



STATE OF NORTH CAROLINA

2016

# Compensation & Benefits Report

May 2016



State Human Resources

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# 2016 COMPENSATION & BENEFITS REPORT

May 2016

## I. EXECUTIVE SUMMARY

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This report responds to the requirements expressed in the State Human Resources Act (G.S. 126-7.3) 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 1 of even years. This report addresses current economic and labor market conditions and sets the stage for strategic planning to address them.

Key to the discussion of state employee compensation is the Office of State Human Resources (OSHR) ongoing Statewide Compensation System Project. The Appropriations Act of 2013 (S.L. 2013-360), established a reserve to fund this project. The legislation required a status report to the General Assembly in May 2014 which was delivered along with that year's Compensation and Benefits Report. Since that time OSHR has acquired and implemented both (1) a market analysis and modeling technology tool (MarketPay) that has enabled more valid, timely and accurate labor market comparisons and costing scenarios; and (2) a position description collection/workflow tool (PeopleAdmin) that has enabled the electronic collection and storage of descriptive and analytical information on all state agency positions. In collaboration with state agencies, OSHR has developed all-new classification concepts to be used in the new system, reducing the overall number of concepts from over 2,300 to under 1,400. Some 65,000 agency positions have been tentatively allocated to these new concepts, and OSHR has used the market pricing tool to assign the jobs to levels in new market-aligned pay structures. The project will be implemented effective June 2016.

A \$750 bonus (not applied to base pay) was awarded to state employees across the board in 2015. Consistent with past legislative increases, the 2015 "bonus" was not reflective of such relevant economic indicators as the Consumer Price Index or average market movement. Across-the-board salary adjustments as typically granted by the General Assembly "reward" employees with the same increase regardless of their level of contribution or value to the employing organization.

Legislative restrictions on equity and market-based salary increases were in place for three years prior to 2012 and again in 2013-2014. While these restrictions were lifted in 2014-2015, their impact is still being felt in agency and university efforts to recruit and retain employees. For North Carolina to manage its talent effectively, its compensation programs must eventually change from a "one size fits all" mentality to a performance culture that assigns more value to high-performing employees in key roles. Among the recommendations from the Statewide Compensation System Study, this includes seriously examining options to progress employees within their salary range based on their market worth and contributions, and utilizing compensation tools other than across-the-board base pay increases for recognizing and rewarding excellent performance.

## RECOMMENDATIONS

1. Support Governor's recommendation for \$27 million Statewide Compensation System Project implementation funding. The Project will be implemented effective June 1, 2016 and will impact all state agency jobs. Funding will help address targeted market needs.
2. Across-the-board increases should be used in conjunction with market and – eventually -- performance based increases. Consideration should be given to funding future legislative increases as a salary budget with increases apportioned based on market position in order to keep state employees' salaries in line with overall labor market trends and maintain competitiveness.
3. In order to ensure market competitiveness, state leaders should continue to charge OSHR (in consultation with the Office of State Budget and Management) with establishing a process to set priorities and request funding for labor market increases and salary adjustment funds based on criticality, turnover and market position. OSHR and state agencies should evaluate job-specific turnover in order to identify critical needs.
4. A fair, equitable and consistently funded mechanism is needed for moving state employees within their pay grade. Employees need a "line of sight" for career growth and salary advancement.
5. Continue to support OSHR in exploring new and innovative pay practices
6. Over the past two years OSHR and state agencies have implemented and are using a new performance management system. When this system is successfully validated, an allocation should be provided to reward employees based on performance.
7. Evaluate the continued use of the longevity bonus as a pay delivery mechanism.
8. Support the ongoing funding of OSHR Human Capital Management System, Learning Management System (LMS) and Performance Management components; and the Statewide Compensation System Project's Market Analysis and Modeling tool (MarketPay) and Position Description Writing and Workflow tool (PeopleAdmin).
9. Support OSHR's development of an intern program with the community college and university systems that would offer the opportunity to supplement workforce needs while exposing students to state government operations.
10. Support acquisition and implementation of an organizational management tool
11. 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

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This report conveys economic and pay trends, findings and data derived from compensation and benefits surveys that OSHR regularly analyzes to determine whether 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

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

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

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

|   |  |
|---|--|
| <b>1</b> <b>MARKET RESPONSIVENESS</b>                   | <ul style="list-style-type: none"><li>• Position total compensation competitively with relevant labor markets</li><li>• Recognize that labor market factors differ for specific occupations</li></ul>                                  |
| <b>2</b> <b>EQUITABLE &amp; AFFORDABLE COMPENSATION</b> | <ul style="list-style-type: none"><li>• Align internal pay within occupational groups while avoiding adverse impacts</li><li>• Maintain internal classification structure alignment</li><li>• Maintain fiscal responsibility</li></ul> |
| <b>3</b> <b>PAY FOR PERFORMANCE</b>                     | <ul style="list-style-type: none"><li>• Recognize and reward employee performance</li></ul>  |

Traditionally, statewide salary adjustments have come in the form of an across-the-board increase granted by the General Assembly which recognizes neither market conditions nor employee performance. Until recently, the State Human Resources Act (G.S. 126) prohibited such modern-day pay programs as monetary incentive awards. Most private and an increasing number of public 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. Once the new performance management system is fully implemented, understood and validated, ***an allocation should be provided to reward employees based on performance.*** Pay as a performance reward—even small lump sum payments for milestone achievements—is widely utilized in the modern workplace and is considered more effective than across-the-board base pay increases.

***OSHR should be charged with fully implementing compensation systems across state government beyond the State Human Resources Act.***

### III. TOTAL COMPENSATION

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

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

The state communicates this important aspect of employees' compensation to both current and prospective employees through the use of a web-based total compensation calculator.

