

# *State of Kansas*

State Employee Compensation Oversight Commission

Proposed Compensation Plan Design

September 7, 2007



# 1 Background

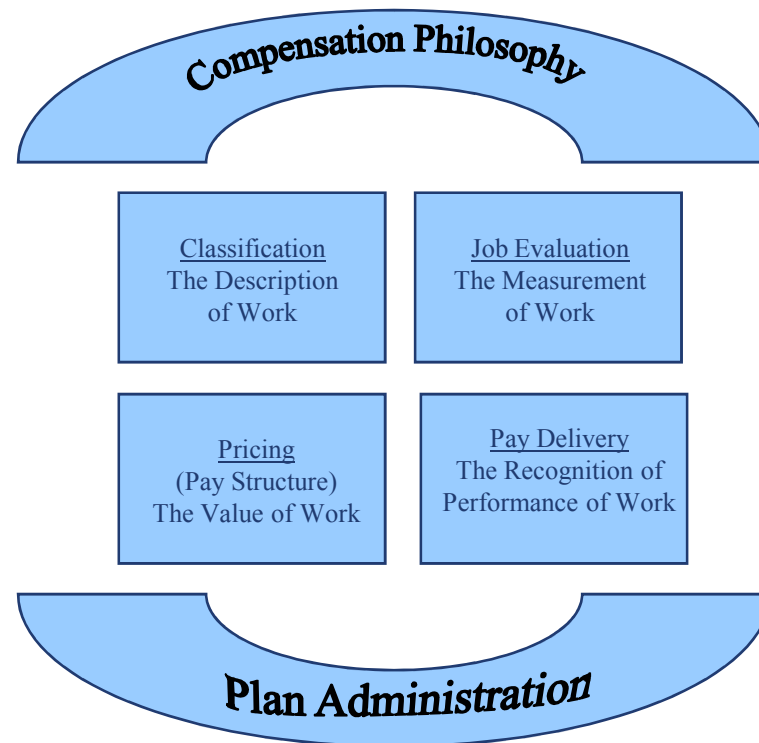
- The role of the State Employee Compensation Oversight Commission is to develop recommendations for a new pay plan for classified employees to be presented to the 2008 Legislature.
- The purpose of this report is to set out the proposed pay plans, within the context of the Compensation Philosophy that was developed and adopted by the State Employee Pay Philosophy Task Force in June 2007.

## 2 Context

- The work of the Commission and the design of the plan has been guided by the framework of the 6 components of an Effective Classification and Compensation Plan as set out on the following page.
- While each component is significant and inter-related, the main focus of this report is on the recommended pay plans. Commentary is given on the other components where appropriate.

## 3

# Components of an Effective Classification and Compensation Plan



## 4 Compensation Philosophy

- Pay plan design must be done within the guiding principles and parameters of the State's compensation philosophy.
- The work done by the State Employee Pay Philosophy Task Force in May and June 2007 provided that context and the State is to be commended for making the development of a Compensation Philosophy a priority.
- The philosophy statement adopted by the Task Force is set out in the Appendix.

## 5 Classification

- Classification is concerned with the ***description*** of work. An employee is appropriately classified if the Classification Specification to which they are assigned is an accurate description of at least 80% of the major duties and responsibilities of a position and the knowledge, skills and abilities required to perform the work.
- While significant classification work was done in the period up to 1996, the Division of Personnel is aware and has informed the Commission that there is work that needs to be done on appropriately classifying employees.
- This cannot be done in the time frame of the Commission nor does DPS have the resources to making this a priority.

## 6 Classification (cont'd)

- However, as set out later in this report, DPS intends to address the issue of the appropriate classification of employees as part of the multi-year implementation of the proposed pay plans.

