

STATE OF NORTH CAROLINA 2018 Compensation & Benefits Report



NORTH CAROLINA Office of
State Human Resources

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2018 COMPENSATION & BENEFITS REPORT

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I. EXECUTIVE SUMMARY

This 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 report is 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 1 of even years. The report sets the stage for strategic planning to address current economic and labor market conditions.

Key to the discussion of state employee compensation is OSHR's ongoing Statewide Compensation System Project. The NC General Assembly mandated OSHR to develop a new Statewide Compensation System (Senate Bill 402, the Appropriations Act of 2013) to address the many challenges and inconsistencies of having two outdated systems, one modern streamlined system was developed. The project was expected to be implemented in June 2016 but was delayed by legislative action; the system was implemented effective June 1, 2018. The new statewide system is designed to provide market responsiveness and equitable and affordable compensation. Before the new statewide system, state employees were classified and compensated under a salary graded system in existence since 1949 and for some employees, a career banded system.

The new Compensation System includes the following six pay plans (salary structures) which are intended to account for differing skill levels and experience: Attorney, Education, General, Highway Patrol, Information Technology, and Medical. 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 shall enable more valid, timely and accurate labor market comparisons and costing scenarios; and (2) a position description collection/workflow tool (PeopleAdmin) that enables the electronic collection and storage of descriptive and analytical information on all state agency positions. In collaboration with state agencies, OSHR developed new classification concepts now used in the new system, reducing the overall number of concepts from more than 2,300 to approximately 1,400. More than 65,000 agency positions have been allocated to these new concepts. Classifications are also now grouped into 20 job families in a more logical and meaningful way.

With legislative support and funding for the new Statewide Compensation System, we will be able to administer a flexible classification and compensation program more effectively within an ever-changing workforce. 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.

For North Carolina to recruit, retain and manage its talent effectively, its compensation programs must continue to shift from a "one size fits all" approach to a market and performance culture that assigns more value to high-performing employees, in key roles. Among the recommendations from the Statewide

Compensation System Study, this includes seriously examining options to progress employees within their salary range based on their true 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 strategically identify and address competitive labor market pay and structural gaps to support the dynamic 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.
- Regularly support Salary Adjustment Fund (SAF) recommendations for critically identified business needs. The state has a large number of critical state positions where, without increases that are larger than the Legislative Increase, the state will continue to lose valuable employees to the private and local government job sectors. It will be cost effective for the General Assembly to target salary dollars to those critical needs. In recent years the General Assembly has provided additional funding for Correctional Officers and DOT employees, but there are many other vital state positions that need additional funding beyond the Legislative Increase.
- Consider apportioning future legislative increases using a three-pronged approach to include an across-the-board increase, market-based increase and performance-based increases and/or lump sum payments.
- 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 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.
- State agencies completed the third year of using a new performance management system. The merit bonus in 2016 was a step toward aligning pay with performance. Allocations should continue to be provided to reward employees based on performance in addition to market.
- Evaluate the continued use of a longevity bonus as a pay delivery mechanism going forward.
- 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’s Market Analysis and Modeling tool (MarketPay) and Position Description Writing and Workflow tool (PeopleAdmin).
- 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.
- 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. 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 Compensation Vision

The following vision for state government was established with the new Statewide Compensation System:

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 is 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*

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 – such as Information Technology, Medical and Health, Engineering, and Corrections jobs – 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 struggle 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 *a continuing allocation be provided to reward employees based on performance*. Pay as a performance reward -- even 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.

Employee benefits are key components of 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.

Total Compensation Model

Table 1: Benefits as a Percentage of AVERAGE SALARY & WAGES (Calculated as of 12-3-18)

BENEFIT CATEGORY	PERCENTAGE OF AVERAGE SALARY	AVERAGE VALUE
Holidays (12 days)	4.62%	\$2,252
Sick Leave (12 days)	4.62%	\$2,252
Vacation Leave (17 days)	7.70%	\$3,754
OASI – DI [Social Security]	7.65%	\$3,729
Retirement & Disability*	16.54%	\$8,063
Health Insurance	12.64%	\$5,984
Longevity Pay	1.50%	\$731
Total Benefit Value	54.91%	\$26,437
In determining the <i>Percentage of Average Salary</i> , the average state employee’s years of service are 12 years and average state employee salary is \$48,748. The total benefit value is added to employees' base pay to determine <i>Total Compensation</i> .		
	Average Base Pay	\$48,748
	Average Benefit Value	\$26,765
	Average Total Compensation	\$75,513

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

*It is important to note that approximately 6% of the 16.54% total state costs for Retirement & Disability are provided for retiree health insurance.

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 the state’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 North Carolina’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 2018	N.C. Average Percentage of Total Compensation 2018	N.C. Change From 2017
Salary & Wages	70.9%	65.3%	0.4%
Paid Time Off	7.3%	11.1%	0.1%
Health Insurance	8.6%	8.0%	-0.2%
Retirement	5.5%	10.6%	-0.3%
OASI-DI (Social Security)	7.6%	5.0%	---

Sources: Office of State Human Resources, Office of State Budget and Management and the NC Retirement Systems Division, U.S. DOL Bureau of Labor Statistics “Employer Costs for Employee Compensation – June 2018”

IV. ECONOMIC REVIEW

Wage and Salary Trends

OSHR uses the following planning surveys to benchmark and track average market movement. For calendar year 2018, 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	2016 Actual	2017 Actual	2018 Actual	2019 Projected
William Mercer	2.8%	2.8%	2.8%	2.9%
World-at-Work	3.0%	3.0%	3.1%	3.2%

Sources: Mercer Human Resources Consulting 2018-2019 US Compensation Planning Survey Preliminary Report, and World-at-WorkSalary Budget Survey report, 2016-2018

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 2009.

