

State of North Carolina 2013 Compensation & Benefits Report



Office of State Personnel
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February 2013

Table of Contents

<i>I.</i>	<i>Executive Summary and Recommendations</i>	<i>1</i>
<i>II.</i>	<i>Introduction</i> NC Pay Philosophy	<i>3</i>
<i>III.</i>	<i>Total Compensation</i> Total Compensation Model	<i>3</i>
<i>IV.</i>	<i>Economic Review</i> Wage and Salary Trends Consumer Price and Employment Cost Indices Compensation Trends Recruitment and Retention	<i>5</i>
<i>V.</i>	<i>Base Pay</i> Labor Market Analysis Methodology Market Analysis Additional Analysis	<i>8</i>
<i>VI.</i>	<i>Benefits Analysis</i> Paid Time Off Analysis Health Insurance Statewide Flexible Benefits Program (NC Flex) Retirement	<i>14</i>
<i>APPENDIX</i>	<i>History of Legislative Increases for N.C. Employees 1992-2012</i> <i>NC Pay Comparison to CPI and Average Market Movement</i> <i>Turnover and Aging Trends</i> <i>NC Pay Comparison to Southeastern States and Local Governments</i> <i>List of Benchmark Classes and Labor Market Analysis</i>	<i>19</i>

COMPENSATION & BENEFITS REPORT: FEBRUARY 2013

I. EXECUTIVE SUMMARY

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 (February 13 this year) and May 1st of even years. The report addresses current economic and labor market conditions and sets the stage for strategic planning to address them.

Market movement, which had been relatively stagnant during the recent economic downturn, has picked up again, particularly in the private sector. In light of these improving economic conditions, North Carolina must focus on its total compensation programs and recognize that its employees – or “human capital” – are its most valuable asset.

No legislative increases of any kind were granted 2008-2011. Consistent with past legislative increases, 2012's 1.2% adjustment was not reflective of such relevant economic indicators as the Consumer Price Index or average market movement. Across-the-board salary adjustments as typically granted by the Legislature “reward” employees with the same percentage increase regardless of their level of contribution or value to the employing organization.

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

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

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

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

- The Office of State Personnel should be charged with implementing a fully funded and unified compensation system across state government. (p. 7)
- In order to ensure market competitiveness, state leaders should charge the Office of State Personnel (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. OSP and state agencies should evaluate job-specific turnover in order to identify critical needs. (p. 12)
- A fair, equitable and consistently funded mechanism is needed for moving state employees within their salary grade or band. Employees need a “line of sight” for career growth and salary advancement. (p. 7)
- Explore new and innovative pay practices and make appropriate modifications to the State Personnel Act to allow for their use. (p. 7)
- Consider the development, implementation and ongoing management of a clear and comprehensive performance management system. Provide an allocation to each agency and university to use to reward employees based on performance and competencies. This allocation differs from the traditional career-growth increase and performance bonus. (p. 7)
- Consideration should be given to funding future legislative increases based on the Consumer Price Index (CPI) and/or average market movement in order to keep state employees’ salaries in line with overall labor market trends and maintain market competitiveness. (p. 6)
- Support the ongoing funding of the Office of State Personnel’s Human Capital Management System, Learning Management System (LMS) component. (p. 13)
- Support the Office of State Personnel’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. (p. 11)
- Support converting 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. (p. 16)
- 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. (p. 17)
- Move to a schedule where twelve paid holidays are granted consistently every year. (p. 15)

NOTE: To accomplish and support many of these recommendations, modifications to the State Personnel Act (GS 126) will be required.

II. INTRODUCTION

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.

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.

Two ways the state communicates this important aspect of employees' compensation to both current and prospective employees is through the use of a web-based total compensation calculator and the total compensation statement available through BEACON employee self-service.

Total Compensation Model

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

BENEFIT CATEGORY	PERCENTAGE OF AVERAGE SALARY	AVERAGE VALUE
Holidays (12 days)	4.62%	\$1,958
Sick Leave (12 days)	4.62%	\$1,958
Vacation Leave (17 days)	7.69%	\$3,258
OASI – DI [Social Security]	7.65%	\$3,241
Retirement & Disability <ul style="list-style-type: none"> • Retirement Systems Pension Fund 8.33% • Death Benefit Trust Fund 0.16% • Retiree Health Plan Reserve 5.30% • Disability Income Plan 0.44% 	14.23%	\$6,029
Health Insurance	12.25%	\$5,192
Longevity Pay	1.50%	\$636
Total Benefit Value	52.56%	\$22,272
In determining the <i>Percentage of Average Salary</i>, the average state employee’s years of service are 11.1 years and average state employee salary is \$42,371. The total benefit value is added to employees' base pay to determine <i>Total Compensation</i>.		
	Average Base Pay	\$42,371
	Average Benefit Value	\$22,272
	Average Total Compensation	\$64,643