#### Total State Compensation Model

**Table 1**  
**State Benefits as a Percentage of AVERAGE SALARY & WAGES (Calculated as of 12-31-15)**

| BENEFIT CATEGORY  | PERCENTAGE OF AVERAGE SALARY      | AVERAGE VALUE   |
|---|-----------------------------------|-----------------|
| Holidays (12 days)  | 4.62%                             | \$2,045         |
| Sick Leave (12 days)  | 4.62%                             | \$2,045         |
| Vacation Leave (17 days)  | 7.69%                             | \$3,404         |
| OASI – DI [Social Security]   | 7.65%                             | \$3,386         |
| <b>Retirement &amp; Disability</b>  |                                   |                 |
| <ul style="list-style-type: none"> <li>• Retirement Systems Pension Fund: 9.15%</li> <li>• Death Benefit Trust Fund: 0.16%</li> <li>• Retiree Health Plan Reserve: 5.60%</li> <li>• Disability Income Plan: 0.41%</li> </ul>  | 15.32%                            | \$6,781         |
| Health Insurance  | 12.57%                            | \$5,564         |
| Longevity Pay   | 1.50%                             | \$664           |
| <b>Total Benefit Value</b>  | <b>53.48%</b>                     | <b>\$23,888</b> |
| In determining the <i>Percentage of Average Salary</i> , the average state employee’s years of service are 11.5 years and average state employee salary is \$44,260. The total benefit value is added to employees’ base pay to determine <i>Total Compensation</i> . |                                   |                 |
|   | <b>Average Base Pay</b>           | <b>\$44,260</b> |
|   | <b>Average Benefit Value</b>      | <b>\$23,888</b> |
|   | <b>Average Total Compensation</b> | <b>\$68,148</b> |

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

After the *Average Total Compensation* is derived, *Salary and Benefits* can be calculated as a *Percentage of Total Compensation*. This calculation allows for comparisons to be made between North Carolina's *Average Percentage of Total Compensation* and national trends (Table 2). This analysis indicates that North Carolina's salary and wages generally do not make up quite as large a portion of total compensation as is seen nationally, while the state's paid time off and retirement benefits generally outpace national averages when expressed as a percentage of total compensation. North Carolina's portion of total compensation dedicated to health insurance and social security lags the national average. Note that this analysis generally includes only annually budgeted compensation items; other "variable" compensation and benefits such as overtime pay, workers compensation and unemployment are not included.

**Table 2**  
**Salary and Benefits as a Percentage of TOTAL COMPENSATION**

| Benefit Category                 | BLS Percentage of Total Compensation<br>2015 | N.C. Average Percentage of Total Compensation<br>2015 | N.C. Change From<br>2014 |
|----------------------------------|--|---|--------------------------|
| <b>Salary &amp; Wages</b>        | 71.0%  | 65.8%   | -0.3%                    |
| <b>Paid Time Off</b>             | 7.2%   | 11.1%   | -0.1%                    |
| <b>Health Insurance</b>          | 8.6%   | 8.3%  | +0.2%                    |
| <b>Retirement</b>                | 5.4%   | 9.7%  | +0.1%                    |
| <b>OASI-DI (Social Security)</b> | 7.9%   | 5.0%  | -0.1%                    |

**Sources:** Office of State Human Resources, Office of State Budget and Management and the NC Retirement Systems Div., U.S. DOL Bureau of Labor Statistics "Employer Costs for Employee Compensation – December 2015."

## IV. ECONOMIC REVIEW

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### Wage & Salary Trends

OSHR uses the annual Mercer Human Resources Consulting U.S. Compensation Planning Survey to benchmark and track average market movement. For calendar year 2015 (budgeted) project 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 & Actual Base Pay Increase Budgets**

| National Firm  | 2013 Actual | 2014 Actual | 2015 Projected | 2016 Projected |
|----------------|-------------|-------------|----------------|----------------|
| William Mercer | 2.8%        | 2.9%        | 3.0%           | 2.9%           |

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

**Source:** Mercer Human Resources Consulting 2015-2016 US Compensation Planning Survey Preliminary Report

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, actual wage increases declined dramatically in 2009. They have increased slightly each year since, but still are not approaching historical levels. Analysis of data from a variety of national consulting and business firms in the *Mercer Human Resources Consulting 2015-2016 US Compensation Planning Survey* places the projected budgeted average wage increase for 2016 at 2.9%, only slightly below the projected increase for 2015 of 3.0% as seen in Table 3 above.

In North Carolina, annual salary increases for state employees were less than the average market movement in all but two of the last 10 years. Even when factoring in the above-market legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed average market increases by 14.1% since 2006. A history of legislative increases and 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 December 2015 was 0.7%. 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. Most pay increases for state employees have included a cost-of-living component, but these have never been reflective of CPI.

The cost-of-living portion of annual legislative increases from 2006 to 2015 trailed the CPI-U percentages for the same time period, with the exception of 2006 and 2014. This differential reflects that compensation for state employees has historically not kept pace with the consumer price index. Even when factoring in above-market legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed CPI by 5.9% over the last ten years, effectively decreasing employee “buying power.” A chart comparing legislative increases with CPI is included in the appendix of this report.

### Recruitment & Retention

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

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

A significant improvement for state government recruitment occurred when 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. On January 23, 2013, North Carolina reached a milestone in exceeding 1,000,000 job applications received since launch, affirming the ease of use for our applicants and stability of the system.

## V. BASE PAY - LABOR MARKET ANALYSIS

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### Methodology

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

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

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

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

### Findings

Market data collected for 27 benchmark classes— representing approximately 30% of the state's workforce (agencies only, universities not included) with jobs from each of 18 major Job Families — in this report were analyzed by OSHR staff and indicate that the 2015 average wage for 15 of the 28 (54%) classes trailed the composite market rate by at least 10%. Table 4 lists the benchmark classes that trail the market by greater than 10% as shown under "Market Pay Gap". Data indicating turnover for FY 2014-2015 also has been included to give a more complete view of potential recruitment and retention issues for these classes. Additional data can be found in the appendix.

