

State of North Carolina 2010 Compensation & Benefits Report



Office of State Personnel
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COMPENSATION & BENEFITS REPORT: MAY 2010

“54% of employed Americans plan to look for a new job once the economy rebounds. The sentiment is even stronger among younger workers, with nearly 75 percent of those between ages 18 and 29 reported to look for new jobs once the economy turns around.”

--Dr. Caela Farren, Ph.D., MasteryWorks Inc.

“Businesses and governments will continue to demand highly specialized skills and behaviors. The pressure to find the right skills in the right place at the right time will increase as the working age population declines, the economy rebounds and the nature of work shifts.”

--George Herrmann, Right Management

I. EXECUTIVE SUMMARY

As with all employers attempting to attract and retain top talent in a tight job market and economic downturn, North Carolina must continue to maintain competitiveness through its total compensation programs and recognize that its employees – or “human capital” – are its most valuable asset. Prior to 2009, several years of across-the-board legislative increases generally shored up some overall market gaps. However, these cost-of-living adjustments have not been reflective of such relevant economic indicators as the Consumer Price Index or average market movement. More importantly, across-the-board increases “reward” employees with the same percentage increase regardless of their level of contribution or their job’s value to the employing organization. For North Carolina to manage its talent effectively, its compensation programs must change from a “one size fits all” mentality to a performance culture that assigns more value to high-performing employees in key roles. This includes seriously examining options other than base pay increases for recognizing and rewarding excellent performance.

While many job classifications’ average salaries have received the benefit of staying current with labor market through such compensation mechanisms as Career-banding, others have lagged behind. The State must consider all feasible options -- including incentive pay, variable pay, bonus pay programs, and proactive compensation planning and management -- to enhance the recruitment and retention of employees across the state’s many diverse occupational groups. More attention must be paid to critical labor market shortages and addressing North Carolina’s competitive position in a rapidly changing talent market. The current “lull” in market movement precipitated by the economic downturn presents a good time to assess the state’s competitive position going forward.

Health care options have improved since the introduction of the Preferred Provider Organization (PPO) program, but continue to be costly. Serious State Health Plan budget deficits in 2008 led to changes in cost and coverage for state employees. Further cost containment measures are being instituted with smoking cessation and weight management programs being implemented in 2010 and 2011, respectively. Paid time off options can be improved, allowing a direct benefit to employees without high costs to the State. In continuing difficult financial times, we must pursue creative ways of attracting and retaining high performing employees. This is especially critical as the “Baby Boomer” generation begins to age out of the labor market over the next several years. The average age of the state workforce is steadily increasing, and the need to recruit a new generation of employees is paramount. This next generation wants more flexibility in their total rewards package (direct compensation, benefits, development and work-life programs).

Legislative support for pay innovations and funding for strategic compensation studies, competency-based pay systems, performance-based reward systems, improving benefits and attention to work life balance issues will clearly move North Carolina closer to its goal as an employer of choice while maintaining a commitment to cost-effective systems for managing its investment in its human capital.

Recommendations made from data analysis in this report are as follows:

- Promote and support workforce planning, total compensation and employee engagement programs to recruit and retain talent. Consider the state's workforce as "human capital" and make appropriate investments to maintain and increase its quality. This is considered to be especially critical as the "baby boomer" generation continues to age out of the state's workforce and economic conditions begin to improve, leading younger workers to consider looking for jobs in the private sector.
- Provide an allocation to each agency and university to use to reward employees based on performance and competencies. This allocation differs from the traditional career-growth increase and performance bonus.
- Allow agencies and universities the flexibility to design performance and alternative pay systems based on their organizational needs and culture, with consultation from the Office of State Personnel. OSP maintains a Performance Solutions web site (www.performancesolutions.nc.gov) and has a staff of professionals dedicated to helping agencies and universities meet their workforce planning needs.
- In order to keep state employees' salaries in line with overall labor market trends, base future cost-of-living increases on the Consumer Price Index (CPI) and career growth increases on the relationship between CPI and average market movement.
- In keeping with past practice, increase the "Fair Minimum Rate" from \$22,067 to \$22,888 (125% of 2009-2010 Federal Poverty Guideline for a family of three).
- Change the State Health Plan Year from July 1 - June 30 to January 1 - December 31, so that SPA employees can better plan their out-of-pocket expenses and strategies for NC Flex contributions and other benefit programs.
- In order to increase participation and lower costs for the State Health Plan, consider a small monthly premium for Employee Only coverage and a higher subsidy for Employee/Children and Employee/Family coverage.
- Give employees flexibility in choosing how the employer's portion of the state health plan premium is allocated (i.e. family coverage, medical savings accounts, supplemental retirement plans, etc.) according to individual benefits needs and preferences.
- Match a portion of employees' 401(k) contributions to be more competitive with local governments and other Southeastern states (such as neighboring states Georgia and Virginia).

- In order to better utilize state retiree talents and skills, reduce waiting period for return to part-time employment from 6 months to 30 days.
- Centralize coordination of supplemental benefits and consolidate supplemental benefit plan offerings in a menu approach for portability and cost savings. Allow employees to select plan products that meet their needs.
- Combine Leave Accrual categories *0-2 years of service* and *2 years of service but less than 5* into one category of *0-5 years of service*. Increase all Vacation accrual rates by $\frac{1}{4}$ day (2 hours) per year.
- Increase the number of Holidays by one day in years where eleven are granted so that twelve are granted every year.

II. INTRODUCTION

This Compensation & Benefits report responds to the requirements expressed in NCGS 126-7(b) [State Personnel Act] to guide the Governor and the General Assembly in making funding appropriations for State employees' salary increases. The results of the compensation survey are presented to the Appropriations Committee of the House and Senate no later than two weeks after the convening of the legislature in odd years and May 1st of even years.

This report conveys economic and pay trends, findings and data derived from compensation and benefits surveys that the Office of State Personnel 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. It also presents findings and survey results showing North Carolina's rank in relation to that of other southeastern states and the nation in providing competitive total compensation programs for state employees.

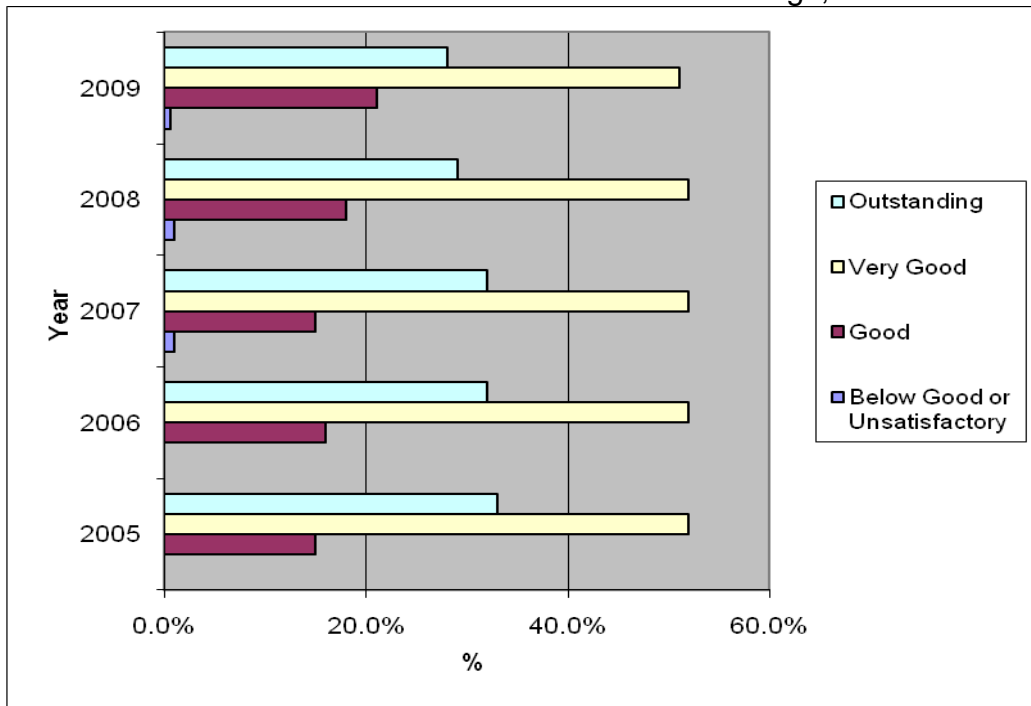
North Carolina's Pay Philosophy

The State Personnel Act, G.S. 126, states *"It is the policy of the State to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce."* This statutory provision expresses the state's philosophy in the development and administration of compensation policies, rules and practices for all employees subject to the State Personnel Act. However, it is often in direct conflict with other state laws and practices.

For example, while the state currently requires a performance management system with performance rewards to be funded by the General Assembly, there has consistently been no funding for performance rewards of any kind for over ten years. This has allowed the state's performance management system to malfunction to the point that ratings are artificially inflated and distribution of those ratings is significantly skewed. As seen in Chart 1 below, the vast

majority of state employees are rated as “Very Good” or “Outstanding” when it would be more appropriate to see most employees at “Good.” While headway has been made in recent years to maintain labor market competitiveness, there has been very little in the way of monetary or systematic encouragement of performance excellence.

Chart 1: Distribution of Statewide Performance Ratings, 2005-2009



Source: NC Office of State Personnel

III. TOTAL COMPENSATION

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

Employee benefits are key ingredients in a total compensation package. A competitive benefits package is a primary attractor in the recruitment of prospective employees, particularly in difficult-to-recruit occupations. Benefits are equally critical in the retention of high performing employees. Benefits as a percentage of average base pay are depicted in the chart below. The state needs to communicate this important aspect of employees’ compensation to both current and prospective employees.