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

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

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

BENEFIT CATEGORY	BLS PERCENTAGE OF TOTAL COMPENSATION 2012	N.C. AVERAGE PERCENTAGE OF TOTAL COMPENSATION 2012	N.C. CHANGE FROM 2011
Salary & Wages	71.3%	66.5%	-1.9%
Paid Time Off	7.2%	11.3%	-0.3%
Health Insurance	8.8%	8.1%	-----
Retirement	4.7%	9.1%	+2.4%
OASI-DI (Social Security)	8.1%	5.1%	-0.1%

Sources: 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 – September 2012."

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 2013 (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>2010 Actual</u>	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>2013 Projected</u>
William Mercer	2.3%	2.7%	2.7%	2.9%

Note: The above are projected and actual base pay salary increase percentages of payroll.
 Source: Mercer Human Resources Consulting 2012-2013 US Compensation Planning Survey

Projected and actual wage increases have remained fairly stable at the national level for the best part of the past decade at or about the 4% percent level. However, with worsening economic conditions, actual wage increases declined dramatically in 2009. They increased slightly in 2010 and 2011, then held fairly steady, but still are not approaching historical levels. A study conducted by Mercer Human Resources Consulting, *2012-2013 US Compensation Planning Survey*, revealed that during the calendar year 2012, pay increase budgets stayed the same as the year before, after a 0.4% increase the previous year.

Analysis of data from a variety of national consulting and business firms places the projected budgeted average wage increase for 2013 at 2.9%.

In North Carolina, annual salary increases for state employees were less than average market movement in all but two of the last ten years. Even when factoring in the above-market legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed average market increases by 7.65% since 2006. A history of legislative increases and chart comparing legislative increases to average market movement is included in the appendix of this report.

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

Consumer Price and Employment Cost Indices

In addition to general labor market movement, the increase in the Consumer Price Index-Urban (CPI-U) for the 12-month period ending in December 2012 was 2.2%. 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 2002 to 2012 trails the CPI-U percentages for the same time period, with the exception of 2006-2008. This differential reflects that compensation for state employees has historically not kept pace with the consumer price index. Even when factoring in above-market legislative increases in 2006 and 2007, salary increases in state government have still cumulatively trailed CPI by 7.6% 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.

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.

Table 5 outlines a number of compensation options that are becoming more prevalent among private and public sector organizations. Usage has generally increased slightly over the past few years.

- Signing bonuses are paid to certain hard-to-hire positions as an incentive to accept a position. For example, according to the 2012-2013 Mercer Compensation Planning Study, this is a very commonplace recruitment tool for Information Technology and Engineering jobs (note that all of these tools experienced a decline in use in 2009/2010 but are increasing again now).
- 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	63%	45%	63%	76%
Engineering	55%	47%	46%	65%
Finance & Administration	46%	21%	31%	76%
Human Resources	36%	9%	27%	74%
Customer Service	20%	8%	24%	72%

Source: William M. Mercer 2012-2013 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. ***An allocation should be provided to each agency and university to use to reward employees based on performance and competencies.*** 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 across-the-board base pay increases. However, implementing programs like this for N.C. state government would require strong support from the legislature.

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

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

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

In a report from the Society of Human Resources Management (SHRM), two North Carolina metropolitan areas were 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), elevating competition for qualified employees. 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.

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 54 benchmark classes – a cross-section spanning ten major job families -- that represent more than 1/3 of all employees subject to the State Personnel Act. After identifying the benchmark classes, appropriate labor markets were determined. This and other data can be found in the appendix.

Market data was collected from the following published sources:

- **William Mercer Human Resource Consulting – 2012-2013 US Compensation Planning Survey – A Study of Pay Increases, Incentive Compensation, and Emerging Practices.** More than 1,500 organizations provided data for the 2012-2013 US Compensation Planning Survey, representing pay practices of more than 12 million workers.

- **Capital Associated Industries – 2012 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 2011** - 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 – 2012 - Salaries** and wage profiles by position and information about fringe benefits offered by North Carolina counties.
- **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).
- **National Compensation Association of State Governments Survey 2012;** salary and benefits survey information compiled from 41 states.
- **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 2012** – 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 2012 – Carolinas – Pay and Benefits Survey Results** – survey analysis, pay practices and benefit practices for 284 non-profit organizations in North and South Carolina.