In North Carolina, annual salary increases for state employees have trailed the average market movement for the last 10 years. Salary increases in state government have still cumulatively trailed average market increases by 18.5% since 2008. This statement is based on the typical Legislative Increase (LI) awarded to state employees. For example, in 2018, most state employees were awarded a 2% LI, and only designated populations in Adult Corrections and Highway Patrol received 4% and 6%, respectively. A 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 October 2018 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. According to the Bureau of Labor Statistics (April 2018), the CPI-U includes all urban consumers that are roughly 93% of the population in the United States. It is based on the expenditures of almost all residents of urban or metropolitan areas, including professionals, the self-employed, the unemployed, and retired people, as well as urban wage earners and clerical workers. 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 2008 to 2018 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 failed to keep pace with the CPI-U. Salary increases in state government have cumulatively trailed CPI-U by 10.3% over the last 10 years, effectively decreasing employee “buying power.” A chart comparing legislative increases with CPI 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 projected that in the next three to 10 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. Please note that more than 50% of state physicians, more than 30% of state psychiatrists and psychologists, more than 25% of the employees in the Engineering and IT job families, and more than 30% of the state employees in the executive/program management job families are eligible to retire in the next five years with unreduced retirement.

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, data-driven 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 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. A list of surveys to which OSHR subscribes is located in the appendix of this report.

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 20.8% of the state's workforce (agencies only, universities not included) with jobs from each of 19 major Job Families. This report indicates that the 2018 average wage for 15 of the 28 classes (54%) trailed their composite market rates by at least 10%. In addition, approximately 65% of all state employees—including a sizeable percentage with more than a decade of state experience—are below the labor market rate for their positions.

Table 4 lists the benchmark classes that trail the market by greater than 10% as shown under "Market Pay Gap." Additional data regarding all benchmark classes can be found in the appendix of this report. Several classifications in business critical areas such as Corrections, Engineering, Information Technology, and Medical and Health, were selected as benchmarks and are included in the appendix, but are not included in Table 4 because they now lag market by less than 10%.

Findings are based on actual market average base salary versus current State average base salary. The new statewide compensation system implemented on June 1, 2018 uses market relativity as a major component of assigning jobs to salary grades, as job midpoints correlate to the market rate. A full market update is planned for 2019, and the survey data will be more comparably based once the full market update is complete.

The Office of State Human Resources implemented market adjustments of 5.8% to certain pay plans effective November 1, 2018 to ensure competitiveness of the pay plans. These adjustments were intended to “age” the pay plans forward to keep up with national salary structure adjustment trends since the pay plans were first constructed. Grade minimums were not changed, but quartiles, midpoints and maximums were increased to increase competitiveness and allow greater salary growth opportunities for employees.

The Legislature raised the minimum salary for permanent, full time employees to \$31,200 effective July 1, 2018. This benefitted employees in the lower salary grades and improved market competitiveness for benchmarks in those grades, but also increased real and perceived equity issues statewide as employees whose salaries had been differentiated previously were brought to the same rate of pay.

The Office of State Human Resources issued an RFP in fall 2018 to seek a vendor(s) to provide turn-key implementation of the following components of the new statewide Classification and Compensation System:

- a) **Competitive Labor Market Report:** Vendor will report on the competitiveness of the state’s compensation (salaries and wages) as viewed from local, regional and national perspectives. Vendor will partner with OSHR in the identification of benchmark job classifications that are most appropriate to use going forward for external market pricing and analysis. The state anticipates increasing the number of benchmark classifications used for market pricing from 28 to approximately 150 to 200 benchmarks.
- b) **Pay Plan Analysis:** Vendor will examine each of the state’s multiple pay plans and recommend adjustments that support the state’s Total Compensation Philosophy.
- c) **Law Enforcement Pay Plan:** Vendor will assess and develop a pay plan, separate from the State Highway Patrol Pay Plan, that accounts for agency law enforcement classifications such as but not limited to: Alcohol Law Enforcement, DMV Law Enforcement, Forestry Law Enforcement, Marine Fisheries Law Enforcement, Police Officers, SBI Agents, Wildlife Law Enforcement, etc.
- d) **University System Classifications:** Vendor will assess and recommend whether or not the competency-based career banding system should continue to be used, or if University classifications should transition into the State’s new classification system, or if a separate pay plan should be developed specific to the University system.
- e) **Policies and Practices:** Vendor will analyze the state’s compensation and salary administration policies and practices with best practice recommendations, ensuring sound fiscal stewardship and adherence to legal and regulatory compliance audit and reporting requirements.

Proposals were submitted to the state and, as of the writing of this report, are being evaluated for Best Value. Partnership with a selected vendor to begin in January 2019 with vendor reports due to the state during the third calendar quarter.