**Table 4  
Selected Benchmark Classes**

| Job Title                           | Number of Employees | Base Salary Avg | Market Base Salary Average | Labor Market Pay Gap | Turnover Rate |
|-------------------------------------|---------------------|-----------------|----------------------------|----------------------|---------------|
| Administrative Officer II           | 194                 | 48,134          | 54,579                     | -11.8%               | 13.3%         |
| Chemist I                           | 32                  | 46,326          | 57,657                     | -19.7%               | 6.6%          |
| Correctional Officer *              | 8513                | 32,021          | 36,246                     | -11.7%               | 19.5%         |
| Executive Assistant I               | 35                  | 44,164          | 52,340                     | -15.6%               | 17.6%         |
| Information & Communication Spec II | 49                  | 45,991          | 53,326                     | -13.8%               | 23.0%         |
| Maintenance Mechanic IV             | 285                 | 39,162          | 54,231                     | -27.8%               | 8.6%          |
| Museum Curator                      | 9                   | 44,338          | 55,984                     | -20.8%               | 0.0%          |
| Paralegal II                        | 50                  | 43,333          | 56,067                     | -22.7%               | 23.2%         |
| Public Safety Officer               | 71                  | 37,068          | 42,804                     | -13.4%               | 15.0%         |
| Safety Officer II                   | 35                  | 44,164          | 54,142                     | -18.4%               | 8.0%          |
| Social Worker III                   | 124                 | 42,923          | 54,549                     | -21.3%               | 6.5%          |
| Staff Development Specialist II     | 43                  | 48,069          | 54,016                     | -11.0%               | 20.4%         |
| Staff Psychologist                  | 92                  | 55,930          | 79,856                     | -30.0%               | 15.8%         |
| Statistician II                     | 1                   | 52,011          | 66,269                     | -21.5%               | 0.0%          |
| Vehicle/Equipment Repair Technician | 501                 | 41,214          | 46,546                     | -11.5%               | 8.0%          |

\*A classification and compensation study of the Correctional Officer series was partially implemented late in 2015

**Source:** BEACON, MarketPay analysis

**Note:** The state's average turnover rate for all occupations in fiscal year 2014-2015 was determined to be **11.8%**

### **New Graduates Starting Pay**

It is critical that North Carolina is able to 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. North Carolina has shown steady improvement in recruiting from this demographic over the past five years, with 20.2% of new hires in FY 2014-2015. See analysis of turnover and hiring among 18 to 25-year-old employees in the following section.

One way to address this issue is through establishment and maintenance of an intern and cooperative education program. OSHR is currently exploring development of an intern program with the community college and university systems that would offer the opportunity to supplement workforce needs while exposing students to state government operations.

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. The primary funding mechanism, transferring legislative increase funds remaining after employees receive their legislative increase, is often inadequate to address occupational areas where salaries are below the market.

Due to economic instability, there were no SAF allocations during 2008-2012 or 2014. In 2007, \$17.6 million was allocated to the SAF for agency and university requests totaling \$24.4 million. Total needs were considerably higher in 2007, and increased in 2008. \$7.5 million was allotted in 2013 and \$25 million in 2015 (currently pending approval from the General Assembly).

***In order to ensure market competitiveness, state leaders should consider charging OSHR (in consultation with OSBM) with establishing a process to set priorities and request funding for labor market increases and SAF based on criticality, turnover and market position. OSHR and state agencies should evaluate job-specific turnover and recruitment difficulties in order to identify critical needs.***

## Additional Analysis

### Turnover Rates and Cost

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

The cost to an organization for each position turnover has been estimated by experts at anywhere from 50% to 250% of the departing employee's annual salary depending on the type of position being filled and the performance level of the departing employee. The Human Capital Institute places the average value of turnover at 150%. Turnover of top performers may be valued at an exponentially higher rate. There are many factors included in estimating the cost of turnover. Some obvious costs include advertising the vacancy; salaries of employment screening panels; and managers' time spent interviewing candidates. Other costs are not so easily quantified such as lost productivity – particularly during the time that a position is left vacant during recruitment -- or lost knowledge from the organization. Other costs include required onboarding, training, and higher rates of mistakes made by new hires. The high cost of turnover presents a clear argument for agencies and universities to engage in rigorous workforce and succession planning.

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

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

**Table 5**  
**FIVE YEARS OF TURNOVER RATES – STATE OF NORTH CAROLINA**

|                 | FY 2010-2011 | FY 2011-2012 | FY 2012-2013 | FY 2013-2014 | FY 2014-2015 |
|-----------------|--------------|--------------|--------------|--------------|--------------|
| Voluntary T/O   | 5.8%         | 5.0%         | 5.3%         | 7.0%         | 7.1%         |
| Retirement T/O  | 2.6%         | 3.0%         | 3.0%         | 3.4%         | 3.4%         |
| Involuntary T/O | 1.9%         | 3.1%         | 1.3%         | 1.4%         | 1.3%         |
| Total T/O       | 10.3%        | 11.1%        | 9.7%         | 11.8%        | 11.8%        |

**NOTE:** Retirement turnover is questionable for 2010-2013 because of inconsistent reporting in BEACON and the University System’s HR Datamart. 2013-2015 turnover reflects state agencies only. However, data appear to be relatively consistent with past years and economic trends.

In FY 2014-2015 state agencies had a 7.1% voluntary turnover rate. Using the HCI turnover value of 150% cost of turnover, the cost to the state would be more than **\$293 million** (7.1% of 62,100 state agency employees subject to the State Human Resources Act is approximately 4,409, multiplied by average state salary \$44,260, multiplied by 150%). Because the cost of replacing human capital is so high, this calculation underscores the need to closely monitor turnover, strive for competitive salaries, and maintain a positive work environment with high employee engagement levels.

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 an especially critical issue in light of the fact that the state consistently has had 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.

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, it is recommended that the practice be evaluated.** About 45% of employees subject to the State Human Resources Act are currently eligible for longevity bonuses at a cost of nearly \$50 million per year. The state pays the average state employee a \$656 longevity bonus. This amount is based on a graduated percentage-based schedule starting at 1.50% of annual salary for 10 years of service and increasing every five years to 4.5% for twenty-five years of service. Table 6 shows that North Carolina’s longevity bonus program is extremely generous compared to other Southeastern states.