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 2012, an analysis of salary survey data for the benchmark classes indicates state employees' salaries overall trail their equivalent labor market by 2.7%. This was a 0.3% increase over the last analysis conducted for the year 2011, and is still generally considered to be an overall 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 (2012 report excluded). 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 varies slightly.

Table 5: **OVERALL MARKET COMPARISON**

Year of Report	North Carolina Pay	Market Pay	% NC Trails Market
2013	49,399	50,732	-2.67%
2012	not reported	not reported	not reported
2011	48,926*	50,402**	-3.02%
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-four (54) benchmark classes -- representing approximately 35% of the state's workforce -- in this report were analyzed by staff in the Office of State Personnel and indicate that the 2012 average wage for 15 of the 54 (28%) classes trailed the market by at least 5% and 9 of the 54 (17%) trailed by at least 10% (compared to 39% and 22%, respectively, in 2010). This indicates a slight increase in North Carolina's overall competitive pay position. However, there are still significant pay gaps with certain types of jobs. 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, 2010 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 2010 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, in years where they are granted, 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	# Incumbents	Turnover Rate
Auditor	53,871	65,810	-22.2%	517	9.1%
Info & Communications Spec II	46,331	53,720	-15.9%	52	9.6%
Electrician II	38,933	42,135	-8.2%	55	13.0%
Engineer	64,280	70,864	-10.2%	1513	7.0%
Occupational Therapist I	65,859	68,585	-4.1%	26	16.7%
Professional Nurse	54,060	50,964	+5.7%	1376	20.7%
Social Worker III (MSW)	42,997	51,695	-20.2%	129	8.3%

Source: PMIS and BEACON

Note: The State's average turnover rate for all occupations in fiscal year 2011-2012 was determined to be **11.1%**

New Graduates Starting Pay

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. The Office of State Personnel must continue to evaluate new graduate hiring rates in order to attract new college graduates.

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

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

Use of Salary Adjustment Funding

One tool that has helped keep salaries competitive in the past is the Salary Adjustment Fund. The Salary Adjustment Fund is used to increase salaries in occupational fields, such as those listed in Table 6, where some salaries are significantly below the market and turnover is trending up. The primary funding mechanism, transferring legislative increase funds remaining after employees receive their legislative increase, is often inadequate to address occupational areas where salaries are below the market. Due to economic instability, no Salary Adjustment Fund moneys were allocated in each of the past five years. 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. The recent budget situation makes the use of these funds for labor market revisions impracticable. However, many agencies may still face difficulty in filling critical vacancies without sufficient funds to maintain competitive recruitment.

In order to ensure market competitiveness, state leaders should charge the Office of State Personnel (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. OSP and state agencies should evaluate job-specific turnover in order to identify critical needs.

Additional Analysis

Turnover Rates and Cost

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

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

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

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

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

	FY 2007-2008	FY 2008-2009	FY 2009-2010	FY 2010-2011	FY 2011-2012
Voluntary T/O	8.6% *	5.6% *	5.6% *	5.8%*	5.0%*
Retirement T/O	2.2% *	1.8% *	2.2% *	2.6%*	3.0%
Involuntary T/O	1.5% *	2.6% *	2.4% *	1.9%*	3.1%*
Total T/O	12.3% *	9.9% *	10.2% *	10.3%	11.1%

* NOTE: The continued transitioning of positions and employees from PMIS to the BEACON system in 2007 and 2008, along with the transitioning of many positions and employees to Career-banding – make the 2007-2009 data potentially questionable. Retirement turnover is also questionable for 2007-2012 because of inconsistent reporting in BEACON and the University System’s HR Datamart. However, data appear to be relatively consistent with past years and economic trends.

In FY 2011-2012, the State had a 5.0% voluntary turnover rate. Using the HCI turnover value of 150% cost of turnover, the cost to the state would be more than **\$282 million** (5.0% of state 88,837 employees is approximately 4,442, multiplied by average state salary \$42,371, multiplied by 150%). Because the cost of replacing human capital is so high, this underscores the need to closely monitor turnover, strive for competitive salaries, and maintain a positive work environment with high employee engagement levels. Simply put, uncompetitive salaries, poor working conditions and the low employee engagement that can come along with those conditions exacerbate turnover and needlessly cost the state hundreds of millions of dollars.

While the 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. ***Support and funding for the state’s human capital management system will go a long way towards recognizing the high value employees place on their professional development.***

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.