## 7 Job Evaluation

- Job Evaluation is a formal process to determine the relative value of a classification based on common factors.
- It is the most objective and defensible means by which to establish internal equity between positions within a classification series and across series.
- The State's plan is currently market-priced based on benchmark positions and for positions for which market data is not available, whole job ranking slotting is done.
- The compensation philosophy statement reinforces market value as being the primary driver of determining pay for classifications.



## 8 Job Evaluation (cont'd)

- However, the compensation philosophy also states that for classifications for which market data is not available, there needs to be a fair, defensible and understandable method of allocating classifications to ranges.
- Sound compensation practices indicate that when an organization uses market pricing as its primary driver of establishing compensation values, there needs to be a benchmark sample of at least 40-45% of all classifications.
- Hay recommends the State consider the introduction of a formal method of job evaluation if:
  - There is difficulty in getting market matches for at least 40% of classifications; and
  - The predominance of concerns about pay are internal equity rather than external competitiveness.

## 9 Pay Plan Design

- There have been numerous presentations to the Commission that highlight the following:
  - The current pay plan is simple in design:
    - Ranges and steps
  - The Classified pay plan is primarily a “one size fits” all
  - The current pay plan has not been effective as it has not been funded and has created significant inequities
  - The current pay plan lags market
- The Commission has clearly identified that putting additional funding into the existing plan is not an optimal solution.

## 10 Pay Plan Design (cont'd)

- In addition, the State is a complex employer. It has classifications and types of work which, if in the private sector, would not be within the same organization.
- The Compensation Philosophy developed in June 2007 recognized the need for some common foundational principles such as fairness but allowed the flexibility to have multiple pay plans.
- Accordingly, Hay recommends to the Commission pay plans that take into consideration: the types of jobs, market factors and the need to attract and retain the quantity and quality of classified employees the State needs to meet its service objectives.

## 11 Pay Plan Design (cont'd)

- Five Pay Plans for Classified Employees are Recommended:
  1. Management Pay Plan
  2. Professional Individual Contributor Pay Plan
  3. Protective Services Pay Plan
  4. Basic Vocational Pay Plan
  5. General Classified Pay Plan
- Set out on the following pages is a summary of the plan design for each of the plans.

## 12 Management Plan

- This will be an open range (minimum, midpoint and maximum), market based plan with movement of pay being based solely on performance
- Common characteristics of classifications assigned to this plan will include:
  - Leadership and management positions in an Agency where the incumbents are accountable for planning, leading, organizing and controlling resources and achieve results through being accountable for the efforts of those they manage; and
  - Employees in these classifications exercise freedom to considerable authority and freedom to act.

## 13 Management Plan (cont'd)

- Other features include:
  - Salary ranges will be wide enough to reflect the opportunity for growth, development and performance of an incumbent in the pay range.
  - Not all classifications with the word “Manager” in their title will automatically be placed in this plan. Allocation will be based on a definition of management that will be developed.
  - Examples of current classifications that are likely to be included in this plan include: Public Service Executives, Central Accounting Managers, Warden.
  - Pay movement will be based on a combination of position-in-range and performance.

## 14 Professional Individual Contributor Pay Plan

- This will be a broad banded pay plan within placement in the band and movement through the band being based on pre-determined multiple criteria.
- It is critical that the State offer the opportunity for Professional Individual Contributors (PIC's) in selected occupational groups to be able to progress and be rewarded for progression without having to move into a managerial position. This is also known as offering a dual career path.
- The occupational groups are typically characterized by a high number of PIC's per the number of managers.

