2007, salary increases in State government have still cumulatively trailed average market increases by 17% since 2007. A history of legislative increases and chart comparing legislative increases to average market movement is included in the appendix of this report.

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 2017 was 2.5%. 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-U.

The cost-of-living portion of annual legislative increases from 2007 to 2016 trailed the CPI-U percentages for the same time period, with the exception of 2014. 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 2007, salary increases in State government have still cumulatively trailed CPI-U by 9.5% over the last 10 years, effectively decreasing employee “buying power.” A chart comparing legislative increases with CPI-U is included in the appendix of this report.

Recruitment and 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” occurring as the Baby Boomer generation ages out of the workforce. It is anticipated that in the next 10 to 20 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 9, 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 with between 800,000 and 1,000,000 applications submitted annually since its inception.

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.

With the implementation of the MarketPay market analysis tool, OSHR is now able to quickly and efficiently market-price jobs and model compensation structures both for the purposes of the Statewide Compensation System Project and ongoing maintenance of the system. A list of surveys to which OSHR subscribes and for which the data is accessible in MarketPay is located in the appendix.

Professional survey methodology standards are 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:

- *Market Base Salary Average* is the average rate of pay that competitors have reported through surveying in a job 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 one year.

Findings

Market data was collected for 28 benchmark classes representing approximately 21.6% of the State's workforce (agencies only, universities not included) with jobs from each of 18 major Job Families. This report indicates that the 2017 average wage for 14 of the 28 (50%) classes trailed their composite market rates by at least 10%. Table 4 lists the benchmark classes that trail the market by greater than 10% as shown under "Market Pay Gap." Data indicating turnover for fiscal year 2016-2017 also have been included to give a more complete view of potential recruitment and retention issues for these classes. Additional data can be found in the appendix.

Note: Findings based on actual market average base salary vs. current State average base salary. This survey data will be more comparably based in the new Statewide Compensation Program due to using it in maintaining the new pay structures. Midpoints are developed from the average base salary, which is why organizations aspire to getting their employees to the average market rate.

Table 4: Selected Benchmark Classes

Job Title	Number of Employees	Base Salary Avg	Market Base Salary Avg	Labor Market Pay Gap	FY16/17
Attorney III	132	\$89,454	\$106,257	-18.78%	5.88%
Executive Assistant I	40	45,558	59,916	-31.52%	15.80%
Chemist I	32	50,326	60,778	-20.77%	6.30%
Staff Development Specialist II	38	49,586	59,468	-19.93%	14.70%
Social Worker III	126	47,953	57,272	-19.43%	7.30%
Staff Psychologist	87	59,200	90,702	-53.21%	16.10%
Info and Communications Spec II	46	49,115	56,897	-15.84%	19.60%
Public Safety Officer	70	39,070	50,925	-30.34%	10.00%
Paralegal	5	45,845	61,784	-34.77%	0.00%
Museum Curator	12	46,910	67,410	-43.70%	0.00%
Maintenance Mechanic IV	295	40,413	60,679	-50.15%	14.90%
Vehicle/Equipment Repair Tech	460	43,063	49,244	-14.35%	7.30%
Administrative Officer II	210	51,006	57,607	-12.94%	14.30%
Safety Officer II	20	48,575	60,438	-24.42%	5.60%

Source: BEACON, MarketPay analysis

Note: The State's average turnover rate for all occupations in fiscal year 2016-2017 was determined to be **13.5%**.

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. The State has shown steady improvement in recruiting from this demographic over the past five years, with 25.7% of total new hires coming from this group in in FY 2016-2017. See analysis of turnover and hiring 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 and the State agencies are working to support the NC Job Ready Initiative.

OSHR has also implemented a Professional Associate program to hire inexperienced candidates with relevant degrees into entry level roles and progress them to a full classification as they gain experience.

Use of Salary Adjustment Funding

One tool that has helped keep salaries competitive in the past is the Salary Adjustment Fund (SAF). The SAF is used to increase salaries in certain occupational groups, such as those listed in Table 4, where some salaries are significantly below the market and turnover is trending up. Also used in this analysis is "hard to recruit positions or locations." 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. In 2017, the Salary Adjustment Fund for FY2017-18 allocated \$5,000,000 for salary increases in the university system and the executive, judicial and legislative branches. No Salary Adjustment Funding was allocated for FY2016-2017. Metrics such as compa-ratio

(salary related to market average), turnover, vacancy rates and time-to-fill (how long it takes to fill a vacancy) are considered when making SAF distribution recommendations.

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 and recruitment difficulties 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).

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 (HCI) 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. Market-based pay for critical business areas is encouraged in order to support employee retention.

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 5: FIVE YEARS OF TURNOVER RATES – STATE OF NORTH CAROLINA

	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
Voluntary T/O	5.3%	7.0%	7.1%	7.7%	8.0%
Retirement T/O	3.0%	3.4%	3.4%	3.4%	3.8%
Involuntary T/O	1.3%	1.4%	1.3%	1.7%	1.7%
Total T/O	9.7%	11.8%	11.8%	12.8%	13.5%

NOTE: Retirement turnover is questionable for 2012-2013 because of inconsistent reporting in BEACON and the University System's HR Datamart. 2013-2017 turnover reflects State agencies only. However, data appear to be relatively consistent with past years and economic trends.