Table 4: Selected Benchmark Classes

Job Title*	Number of Employees	Base Salary Avg	Market Base Salary Avg	Labor Market Pay Gap
Executive Assistant I	86	\$47,696	\$61,819	-22.85%
Chemist I	59	\$53,602	\$60,245	-11.03%
Staff Development Specialist II	65	\$52,481	\$58,584	-10.42%
Architect I	6	\$73,347	\$84,625	-13.33%
Agency HR Consultant II	67	\$61,776	\$69,437	-11.03%
Psychologist Senior	64	\$84,899	\$101,724	-16.07%
Info/Communications Spec II	58	\$50,029	\$58,331	-14.23%
Police Officer I	70	\$39,604	\$52,908	-25.15%
Attorney III	126	\$89,765	\$114,373	-21.52%
Paralegal II	47	\$46,617	\$62,793	-25.76%
Museum Curator II	66	\$46,674	\$69,308	-32.66%
Maint/Construction Technician III	283	\$41,461	\$51,891	-20.10%
Vehicle/Equipment Repair Tech II	385	\$43,985	\$52,201	-15.74%
Administrative Officer II	99	\$52,741	\$63,048	-16.35%
Safety Officer II	30	\$53,307	\$61,777	-13.71%

Sources: BEACON, MarketPay analysis

*Note: Job Titles, average state salaries and turnover figures reflect the new Classification and Compensation System implemented 6/1/18. FY2017-18 salary data for these jobs is limited. See the appendix for details.

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 26.7% of total new hires coming from this group in in FY2017-18. 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 this as part of 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. 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.

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. Many of these classifications, found in most state agencies, have a small number of total employees yet they play critical roles in the functioning of the state agency.

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 to engage in rigorous workforce and succession planning. Market-based pay for critical business areas is needed 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 works 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 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY2017-2018
Voluntary T/O	7.0%	7.1%	7.7%	8.0%	6.2%
Retirement T/O	3.4%	3.4%	3.4%	3.8%	4.1%
Involuntary T/O	1.4%	1.3%	1.7%	1.7%	1.0%
Total T/O	11.8%	11.8%	12.8%	13.5%	11.3%

Note: 2013-2018 turnover reflects state agencies only. Data appear to be relatively consistent with past years and economic trends.

In FY2017-2018, state agencies had a 6.2 % voluntary turnover rate. Using the HCI turnover value of 150% cost of turnover, the cost to the state would be more than **\$270 million**. This includes 6.2% of 59,697 state agency State Human Resource Act (SHRA) employees is approximately 3,701, multiplied by average state salary \$48,748, 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 new Statewide Compensation System was developed as a system that will be used to retain the workforce due to its flexibility and ability to provide job enrichment along with upward and lateral career paths. However, continued funding based on market data is required 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 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 2018 is 46.

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 54% of employees subject to the State Human Resources Act are currently eligible for longevity bonuses at a cost of more than \$48 million per year. North Carolina pays the average state employee a \$1,497 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 25 years of service. Table 6 shows that North Carolina’s longevity bonus program is generous compared to other Southeastern states.

Table 6: 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: 2018 NCASG Pay Practices

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 Southeastern states, North Carolina's vacation accrual rates are competitive.

Table 7: Vacation Leave

Years of State Service	North Carolina	SE States	Differential in Days
0 but less than 5 years	14.00	13.06	+0.94
5 but less than 10 years	17.00	16.25	+0.75
10 but less than 15 years	20.00	19.43	+0.57
15 but less than 20 years	23.00	22	+1.00
20 but less than 25 years	26.00	24.07	+1.93
25 years or greater	26.00	24.93	+1.07

Source: 2018 NCASG Benefits Survey

Sick Leave

Southeastern states grant an average of 13.25 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	Southeastern States	Differential
Accrual	12 Days	13.25	-1.25 Days

Source: 2018 NCASG Benefits 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 11.7 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	11.7

Source: 2018 NCASG Benefits 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 31.9%.

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
70.9%	39.0%

Source: 2018 NCASG Benefits 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	\$906	\$8,270
North Carolina	\$1,250	\$25	\$600	\$5,984

Source: County Salaries in North Carolina 2018

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 112,000 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 (for employees and family).
- 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 & Dismemberment Insurance (for employees and family).

- Core Voluntary Accidental Death & 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 Option
- Accident Insurance

Retirement

In North Carolina, the 2018 employer contribution on behalf of employees in the Teachers & State Employees Retirement System (TSERS) was 18.86%. 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 12.29%.

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.

A review of the past three years reveals that more than half of North Carolina's 100 counties have consistently made matching 401(k) contributions in addition to a defined contribution plan. In 2018, 92 of 96 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.