Turnover among 18-25 year olds has generally outpaced overall state employee turnover until FY 2011-2012. Meanwhile, the average age of N.C. state employees has generally increased over the past two decades – though holding steady at around 45-46 for the past few years -- further illustrating the impending aging workforce issues.

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

VI. BENEFITS ANALYSIS

Paid Time Off Analysis

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

Vacation

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

Table 8: **VACATION LEAVE**

Years of State Service	North Carolina	SE States	Differential in Days
0 but less than 5 years	14.00	13.77	Negligible
5 but less than 10 years	17.00	16.81	Negligible
10 but less than 15 years	20.00	19.92	Negligible
15 but less than 20 years	23.00	22.27	+0.73
20 but less than 25 years	26.00	24.00	+2.00
25 years or greater	26.00	24.40	+1.60

2009 Southeastern States Benefits and Pay Practices Survey (last date of publication)

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.

Table 9: **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 (last date of publication)

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 10: **HOLIDAYS**

Holiday Leave	North Carolina	Southeastern States
Days per Year	11 or 12	11.58

2009 Southeastern States Benefits and Pay Practices Survey (last date of publication)

It is recommended that the State Personnel Act be revised to allow for 12 paid holidays every year in order to increase competitiveness with the southeastern states and standardize the allotment.

Health Insurance

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 \$411 per month for Employee Only coverage but zero additional allowance is made for Dependent (Family) coverage.

Table 11: **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 (last date of publication)

Comparison to Local Government Practices

In surveys, local governments report on choice of health plan, deductibles and employee and agency cost. The comparative results suggest that N.C. compares favorably in normal deductible and co-pay amounts but unfavorably in average annual premium amounts paid by the employee and employer, lagging N.C. counties and municipalities by 33-35%.

Table 12: **SURVEY OF LOCAL GOVERNMENT'S HEALTH INSURANCE PRACTICES**

Type of Agency	Normal Deductible (if flat \$ amount reported)	Normal Co-pay (if flat \$ amount reported)	Average Annual Amount Employee Pays	Average Annual Amount Agency Pays
Municipalities	\$1,114	no data	\$159	\$6,583
Counties	\$814	\$23	\$165	\$6,147
State of North Carolina	\$700	\$30	\$259	\$4,931

The above information applies to employee only coverage; NC data applies to the standard PPO plan. Source: North Carolina League of Municipalities 2010 Survey of Municipal Fringe Benefits (biannual report) and County Salaries in North Carolina 2011

Statewide Flexible Benefits Program (NC Flex)

The NC Flex program is administered by the Office of State Personnel. Currently there are over 249,000 pre-tax Flex options elected for use by participants from the agencies, universities, and community colleges. **Employees select benefits and enroll in the program on a calendar year basis through BEACON and NCFlexonline web enrollment systems (a process that would be aided by the State Health Plan operating its enrollment on a calendar year basis).** Claims for reimbursement are also web-based.

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.
- 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 three options, Plan 1, Plan 2 and Plan 3. Depending on the plan option chosen, these plans cover eye exams and materials such as eyeglass lenses, frames, and contact lenses. Plan 3 offers enhanced exam and materials benefits.
- 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 core AD&D 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. In 2011, a new Wellness Screening option was added to premium and high options.

- Critical Illness coverage provides optional benefit coverage for certain cancer, heart-related and other serious health conditions.

Post-tax supplemental insurance products are currently administered by each agency’s “Employee Insurance Committee.” **The efficiency and effectiveness of providing these benefit options should be reviewed.**

Retirement

The percent factor used by southeastern states to calculate retirement benefits ranges from 1.6% to 2.5% times Average Final Compensation. North Carolina's factor used to calculate pension benefits is 1.82%. 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 2012-2013 employer contribution on behalf of employees in the Teachers & State Employees Retirement System (TSERS) is 14.23%. This includes contributions to the retirement systems pension fund, death benefit trust fund, retiree health plan reserve and disability income plan. The state’s contribution to the pension fund only is currently 8.33%.

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 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 . In 2011, 51% of 86 reporting counties offered an employer match or contribution averaging 1.9%. North Carolina State Government provides no contribution to 401(k) except for law enforcement employees. The State of North Carolina is not competitive in this area by not offering a match.

Table 13: FIVE-YEAR COMPARISON OF COUNTY GOVERNMENT 401(K) PLANS

Program Plan	Counties Contributing to 401(k) Programs 2007*	Counties Contributing to 401(k) Programs 2008*	Counties Contributing to 401(k) Programs 2009*	Counties Contributing to 401(k) Programs 2010*	Counties Contributing to 401(k) Programs 2011*
NC County 401(k) Contributions	67%	62%	72%	63%	51%

Source: County Survey 2011 (MAPS Group) – *only counties reporting data were used in calculation

About 85% of municipalities have 401(k) programs. Of these, 78% make a contribution to the program. For those counties contributing to 401(k) programs, the average contribution is 4.3% of salary. The most common contribution for both counties and municipalities is 5%.