In FY 2016-2017 State agencies had a 8.0 % voluntary turnover rate. Using the HCI turnover value of 150% cost of turnover, the cost to the State would be more than **\$348 million** (8.0% of 61,339 State agency, State Human Resource Act (SHRA) employees is approximately 4,907, multiplied by average State salary \$47,333, 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. Turnover rates are continuing to increase and the pending Statewide Compensation Program has been developed as a system that will be used to retain the workforce due to its flexibility and ability to provide job enrichment along with career paths laterally and upwardly. However, continued funding based on market data is needed in order for this to be effective.

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 three 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 slowed in relation to overall State employee turnover from 2011 to 2014 but is beginning to rapidly outpace it again. Meanwhile, the average age of North Carolina State employees steadily increased from 2000 to 2007, but has recently held steady at around age 46 for the past few years. The average age for 2017 is 47, the first time the average age has increased in six years.

Acceptable turnover rates need to be determined within classifications, within agencies or within locations. These rates can be affected by many factors and need to be documented. 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 10 years of service. **As this is a “time in service” benefit with no basis in market or performance, the practice could be reevaluated in concert with market-based changes going forward.** About 41% of employees subject to the State Human Resources Act are currently eligible for longevity bonuses at a cost of nearly \$48 million per year. North Carolina pays the average State employee a \$1,392 longevity bonus. This is based on a graduated percentage-based schedule starting at 1.50% of annual salary for 10 years of service and increasing every five years to 4.5% for 25 years of service. Table 6 shows that N.C.’s longevity bonus program is extremely generous compared to other Southeastern states.

Table 6: 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
Georgia	No response			
Kentucky	No response			
Louisiana	No statewide longevity program but agencies may implement			
Mississippi	No response			
North Carolina	10	1.5% of annual salary	Time-based, increased percentage of base pay	No Maximum (4.5% of annual salary)
South Carolina	No response			
Tennessee	3	\$300	Time-based, set lump sums (\$100 per year of service)	\$3,000
Virginia	No response			
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: 2016 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

Based on comparison to other Southeastern states, North Carolina's vacation accrual rates are considered to be competitive.

Table 7: VACATION LEAVE

Years of State Service	North Carolina	SE States	Differential in Days
0 but less than 5 years	14.00	12.79	+1.21
5 but less than 10 years	17.00	16.50	+0.50
10 but less than 15 years	20.00	19.07	+0.93
15 but less than 20 years	23.00	21.68	+1.32
20 but less than 25 years	26.00	24.00	+2.00
25 years or greater	26.00	24.89	+1.11

Source: 2015 NCASG Survey

Sick Leave

Southeastern states grant an average of 14.0 days per year sick leave for employees with up to three years of service. North Carolina is below the average for all Southeastern states at 12 days per year of employee sick leave.

Table 8: Sick Leave

Sick Leave	North Carolina	SE States	Differential
Accrual	12 Days	14.0 Days	-2.0 Days

Source: 2015 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 11.5 holidays. As of 2013, North Carolina grants a consistent 12 holidays per year.

Table 9: Holidays

Holiday Leave	North Carolina	Southeastern States
Days per year	12	11.5

Source: 2015 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. North Carolina's employer contribution for family coverage lags the average for Southeastern states by 34%.

Table 10: Survey of Health Insurance Coverage For Dependent Care and Choice Of Plan

SE States Contribution for Family Coverage	NC Employer Contribution for Family Coverage
74.1%	40.0%

Source: 2015 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 North Carolina counties, the comparative results suggest that the state compares favorably in normal deductible and premium amounts, but unfavorably in employer contribution.

Table 11: 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	\$1,117	\$26	\$861	\$8,270
State of North Carolina	\$1,250	\$25	\$600	\$5,984

Source: County Salaries in North Carolina 2017

NOTE: The above information applies to employee only coverage; North Carolina data applies to the standard 80/20 PPO plan with participation in both wellness activities.

Statewide Flexible Benefits Program (NCFlex)

The NCFlex program, administered by the Office of State Human Resources, currently has more than 110,000 employees from the agencies, universities, community colleges and charter schools enrolled.

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

- Health Care Flexible Spending Account
- Dependent Day Care Flexible Spending Account
- Dental Plan has two options available, High Option and Low Option

- Vision Care Plan has three options: Core, Basic and Enhanced. The no-cost Core Vision Plan provides employees an annual eye exam for \$20 co-payment and discounts for materials at no cost to the employee.
- Voluntary Accidental Death and Dismemberment Insurance (for employees and family).
- Core Voluntary Accidental Death and Dismemberment Insurance (employees only). Provides \$10,000 of AD&D coverage at no cost to enrolled employees.
- Voluntary Group Term Life Insurance (for employee and family). Provides new employees up to \$200,000 of guaranteed coverage. Employees may be eligible for coverage up to \$500,000.
- TRICARE Supplemental Insurance. Provides a supplemental insurance plan to military retirees and qualified National Guard and Reserve Members.
- Cancer Insurance offers three options: Premium, High and Low Option
- Critical Illness Insurance with \$15,000 and \$25,000 Options
- Accident Plus Accident Insurance

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 2017 employer contribution on behalf of employees in the Teachers and State Employees Retirement System (TSERS) was 17.13%. 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 10.78%.