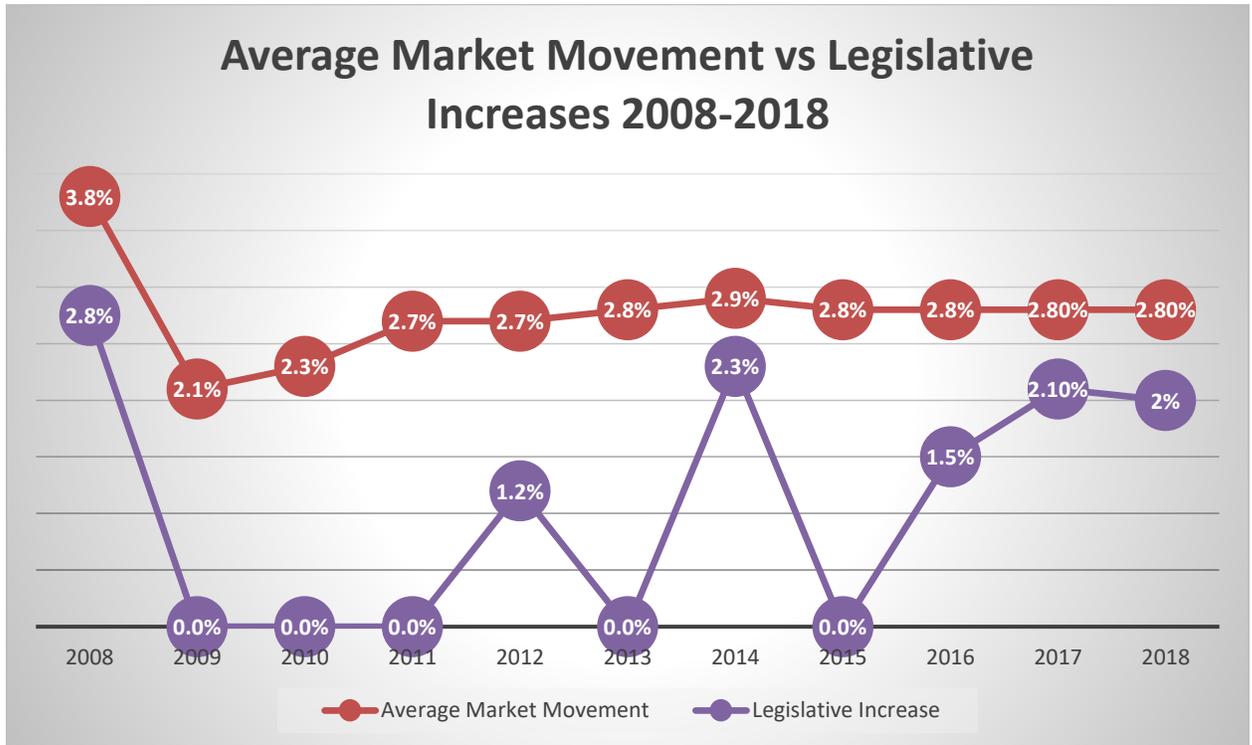
APPENDIX

- A. History of Legislative Increases - 1992-2018**
 - B. NC Pay Comparison to CPI and Average Market Movement**
 - C. Turnover and Aging Trends**
 - D. Market Survey Library**
 - E. List of Benchmark Classes and Labor Market Analysis**
-

A. History of Legislative Increases 1992-2018

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"
2014	\$1000 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
2018	2% or increase to \$31,200	0	5 days "special bonus" leave; 4% increase/new minimum salaries for Correctional Officers or eligible Adult Corrections employees; 6% increase and step pay plan for eligible State Highway Patrol employees

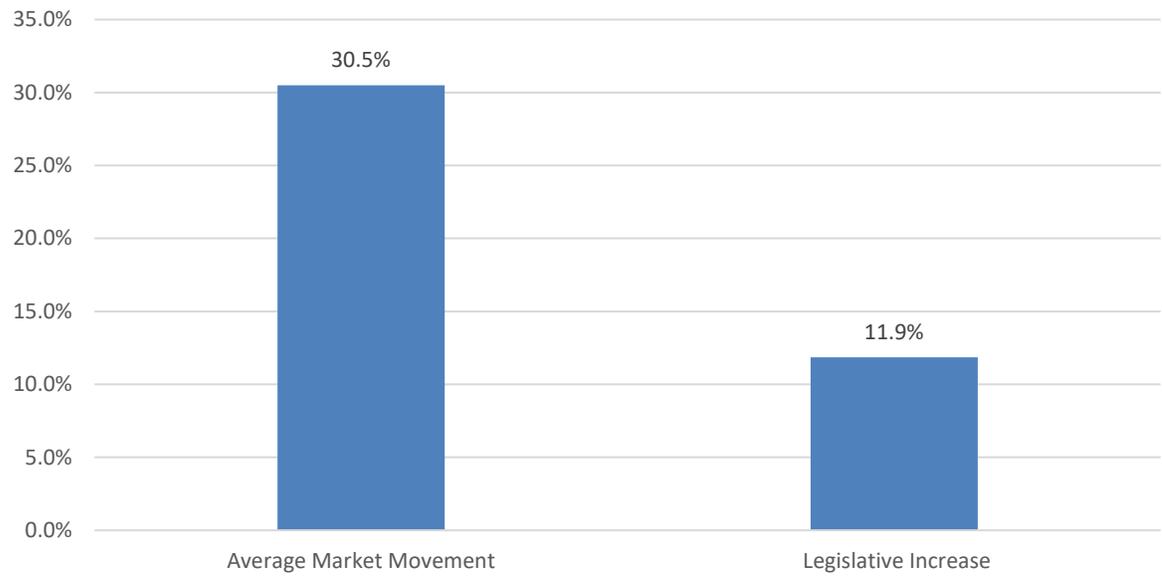
B. NC Pay Comparison To CPI and Average Market Movement