Total Compensation Model

Table 1: **BENEFITS AS AN PERCENTAGE OF AVERAGE SALARY & WAGES
(CALCULATED AS OF 12-31-09)**

| BENEFIT CATEGORY | PERCENTAGE OF AVERAGE SALARY | AVERAGE VALUE |
|--|-----------------------------------|--------------------|
| Holidays | 4.62% | \$1,931.34 |
| Sick Leave | 4.62% | \$1,931.34 |
| Vacation Leave | 7.60% | \$3,177.10 |
| OASI – DI [Social Security] | 7.65% | \$3,198.01 |
| Retirement & Disability <ul style="list-style-type: none"> • Retirement Systems Pension Fund 3.57% • Death Benefit Trust Fund .16% • Retiree Health Plan Reserve 4.50% • Disability Income Plan .52% | 8.75% | \$3,373.58 |
| Health Insurance | 10.83% | \$4,526.64 |
| Longevity Pay | 1.50% | \$624.69 |
| Total Benefit Value | 45.57% | \$19,049.35 |
| In determining the <i>Percentage of Average Salary</i>, the average state employee's years of service are 11.7 years and average state employee salary is \$41,804. The total benefit value is added to employees' base pay to determine <i>Total Compensation</i>. | | |
| | Average Base Pay | \$41,804 |
| | Average Benefit Value | \$19,049 |
| | Average Total Compensation | \$60,835 |

Source: Office of State Personnel, Office of State Budget and Management and the NC Retirement Systems Div.

Once Average Total Compensation is derived, Salary and Benefits can in turn be calculated as a *Percentage of Total Compensation*. This allows for comparisons to be made between N.C.'s Average Percentage of Total Compensation and national trends, as seen in Table 2. This analysis indicates that North Carolina's salary and wages generally do not make up quite as large a portion of total compensation as is seen nationally, while N.C.'s paid time off benefits generally outpace national averages when expressed as a percentage of total compensation. N.C.'s portion of total compensation dedicated to health insurance lags the national average. Other benefits are largely comparable. 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 | NATIONAL AVERAGE PERCENTAGE OF TOTAL COMPENSATION | N.C. AVERAGE PERCENTAGE OF TOTAL COMPENSATION | CHANGE FROM 2009 |
|---|--|--|-------------------------|
| Salary & Wages | 72.2% | 68.7% | -0.8% |
| Vacation Leave | 3.5% | 5.2% | -0.8% |
| Holidays | 2.3% | 3.2% | |
| Sick Leave | 1.1% | 3.2% | |
| Life Insurance | 0.2% | 0.1% | |
| Health Insurance | 8.5% | 6.9% | +0.5% |
| Retirement | 4.5% | 4.9% | +0.6% |
| Disability | 0.3% | 0.4% | |
| OASI-DI (Social Security) | 5.9% | 5.3% | |
| Non-Production Bonuses (Longevity) | 1.5% | 1.5% | +0.5% |

Source: Office of State Personnel, Office of State Budget and Management and the NC Retirement Systems Div., U.S. DOL Bureau of Labor Statistics "Employer Costs for Employee Compensation – December 2009"

IV. ECONOMIC REVIEW

Wage & Salary Trends

According to salary surveys conducted by national firms engaged in the practice of compensation planning and consultation, data collected for calendar year 2009 (budgeted) project base pay increase budgets shown in Table 3. Figures include merit, across-the-board, and cost-of-living pay increases.

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

| <u>National Firm</u> | <u>2007 Actual</u> | <u>2008 Actual</u> | <u>2009 Actual</u> | <u>2010 Projected</u> |
|-----------------------------|---------------------------|---------------------------|---------------------------|------------------------------|
| William Mercer | 3.8% | 3.8% | 2.1% | 2.6% |

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

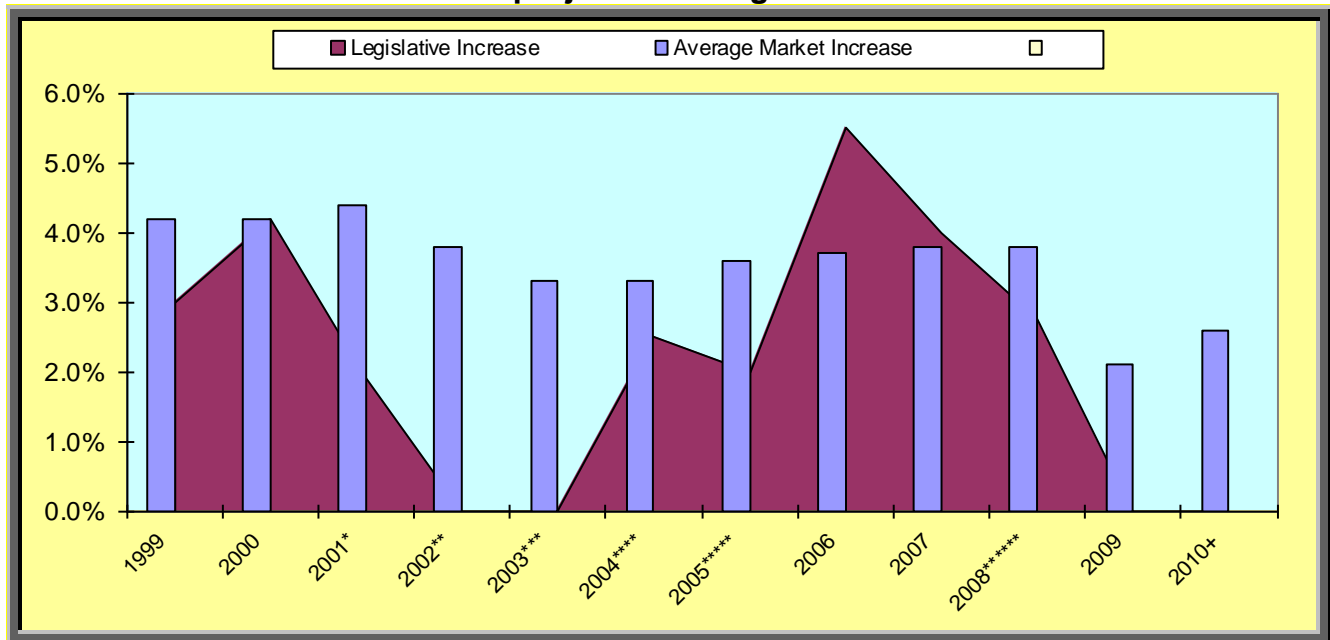
Source: Mercer Human Resources Consulting 2009/2010 US Compensation Planning Survey

Projected and actual wage increases have remained fairly stable at the national level for the best part of the past decade at or about the 4% percent level. However, with worsening economic conditions, actual wage increases declined in 2009 and are projected to decline again in 2010. A study conducted by Mercer Human Resources Consulting, *2009/2010 US Compensation Planning Survey*, revealed that during the calendar year 2009, pay increase budgets declined by 1.7% from 2008.

Analysis of data from a variety of national consulting and business firms places the projected budgeted average wage increase for 2010 at 2.6%.

In North Carolina, annual salary increases for state employees were less than average market movement in all but two of the last twelve years (2006 and 2007), as displayed in Chart 1. Even when factoring in the above-market legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed average market increases by 3.85% since 2005.

Chart 2: NC Legislative Increases compared to actual average market movement 1999-2009 and projected average market movement for 2010



Source: William Mercer, Incorporated

*1.9% increase is based on a \$625 across the board payment divided by the 2001 average salary.

**Ten days bonus leave granted in lieu of wage increase during 2002.

***Ten days bonus leave plus \$550 non-base building bonus granted in lieu of permanent wage increase during 2003.

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

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

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

+ 2010 percentage is a market increase projection

Consumer Price and Employment Cost Indices

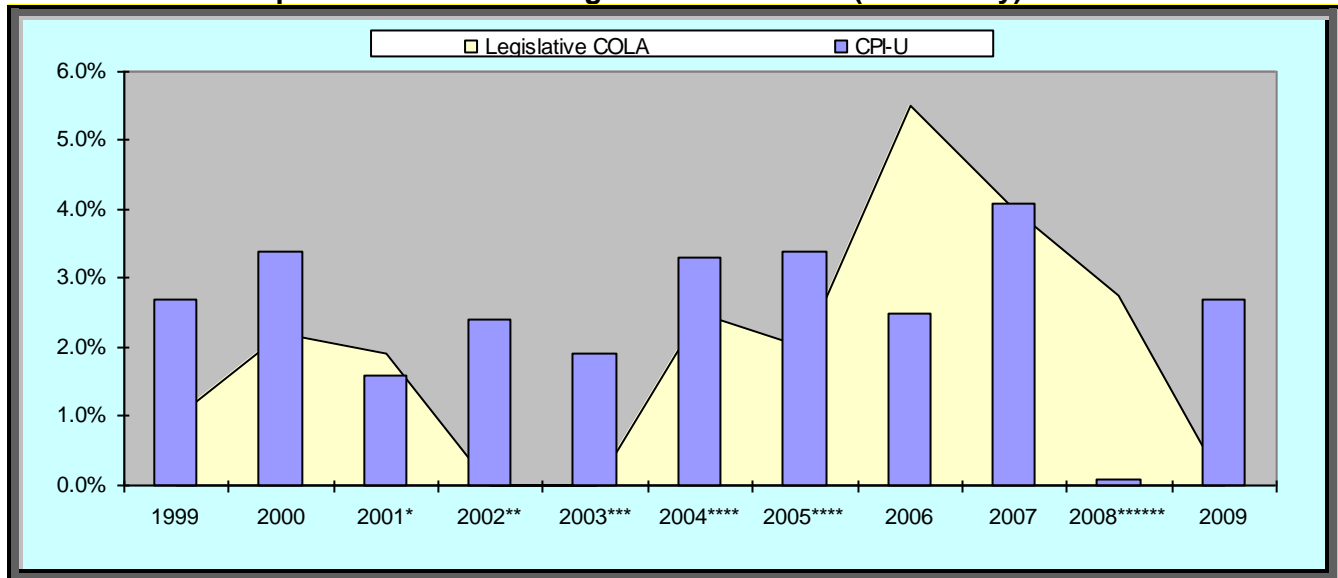
In addition to general labor market movement, the increase in the Consumer Price Index-Urban (CPI-U) for the 12-month period ending in December 2009 was 2.7%. This percentage measures the average change over a specific period of time in the prices paid by urban consumers for goods and services. The CPI-U includes all urban consumers that are roughly 87% of the population in the United States. Since most pay increases for state employees have included a cost-of-living component, the following chart compares the Consumer Price Index-Urban for the years indicated with the percent increase for the cost-of-living portion of legislative increases for the same period. All rates are as of December 31 of the year. [A history of legislative increases for the period 1992-2009 is included in the Appendix of this report.]