Source: North Carolina League of Municipalities 2010 Survey of Municipal Fringe Benefits (biannual report), County Survey 2011 (MAPS Group)

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

Table 12: 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

2009 Southeastern States Benefits and Pay Practices Survey (last date of publication)

Appendix

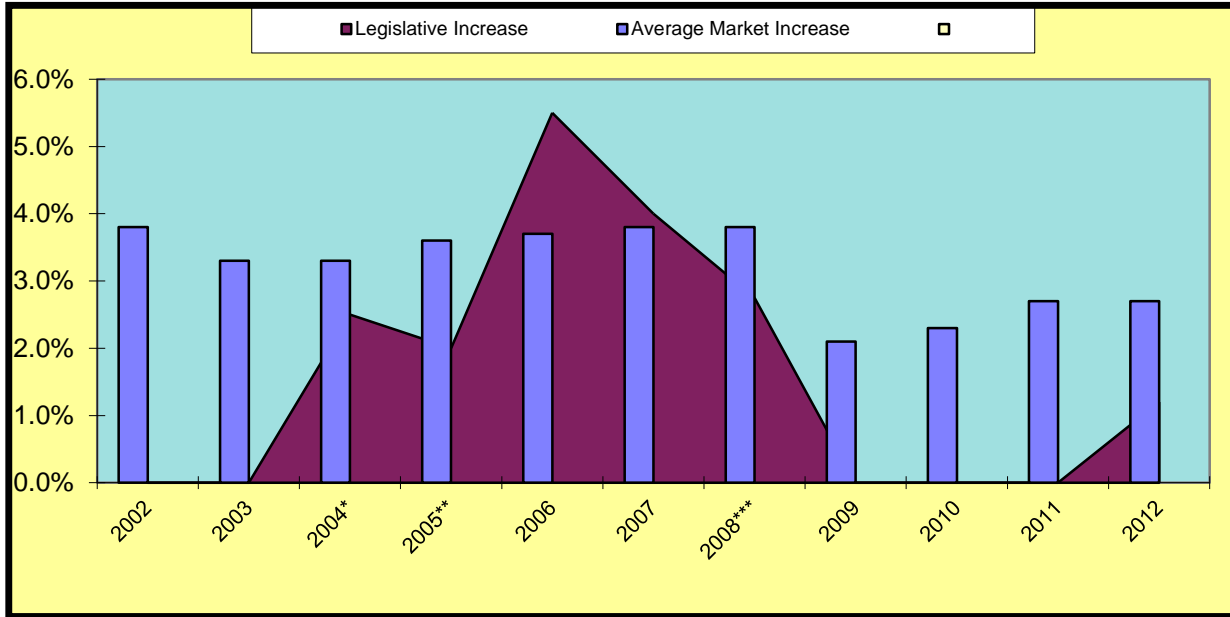
- ◆ *History of Legislative Increases 1992-2012*
- ◆ *NC Pay comparison to CPI and Average Market Movement*
- ◆ *Turnover and aging trends*
- ◆ *NC Pay Comparison to Southeast States and Local Governments*
- ◆ *List of Benchmark Classes and Labor Market Analysis*

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History of Legislative Increases 1992-2012

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

**NC Legislative Increases compared to actual average market movement
2002-2012 and projected average market movement for 2013**