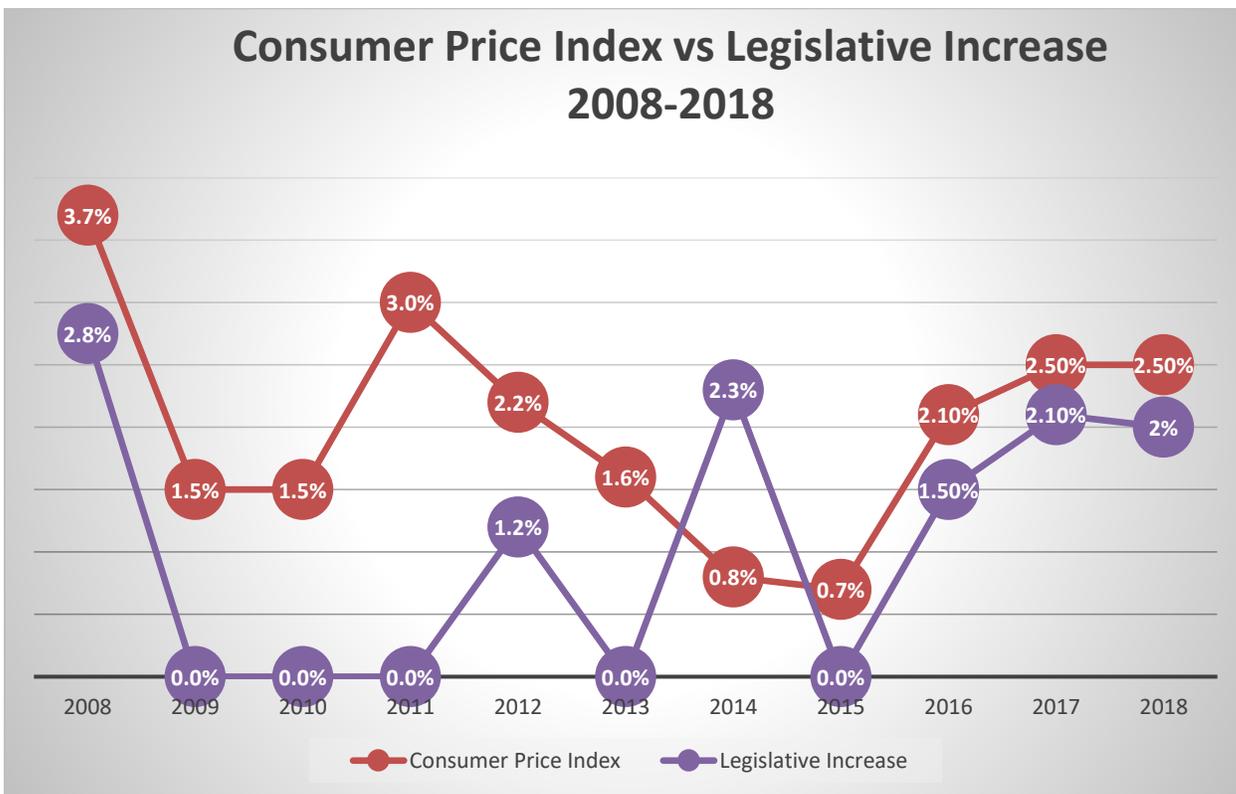
Source: Mercer US Compensation Planning Survey 2008-2018

Notes: The greater of \$1100 or 2.75% for 2008; \$1,000 flat increase for 2014 (2.3% average base pay); \$1,000 flat increase for 2017 (2.1% average base pay); the greater of increase to \$31,200 or 2% for 2018, with 4%/new minimum salaries for eligible employees in Adult Corrections and 6%/step pay plan for eligible State Highway Patrol employees.