The graphed data in Chart 3 indicate that the cost-of-living portion of annual legislative increases from 1999 to 2009 trails the CPI-U percentages for the same time period, with the

obvious exception of 2006-2008. This differential reflects that compensation for state employees has historically not kept pace with the consumer price index. However, over the past five years, the CPI-U has increased 12.80% while N.C. state employee pay has increased 14.25%, effectively continuing to level average employee “buying power” over previous years.

It is notable that last year’s *Compensation and Benefits Report* reported a CPI of 3.70% for 2008. This was based on the CPI through September 30 of that year. This figure evidently declined sharply over the course of the rest of that year and was ultimately reported by the U.S. Department of Labor/Bureau of Labor Statistics as 0.10%.

Chart 3: Comparison of CPI with Legislative Increases (COLA only) 1999-2009



Source: US Department of Labor/Bureau of Labor Statistics & NC Office of State Personnel

*1.9% increase is based on a \$625 across the board divided by the 2001 average salary.

**Ten days bonus vacation granted in lieu of base pay increase during 2002.

*** Ten days bonus vacation, plus \$550 one-time bonus, granted in lieu of base pay increase for 2003.

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

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

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

Compensation Trends

A troubled economy, volatile job market, and rapidly aging workforce are challenging organizations to focus on creative ways of attracting and retaining key talent. Attraction and retention of talent will become more important as labor markets become increasingly competitive. Job families continuing to demand attention include Health Care, Information Technology, Accounting & Finance, Engineering and certain skilled trades.

One way to strengthen the state’s compensation program is to incorporate occupation-specific pay programs, pay incentive programs and similar innovations to provide the state necessary tools to compete in an increasingly tight labor market for critical skills. Career-banding has allowed for some compensation flexibility for certain jobs. In 2008 Career-banding was extended to the Accounting, Engineering, Nursing and Library job families statewide, and was also implemented throughout the university system. But much more can be done, and many

challenges are faced by agencies in having to maintain the salary grade system along with Career-banding, each having its own distinct sets of rules.

Table 4 outlines a number of compensation options that are becoming more prevalent among private and public sector organizations. Usage has remained generally consistent over the past few years.

- Signing bonuses are paid to certain hard-to-hire positions as an incentive to accept a position. This was an option granted by the 2008 General Assembly for Mental Health Nurses, and many other hard-to-recruit jobs could also benefit from an expansion of this program. For example, according to the 2009/2010 Mercer Compensation Planning Study, this is a very commonplace recruitment tool for Information Technology and Finance & Administration jobs (note that all of these tools experienced a decline in use from 2008, likely a function of the sagging economy).
- More aggressive pay increases are aimed at employees whose skills are critical and retaining them is crucial. This is an especially effective tool for use in retaining an organization's top talent.
- Project milestone awards are provided at key interim completion points of a project while spot cash awards are given to reward a specific project or piece of work successfully completed. These are considered to be highly effective and much more affordable than base pay increases for performance.

Table 4 ATTRACTING AND MAINTAINING EMPLOYEES

| Functional Area | Signing Bonuses | More Aggressive Pay Increases | Project Milestone Awards | Spot Cash Awards |
|--------------------------|------------------------|--------------------------------------|---------------------------------|-------------------------|
| Information Technology | 58% | 30% | 67% | 78% |
| Finance & Administration | 49% | 16% | 36% | 74% |
| Human Resources | 35% | 4% | 29% | 71% |
| Customer Service | 15% | 6% | 21% | 70% |

Source: William M. Mercer 2009/2010 US Compensation Planning Survey

Currently, the State Personnel Act prohibits such modern-day pay programs as monetary incentive awards. Pay increases are determined by the Legislature. Organizations continue to look to variable pay as they struggle to afford and sustain compensation levels. Additional flexibility in this area will help the state to remain competitive. One innovative idea that would also be relatively simple to implement is to allow agencies to design bonus pay systems that utilize their lapsed salary funds. Bonus pay as a performance reward – even small amounts for milestone achievements -- is widely utilized in the modern workplace and is considered more effective than base pay increases. However, implementing programs like this for N.C. state government would require strong support from the legislature and the State Employees Association.

Recruitment & Retention

Many factors affect the capacity of an organization to recruit and retain a competent and qualified workforce. Given the organizational and occupational diversity of North Carolina's state government, there is no "one size fits all" solution to the myriad recruitment and retention issues facing its managers. Generally speaking, the state's principle concerns include citizens' expectations that state government will protect their health and safety; provide affordable and accessible education; maintain the quality and integrity of the state's environment; offer diverse programs and services for cultural enrichment; and ensure a viable, safe infrastructure and transportation system. The state must meet these expectations and comply with legislative mandates for services to citizens.

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

Compensation and benefits are obviously key factors in the recruitment and retention of employees for any organization. In North Carolina, pay for state employees has not been consistent for a number of years with various indices that measure cost-of-living and market movement. Also, North Carolina is significantly behind private and public industry by not offering a match in the State's 401(k) program.

In a report from the Society of Human Resources Management (SHRM), two North Carolina metropolitan areas are in the top 20 for highest projected job growth in the decade from 2003 to 2013 (Raleigh-Durham and Charlotte at numbers 9 and 12, respectively), thus competition for qualified employees will grow. A joint SHRM/CNNfn (Cable News Network-Financial Network) Job Benefits Survey Report indicates the top five benefits most important to overall employee job satisfaction are health care/medical benefits, paid time off, retirement benefits (e.g., defined contribution plans and defined benefit plans, such as 401(k)), dental insurance and a prescription drug plan.

As one example, medical and allied health occupations continue to present particular recruitment and retention concerns. A national shortage of nursing professionals since 1999 has exacerbated the state's chronic difficulty in recruiting and retaining these direct care professionals in the state's psychiatric and prison hospitals, student health services, and similar clinical settings. As reported in past reviews, there are a limited number of psychiatric nurses, as it is a specialized field and many nurses elect to work in other nursing fields. Finally, the mental health reform movement in North Carolina has prompted recommendations to close or consolidate the state's existing psychiatric hospitals. This will likely further diminish the already too few number of nurses who might be interested in employment with the State. As cited in Section IV of this report, a potentially important step forward was made when the Legislature approved sign-on bonuses for mental health nurses. This has long been a common recruitment tool in the private sector that for years has not been allowed in N.C. state government. The state must continue to explore additional options for recruiting and retaining key roles such as mental health nurses, based on practices that are commonly utilized by our competitors as well as innovative techniques of our own.

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

Methodology

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

The methodology for analyzing data and identifying pay trends is equally important. The information presented in this report derives from multiple national and local surveys, and it reflects benchmark classes that were deliberately selected to represent each of the twelve occupational groups in the state's pay plan. The survey sample included 61 benchmark classes – a cross-section spanning ten major job families -- that represent nearly 1/3 of all employees subject to the State Personnel Act. After identifying the benchmark classes, appropriate labor markets were determined.

Current turnover and vacancy rate data for each class are included in the report.

Market data was collected from the following published sources:

- **William Mercer Human Resource Consulting – 2009/2010 US Compensation Planning Survey – A Study of Pay Increases, Incentive Compensation, and Emerging Practices.** More than 1,000 organizations provided data for the 2008/2009 US Compensation Planning Survey, representing pay practices of more than 12 million workers. Data representing similar jobs in government, as well as local private industry, were used in comparisons to the State of North Carolina.
- **Watson Wyatt 2009/2010 Survey Report on Hospital and Healthcare Professionals, Nursing and Allied Services Personnel Compensation.** A comprehensive document with data from 1,301 organizations reporting on 756,761 incumbents in hundreds of positions.
- **Watson Wyatt 2009/2010 Survey Report on Technician and Skilled Trades Personnel Compensation.** A survey based on data from 862 organizations with 498,298 incumbents.
- **Watson Wyatt 2009/2010 Survey Report on Office Personnel Compensation.** A survey based on data from 981 organizations with 460,475 incumbents.

- The **Kaiser Family Foundation and Health Research and Educational Trust** Employer Health Benefits **2008** Annual Survey
- **Capital Associated Industries – 2009 North Carolina Wage & Salary Survey –** Wage and salary information from designated areas in North Carolina, with pacesetter organizations (600 or more employees) in an area including Wake, Durham, Orange and Alamance counties. Survey provides area-to-area compensation rates.
- **League of Municipalities Survey 2009** - A compilation of salary data for specific municipal jobs located throughout the state.
- **MAPS Group for the Institute of Government – County Salaries in North Carolina – 2009 - Salaries** and wage profiles by position and information about fringe benefits offered by North Carolina counties.
- **2006 Hay Benefits Report –** An analysis of benefits, perquisites and personnel policies for exempt employees in 760 industrial, financial and service organizations throughout the United States. Provides major findings and trends.
- **World at Work - Salary Budget Survey –** 3,272 member responses to a survey presented in both industry and sub-industry and regional categories identifying trends, structures and average salaries broken out in FLSA employment categories (non-exempt hourly non-union, non-exempt salaried, exempt salaried and officers/executives).
- **Southeastern Salary Conference, 2005 to 2009;** salary and benefits information gathered from surveys from fourteen southeastern states (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia and West Virginia.)
- **Society of Human Resource Management (SHRM) 2006 Workplace Forecast – A Strategic Outlook –** Information based on a survey of human resource professionals and their views on the key issues in demographics, employment, international affairs, politics, society and science and technology that will have the greatest impact on the workplace in the next decade.
- **National Association of Colleges and Employers Salary Survey –** NACE compiles data from career planning and placement offices of colleges and universities across the US. This report consists of starting salary offers made to new graduates by employing organizations in business, industry, and government and by nonprofit and educational institutes.
- **Compdata Surveys – Compensation Data 2009 – Carolinas – Pay and Benefits Survey Results –** survey analysis, pay practices and benefit practices for 223 companies in North and South Carolina, covering 491 jobs in both states.
- **CompAnalyst –** web-based compensation survey tool from Salary.com with data on over 3200 benchmark jobs in 243 geographic areas.

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

- *Labor Market Rate* is the average rate of pay that competitors have reported through surveying in a classification similar to that found in state government.
- *Labor Market Pay Gap* is the relationship expressed in percentage terms between the state's average salary for a benchmark class and the average wage reported for a relevant labor market for that class.
- *Turnover Rate* is a percentage reflecting all separations from employment for both voluntary and involuntary reasons compared to the total number of employees over a span of 1 year.
- *Vacancy Rate* is the percent of positions by classification that are vacant among the total number of positions covered by the State Personnel Act for any specific period of time.