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 reveals that more than half of North Carolina's 100 county governments have consistently made matching 401(k) contributions in addition to a defined contribution plan. In 2017, 92 of 95 reporting counties offered an employer match or contribution. 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.

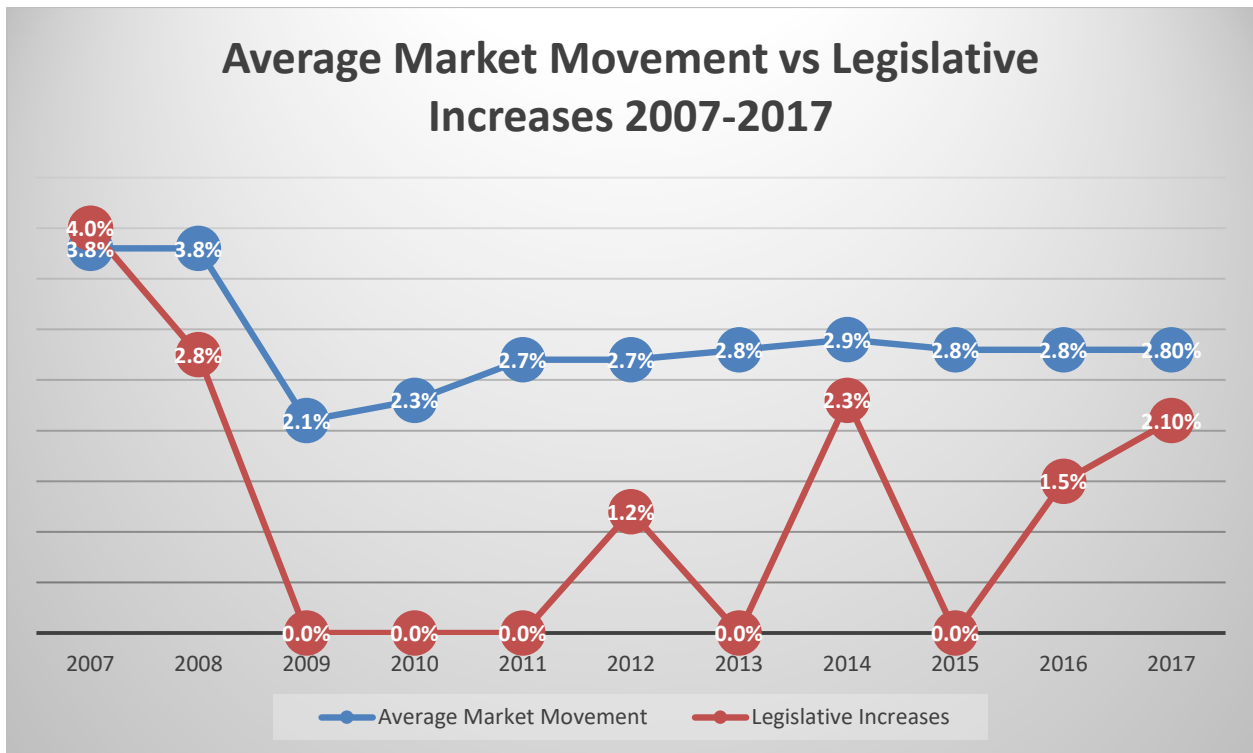
APPENDIX

- **History of Legislative Increases - 1992-2017**
 - **North Carolina Pay Comparison to CPI and Average Market Movement**
 - **Turnover and Aging Trends**
 - **Market Survey Library**
 - **List of Benchmark Classes and Labor Market Analysis**
-

History of Legislative Increases 1992-2017

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 \$1,000 / 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 \$1,100 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"
2014	\$1,000 flat increase	0	5 days bonus leave
2015	0	0	\$750 bonus
2016	1.5%	0	0.5% bonus; variable merit bonus (\$475 for ME, \$700 for EE)
2017	\$1,000	0	3 days "special bonus" leave