Total Average Market Movement vs Total Legislative Increases 2008-2018

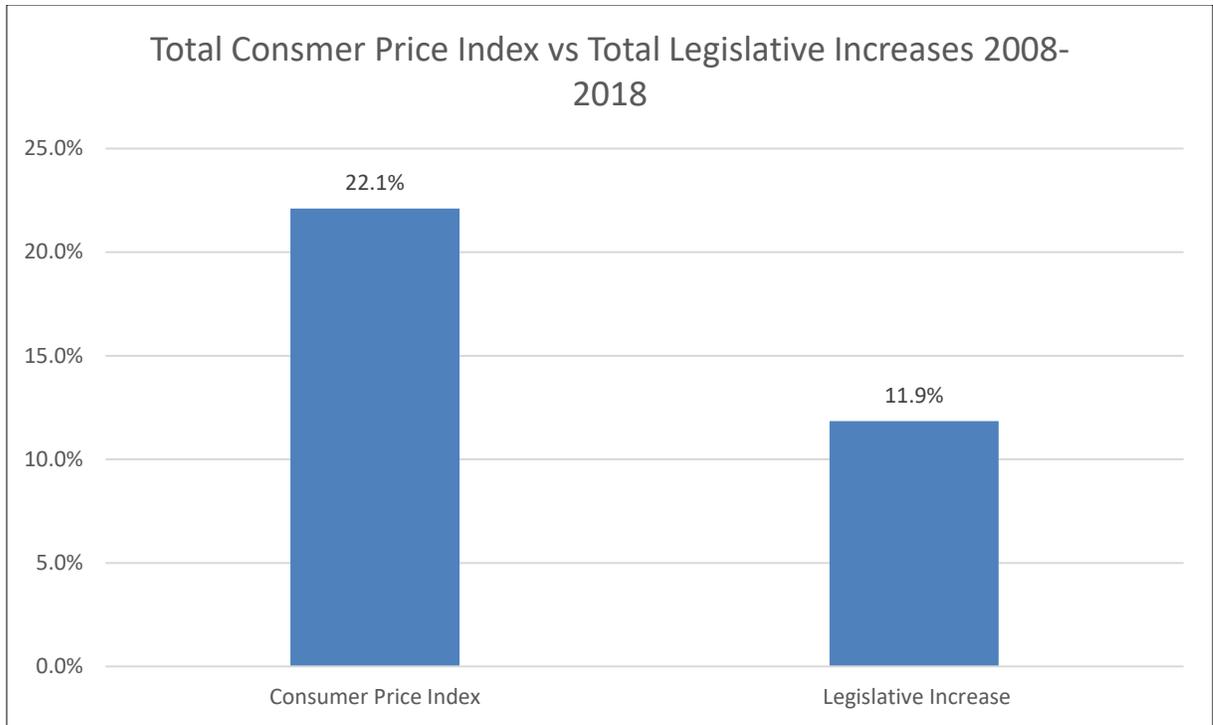


Comparison of CPI with Legislative Increases (COLA Only) 2008-2018

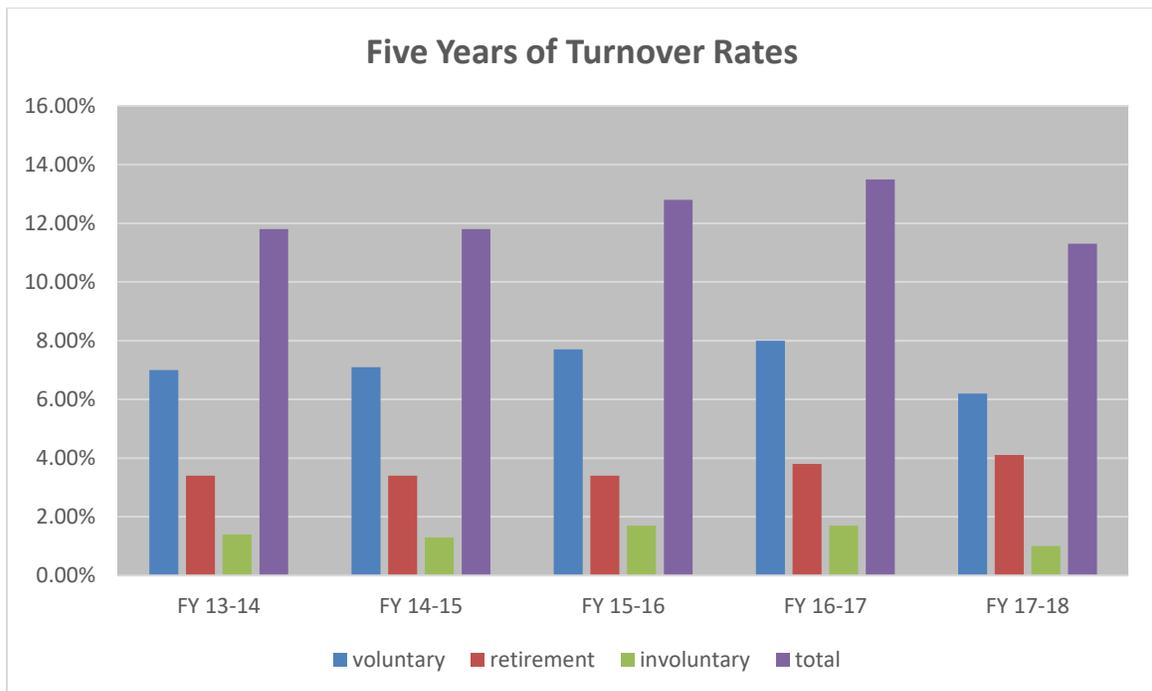


Sources: US Department of Labor/Bureau of Labor Statistics and the NC Office of State Human Resources

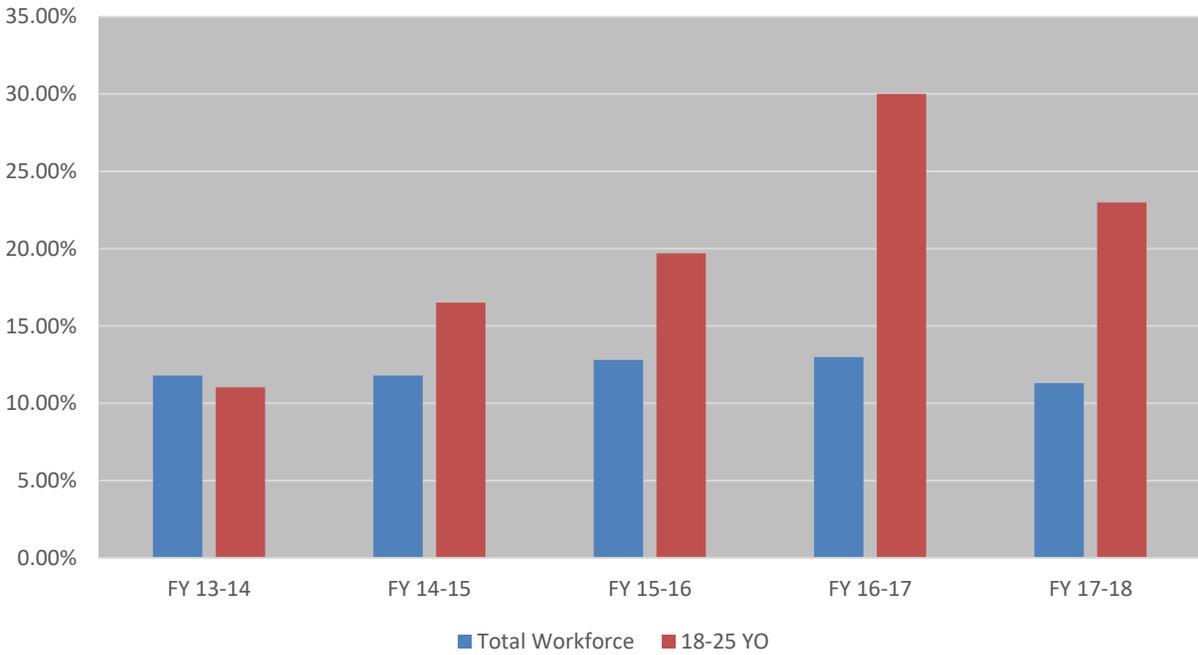
Notes: The greater of \$1,100 or 2.75% for 2008; CPI 2.2% as of end of October 2012; \$1,000 flat increase for 2014 (2.3% average base pay); \$1,000 flat increase for 2017 (2.1% average base pay); the greater of increase to \$31,200 or 2% for 2018, with 4%/new minimum salaries for eligible employees in Adult Corrections and 6%/step pay plan for eligible State Highway Patrol employees.