Market Analysis

Average Salary Overall Comparison

For 2009, an analysis of salary survey data for the benchmark classes indicates state employees' salaries overall trail their equivalent labor market by 1.54%. This was a 3.3% improvement over the previous year's analysis, and is generally considered to be a very favorable competitive position for the state. Table 5 shows the average annual salary comparison between North Carolina's benchmark class titles and the composite market averages for the past six years. The percent difference should not be directly compared year-to-year because the labor market information available, classes sampled and the total number of classes for each year usually vary slightly. Each year should be viewed as a single snapshot. In 2009 over 40 classes were presented to and approved by the State Personnel Commission for classification and pay actions.

Table 5: **OVERALL MARKET COMPARISON**

| Year of Report | North Carolina Pay | Market Pay | % NC Trails Market |
|----------------|--------------------|------------|--------------------|
| 2010 | 48,384* | 49,127** | -1.21% |
| 2009 | 48,711* | 51,081** | -4.43% |
| 2008 | 47,722* | 49,660** | -4.06% |
| 2007 | 45,597* | 46,483** | -1.94% |
| 2006 | 43,215* | 46,543** | -7.70 % |
| 2005 | 41,787* | 46,035** | -10.2 % |

*Average annual salary for NC Benchmark classes only

**Composite market average for NC Benchmark survey comparisons (North Carolina and/or Southeast Regional job markets)

Survey Findings for Selected Benchmark Classes

Market data collected for the fifty-three (53) benchmark classes -- representing approximately 1/3 of the state's workforce -- in this report were analyzed by staff in the Office of State Personnel and indicate that the average wage for 10 of the 53 (19%) classes trailed the market by at least 5% and 7 of the 53 (13%) trailed by at least 10% (compared to 59% and 36%, respectively, in 2008). Table 6 lists selected classes that trail the market as shown under "Market Pay Gap". Data indicating turnover and vacancy rates for the period ending June 30, 2009 also have been included to give a more complete view of potential recruitment and retention issues for these classes. It is evident from the data that North Carolina was reasonably competitive in 2009 for many of the benchmark classes. See the Market Data Appendix for a complete list of benchmark classes surveyed including turnover and vacancy rates.

Average salaries and market averages are subject to constant change and influence, including the influence of any across-the-board legislative increase. Therefore, any legislative increase must be considered before market-based salary adjustment recommendations can be made.

Table 6: **SELECTED BENCHMARK CLASSES**

| Class Title | NC Average | Market Rate | Market Pay Gap | Turnover Rate |
|-------------------------------|------------|-------------|----------------|--------------------|
| Auditor | 53,379 | 62,053 | -16% | <i>unavailable</i> |
| Info & Communications Spec II | 45,793 | 54,003 | -18% | 12.9% |
| Executive Assistant I | 43,411 | 48,257 | -11% | 7.5% |
| Electrician II | 38,843 | 44,699 | -15% | 2.1% |
| Professional Nurse | 53,907 | 55,015 | -2% | <i>unavailable</i> |
| Occupational Therapist I | 64,437 | 67,550 | -5% | 16.2% |
| Social Worker III (MSW) | 42,410 | 47,490 | -12% | 9.7% |

Source: PMIS and BEACON

Note: The State's average turnover rate for all occupations in fiscal year 2008-2009 was determined to be **9.9%**

Comparison to Southeastern States

Table 7 shows average salaries for classified employees in North Carolina as compared with 13 other states in the Southeast region over the past four years. As illustrated here, North Carolina's average salary has led SE States in recent years.

Table 7: **COMPARISON TO SE STATES (CLASSIFIED EMPLOYEES ONLY)**

| | 2006 | 2007 | 2008 | 2009 |
|------------------------|---------------|---------------|---------------|---------------|
| All SE States | 34,916 | 35,559 | 37,032 | 37,511 |
| North Carolina | 38,256 | 40,367 | 41,646 | 41,804 |
| NC Differential | +8.7% | +11.9% | +11.1% | +11.4% |

Comparison to Contiguous States

NC Average Pay Comparison to Contiguous States: A more relevant comparison may be North Carolina to her border states. A pay history comparison with three neighboring states reveals that North Carolina has generally led South Carolina and Tennessee in pay, and stayed relatively even with Georgia and Virginia (see Tables 8-11).

Table 8: **COMPARISON TO GEORGIA (CLASSIFIED EMPLOYEES ONLY)**

| | 2006 | 2007 | 2008 | 2009 |
|------------------------|---------------|---------------|---------------|---------------|
| Georgia | 37,295 | 38,277 | 40,297 | 40,297 |
| North Carolina | 38,256 | 40,367 | 41,646 | 41,804 |
| NC Differential | +2.5% | +5.2% | +3.2% | +3.7% |

Table 9: **COMPARISON TO SOUTH CAROLINA (CLASSIFIED EMPLOYEES ONLY)**

| | 2006 | 2007 | 2008 | 2009 |
|------------------------|---------------|---------------|---------------|---------------|
| South Carolina | 34,416 | 35,784 | 35,911 | 36,906 |
| North Carolina | 38,256 | 40,367 | 41,646 | 41,804 |
| NC Differential | +10.0% | +11.4% | +13.8% | +13.3% |

Table 10: **COMPARISON TO TENNESSEE (CLASSIFIED EMPLOYEES ONLY)**

| | 2006 | 2007 | 2008 | 2009 |
|------------------------|---------------|---------------|---------------|---------------|
| Tennessee | 34,429 | 36,366 | 36,188 | 35,945 |
| North Carolina | 38,256 | 40,367 | 41,646 | 41,804 |
| NC Differential | +10.0% | +9.9% | +13.1% | +16.3% |

Table 11: **COMPARISON TO VIRGINIA (CLASSIFIED EMPLOYEES ONLY)**

| | 2006 | 2007 | 2008 | 2009 |
|------------------------|---------------|---------------|---------------|---------------|
| Virginia | 39,622 | 41,297 | 42,937 | 42,953 |
| North Carolina | 38,256 | 40,367 | 41,646 | 41,804 |
| NC Differential | -3.6% | -2.3% | -3.1% | -2.7% |

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

Source, Tables 7-11 Southeastern Salary Conference - 2009

Comparison of NC Base Pay Increases to Local Municipalities

The State must compete for qualified candidates to fill vacant positions with private firms and other local government jurisdictions. In the most recent Fiscal Year, 69 NC counties provided cost of living increases with an average increase amount of 2.67%, while the state provided no increase. Also, 38% of N.C. counties also anticipated granting performance increases, which the state has not done for many years. (Source County Survey 2009 (MAPS Group))

Table 12 offers examples of a few classifications of interest that the state has in common with local municipalities. As illustrated here, the state is competitive in certain areas while lagging in others (it is important to note also that most municipalities also make a contribution to employee 401k accounts).

Table 12: **COMPARISON OF LOCAL MUNICIPALITIES (POPULATIONS OF 25,000 AND ABOVE – DATA AGED TO DECEMBER 1, 2009)**

| NC Class Title | Municipalities Average Pay | North Carolina Average Pay | NC Pay Differential |
|-------------------------|----------------------------|----------------------------|---------------------|
| Public Safety Officer | 40,092 | 37,899 | -5.8% |
| Maintenance Mechanic IV | 39,140 | 38,921 | -0.6% |
| Housekeeper | 25,574 | 23,982 | -6.6% |
| Office Assistant IV | 32,607 | 32,311 | -0.9% |
| Engineer | 64,588 | 62,392 | -3.5% |

Source: League of Municipalities Survey 2009, PMIS and BEACON

Comparison of Pay Increases of State Employees and NC Teachers

The General Assembly grants legislative increases to teachers, as well as regular state employees. Table 13 illustrates a comparison of teacher pay increases to state employees. State employees have received smaller increases than teachers in eight of the nine years. Cumulatively, across-the-board teacher pay increases have outpaced state employee pay increases by about 11% since 2000. Additionally, teachers receive automatic annual step increases and, in certain counties, generous localized pay supplements.

Table 13: **COMPARISON OF TEACHERS TO STATE EMPLOYEES INCREASES**

| Years | Teacher's Increase | State Employee's Increase | NC Average Teacher Pay | US Average Teacher Pay |
|-----------------------------|--------------------|---------------------------|------------------------|------------------------|
| 2009-2010 | 0 | 0 | Not yet published | Not yet published |
| 2008-2009 | 3.0% (avg) | 2.75% or \$1,100 | 48,648 | 54,319 |
| 2007-2008 | 5.0% | 4.0% | 47,633 | 52,308 |
| 2006-2007 | 8.0% (avg) | 5.5% | 46,137 | 50,816 |
| 2005-2006 | 2.24% | 2.0% or \$850 | 43,922 | 49,109 |
| 2004-2005 | 2.5% (avg) | 2.5% or \$1,000 | 43,348 | 47,750 |
| 2003-2004 | 1.81% | \$550 bonus (Leave) | 43,211 | 46,752 |
| 2002-2003 | 1.84% | 0 (Leave) | 43,076 | 45,776 |
| 2001-2002 | 2.86% | 1.9% (Average on \$625) | 42,680 | 44,660 |
| 2000-2001 | 6.5% | 4.2% & \$500 bonus | 42,959 | 43,395 |
| Total Base Increases | 33.75% | 22.85% | N/A | N/A |

Sources: Legislative Report Page, NC DPI Facts & Figures and Annual Approved Budget Act

Table 14: COMPARISON OF TEACHER PAY TO NATIONAL AVERAGE

| Years | NC Average Teacher Pay | US Average Teacher Pay | NC differential | Teacher's Increase |
|-----------|------------------------|------------------------|-----------------|--------------------|
| 2009-2010 | Not yet published | Not yet published | N/A | 0 |
| 2008-2009 | 48,648 | 54,319 | -11.7% | 3.0% (avg) |
| 2007-2008 | 47,633 | 52,308 | -9.8% | 5.0% |
| 2006-2007 | 46,137 | 50,816 | -10.1% | 8.0% (avg) |
| 2005-2006 | 43,922 | 49,109 | -11.8% | 2.24% |
| 2004-2005 | 43,348 | 47,750 | -9.2% | 2.5% (avg) |
| 2003-2004 | 43,211 | 46,752 | -7.6% | 1.81% |
| 2002-2003 | 43,076 | 45,776 | -5.9% | 1.84% |
| 2001-2002 | 42,680 | 44,660 | -4.4% | 2.86% |
| 2000-2001 | 42,959 | 43,395 | -1.0% | 6.5% |

Sources: NCES Digest of Education Statistics, NC DPI Facts & Figures

New Graduates Starting Pay Analysis

The State must compete with private companies and local governments for qualified candidates to fill vacancies. One measure of the State's ability to compete in the labor market is the ability to offer competitive starting salaries for college graduates that are being recruited and hired by competitors. Table 15 provides information on the reported national average starting pay offers made to graduating students in seven functional areas of interest. These are national averages for offers made to bachelor's degree candidates in Winter 2008-2009, so do not necessarily reflect the N.C. labor market, but may give some indication where further analysis is warranted. North Carolina's class title and base minimum pay is compared.