North Carolina Legislative Increases Compared to Average Market Movement

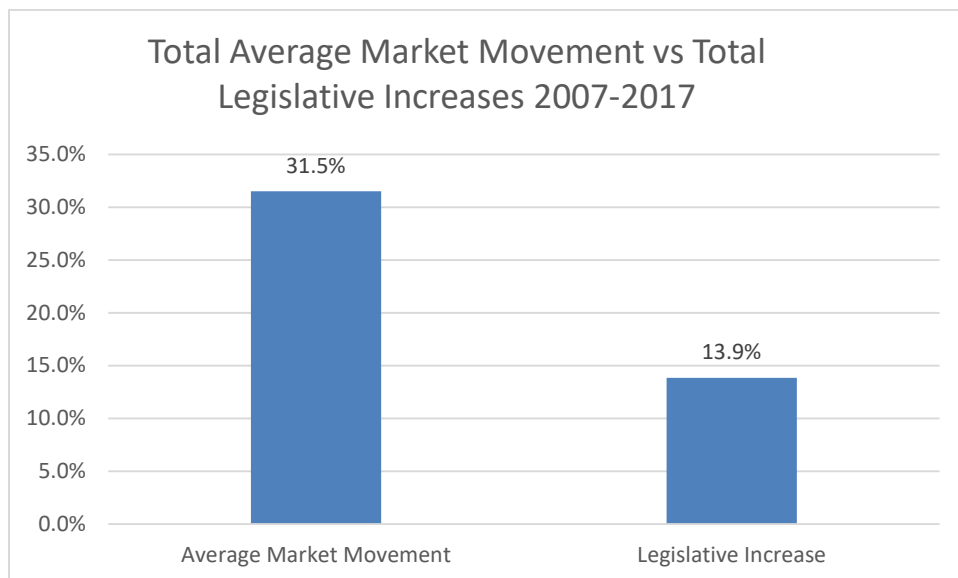


Source: Mercer U.S. Compensation Planning Surveys

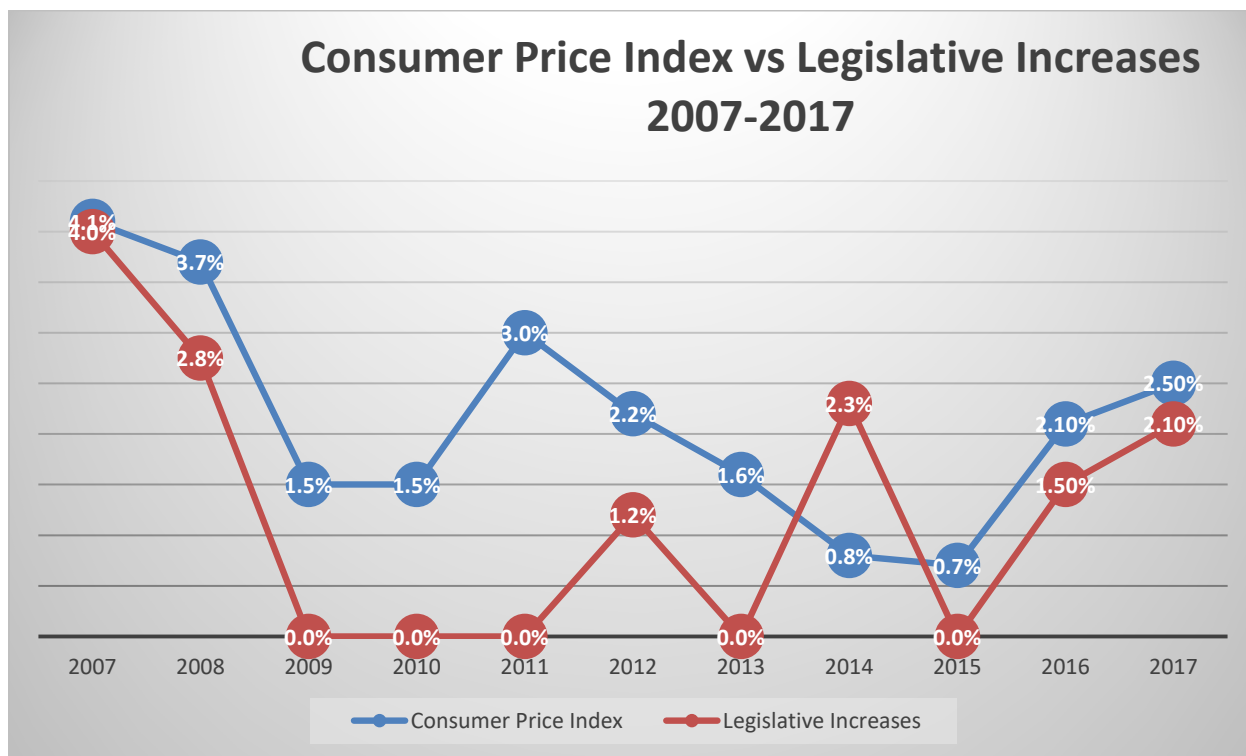
NOTE: The greater of \$1,100 or 2.75% for 2008

NOTE: \$1,000 flat increase for 2014 (2.3% average base pay)

NOTE: \$1,000 flat increase for 2017 (2.1% average base pay)



Comparison of CPI with Legislative Increases (COLA Only)



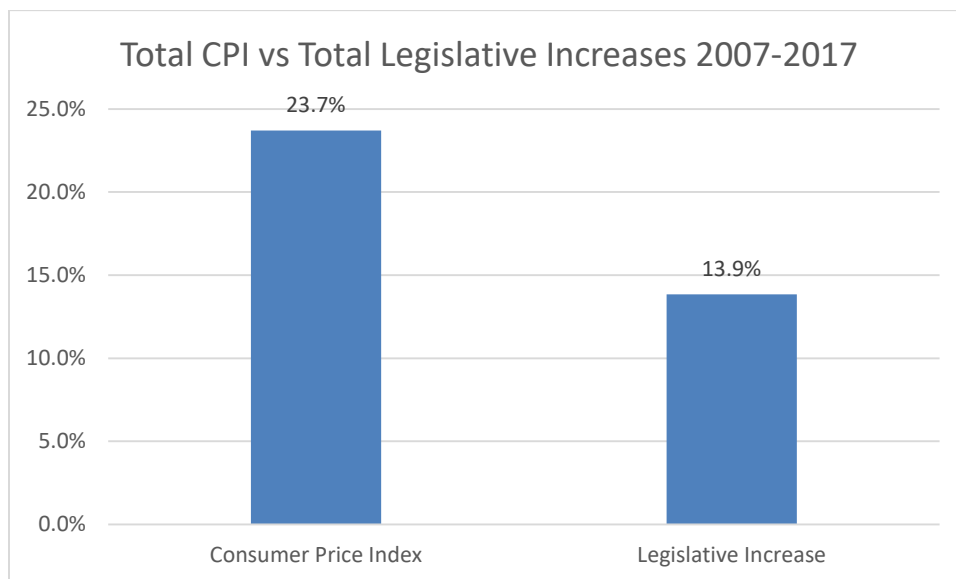
Sources: U.S. Department of Labor/Bureau of Labor Statistics and the N.C. Office of State Human Resources