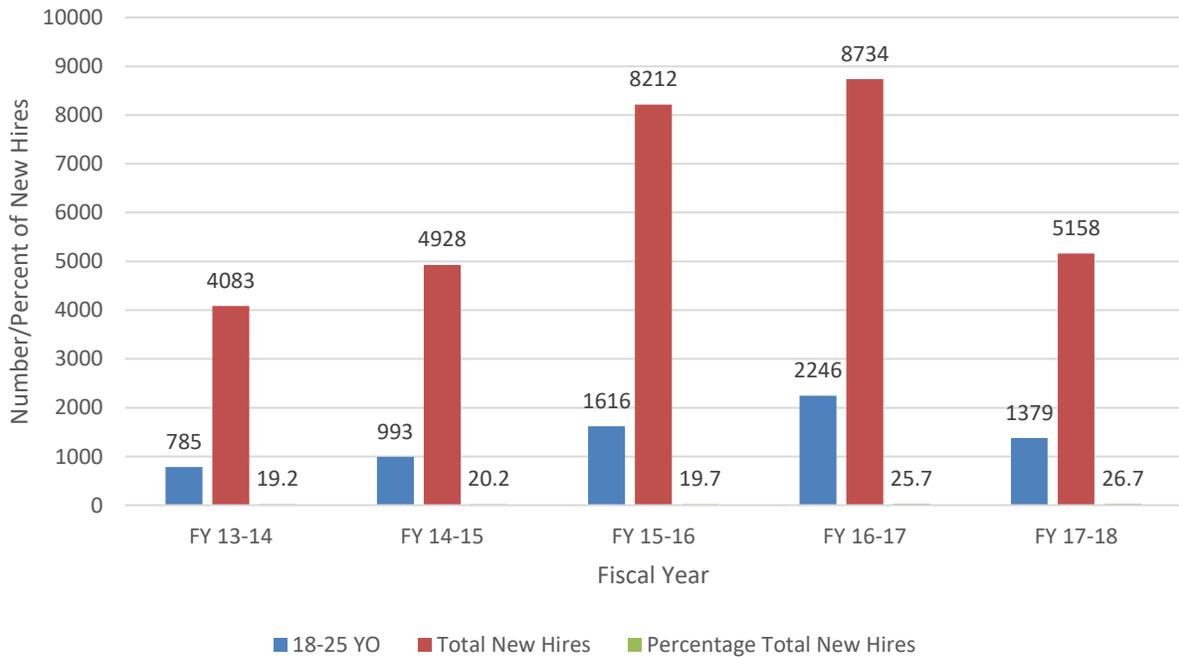
C. Turnover and Aging Trends



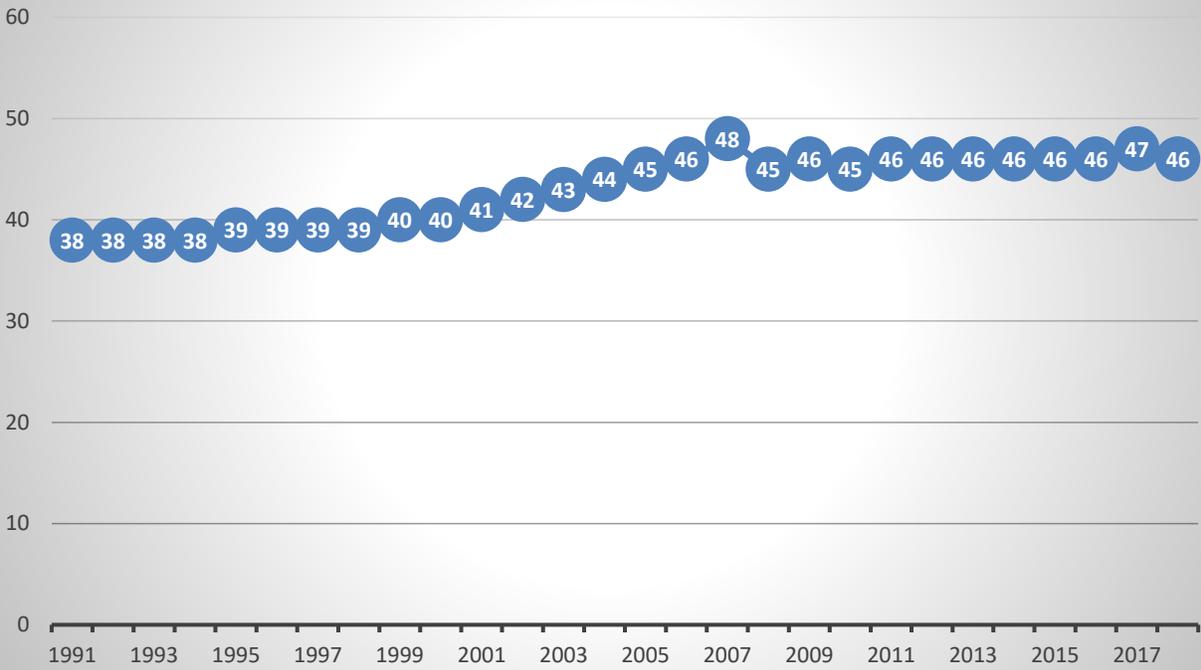
A Comparison of Turnover Rates -- 18-25-Year-Olds