Table 15: NEW GRADUATE'S STARTING PAY ANALYSIS – JANUARY 2009

| NC Class Title | NACE Starting Salary | NC Minimum Hiring Rate (inc. SMR's) | Entry Pay Gap |
|--|----------------------|-------------------------------------|---------------|
| Accountant Trainee (banded) | 48,334 | 34,113 | -29.4% |
| Personnel Analyst I, Trainee | 44,144 | 30,298 | -31.4% |
| Operations & Systems Specialist (banded) | 58,419 | 52,000 | -11.0% |
| Professional Nurse (banded) | 46,655 | 37,700 | -19.2% |
| SBI Agent, Trainee | 42,750 | 36,743 | -14.0% |
| Social Worker, Trainee | 30,025 | 27,309 | -9.9% |
| Artist Illustrator I | 37,545 | 27,544 | -26.6% |

Source: National Association of Colleges and Employers, Winter 2009

It is critical that the state attract and retain high quality younger employees to its workforce. With national trends showing a wave of retirements about to occur, younger

employees will be more sought after in coming years than ever before. See analysis of turnover among 18-25 year old employees in the following section.

Additional Analysis

Turnover Rates and Cost

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

The cost of turnover is difficult to measure but is very important for organizations to understand. The cost to an organization for each position turnover has been estimated by the experts at anywhere from 50% to 250% of the departing employee's annual salary depending on the type of position being filled and the performance level of the departing employee. The Human Capital Institute places the average value of turnover at 150% though it must be stressed that turnover of top performers may be valued at an exponentially higher rate (though it would be inaccurate to assign a higher value given the artificial preponderance of "Very Good and "Outstanding" ratings in our current performance management system). 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. Though the costs may be hard to quantify, they are clearly considerable and should be monitored. The high cost of turnover presents a clear argument for agencies and universities to engage in rigorous workforce and succession planning.

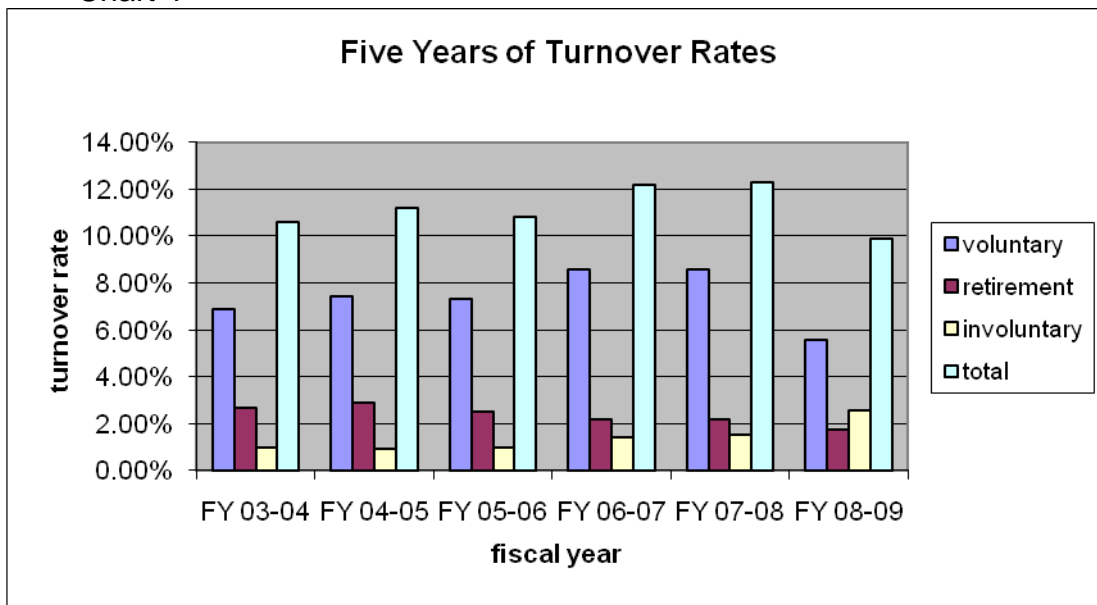
Turnover is a measure of employee separations from an agency or university most often expressed as turnover rate. Two types of turnover are tracked: Total Turnover and Voluntary Turnover. Total turnover includes all separations for any reason. The total turnover rate is calculated by dividing the number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

Table 16: FIVE YEARS OF TURNOVER RATES – STATE OF NORTH CAROLINA

| | FY 2004-2005 | FY 2005-2006 | FY 2006-2007 | FY 2007-2008 | FY 2008-2009 |
|-----------------|--------------|--------------|--------------|--------------|--------------|
| Voluntary T/O | 7.4% | 7.3% | 8.6% | 8.6% * | 5.6% * |
| Retirement T/O | 2.9% | 2.5% | 2.2% | 2.2% * | 1.8% * |
| Involuntary T/O | 0.9% | 1.0% | 1.4% | 1.5% * | 2.6% * |
| Total T/O | 11.2% | 10.8% | 12.2% | 12.3% * | 9.9% * |

* NOTE: The continued transitioning of positions and employees from PMIS to the BEACON system in 2007 and 2008, along with the transitioning of many positions and employees to Career-banding – make the 2007-2008 and 2008-2009 data potentially questionable. However, it appears to be relatively consistent with past years and economic trends.

Chart 4



Source: PMIS and BEACON

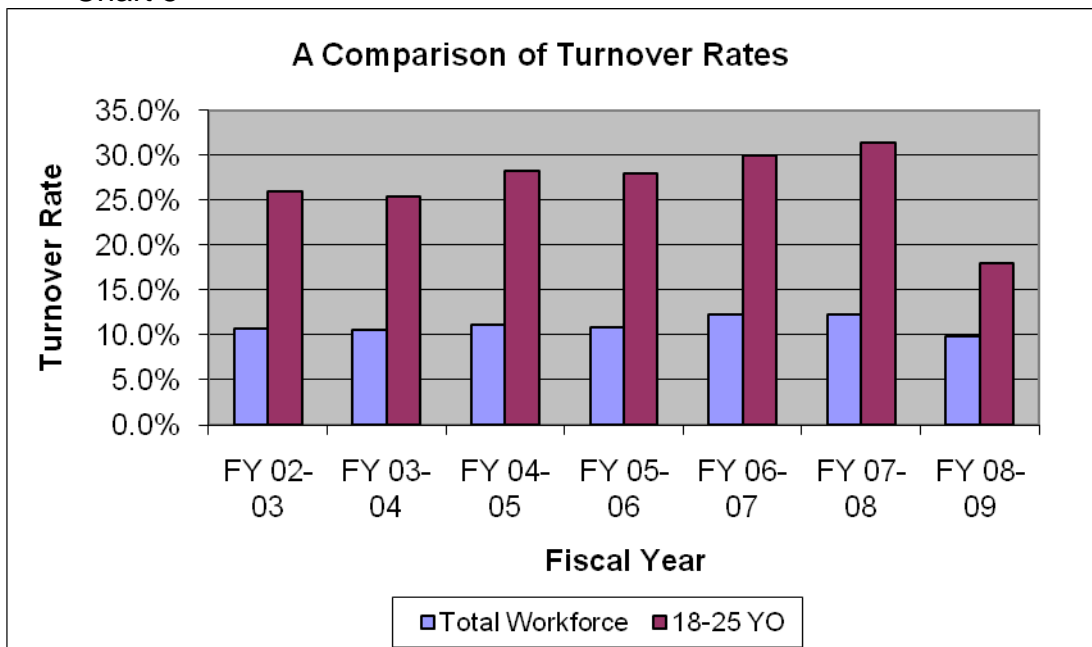
In FY 2008-2009, the State had a 5.6% voluntary turnover rate. Using the HCI turnover value of 150% cost of turnover, the cost to the state would be more than **\$325 million** (5.6% of state employees is approximately 5,187, multiplied by average state salary \$41,804, multiplied by 150%). Because the cost of replacing human capital is so high, we believe this underscores the need to closely monitor turnover, strive for competitive salaries, and maintain a positive work environment with high employee engagement levels. Simply put, uncompetitive salaries, poor working conditions and the low employee engagement that can come along with those conditions exacerbate turnover and needlessly cost the state hundreds of millions of dollars.

While the costs of turnover are astonishing, solutions do not have to be. The Corporate Leadership Council (CLC) has conducted extensive research to put a value on the factors that drive employee attraction and retention. While compensation is a key to employee commitment to an organization, it is important to note that the CLC cites development opportunities, future career opportunities and high quality management (among several others) as far more critical retention factors than pay. According to the Human Capital Institute (HCI), 40% of employees leave jobs because of managers. HCI also reports that 90% of managers

say retention is about money, while 90% of employees say it is not. Coaching, feedback, growth, challenge and relationships are all more important factors. Turnover cannot be eliminated – and in fact turnover of employees who are not considered a “right fit” can ultimately provide cost-saving opportunities for organizations. But where retention is considered critical, it is important to pay attention to factors other than compensation.