NOTE: The greater of \$1100 or 2.75% for 2008

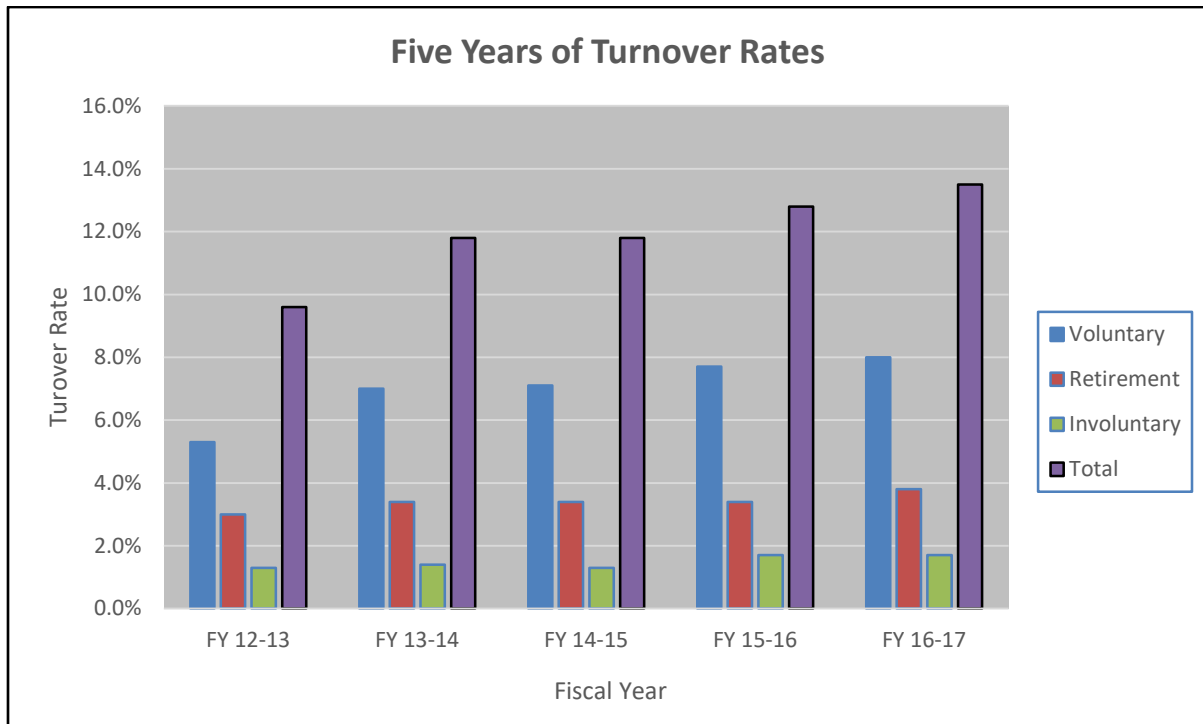
NOTE: CPI 2.2% as of end of October 2012

NOTE: \$1,000 flat increase for 2014 (2.3% average base pay)

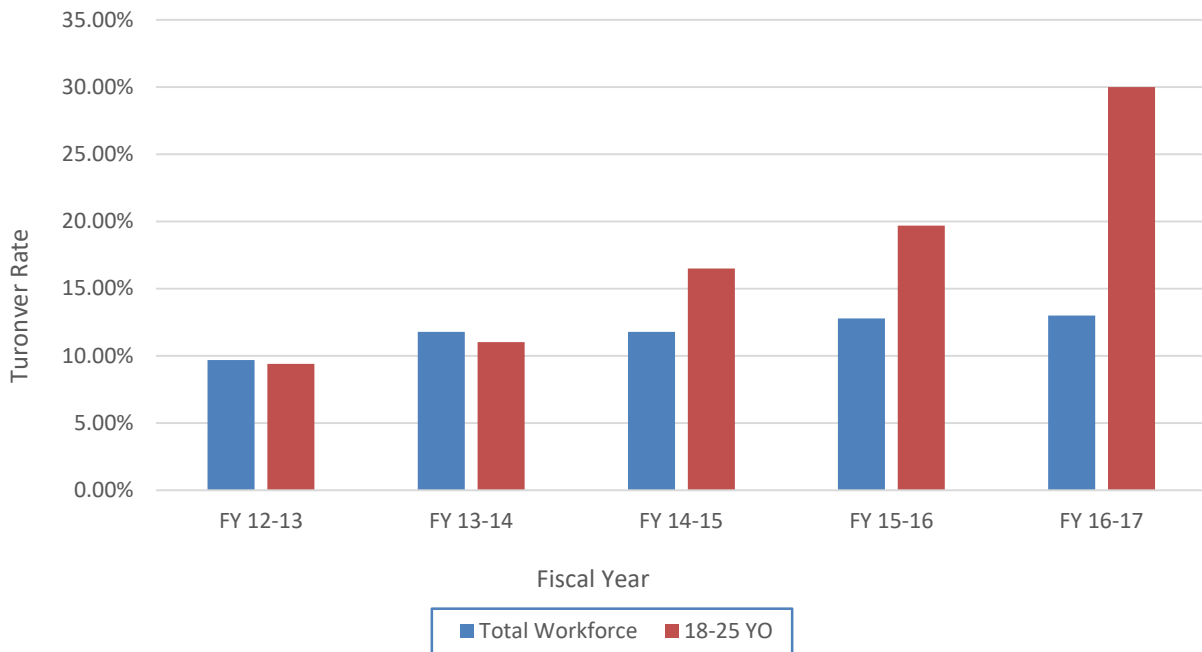
NOTE: \$1,000 flat increase for 2017 (2.1% average base pay)