**Table 6  
A Comparison of Longevity Pay Practices Among Southeastern States**

| <b>State</b>          | <b>Minimum # Years to Qualify for Longevity</b>           | <b>Starting Longevity Amount</b> | <b>Formula for Increase in Bonus</b>                  | <b>Maximum Longevity Amount</b>  |
|-----------------------|---|----------------------------------|---|--|
| 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   |                                  |   |  |
| <b>North Carolina</b> | <b>10</b>   | <b>1.5% of annual salary</b>     | <b>Time-based, increased percentage of base pay</b>   | <b>No Maximum (4.5% of annual salary)</b>  |
| 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:** 2015 NCASG Survey

## VI. BENEFITS ANALYSIS

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### Paid Time Off Analysis

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

#### Vacation

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

**Table 7**  
**Vacation Leave**

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

*Source: 2015 NCASG Survey*

#### Sick Leave

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

**Table 8**  
**Sick Leave**

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

*Source: 2015 NCASG Survey*

## Holidays

North Carolina is competitive with the other Southeastern states in recognized holidays. The total average for all Southeastern states in the survey was 11.5 holidays. As of 2013, North Carolina grants a consistent 12 holidays per year.

**Table 9  
Holidays**

| Holiday Leave | North Carolina | Southeastern States |
|---------------|----------------|---------------------|
| Days per Year | 12             | 11.5                |

*Source: 2015 NCASG Survey*

## Health Insurance

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

### Comparison to Southeastern States

Most other states provide a higher percentage contribution for family coverage than for individual coverage. North Carolina's employer contribution for family coverage lags the average for Southeastern states by 34%.

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

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

*Source: 2015 NCASG Survey*

### Comparison to Local Government Practices

County governments report on choice of health plan, deductibles and employee and agency cost. Based on an analysis of the ten 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<br>(if flat \$ amount reported) | Normal Co-pay<br>(if flat \$ amount reported) | Average Annual Amount Employee Pays | Average Annual Amount Agency Pays |
|--------------------------------|---|---|-------------------------------------|-----------------------------------|
| 10 Counties                    | \$705   | \$24  | \$590                               | \$8,196                           |
| <b>State of North Carolina</b> | <b>\$700</b>                                      | <b>\$30</b>                                   | <b>\$170</b>                        | <b>\$5,564</b>                    |

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

*Source: County Salaries in North Carolina 2015*

## Statewide Flexible Benefits Program (NCFlex)

The NCFlex program, administered by OSHR, currently has over 110,000 employees from the agencies, universities, community colleges and charter schools enrolled.

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

- Health Care Flexible Spending Account
- Dependent Day Care Flexible Spending Account
- Dental Plan has two options available, High Option and Low Option.
- Vision Care Plan has three options, Core, Basic and Enhanced. The No-cost Core Vision Plan provides employees an annual eye exam for \$20 co-payment and discounts for materials at no cost to the employee.
- Voluntary Accidental Death & 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 \$100,000 of guaranteed coverage. Employees may be eligible for coverage up to \$500,000.
- Cancer Insurance offers three options, Premium, High and Low Option
- Critical Illness Insurance

OSHR agrees with the recommendations outlined in the General Assembly's Program Evaluation Division (PED) report released in August 2015 titled "North Carolina Should Centralize Management of State Employee Supplemental Insurance Benefits." OSHR agrees that the General Assembly should centralize supplemental insurance benefits by creating a single committee that would oversee all supplemental insurance offerings, including the NC Flex program. This reform would provide efficiency and savings to employees and the state.

## Retirement

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

In North Carolina, the 2015-2016 employer contribution on behalf of employees in the Teachers and State Employees Retirement System (TSERS) is 15.32%. This amount 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 is currently 9.15%.

## Supplemental Retirement Programs

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

A review of the past three years reveal that more than half of North Carolina's 100 counties have consistently made matching 401(k) contributions in addition to a defined contribution plan. In 2015, 61% of 84 reporting counties offered an employer match or contribution. Overall contributions (including 0's) averaged 3.5%. North Carolina provides no contribution to 401(k) except for law enforcement employees. By not offering a match, North Carolina is not considered competitive in this area.

## **VII. CONCLUSION**

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North Carolina cannot function without a highly skilled workforce, therefore, we must pursue creative ways of attracting, developing and retaining high performing employees to serve our citizens. 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 has held steady at 46 for several years, 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 the new compensation system; pay innovations and market- and performance-based reward 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.