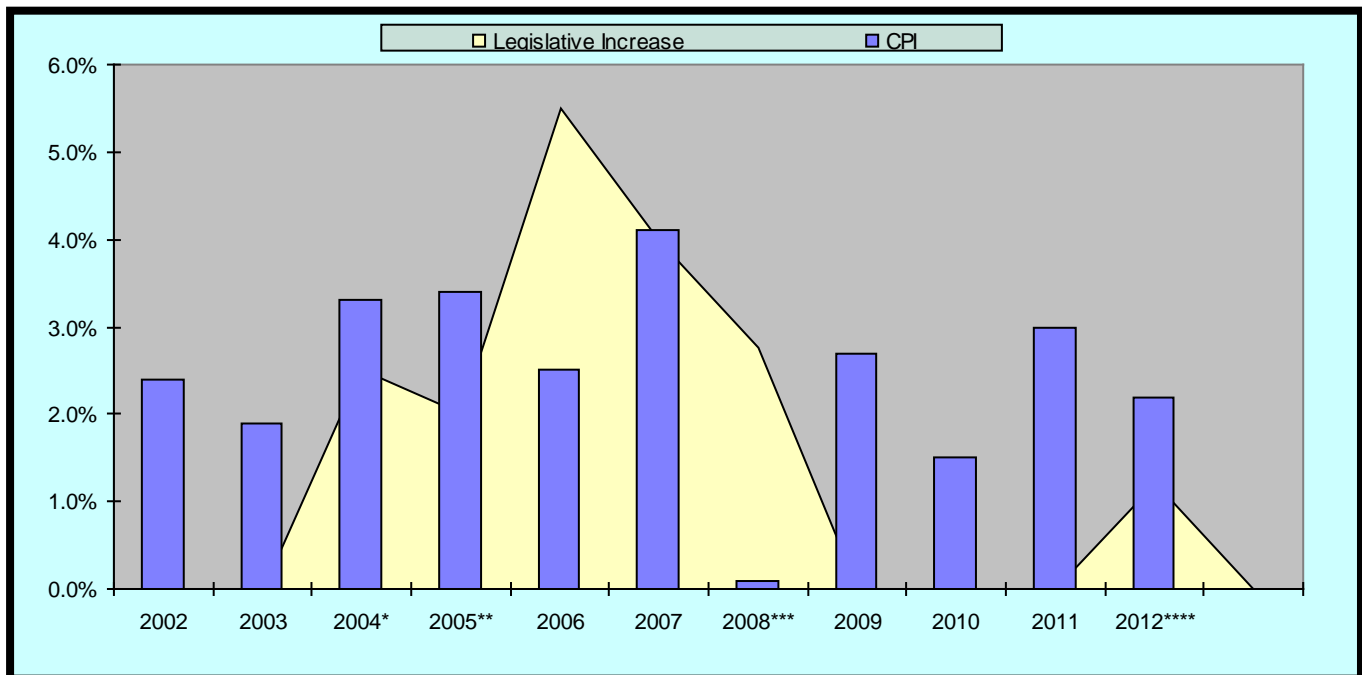
Source: William Mercer, Incorporated

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

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

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

Comparison of CPI with Legislative Increases (COLA only) 2002-2012



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

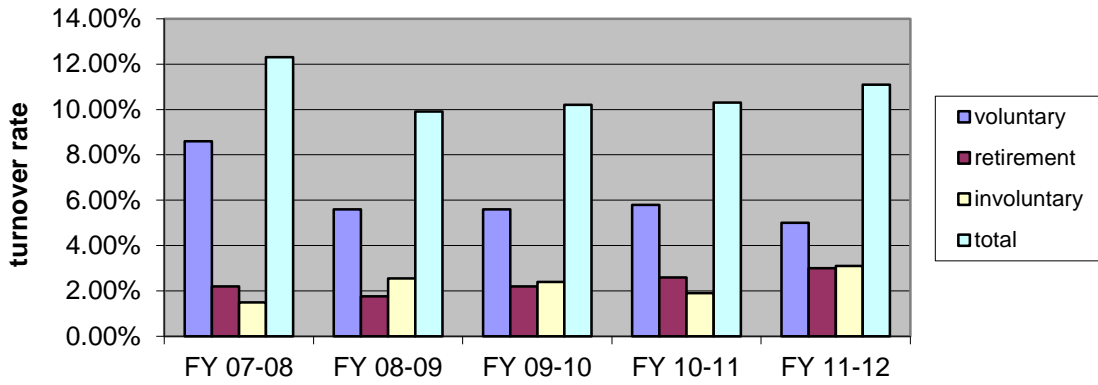
*2.5% for employees with salaries over \$40K; \$1000 increase for employees with salaries below \$40K during 2004.