While the retirement rate has remained relatively steady in recent years, it is widely recognized that the “baby boomer” generation will be leaving the workforce at a more accelerated rate in the next 3 to 10 years. This is especially critical in light of the fact that the state consistently has trouble attracting and retaining younger employees entering the workforce. The average age of new hires in FY 2007-2008 was 37 years old, while only 3.8% of the state’s current workforce consists of 18-25 year olds. Turnover rates among 18-25 year old workers is traditionally higher than the overall turnover rates for state government over the past seven years (source: PMIS and BEACON), though this trend lessened in 2008-2009, likely because of the economic downturn.

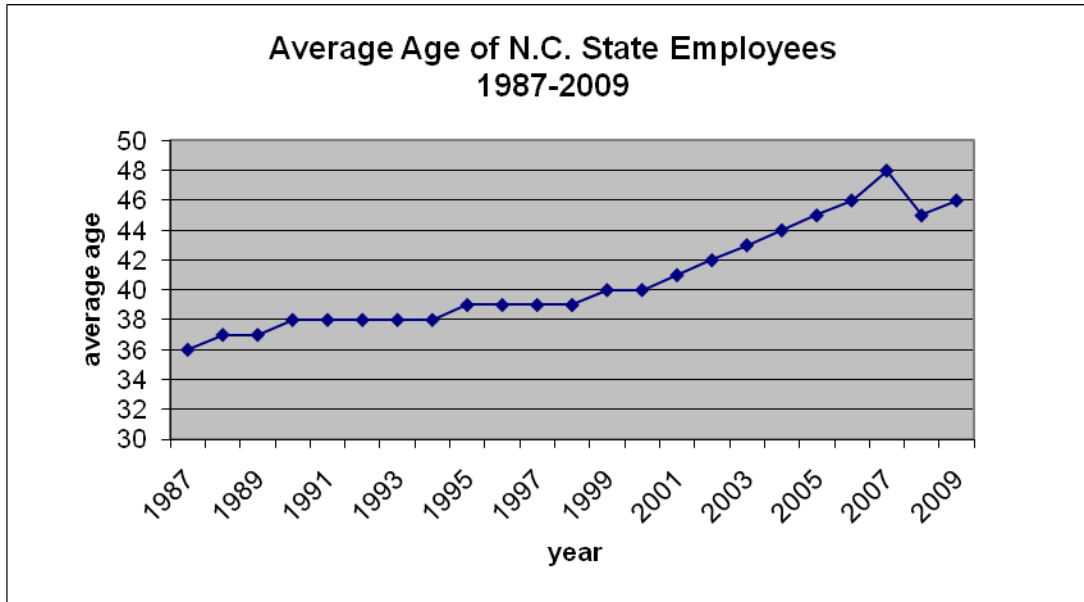
Chart 5



source: PMIS and BEACON

Meanwhile, the average age of N.C. state employees has generally increased over the past two decades (until 2008 when it fell slightly), further illustrating the impending aging workforce issues.

Chart 6



source: PMIS and BEACON

Use of Salary Adjustment Funding

One tool that has helped keep salaries competitive in the past is the Salary Adjustment Fund. The Salary Adjustment Fund is used to increase salaries in occupational fields, such as those listed in Table 4, where some salaries are significantly below the market. The primary funding mechanism, transferring legislative increase funds remaining after employees receive their legislative increase, continues to be inadequate to address occupational areas where salaries are below the market. Due to economic instability, no Salary Adjustment Fund moneys were allocated in 2008 or 2009. In 2007, \$17.6 million was allocated to the SAF for agency and university requests totaling \$24.4 million. Total needs were considerably higher in 2007, and increased in 2008. Projected retirements are expected to create significant vacancies in many occupational areas in the State's workforce over the coming years, including those that are critical to the delivery of services to citizens. While these retirements will also create significant salary reserve, many agencies may still face difficulty in filling critical vacancies without sufficient funds to maintain competitive recruitment.

VI. BENEFITS ANALYSIS

In 1992, the Government Performance Audit Commission [GPAC] recommended that . . .

...the State should offer full, flexible, and portable benefits; determine the most appropriate contribution method; and determine a contribution philosophy for each covered group. The State's employee benefits programs are fragmented and not cost-effective.

In the SHRM 2006 Workplace Forecast Survey, a comparison of “Very Important” job satisfaction aspects showed *Benefits* as being a close second to *Compensation/Pay* for employees at all ages. The survey also reflects the rise in health care costs as the number one key economic trend, and a rise in retiree benefit costs as the second highest economic trend.

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. Recommendations follow.

Vacation

Southeastern states average 13.77 days of vacation leave based on 1-5 years of service. Similar to North Carolina the average accrual rate progressively increases to reflect the concurrent increases in years of service. By comparison, North Carolina provides the lowest number of vacation days accrued for employees with 0-2 years of service and is at the average for 3-14 years. However, North Carolina’s average accrued vacation days are higher than average for employees with more than 15 years of service. Most of the states accrue leave in whole days, (e.g. 12 or 15 days annually), while North Carolina accrues leave in decimal fractions of a day (e.g. 13.75 days annually). This makes it more difficult to explain our vacation benefits package to employees.

Table 17: **VACATION LEAVE**

| Years of State Service | North Carolina | SE States | Differential in Days |
|-------------------------------|-----------------------|------------------|-----------------------------|
| 0 but less than 2 years | 11.75 | 13.77 | -2.02 |
| 2 but less than 5 years | 13.75 | 13.77 | Negligible |
| 5 but less than 10 years | 16.75 | 16.81 | Negligible |
| 10 but less than 15 years | 19.75 | 19.92 | Negligible |
| 15 but less than 20 years | 22.75 | 22.27 | +0.48 |
| 20 but less than 25 years | 25.75 | 24.00 | +1.75 |
| 25 years or greater | 25.75 | 24.40 | +1.34 |

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Sick Leave

Southeastern states grant an average of 13.77 days per year sick leave for employees with up to 3 years of service. North Carolina is below the average for all southeastern states at 12 days per year of employee sick leave. Only two other states [Arkansas and Tennessee] among those surveyed grant the same number of sick leave days as North Carolina. Some other states [Kentucky, Louisiana, Mississippi] start employees with 12 days but increase the allotment with service time. The most frequently reported number of sick leave days granted per year among southeastern states is 15 days.

Table 18: **SICK LEAVE**

| Sick Leave | North Carolina | SE States | Differential |
|------------|----------------|------------|--------------|
| Accrual | 12 Days | 13.77 Days | -1.77 Days |

2009 Southeastern States Benefits and Pay Practices 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 11.39 holidays. That is slightly greater than the 11 holidays normally granted state employees in North Carolina (note that the NC number varies year to year depending on whether 2 or 3 holiday days are granted around Christmas).

Table 19: **HOLIDAYS**

| Holiday Leave | North Carolina | Southeastern States |
|---------------|----------------|---------------------|
| Days per Year | 11 | 11.58 |

2009 Southeastern States Benefits and Pay Practices Survey

Please see recommendations for increases to leave accrual rates at the end of this report.

Health Insurance

In 2006 the State launched a PPO option to address State Health Plan members' requests for greater affordability and choice in obtaining coverage. The PPO option was offered to all eligible State Health Plan members, along with the Comprehensive Major Medical Plan (indemnity plan), during an open enrollment period. The PPO became effective in October 2006. With a well-designed PPO choice, the State Health Plan anticipates significant cost savings to members by avoiding deductibles and co-insurance for doctor visits, and reducing premiums for all dependent coverage. Also, there is an Employee-Spouse tier with the PPO, an option which is not available with the Comprehensive Major Medical Plan. This is very positive progress in answering employees' requests for more affordable health care options. During the 2006 open enrollment period, approximately 330,000 State Health Plan members switched from the traditional indemnity plan to one of the PPO options. "The PPO will save North Carolina taxpayers more than \$25 million dollars from October 1, 2006 through October 1, 2007. Most State Health Plan PPO members and their families will also realize notable health care savings," said then Executive Administrator George C. Stokes.

In 2008, the traditional indemnity plan was phased out in favor of a more cost effective PPO plan, which has three options for coverage. According to the National Coalition on Health Care, the annual premium for an employer health plan covering a family of four averaged close to \$11,500 in 2007, while the annual premium for single coverage averaged more than \$4,200. In comparison, the State Health plan annual premiums for 2007 through 2009 will be \$10,030 for a family of four and \$4,157 for single coverage. North Carolina continues to be one of only a small number of states providing full employee premium coverage. It is only one of five southeastern states offering this benefit.

According to the Kaiser/HRET 2008 health benefits survey, the average cost of premiums for single employee coverage was \$392 per month or \$4,704 per year, and the average cost of premiums for family coverage was \$1,057 per month or \$12,680 per year. Covered workers contributed 16% of the premium for single coverage and 27% for family coverage. On average, workers with single coverage contribute \$60 per month to the cost of their premiums and workers with family coverage contribute \$280 per month. Twenty percent of workers with single coverage and 7% of workers with family coverage work for an organization that pays 100% of the premium. In 2009, single coverage for N.C. state employees in 2009 cost the state \$377 per month – only 3.8% less than the national average. However, the cost to employees for family coverage in N.C. (\$533) was nearly double the national average. This is because the state contributes the same amount towards health coverage for both single employee and family coverage, and also does not require employees to pay a premium for single coverage – practices that are uncommon in the market and place an undue burden on employees with family coverage.

In 2006, the state’s benefits programs improved somewhat with the addition of PPO options for employee health coverage. However, the State’s traditional indemnity plan was eliminated in 2008, which lessened the options available for health coverage. In 2010 the State Health Plan began a Wellness Initiative, requiring employees to default to a lower-cost 70/30 copay health coverage option and attest to the fact that they were not tobacco users in order to maintain 80/20 coverage. In 2011 the state will expand this program to factor in obesity as measured by Body Mass Index calculations. The SHP estimated in 2009 that claims for tobacco related issues may accumulate to over \$137 million per year, while claims for chronic diseases related to obesity may be as high as \$107.8 million per year.

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

Comparison to Southeastern States

10 of 14 southeastern states subsidize their employees' dependent care coverage. Only North Carolina, Alabama, Kentucky and Mississippi do not subsidize dependent care coverage. Amounts subsidized varied greatly by state and type of health plan employees selected. North Carolina contributes \$377 per month for Employee Only coverage but zero additional allowance is made for Dependent (Family) coverage.