## **APPENDIX**

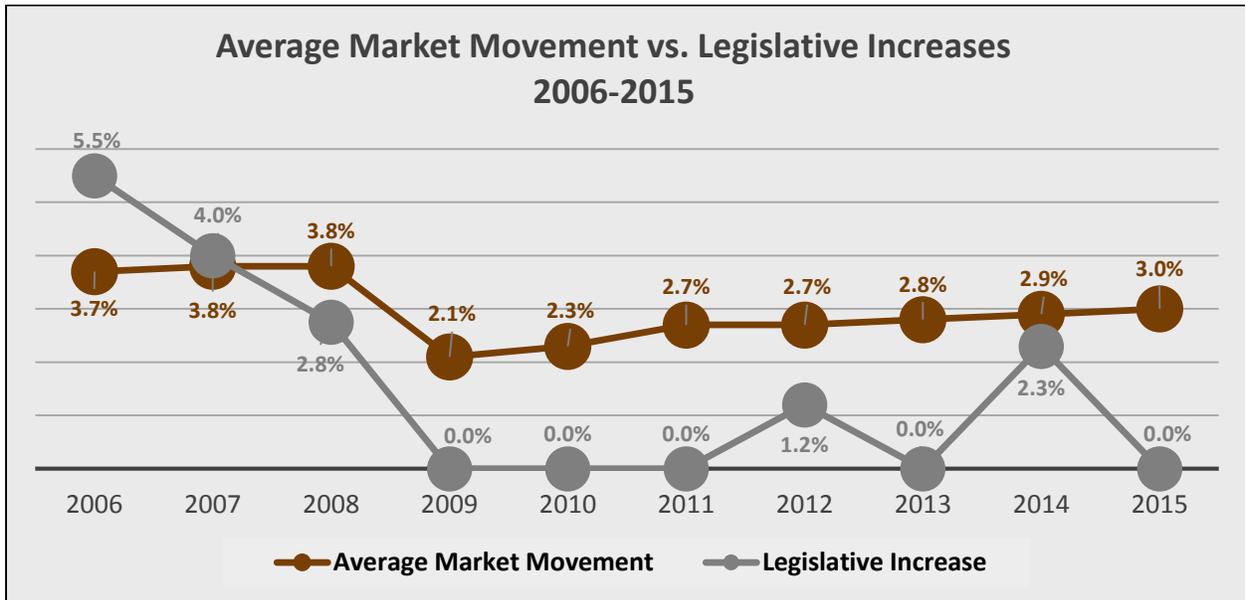
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- History of Legislative Increases - 1992-2015
  - NC Pay comparison to CPI and Average Market Movement
  - Turnover and aging trends
  - Market Survey Library
  - List of Benchmark Classes and Labor Market Analysis
-

### History of Legislative Increases 1992-2015

| 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<br>10 days bonus leave |
| 2004 | 2.5% for salaries > \$40K;<br>\$1000 / yr for salaries < \$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                             |