## 15 Professional Individual Contributor Pay Plan (cont'd)

- There are five main occupational families for which a broad banded structure has been successfully implemented. These are: Engineers, Accountants, Information Technology, Attorneys and Healthcare professionals.
- The reasons why having a PIC pay plan is recommended include:
  - The organization wants flexibility of utilization of its workforce without being bound by a narrowly defined classification;
  - The organization wants to be able to provide career progression without having to promote incumbents to management positions;



## 16 Professional Individual Contributor Pay Plan (cont'd)

- The organization wants to place less emphasis on classification and grade and more emphasis on career delivery and progression; and
- The organization wants to be a “learning organization” that seeks to hire employees at lower levels in a job family and will offer both the training and development opportunities, as well as increased complexity of work that will cause the PIC employee to want to remain with the organization.
- Pay ranges will be broad banded with market anchors within the bands to reflect different levels of work

## 17 Professional Individual Contributor Pay Plan (cont'd)

- Pay will be determined by assessment against the following criteria:
  - Tenure and experience (it is important to note that the reference to experience must be related to progressive experience, not just time in position);
  - The nature or work being performed;
  - Increased independence of work and judgment exercised;
  - Achievement of pre-determined performance standards;
  - The acquisition and application of further education and training;
  - Demonstration of an increased frequency of undertaking the type and complexity of work associated with the next level in the job family; and
  - Fulfilling a leadership role.

## 18 Professional Individual Contributor Pay Plan (cont'd)

- Examples of current classification series that are likely to be included in this plan include: Civil Engineer, Environmental Scientist, Registered Nurse, Attorney, Accountant, Auditor, Computer Applications Developer, and IT Systems Analyst.
- It is recommend that the plan be administered by a Professional Development Committee consisting of representations of each of the PIC disciplines and Personnel.

## 19 Protective Services Pay Plan

- This will be a market based plan with steps. Movement will be based on time and “certifications”
- The reasons why a pay plan for Protective Services is recommended include:
  - It is common practice in the market;
  - Protective service job families typically have a defined hierarchy of positions;
  - There are limited opportunities for promotion (the “long bottle neck”)
  - The clear linkage that can be established to training and certifications;
  - The need to provide pay progression as a retention vehicle;
  - More clearly defined “pass/fail” criteria in protective services; and

## 20 Protective Services Pay Plan (cont'd)

- The high cost of training and the need to retain the employee in whom that investment has been made.
- The current classification series for Protective Services includes “multiple levels” within the same classification series for what is similar work. This has made the classification plan a “defacto compensation” plan.
- The proposed plan will take the emphasis of classification and place it on pay delivery.
- Examples of classification series that are likely to be included in this plan include: Law Enforcement Officer, Highway Patrol Officer, University Police Officer, Natural Resources Officer, Corrections Officer, and Juvenile Justice Corrections Officer.

## 21 Basic Vocational Pay Plan

- This will be a market based, step plan with narrow pay ranges and a limited number of steps on either side of the market rate.
- The classifications covered by this plan are those in which employees perform routine work, the time to reach full performance is limited and is often learnt on-the-job.
- Employees in these classifications have limited authority for independent decision-making and performance can be readily assessed on a pass/fail basis.
- While the wage rate will be a guide as to which classifications will fall into this plan, current analysis indicates that classifications for which the market rate is \$10/hour or less are likely to be included in this plan.

## 22 Basic Vocational Pay Plan (cont'd)

- Based on a pass performance rating, employees will get an annual step increase.
- Examples of classification that are likely to be included in this plan include: Custodial Worker, Laundry Worker, Food Service Worker, and Driver.

## 23 General Classified Pay Plan

- This plan will cover all classified employees in all classifications not covered by one of the previous 4 plans.
- It will be a market based plan with steps from minimum to market and an open range from market to maximum.
- Movement up to market will be based on time and performance and movement above market will be based on performance only. High performing employees at less than the market rate may get an increase of more than one step.
- Upon development of an effective performance management process, the appropriate linkage between pay and performance and the commitment to funding the plan, this plan may be redesigned to be an open range plan.



## 24 General Classified Pay Plan (cont'd)

- The width of pay ranges for exempt and nonexempt classifications in this plan may vary and may be asymmetrical around the market midpoint.