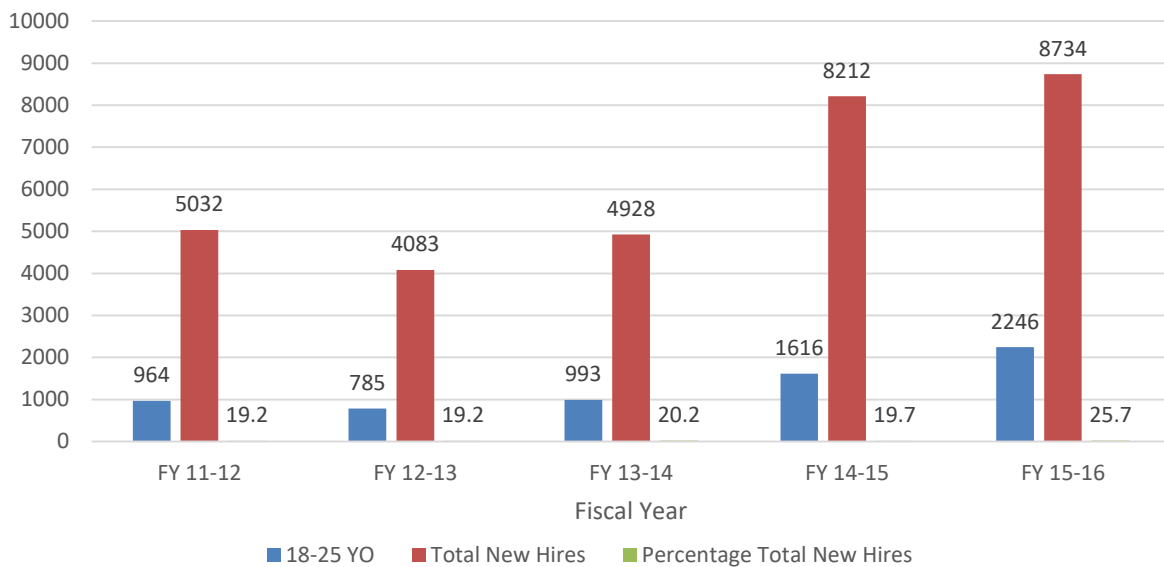
Turnover and Aging Trends



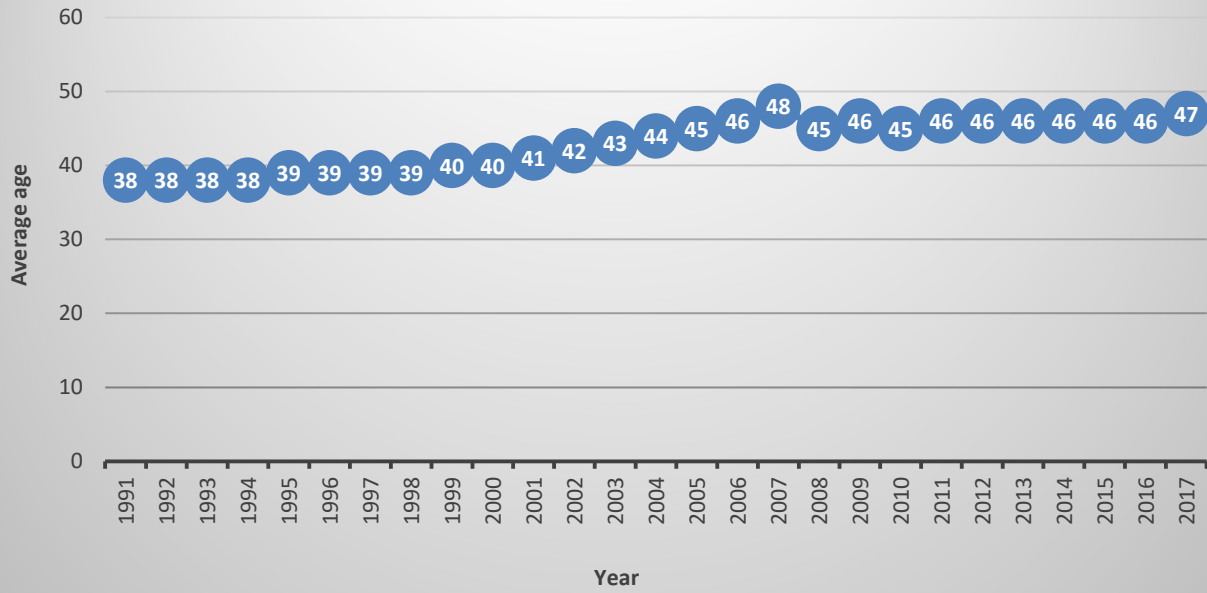
A Comparison of Turnover Rates -- 18-25 Year Olds