**NC Legislative Increases Compared to Average Market Movement 2006-2015**

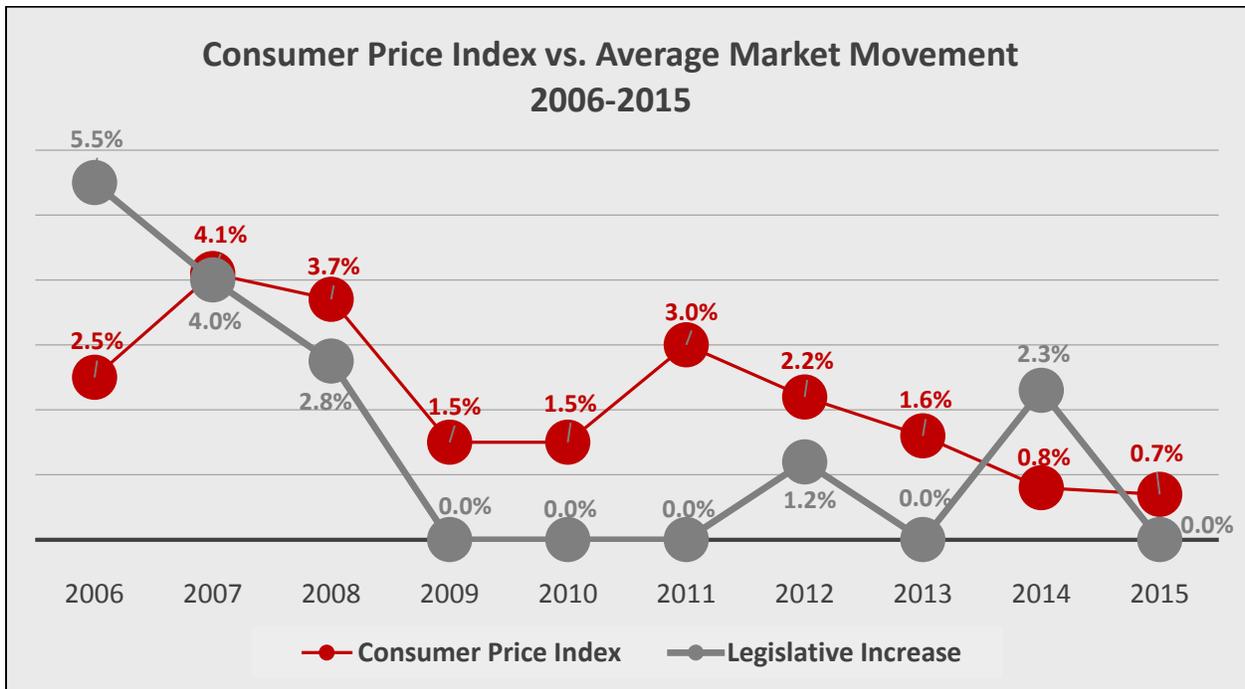


**Source:** Mercer US Compensation Planning Survey 2006-2015

**Notes:**

1. The greater of \$1100 or 2.75% for 2008
2. \$1000 flat increase for 2014 (2.3% average base pay)

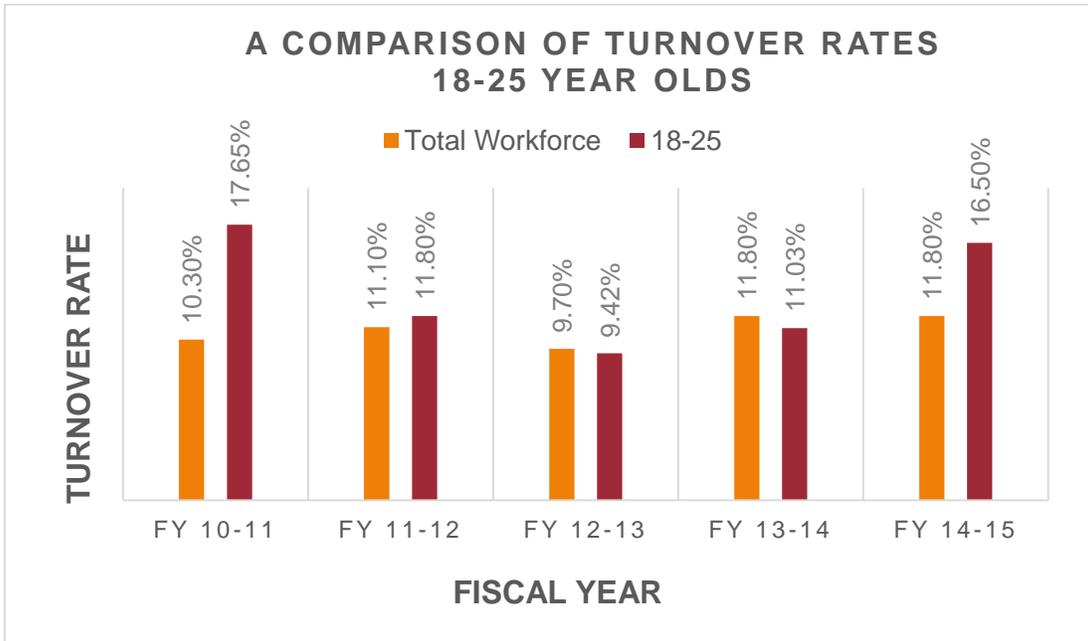
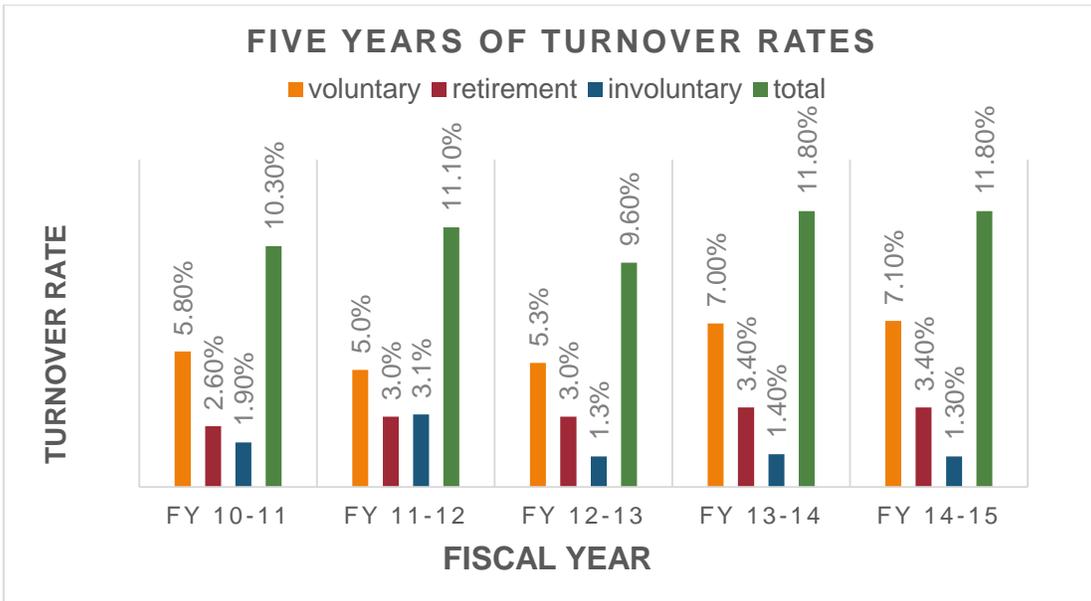
**Comparison of CPI with Legislative Increases (COLA Only) 2006-2015**

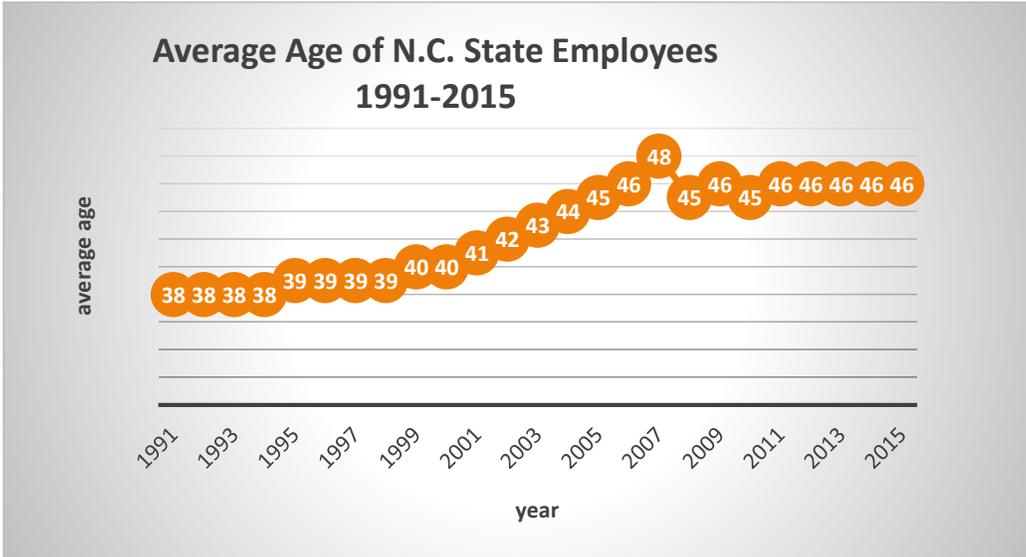
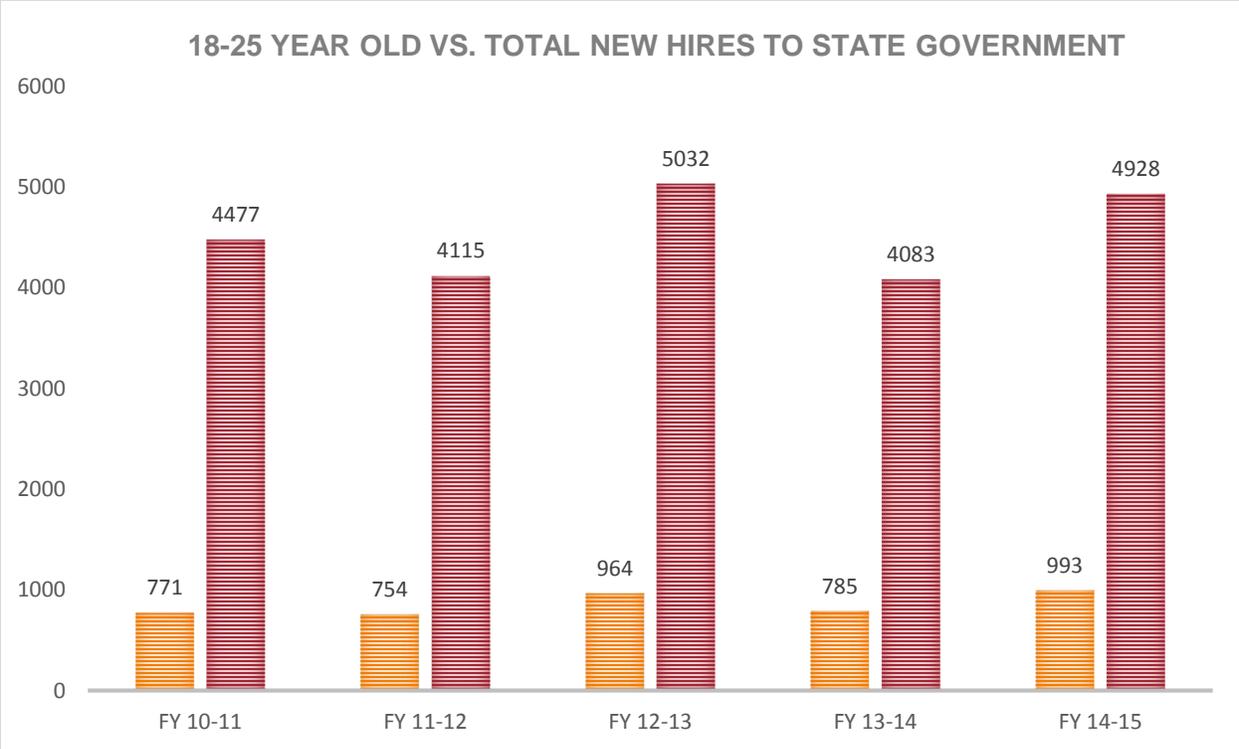