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

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

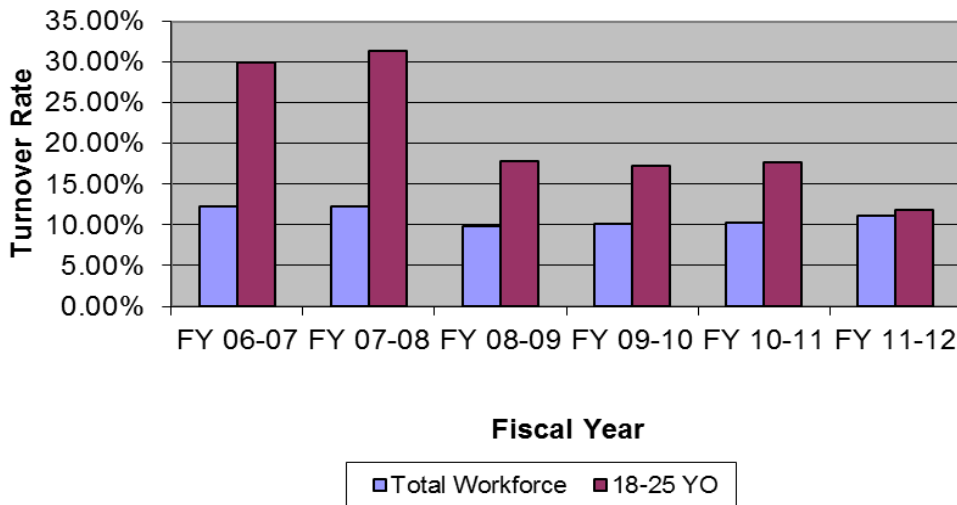
****CPI 2.2% as of end of October 2012

Five Years of Turnover Rates



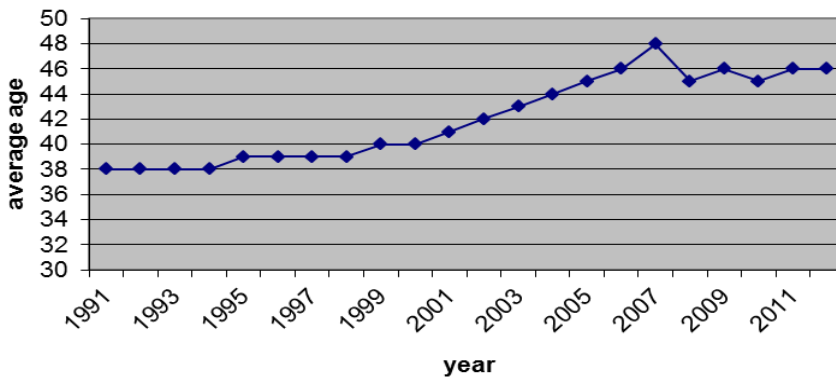
Source: PMIS, University HR Datamart and BEACON

A Comparison of Turnover Rates



source: PMIS, University HR Datamart and BEACON

Average Age of N.C. State Employees 1991-2012



source: PMIS, University HR Data Mart and BEACON

NC Pay comparison to Southeastern States

Historically North Carolina has generally led Georgia, South Carolina and Tennessee in pay, and trailed Virginia slightly (see Tables 9-12). Compared to 2010, North Carolina's pay position in relation to these other states has deteriorated by anywhere from 3.4% (Georgia) to 19.7% (South Carolina).

COMPARISON TO GEORGIA (CLASSIFIED EMPLOYEES ONLY)

	2008	2009	2010	2011	2012
Georgia	40,297	40,297	36,920	unavailable	38,698
North Carolina	41,646	41,804	41,714		42,371
NC Differential	+3.2%	+3.7%	+12.9%		+9.5%

COMPARISON TO SOUTH CAROLINA (CLASSIFIED EMPLOYEES ONLY)

	2008	2009	2010	2011	2012
South Carolina	35,911	36,906	32,273	unavailable	38,672
North Carolina	41,646	41,804	41,714		42,371
NC Differential	+13.8%	+13.3%	+29.3%		+9.6%

COMPARISON TO TENNESSEE (CLASSIFIED EMPLOYEES ONLY)

	2008	2009	2010	2011	2012
Tennessee	36,188	35,945	38,443	unavailable	40,549
North Carolina	41,646	41,804	41,714		42,371
NC Differential	+13.1%	+16.3%	+8.5%		+4.5%

COMPARISON TO VIRGINIA (CLASSIFIED EMPLOYEES ONLY)

	2008	2009	2010	2011	2012
Virginia	42,937	42,953	41,941	unavailable	44,149
North Carolina	41,646	41,804	41,714		42,371
NC Differential	-3.1%	-2.7%	-0.5%		-4.2%

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

Source: PMIS, BEACON, University HR DataMart and survey of contiguous states 2013