18-25-Year-Olds vs Total New Hires State Government



Average age of NC State Employees 1991-2018



D. Market Survey Library

OSHR Survey Library 2018	
Capital Associated Industries	Capital Associated Industries NC Wage, 2018
CompData Surveys	CompData Accounting Service Suite, 2018
CompData Surveys	CompData Engineering Service Suite, 2018
CompData Surveys	CompData Health Care - National, 2018
CompData Surveys	CompData Legal Service Suite, 2018
CompData Surveys	CompData Not-For-Profit - National, 2018
CompData Surveys	CompData Physicians 2018
Mercer	Mercer Finance, Accounting & Legal, 2018
Mercer	Mercer FSS Insurance, 2018
Mercer	Mercer Human Resources, 2018
Mercer	Mercer Information Technology, 2018
Mercer	Mercer Logistics & Supply Chain, 2018
Mercer	Mercer Metro Benchmark - National, 2018
Mercer	Mercer Sales, Mktg & Comm, 2018
National Compensation Association of State Governments	NCASG State Governments, 2018
PayScale Company Sourced	PayScale Beta Company Sourced National Survey - September, 2017
PayScale Company Sourced	PayScale Company Sourced National - April, 2018
PayScale Company Sourced	PayScale Company Sourced National - July, 2018
PayScale Company Sourced	PayScale Company Sourced National Survey - January, 2018
Western Management Group	Western Management Group CompBase - Winter, 2018
Willis Towers Watson	WTW CSR Submission Report (PARTICIPATION ONLY), 2018
Willis Towers Watson	WTW General Industry Executive, 2018
Willis Towers Watson	WTW Health Care Admin and Support, 2018
Willis Towers Watson	WTW Health Care Clinical and Professional, 2018
Willis Towers Watson	WTW Health Care Executive & Mgmt, 2018
NC County Survey	NC County Salary Survey 2017-2018

E. Benchmark Classes and Labor Market Analysis

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	FY17/18 Turnover Rate**
ADMINISTRATIVE SUPPORT					
Administrative Associate II	1318	\$ 32,853	\$35,616	-7.76%	1.1%
Executive Assistant I	86	\$ 47,696	\$61,819	-22.85%	0.0%
AGRICULTURAL, ENVIRONMENTAL AND SCIENTIFIC					
Chemist I	59	\$ 53,602	\$60,245	-11.03%	0.0%
Forester I	28	\$ 41,355	\$43,248	-4.38%	0.0%
Corrections					
Correctional Officer II	3320	\$ 36,424	\$33,065	10.16%	1.6%
EDUCATION AND TRAINING					
Staff Development Specialist II	65	\$ 52,481	\$58,584	-10.42%	0.0%
ENGINEERING					
Architect I	6	\$ 73,347	\$84,625	-13.33%	0.0%
Engineer II	428	\$ 69,140	\$73,841	-6.37%	0.2%
FINANCIAL & BUSINESS MANAGEMENT					
Accountant II	90	\$65,221	\$65,086	0.21%	0.0%
Accounting Technician II	167	\$ 41,756	\$42,810	-2.46%	1.9%
HUMAN RESOURCES					
Agency HR Consultant II	67	\$ 61,776	\$69,437	-11.03%	0.0%
HUMAN SERVICES					
Social Worker	161	\$ 48,332	\$51,110	-5.44%	0.0%
INFORMATION, COMMUNICATION AND MEDIA					
Information & Communications Spec II	58	\$ 50,029	\$58,331	-14.23%	0.0%
INFORMATION TECHNOLOGY					
Applications Systems Analyst I	317	\$ 78,492	\$86,402	-9.15%	1.1%
INSTITUTIONAL SUPPORT					
Cook	154	\$ 31,469	\$29,812	5.56%	0.0%
Housekeeper	474	\$ 31,212	\$25,829	20.86%	1.1%
LAW ENFORCEMENT AND PUBLIC SAFETY					
Police Officer I	70	\$ 39,604	\$52,908	-25.15%	0.0%
LEGAL					
Attorney III	126	\$ 89,765	\$114,373	-21.52%	0.0%

Paralegal II	47	\$ 46,617	\$62,793	-25.76%	2.9%
MEDICAL AND HEALTH					
Health Care Technician I	3555	\$ 31,627	\$28,247	11.97%	1.3%
Psychologist Senior	64	\$ 85,375	\$101,724	-16.07%	0.0%
Registered Nurse	931	\$ 61,199	\$65,937	-7.19%	1.3%
NATURAL, HISTORIC AND CULTURAL RESOURCES					
Museum Curator II	66	\$ 46,674	\$69,308	-32.66%	0.0%
OPERATIONS AND TRADES					
Maintenance/Construction Technician III	283	\$ 41,461	\$51,891	-20.10%	0.8%
Vehicle/Equipment Repair Technician II	385	\$ 43,985	\$52,201	-15.74%	0.3%
PLANNING AND ECONOMIC DEVELOPMENT					
Statistician II	10	\$ 62,604	\$67073	-6.66%	0.0%
PROGRAM MANAGEMENT					
Administrative Officer II	99	\$ 52,741	\$63,048	-16.35%	1.0%
SAFETY AND INSPECTION					
Safety Officer II	30	\$ 53,307	\$61,777	-13.71%	0.0%

*Benchmark titles and information reflect classes in the new Statewide Compensation System. The system was implemented in June 2018, so data for the previous fiscal year is limited.

**Some new system classes did not experience turnover between implementation and the end of FY 17-18



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