**Sources:** US Department of Labor/Bureau of Labor Statistics and the N.C. Office of State Human Resources

**Notes:**

1. The greater of \$1100 or 2.75% for 2008
2. CPI 2.2% as of end of October 2012
3. \$1000 flat increase for 2014 (2.3% average base pay)





| <b>State of North Carolina Labor Market Survey Library - May 2016</b> |   |
|---|---|
| AFT   | Mercer Logistics & Supply Chain, 2013                             |
| Capital Associated Industries Wage, 2013                              | Mercer Logistics & Supply Chain, 2014                             |
| Capital Associated Industries NC Wage, 2014                           | Mercer Logistics & Supply Chain - Revised, 2015                   |
| Capital Associated Industries NC Wage, 2015                           | Mercer Metro Benchmark - Southeast, 2013                          |
| City of Greensboro  | Mercer Metro Benchmark - Southeast, 2014                          |
| CompData Accounting Service Suite, 2013                               | Mercer Metro Benchmark - Southeast - Revised, 2015                |
| CompData Accounting Service Suite, 2014                               | Mercer Sales, Mktg & Comm, 2014                                   |
| CompData Accounting Service Suite, 2015                               | Mercer Sales, Mktg & Comm - Revised, 2015                         |
| CompData Engineering Service Suite, 2013                              | NACE Salary Survey  |
| CompData Engineering Service Suite, 2014                              | National Compensation Association of State Government             |
| CompData Engineering Service Suite, 2015                              | NCASG State Governments, 2013                                     |
| CompData Health Care - Southeast, 2013                                | NCASG State Governments, 2014                                     |
| CompData Health Care - Southeast, 2014                                | NCASG State Governments, 2015                                     |
| CompData Health Care - Southeast, 2015                                | North Carolina County Salaries, 2014                              |
| CompData Legal Service Suite, 2013                                    | North Carolina County Salaries (State of North Carolina), 2015    |
| CompData Legal Service Suite, 2014                                    | Sullivan Cotter Physician, 2013                                   |
| CompData Legal Service Suite, 2015                                    | Sullivan Cotter Physician, 2015                                   |
| CompData Not-For-Profit - Southeast, 2013                             | Towers Watson CSR Engineering, Design & Technical Specialty, 2014 |
| CompData Not-For-Profit - Southeast, 2014                             | Towers Watson CSR Engineering, Design & Technical Specialty, 2015 |
| CompData Not-For-Profit - Southeast, 2015                             | Towers Watson CSR Accounting & Finance, 2014                      |
| CompData Physicians - National, 2013                                  | Towers Watson CSR Accounting & Finance, 2015                      |
| CompData Physicians - National, 2015                                  | Towers Watson Health Care Admin and Support, 2014                 |
| County Salaries   | Towers Watson Health Care Admin and Support, 2015                 |
| CUPA Non Exempt in Higher Education                                   | Towers Watson Health Care Clinical and Professional, 2014         |
| CUPA Professional in Higher Education                                 | Towers Watson Health Care Clinical and Professional, 2015         |
| Foushee Environmental, Health & Safety, 2015                          | Towers Watson CSR Human Resources, 2014                           |
| McLagan Public Funds Investment Management 037 2015                   | Towers Watson CSR Human Resources, 2015                           |
| Mercer Finance, Accounting & Legal, 2013                              | Towers Watson CSR Information Technology, 2014                    |
| Mercer Finance, Accounting & Legal, 2014                              | Towers Watson CSR Information Technology, 2015                    |
| Mercer Finance, Accounting & Legal - Revised, 2015                    | Towers Watson CSR Logistics and Supply Chain Mgmt, 2014           |
| Mercer Human Resources, 2014  | Towers Watson CSR Logistics and Supply Chain Mgmt, 2015           |
| Mercer Human Resources - Revised, 2015                                | Towers Watson CSR Office and Business Support, 2014               |
| Mercer FSSS Insurance, 2013   | Towers Watson CSR Office and Business Support, 2015               |
| Mercer FSSS Insurance, 2014   | Towers Watson CSR Supervisory & Middle Management, 2014           |
| Mercer FSSS Insurance, 2015   | Towers Watson CSR Supervisory & Middle Management, 2015           |
| Mercer Information Technology, 2014                                   | Western Management CompBase - Winter, 2014                        |
| Mercer Information Technology - Revised, 2015                         | Western Management Group CompBase - Winter, 2015                  |