18 - 25 Year Olds Vs Total New Hires State Government



Average age of North Carolina State Employees 1991-2017



NC Office of State Human Resources Survey Library 2017

2017 NCASG	McLagan Public Funds Investment Mgmt. 037 (State of North Carolina), 2015	Sullivan Cotter Physician, 2015
2017 NCASG	Mercer Finance, Accounting & Legal, 2013	Willis Towers Watson CSR Call Center and Customer Service, 2017
2017 NCASG	Mercer Finance, Accounting & Legal, 2014	Towers Watson CSR Engineering, Design & Technical Specialty, 2014
AFT	Mercer Finance, Accounting & Legal, 2016	Towers Watson CSR Engineering, Design & Technical Specialty, 2015
CAI NC Wage, 2016	Mercer Finance, Accounting & Legal, 2017	Towers Watson CSR Engineering, Design & Technical Specialty, 2016
CAI NC Wage, 2017	Mercer Finance, Accounting & Legal - Revised, 2015	Willis Towers Watson CSR Engineering, Design & Technical Specialty, 2017
CAI Wage, 2013	Mercer Human Resources, 2014	Towers Watson CSR Accounting & Finance, 2014
CAI NC Wage, 2014	Mercer Human Resources, 2016	Towers Watson CSR Accounting & Finance, 2015
CAI NC Wage, 2015	Mercer Human Resources, 2017	Towers Watson CSR Accounting & Finance, 2016
City of Greensboro	Mercer Human Resources - Revised, 2015	Willis Towers Watson CSR Accounting & Finance, 2017
CompData Acctg Service Suite, 2013	Mercer FSSS Insurance, 2013	Towers Watson Health Care Admin and Support, 2014
CompData Acctg Service Suite, 2014	Mercer FSSS Insurance, 2014	Towers Watson Health Care Admin and Support, 2015
CompData Acctg Service Suite, 2015	Mercer FSSS Insurance, 2015	Towers Watson Health Care Admin and Support, 2016
CompData Acctg Service Suite, 2016	Mercer FSSS Insurance, 2016	Willis Towers Watson Health Care Admin and Support, 2017
CompData Acctg Service Suite, 2017	Mercer FSSS Insurance, 2017	Willis Towers Watson Health Care Executive & Mgmt., 2017
CompData Engineer Service Suite, 2013	Mercer Information Technology, 2014	Towers Watson Health Care Clinical and Professional, 2014
CompData Engineer Service Suite, 2014	Mercer Information Technology, 2016	Towers Watson Health Care Clinical and Professional, 2015
CompData Engineer Service Suite, 2015	Mercer Information Technology, 2017	Towers Watson Health Care Clinical and Professional, 2016
CompData Engineer Service Suite, 2016	Mercer Information Technology - Revised, 2015	Willis Towers Watson Health Care Clinical and Professional, 2017
CompData Engineer Service Suite, 2017	Mercer Logistics & Supply Chain, 2013	Towers Watson CSR Human Resources, 2014
CompData Health Care - Southeast, 2013	Mercer Logistics & Supply Chain, 2014	Towers Watson CSR Human Resources, 2015
CompData Health Care - Southeast, 2014	Mercer Logistics & Supply Chain, 2016	Towers Watson CSR Human Resources, 2016
CompData Health Care - Southeast, 2015	Mercer Logistics & Supply Chain, 2017	Willis Towers Watson CSR Human Resources, 2017
CompData Health Care - Southeast, 2016	Mercer Logistics & Supply Chain - Revised, 2015	Towers Watson CSR Information Technology, 2014
CompData Health Care - Southeast, 2017	Mercer Metro Benchmark - Southeast, 2013	Towers Watson CSR Information Technology, 2015

NC Office of State Human Resources Survey Library 2017 (cont'd)