Table 20: SURVEY OF HEALTH INSURANCE COVERAGE FOR DEPENDENT CARE AND CHOICE OF PLAN

| Survey Participants | Percent that Subsidizes Dependent Coverage |
|---------------------|--|
| Southeastern States | 71% |

Source: 2009 Southeastern States Benefits and Pay Practices Survey

Comparison to Local Government Practices

In surveys, local governments report on choice of health plan, deductibles and employee and agency cost. The comparative results are in Table 21, and suggest that N.C. compares favorably in this area to its counties and municipalities.

Table 21: SURVEY OF LOCAL GOVERNMENT'S HEALTH INSURANCE PRACTICES

| Type of Agency | % of Agencies Offering Choice of Plans | Normal Deductible (if flat \$ amount reported) | Normal Co-pay (if flat \$ amount reported) | Average Annual Amount Employee Pays | Average Annual Amount Agency Pays |
|--------------------------------|---|---|---|--|--|
| Municipalities | 8.1% | \$574 | no data | \$60 | \$4,548 |
| Counties | 18.0% | \$506 | \$19 | \$69 | \$5,522 |
| State of North Carolina | NO * | \$600 | \$25 | \$0 | \$4526 |

*In 2009, N.C. offered only a PPO plan with two options for coverage. Some municipalities and counties offer more than one plan.

The above information applies to employee only coverage; NC data applies to the standard PPO plan.

Source: North Carolina League of Municipalities 2006 Survey of Municipal Fringe Benefits (biannual report; unavailable in 2008) and County Salaries in North Carolina 2008

Supplemental Insurance Products (Post-Tax & Pre-Tax Plan)

In 1985, GS 58-31-60 was passed establishing an Employee Insurance Committee designed to review insurance products currently offered through payroll deduction to the State employees in the Employee Insurance Committee's Payroll Unit. These committees are responsible for selecting the type of insurance products that reflect the needs and desires of the employees in the Employee Insurance Committee's Payroll unit.

In the past, there were several attempts made by various committees to address establishing a statewide insurance committee similar to the statewide Flexible Benefits Program Advisory Committee and locating centralized administration in the Office of State Personnel or any other appropriate agency. In the report of the Senate Select Committee on State Employee Insurance Issues dated April 18, 1996, a draft bill with an act to amend the laws governing employee insurance committees was prepared. Legislation was passed to combine the 22 insurance committees within DHHS into one committee so those employees within the department could have the same post-tax supplemental products. This enables employee's portability of their benefits within that department, and reduced rates for employees. The legislation was accordingly passed and changes were implemented.

We are now facing a similar situation where employees cannot carry over some of their benefits to other agencies when they get transferred or hired by a different agency/university, as the two agencies/universities may have different benefits. Two important benefits, term life insurance and short-term disability, are often requested by agency Benefit Representatives to be made available to all employees. In 2005, a pre-tax Voluntary Term Life Plan was available to all State employees.

Statewide Flexible Benefits Program (NC Flex)

In 2005, NC Flex piloted an online enrollment program with participants from two agencies, two universities, and two community colleges. The pilot was a success in all participating organizations, with the entire enrollment process completed online, without any paperwork involved. Phase II of the online enrollment process has started by adding more community colleges, universities, and non-central payroll agencies. Currently there are over 161,000 participants, from the agencies, universities, and community colleges who have taken advantage of the pre-tax savings offered by the this program administered by the Office of State Personnel.

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

- Health Care Flexible Spending Account allows for a pre-tax payroll deduction to place money in an account to pay for eligible health and dental care expenses not covered by insurance (note: employees may opt to use a Debit Convenience Card for eligible Spending Account expenses)
- Dependent Day Care Flexible Spending Account allows for a pre-tax payroll deduction to place money in an account to pay for day care expenses (note: employees may opt to use a Debit Convenience Card for eligible Spending Account expenses).
- Dental Plan has two options available, High Option and Low Option. Depending on the plan chosen, these options cover expenses for preventive, basic, major, and orthodontia.
- Vision Care Plan has two options, Plan 1 and Plan 2. Depending on the plan option chosen, these plans cover eye exams and materials such as eyeglass lenses, frames, and contact lenses.
- Voluntary Accidental Death & Dismemberment Insurance pays a benefit if a loss is suffered as the result of a covered accident, as well as a disabling injury. Starting in 2009, \$10,000 of this coverage was provided at no cost to employees.
- Voluntary Group Term Life Insurance provides new employees the option to purchase up to \$100,000 of term life insurance without providing evidence of insurability, when first eligible. Employees may elect coverage in increments of \$10,000, with a minimum of \$20,000 and a maximum of \$500,000, not to exceed five times the base annual earnings.
- Cancer Insurance offers two plan options, High Option and Low Option, depending on the desired coverage and benefit paid. This plan also provides benefits for 29 other specified diseases, such as Muscular Dystrophy, Multiple Sclerosis, Tuberculosis, Sickle Cell Anemia and Cystic Fibrosis. Upon initial enrollment for new hires, no evidence of insurability is required.

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 1.81%. Six southeastern states (Alabama, Georgia, Kentucky, Louisiana, Oklahoma and West Virginia) have a factor that is higher than North Carolina's.

In North Carolina, the 2008-2009 employer contribution on behalf of employees in the Teachers & State Employees Retirement System (TSERS) is 8.75%. 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 3.57%.

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 key driver in determining the value of a Deferred Contribution plan is the amount of an employer's contributions.

The following are the results reported for the 100 North Carolina County governments. A review of the past three years reveal that more than half of North Carolina's 100 counties have consistently made matching 401(k) contributions (see Table 23). This year, 72% of the counties offered an employer match or contribution averaging 3.86%. North Carolina State Government provides no contribution to 401(k) except for law enforcement employees. Clearly, the State of North Carolina is behind market by not offering a match, which greatly affects the State's perception as being an employer of choice.

Table 22: **FIVE-YEAR COMPARISON OF COUNTY GOVERNMENT 401(K) PLANS**

| Program Plan | % Counties in 2005 Contributing to 401(k) Programs | % Counties in 2006 Contributing to 401(k) Programs* | % Counties in 2007 Contributing to 401(k) Programs* | % Counties in 2008 Contributing to 401(k) Programs* | % Counties in 2009 Contributing to 401(k) Programs |
|-------------------------------------|--|---|---|---|--|
| 401(k) contributions in NC Counties | 49% | 49% | 67% | 62% | 72% |

Source: County Survey 2009 (MAPS Group) – *only counties reporting data were used in calculation

About 84% of municipalities have 401(k) programs. Of these, 80% make a contribution to the program. For those counties contributing to 401(k) programs, the average contribution is 3.9% of salary. The most common contribution for both counties and municipalities is 5%.

Source: North Carolina League of Municipalities 2006 Survey of Municipal Fringe Benefits (biannual report) and County Salaries in North Carolina 2008

Half (50%) of the southeastern states provide a match to either their 457(b) Deferred Compensation plan or 401(k) supplemental retirement programs.

Table 23: **NUMBER OF SOUTHEASTERN STATES CONTRIBUTING FOR EMPLOYEES**

| Program Plan | # of States that contribute |
|--------------------------------|------------------------------------|
| 457(b) Deferred Compensation | 5 |
| 401(k) Supplemental Retirement | 2 |
| Both 457(b) and 401(k) | 0 |

Source: 2009 Southeastern States Benefits and Pay Practices Survey

Some states have established a **Partial Lump Sum Option Payment (PLOP)** for certain retirees and benefit recipients. The PLOP is an option at retirement that allows a recipient to initially receive a lump sum benefit payment along with a reduced monthly retirement allowance. The PLOP is a method in which a member, at the time of retirement, may elect to receive a partial lump sum payment amount and a reduced monthly allowance. The lump sum payment cannot be less than six times or more than thirty-six times the monthly amount that would be payable to the member under the plan of payment selected and shall not result in a monthly allowance that is less than fifty percent of that monthly amount. The total amount paid as a lump sum and a monthly benefit shall be the actuarial equivalent of the amount that would have been paid had the lump sum not been selected. As a lump sum distribution, the PLOP is fully taxable and is subject to division of property orders, if applicable.

VII. BASE PAY AND SALARY ADJUSTMENT FUND RECOMMENDATIONS

Recommendations

- Base Pay Increase:**
 In order to help keep state employees' salaries in line with market conditions, a modest cost-of-living increase as funds will allow – consistent with the consumer price index -- and an allocation to each agency and university to use to reward employees based on competencies and performance is recommended, with additional flexibility given to agencies and universities to design their own performance rewards programs. This allocation would differ from the traditional legislative increases that provide the same increase for all employees, regardless of performance or competency level. Identical increases for all employees tend to over compensate poor performers and under compensate high performers, the very employees that the State can ill afford to lose to its competitors.
- Salary Adjustment Fund:**
 A legislatively mandated moratorium on labor market increases has kept market-based compensation work from occurring in the past several months. However, as market conditions improve, it will be important to plan funding for the Salary Adjustment Fund using a realistic projection of actual needs rather than relying on funds remaining from the Legislative Increase. With market movement currently sluggish at around 2.1% per

year and with certain job classifications considered to be behind the market, it is recommended that in future years the legislature request the Office of State Personnel provide market-based data to support additional funding for the Salary Adjustment Fund each year.

It is also recommended that restrictive language be removed from the Base Budget Act that directs specific transactions that can be funded from the Salary Adjustment fund so that agencies can focus the money on their most critical needs that sometimes do not fit the restrictive Legislative language.

- **Additional Compensation Programs:**

Expand the number of compensation programs available to State workers, such as Signing Bonuses, Performance Bonuses, Employee & Team Incentive Pay, etc. in order to match the variety of offerings by many of our competitors.

VIII. BENEFIT RECOMMENDATIONS

- Match a portion of employees' 401(k) contributions. State matching may be phased in by granting 1% in the current year and an additional 1% each of the next years to 5% total matching contribution by the State for non-law enforcement employees.
- Change the State Health Plan Year from July 1 - June 30 to January 1 - December 31, so that SPA employees can better plan their out-of-pocket expenses and their strategy for taking advantage of the NC Flex program as well as other benefit programs.
- In order to increase participation in and lower costs for the State Health Plan, implement a small monthly premium for Employee Only coverage and a higher subsidy for Employee/Children and Employee/Family coverage.
- Centralize coordination of supplemental benefits and centralize coordination of supplemental benefits and consolidate supplemental benefit plan offerings in a menu approach for portability and cost savings. Allow employees to select plan products that meet their needs.
- In order to be competitive in the market, we recommend the following:
 1. In order to bring North Carolina in line with other southeastern states and make its vacation benefit more attractive to prospective employees, combine Leave Accrual categories 0-2 and 2 but less than 5 into one. Increase the leave accrual rate by an additional $\frac{1}{4}$ day per year in order to bring the total days granted per year to an even number that is easier for prospective employees to understand (see Table 24).
 2. Increase the Sick leave accrual rate by 2 days per annum, making North Carolina's benefits package more attractive and matching other southeastern states in sick leave benefits (see Table 25).