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

| Job Title   | Number of Employees | Base Salary Avg | Market Base Salary Average | Labor Market Pay Gap | FY14/15 Turnover Rate |
|---|---------------------|-----------------|----------------------------|----------------------|-----------------------|
| <b>ADMINISTRATIVE SUPPORT</b>                     |                     |                 |                            |                      |                       |
| Office Assistant IV                               | 883                 | 33,244          | 35,145                     | -5.4%                | 9.4%                  |
| Executive Assistant I                             | 35                  | 44,164          | 52,340                     | -15.6                | 17.6%                 |
| <b>AGRICULTURAL, ENVIRONMENTAL AND SCIENTIFIC</b> |                     |                 |                            |                      |                       |
| Chemist I   | 32                  | 46,326          | 57,657                     | -19.7%               | 6.6%                  |
| Forester I  | 30                  | 40,443          | 41,547                     | -2.7%                | 17.5%                 |
| <b>EDUCATION AND TRAINING</b>                     |                     |                 |                            |                      |                       |
| Staff Development Specialist II                   | 43                  | 48,069          | 54,016                     | -11.0%               | 20.4%                 |
| <b>ENGINEERING</b>                                |                     |                 |                            |                      |                       |
| Architect   | 22                  | 75,269          | 68,990                     | +9.1%                | 0.0%                  |
| Engineer  | 1285                | 65,267          | 71,228                     | -8.4%                | 8.0%                  |
| <b>FINANCIAL &amp; BUSINESS MANAGEMENT</b>        |                     |                 |                            |                      |                       |
| Accountant  | 249                 | 58,886          | 60,139                     | -2.1%                | 7.4%                  |
| Accounting Technician                             | 368                 | 38,203          | 39,958                     | -4.4%                | 8.4%                  |
| <b>HUMAN RESOURCES</b>                            |                     |                 |                            |                      |                       |
| Personnel Analyst II                              | 54                  | 57,195          | 62,011                     | -7.8%                | 9.8%                  |
| <b>HUMAN SERVICES</b>                             |                     |                 |                            |                      |                       |
| Social Worker III                                 | 124                 | 42,923          | 54,549                     | -21.3%               | 6.5%                  |
| Staff Psychologist                                | 92                  | 55,930          | 79,856                     | -30.0%               | 15.8%                 |
| <b>INFORMATION, COMMUNICATION AND MEDIA</b>       |                     |                 |                            |                      |                       |
| Information & Communications Spec II              | 49                  | 45,991          | 53,326                     | -13.8%               | 23.0%                 |
| <b>INFORMATION TECHNOLOGY</b>                     |                     |                 |                            |                      |                       |
| Business And Technology Applic Analyst            | 399                 | 73,448          | 80,924                     | -9.2%                | 7.0%                  |
| <b>INSTITUTIONAL SUPPORT</b>                      |                     |                 |                            |                      |                       |
| Cook II   | 137                 | 27,102          | 28,704                     | -5.6%                | 9.3%                  |
| Housekeeper                                       | 440                 | 24,692          | 24,256                     | +1.8%                | 10.4%                 |
| <b>LAW ENFORCEMENT AND PUBLIC SAFETY</b>          |                     |                 |                            |                      |                       |
| Correctional Officer                              | 8513                | 32,021          | 36,246                     | -11.7%               | 19.5%                 |
| Public Safety Officer                             | 71                  | 37,068          | 42,804                     | -13.4%               | 15.0%                 |

| Job Title                                       | Number of Employees | Base Salary Avg | Market Base Salary Average | Labor Market Pay Gap | FY14/15 Turnover Rate |
|---|---------------------|-----------------|----------------------------|----------------------|-----------------------|
| <b>LEGAL</b>                                    |                     |                 |                            |                      |                       |
| Paralegal                                       | 50                  | 43,333          | 56,067                     | -22.7%               | 23.2%                 |
| <b>MEDICAL AND HEALTH</b>                       |                     |                 |                            |                      |                       |
| Health Care Technician I                        | 3341                | 26,748          | 26,149                     | +2.3%                | 14.2%                 |
| Professional Nurse                              | 1231                | 55,907          | 59,373                     | -5.8%                | 21.9%                 |
| <b>NATURAL, HISTORIC AND CULTURAL RESOURCES</b> |                     |                 |                            |                      |                       |
| Museum Curator                                  | 9                   | 44,338          | 55,984                     | -20.8%               | 0.0%                  |
| <b>OPERATIONS AND TRADES</b>                    |                     |                 |                            |                      |                       |
| Maintenance Mechanic IV                         | 285                 | 39,162          | 54,231                     | -27.8%               | 8.6%                  |
| Vehicle/Equipment Repair Technician             | 501                 | 41,214          | 46,546                     | -11.5%               | 8.0%                  |
| <b>PLANNING AND ECONOMIC DEVELOPMENT</b>        |                     |                 |                            |                      |                       |
| Statistician II                                 | 1                   | 52,011          | 66,269                     | -21.5%               | 0.0%                  |
| <b>PROGRAM MANAGEMENT</b>                       |                     |                 |                            |                      |                       |
| Administrative Officer II                       | 194                 | 48,134          | 54,579                     | -11.8%               | 13.3%                 |
| <b>SAFETY AND INSPECTION</b>                    |                     |                 |                            |                      |                       |
| Safety Officer II                               | 35                  | 44,164          | 54,142                     | -18.4%               | 8.4%                  |



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