CompData Legal Service Suite, 2013	Mercer Metro Benchmark - Southeast, 2014	Towers Watson CSR Information Technology, 2016
CompData Legal Service Suite, 2014	Mercer Metro Benchmark - Southeast, 2016	Willis Towers Watson CSR Information Technology, 2017
CompData Legal Service Suite, 2015	Mercer Metro Benchmark - Southeast, 2017	Towers Watson CSR Logistics and Supply Chain Mgmt, 2014
CompData Legal Service Suite, 2016	Mercer Metro Benchmark - Southeast - Revised, 2015	Towers Watson CSR Logistics and Supply Chain Mgmt, 2015
CompData Legal Service Suite, 2017	Mercer Sales, Mktg & Comm, 2014	Willis Towers Watson CSR Logistics and Supply Chain Mgmt, 2017
CompData Not-For-Profit - Southeast, 2013	Mercer Sales, Mktg & Comm, 2016	Willis Towers Watson CSR Marketing and Communications, 2017
CompData Not-For-Profit - Southeast, 2014	Mercer Sales, Mktg & Comm, 2017	Towers Watson CSR Office and Business Support, 2014
CompData Not-For-Profit - Southeast, 2015	Mercer Sales, Mktg & Comm - Revised, 2015	Towers Watson CSR Office and Business Support, 2015
CompData Not-For-Profit - Southeast, 2016	NACE Salary Survey	Towers Watson CSR Office and Business Support, 2016
CompData Not-For-Profit - Southeast, 2017	National Compensation Association of State Government	Willis Towers Watson CSR Office and Business Support, 2017
CompData Physicians - National, 2013	NCASG State Governments, 2013	Towers Watson CSR Supervisory & Middle Management, 2014
CompData Physicians - National, 2015	NCASG State Governments, 2014	Towers Watson CSR Supervisory & Middle Management, 2015
CompData Physicians - National, 2016	NCASG State Governments, 2015	Towers Watson CSR Supervisory & Middle Management, 2016
CompData Physicians - National, 2017	NCASG State Governments, 2016	Willis Towers Watson CSR Supervisory & Middle Management, 2017
County Salaries	NCASG State Governments, 2017	Willis Towers Watson CSR Top Management, 2017
CUPA Non Exempt in Higher Education	North Carolina County Salaries, 2014	Western Management CompBase - Winter, 2014
CUPA Professional in Higher Education	North Carolina County Salaries (State of North Carolina), 2015	Western Management Group CompBase - Winter, 2015
Foushee Environ, Health & Safety, 2015	Sullivan Cotter Physician, 2013	Western Management Group CompBase - Winter, 2016
		Western Management Group CompBase - Winter, 2017

BENCHMARK CLASSES
Labor Market Data Summary (State Agencies Only, Does Not Include Universities)

Job Title	Number of Employees	Base Salary Avg	Market Base Salary Avg	Labor Market Pay Gap	FY16/17 Turnover Rate
ADMINISTRATIVE SUPPORT					
Office Assistant IV	833	34,888.	38,119	-9.26%	10.10%
Executive Assistant I	40	45,558.	59,916	-31.52%	15.80%
AGRICULTURAL, ENVIRONMENTAL AND SCIENTIFIC					
Chemist I	32	50,326.	60,778	-20.77%	6.30%
Forester I	25	40,521.	42,043	-3.76%	0.00%
EDUCATION AND TRAINING					
Staff Development Specialist II	38	49,586.	59,468	-19.93%	14.70%
ENGINEERING					
Architect	22	77,248.	82,289	-6.53%	16.70%
Engineer	1207	71,288.	70,612	0.95%	15.90%
FINANCIAL & BUSINESS MANAGEMENT					
Accountant	256	62,424.	62,845	-0.67%	7.10%
Accounting Technician	368	40,223.	42,058	-4.56%	9.60%
HUMAN RESOURCES					
Personnel Analyst II	65	60,623.	66,175	-9.16%	7.70%
HUMAN SERVICES					
Social Worker III	126	47,953.	57,272	-19.43%	7.30%
Staff Psychologist	87	59,200.	90,702	-53.21%	16.10%
INFORMATION, COMMUNICATION AND MEDIA					
Information and Communications Spec II	46	49,115.	56,897	-15.84%	19.60%
INFORMATION TECHNOLOGY					
Business And Technology Applic Analyst	390	77,661.	84,777	-9.16%	7.30%
INSTITUTIONAL SUPPORT					
Cook II	134	29,331.	28,973	1.22%	13.70%
Housekeeper	422	26,150.	25,256	3.42%	12.30%
LAW ENFORCEMENT AND PUBLIC SAFETY					
Correctional Officer II*	3446	34,528.	35,076	-1.59%	22.40%
Public Safety Officer	70	39,070.	50,925	-30.34%	10.00%
LEGAL					
Attorney III	132	89,454	\$106,257	-18.78%	5.88%
Paralegal	5	45,845.	61,784	-34.77%	0.00%

BENCHMARK CLASSES (cont'd)
Labor Market Data Summary (State Agencies Only, Does Not Include Universities)

Job Title	Number of Employees	Base Salary Avg	Market Base Salary Avg	Labor Market Pay Gap	FY16/17 Turnover Rate
MEDICAL AND HEALTH					
Health Care Technician I	3385	29,132.	27,247	6.47%	17.20%
Professional Nurse	1124	61,006.	62,056	-1.72%	24.10%
NATURAL, HISTORIC AND CULTURAL RESOURCES					
Museum Curator	12	46,910.	67,410	-43.70%	0.00%
OPERATIONS AND TRADES					
Maintenance Mechanic IV	295	40,413.	60,679	-50.15%	14.90%
Vehicle/Equipment Repair Technician	460	43,063.	49,244	-14.35%	7.30%
PLANNING AND ECONOMIC DEVELOPMENT					
Statistician II	3	59,877.	63,679	-6.35%	0.00%
PROGRAM MANAGEMENT					
Administrative Officer II	210	51,006.	57,607	-12.94%	14.30%
SAFETY AND INSPECTION					
Safety Officer II	20	48,575.	60,438	-24.42%	5.60%

*NOTE: *Correctional Officer series is now split into three levels.*