3. Increase the number of holidays by one day in years where eleven are presently granted (see Table 26) in order to achieve consistency from year to year and with other southeastern states.

Table 24: PROPOSED INCREASES TO VACATION LEAVE ACCRUAL

| Years of State Service | Current Days Granted Each Year | Additional Days Granted Each Year | Proposed Total Days Granted Each Year |
|-------------------------------|---------------------------------------|--|--|
| 0 but less than 2 years | 11.75 | 2.25 | 14 |
| 2 but less than 5 years | 13.75 | 0.25 | 14 |
| 5 but less than 10 years | 16.75 | 0.25 | 17 |
| 10 but less than 15 years | 19.75 | 0.25 | 20 |
| 15 but less than 20 years | 22.75 | 0.25 | 23 |
| 20 years or more | 25.75 | 0.25 | 26 |

Table 25: PROPOSED INCREASES TO SICK LEAVE ACCRUAL

| Current Days Granted Each Year | Additional Days Granted Each Year | Proposed Total Days Granted Each Year |
|---------------------------------------|--|--|
| 12 | 2 | 14 |

Table 26: PROPOSED INCREASES TO HOLIDAY LEAVE

| Current Days Granted Each Year | Additional Days Granted Each Year | Proposed Total Days Granted Each Year |
|---------------------------------------|---|--|
| 11 in some years* 12 in some years | Add 1 day in years where only 11 days are granted | 12 |

*Currently 11 Holidays when Christmas falls on Monday or Friday and 12 Holidays when Christmas falls on Tuesday, Wednesday, or Thursday

If the above recommendations are not implemented, it is recommended that the following be considered:

- Develop an employer supplemental benefit enhancement program providing a fixed amount of \$500 annually with employees having the option to apply towards:
 - a. dependent health coverage, or
 - b. NC Flex benefits package, or
 - c. 401(k) {457(b)} {403(b)} contributions, or
 - d. post-tax supplemental benefit plans.

Appendix

Market Data

- ◆ *History of Legislative Increases
1992-2009*
- ◆ *List of Benchmark Classes
and Labor Market Analysis*

History of Legislative Increases for NC State Employees 1992 - 2009

| Year | Cost-of-Living Increase | Career Growth Increase | Bonus Increase |
|-------------|--|-------------------------------|---|
| 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 |

Benchmark Classes Labor Market Data Summary

Note: while we have made every attempt to validate the following data, the continued transitioning of positions and employees from PMIS to the BEACON system in 2007 and 2008, along with the transitioning of many positions and employees to Career-banding from 2007 to 2009, make some of the data unavailable or potentially questionable.

| Class Titles | North Carolina Salary | Market Rate | Labor Market Pay Gap | Turnover Rate (FY 08-09) | Vacancy Rate (12-09) | EEs (12-09) |
|---|-----------------------|-------------|----------------------|--------------------------|----------------------|-------------|
| Administrative & Managerial | | | | | | |
| Accountant (banded) | 57,010 | 48,522 | +14.9% | unavailable | 11.3% | 601 |
| Accounting Manager (banded) | 82,332 | 76,049 | +7.6% | unavailable | unavailable | 69 |
| Accounting Technician (banded) | 39,135 | 36,199 | +7.5% | unavailable | 8.6% | 947 |
| Administrative Secretary III | 38,445 | 39,667 | -3.2% | 4.8% | 11.7% | 142 |
| Admin Support Assoc (banded) | 31,868 | 30,916 | +3.0% | 11.0% | 18.9% | 2801 |
| Attorney III | 87,590 | 87,052 | +0.6% | 2.3% | 6.2% | 86 |
| Attorney (banded) | 104,485 | 87,052 | +16.7% | unavailable | unavailable | 29 |
| Executive Assistant I | 43,411 | 48,257 | -11.2% | 7.5% | 7.1% | 44 |
| Auditor (banded) | 53,379 | 62,053 | -16.3% | unavailable | 9.5% | 554 |
| Office Assistant IV | 32,311 | 30,916 | +4.3% | 3.7% | 14.7% | 1105 |
| Paralegal II | 43,056 | 48,116 | -11.8% | 6.3% | 11.5% | 49 |
| Personnel Analyst II | 56,649 | 50,861 | +10.5% | 3.6% | 10.3% | 64 |
| Engineering & Architecture | | | | | | |
| Engineer (banded) | 62,392 | 63,351 | -1.5% | unavailable | 17.7% | 1514 |
| Human Services | | | | | | |
| Social Worker II (BSW) | 38,952 | 40,973 | -5.2% | 0.0% | 11.1% | 25 |
| Social Worker III (MSW) | 42,410 | 47,490 | -12.0% | 9.7% | 6.1% | 379 |
| Rehabilitation Counselor I | 42,574 | 45,460 | -6.8% | 11.3% | 12.6% | 139 |
| Information & Education | | | | | | |
| Artist Illustrator II | 38,191 | 40,902 | -7.1% | 0.0% | 13.5% | 43 |
| Information and Communication Spec II | 45,793 | 54,003 | -17.9% | 12.9% | 22.6% | 47 |
| Library Professional (banded) | 50,649 | 45,911 | +9.4% | unavailable | 10.3% | 31 |
| Public Health Educator II | 40,013 | 32,762 | +18.1% | 0.0% | 55.6% | 2 |
| Information Technology | | | | | | |
| Business & Technology Applications Analyst (banded) | 68,642 | 58,439 | +14.9% | 3.2% | 11.6% | 964 |
| Information Technology Manager (banded) | 92,801 | 73,092 | +21.2% | 3.5% | 8.3% | 388 |
| Networking Tech (banded) | 49,829 | 46,867 | +5.9% | 2.7% | 6.6% | 151 |
| Operations & Systems Technician (banded) | 42,326 | 37,394 | +11.7% | 7.5% | 3.3% | 66 |

| Class Titles | North Carolina Salary | Market Rate | Labor Market Pay Gap | Turnover Rate (FY 08-09) | Vacancy Rate (12-09) | EEs (12-09) |
|---|-----------------------|-------------|----------------------|--------------------------|----------------------|-------------|
| Institutional Services | | | | | | |
| Building & Environmental Services Tech (banded) | 24,933 | 22,612 | +9.3% | 12.3% | 22.3% | 2118 |
| Cook II | 26,635 | 25,343 | +4.8% | 12.4% | 11.7% | 113 |
| Food Service Tech (banded) | 23,974 | 25,343 | -5.7% | 24.0% | unavailable | 119 |
| Housekeeper | 23,982 | 22,612 | +5.7% | 5.2% | 9.8% | 460 |
| Law Enforcement & Public Safety | | | | | | |
| Correctional Officer | 29,924 | 29,940 | -0.1% | 13.2% | unavailable | 9247 |
| Public Safety Officer (banded) | 37,899 | 38,083 | -0.5% | 16.9% | 14.1% | 301 |
| SBI Agent II | 47,149 | 47,746 | -1.3% | 2.7% | 0.0% | 55 |
| Security Guard | 26,513 | 27,813 | -4.9% | 6.9% | 37.4% | 74 |
| Medical & Health | | | | | | |
| Clinical Dietitian I | 45,418 | 50,774 | -11.8% | 18.2% | 18.3% | 38 |
| Health Care Tech I | 26,004 | 26,273 | -1.0% | 15.0% | 13.3% | 3351 |
| Medical Laboratory Technologist II | 46,123 | 48,803 | -5.8% | 7.1% | 10.3% | 55 |
| Nurse Supervisor (banded) | 66,865 | 68,851 | -3.0% | unavailable | unavailable | 262 |
| Occupational Therapist I | 64,347 | 67,550 | -4.8% | 16.2% | 20.8% | 29 |
| Pharmacist (banded) | 99,537 | 103,002 | -3.5% | unavailable | unavailable | 109 |
| Physical Therapist I | 64,514 | 69,479 | -7.7% | 7.1% | 26.7% | 6 |
| Physician Extender I | 77,015 | 77,160 | -0.2% | 12.5% | 20.0% | 4 |
| Licensed Practical Nurse (banded) | 39,548 | 38,038 | +3.8% | unavailable | 13.7% | 580 |
| Professional Nurse (banded) | 53,907 | 55,015 | -2.1% | unavailable | 20.3% | 1319 |
| Speech and Language Pathologist I | 57,810 | 63,399 | -9.7% | 13.6% | 21.8% | 50 |
| Natural Resources & Scientific | | | | | | |
| Chemist II | 50,846 | 53,174 | -4.6% | 5.3% | 0.0% | 37 |
| Forester I | 40551 | 37,971 | +6.4% | 2.4% | 0.0% | 42 |
| Park Superintendent (Law Enforcement Supervisor - banded) * | 49,285 | 50,287 | -2.0% | 0.0% | 0.0% | 39 |
| Operations & Trades | | | | | | |
| Electrician II | 38,843 | 44,699 | -15.1% | 2.1% | 5.5% | 56 |
| Facility Maintenance Technician – Mech (banded) | 39,738 | 36,521 | +8.1% | 9.3% | unavailable | 818 |
| HVAC Mechanic | 40,319 | 42,269 | -4.8% | 6.5% | 12.3% | 99 |
| Maintenance Mechanic IV | 38,921 | 36,521 | +6.2% | 5.5% | 13.6% | 267 |
| Mechanic II | 38,553 | 41,200 | -6.9% | 4.4% | 4.1% | 84 |
| Vehicle/Equipment Repair Technician (banded) | 38,935 | 41,200 | -5.8% | 4.6% | 12.7% | 613 |
| Welder II | 38,654 | 37,249 | +3.6% | 12.5% | 12.5% | 20 |