Benchmark Classes Labor Market Data Summary

Class Titles	North Carolina Salary	Composite Market Rate	Labor Market Pay Gap	Turnover Rate * (FY 11-12)	EEs (12/2012)
Administrative & Managerial					
Accountant (banded)	57,962	48,568	+16.2%	6.4%	643
Accounting Manager (banded)	81,561	80,691	+1.1%	2.4%	73
Accounting Technician (banded)	39,257	37,048	+5.6%	5.6%	919
Administrative Secretary III	38,671	36,641	+5.2%	7.0%	123
Admin Support Assoc (banded)	32,063	32,446	-1.2%	8.4%	2576
Attorney III	86,583	89,190	-3.0%	5.9%	126
Attorney (banded)	103,146	89,190	+13.5%	3.4%	28
Executive Assistant I	43,750	48,561	-11.0%	7.9%	39
Auditor (banded)	53,871	65,810	-22.2%	9.1%	517
Office Assistant IV	32,471	32,446	+0.1%	7.3%	964
Paralegal II	43,032	49,174	-14.3%	5.0%	50
Personnel Analyst II	57,192	54,772	+4.2%	10.0%	56
Engineering & Architecture					
Engineer (banded)	64,280	70,864	-10.2%	7.0%	1513
Human Services					
Social Worker II (BSW)	39,962	41,986	-5.1%	3.7%	27
Social Worker III (MSW)	42,997	51,695	-20.2%	8.3%	129
Rehabilitation Counselor I	39,395	37,226	+5.5%	18.6%	204
Information & Education					
Artist Illustrator II	39,452	43,567	-10.4%	6.1%	33
Information and Communication Spec II	46,331	53,720	-15.9%	9.6%	52
Library Professional (banded)	48,917	44,401	+9.2%	9.1%	33
Public Health Educator II	40,237	33,869	+15.8%	100.0%	2
Information Technology					
Business & Technology Applications Analyst (banded)	69,616	59,947	+13.9%	8.5%	966
Information Technology Manager (banded)	94,579	95,785	-1.3%	13.8%	263
Networking Tech (banded)	48,962	51,023	-4.2%	8.9%	115
Operations & Systems Specialist (banded)	86,973	77,428	+11.0%	12.8%	329
Operations & Systems Technician (banded)	42,795	39,977	+6.6%	1.6%	102

Class Titles	North Carolina Salary	Composite Market Rate	Labor Market Pay Gap	Turnover Rate * (FY 11-12)	EEs (12/2012)
Institutional Services					
Building & Environmental Services Tech (banded)	24,970	23,186	+7.1%	16.4%	2366
Cook II	26,624	26,420	+0.8%	12.0%	142
Food Service Tech (banded)	24,705	26,420	-6.9%	16.7%	119
Housekeeper	24,018	23,186	+3.5%	8.1%	442
Law Enforcement & Public Safety					
Correctional Officer	29,633	30,426	-2.7%	17.0%	9382
Public Safety Officer (banded)	36,843	37,912	-2.9%	2.4%	378
SBI Agent II	45,770	51,188	-11.8%	5.9%	22
Security Guard	26,172	27,099	-3.5%	10.3%	104
Medical & Health					
Clinical Dietitian I	44,723	50,790	-13.6%	16.2%	38
Health Care Tech I	25,960	25,854	+0.4%	14.9%	3506
Medical Laboratory Technologist II	45,277	40,828	+9.8%	5.7%	52
Nurse Supervisor (banded)	66,521	63,157	+5.1%	11.5%	274
Occupational Therapist I	65,859	68,585	-4.1%	16.7%	26
Pharmacist (banded)	100,386	98,399	+2.0%	9.0%	130
Physical Therapist I	70,716	73,283	-3.6%	0.0%	6
Physician Extender I	76,176	81,908	-7.5%	0.0%	3
Licensed Practical Nurse (banded)	39,510	39,497	0.0%	17.3%	603
Professional Nurse (banded)	54,060	50,964	+5.7%	20.7%	1376
Speech & Language Pathologist I	58,837	57,740	+1.9%	14.3%	50
Natural Resources & Scientific					
Chemist II	51,425	50,485	+1.8%	3.8%	30
Forester I	41,226	39,183	+5.0%	4.6%	32
Park Superintendent (Law Enforcement Supv - banded)	48,023	47,213	+1.7%	4.9%	40
Operations & Trades					
Electrician II	38,933	42,135	-8.2%	13.0%	55
Facility Maintenance Technician – Mechanical (banded)	39,350	38,404	+2.4%	8.8%	867
HVAC Mechanic	40,494	40,803	-0.8%	13.1%	92
Maintenance Mechanic IV	38,678	38,404	+0.7%	13.9%	282
Mechanic II	39,335	41,646	-5.9%	2.4%	82
Vehicle/Equipment Repair Technician (banded)	38,769	41,646	-7.4%	7.8%	607
Welder II	38,628	36,360	+5.9%	10.0%	20

* Turnover Rate provided for agencies only