## 25 Transition and Implementation

- The proposed plans represent a significant change from the current plan, which has been in place for many decades.
- In addition, for these plans to be effectively implemented will require the development and implementation of an effective Statewide effective performance management plan.
- Furthermore, while this is being done, the State cannot afford to “stand still” in terms of addressing moving pay closer to market.
- Each of the above needs to be done in a planful, “right but not rushed” way.

## 26 Transition and Implementation (cont'd)

- Input provided by all “interested parties” to the Commission stressed the importance that the State should not rush into changes of this magnitude and that education and communication is critical.
- In addition, change needs to be addressed within the context of affordability.
- Additional work will be done on transition and implementation planning before the next Commission meeting in October.
- However, initial thoughts are that the changes would be made through a five-year phased implementation as set out on the following page:

## 27 Transition and Implementation (cont'd)

- The classified workforce would be either:
  - Divided into thirds; or
  - Divided into their different pay plans.
- The first year would involve:
  - The development of a statewide performance management plan;
  - The finalization of the design of the pay plans;
  - Getting employees appropriately classified; and
  - Training managers and employees in the new performance management plan.

## 28 Transition and Implementation (cont'd)

- The second year would involve:
  - Using the new performance management plan and performance management process without there being a formal linkage to pay movement.
- The third year would be the full implementation of the plan with there being a formal linkage between pay delivery and the means by which pay will move for each of the pay plans.
- Upon full implementation, “the cycle” would start the again for each group and this will ensure that classification issues and market competitiveness of pay are kept more “current.”

## 29 Transition and Implementation (cont'd)

- During the interim years until full implementation, it is strongly recommended that steps taken in this past year to move salaries closer to market be continued.
- In addition, it is strongly recommend that a Commission of a similar nature and role to that of the current Commission be continued to provide oversight to the development and implementation of the new plans and the performance management process as well as, upon implementation, ensuring that the plans and processes are being done in accordance with the State's compensation philosophy.

# Appendix



## 31 Compensation Philosophy

- **Umbrella Statement**

The compensation program (compensation and benefits opportunity and delivery) for State employees will be designed to support the mission of the various branches of government and the agencies and departments within those branches. The foundation of the compensation program is to attract and retain quality employees with competitive compensation based on relevant labor markets. The programs will be based upon principles of fairness and equity and will be administered with sound fiscal discipline.



## 32 Compensation Philosophy Component Statements

1. The Legislature will be accountable for the adoption of the compensation philosophy and framework. The Executive Branch through delegated authority from the Governor to the Department of Administration will be accountable for the consistent administration of the program for classified employees. Agency Heads will be accountable for proper administration of the program within their Agencies. The Chief Justice, through delegated authority to the Office of Judicial Administration will be accountable for the consistent administration of the program for Judicial Branch employees. The Board of Regents, through delegated authority to the Chief Executive Officer of each campus, will be accountable for the consistent administration of the program for higher education faculty and non-classified employees. The respective appointing authorities will have accountability for the consistent administration of compensation for non-classified employees.

## Compensation Philosophy Component Statements (cont'd)

2. The compensation program will be based on consistent principles of fairness throughout the State, yet will be flexible to meet changing needs. This will allow for multiple pay plans to fit different needs and market variables for the different Branches of government and within those Branches.
3. Establishing the value of compensation will be primarily based on establishing the appropriate market value of the job. For positions for which a market value cannot be readily identified, the value of compensation for those positions will be based on a fair, defensible and understandable method.

## Compensation Philosophy Component Statements (cont'd)

4. While recognizing that service and tenure yields valued experience, pay delivery mechanisms will be based on a combination of achievement of performance objectives, recognition of differences in job content, acquisition and application of further skill and education and pay for the achievement of team/unit or department goals.
5. All aspects of compensation (base salary, benefits, lump sum payments, allowances and other variable elements of compensation) will be considered as a total compensation package for State employees. The State's pay programs will utilize both fixed and variable compensation as well as non-cash reward and recognition programs.

## Compensation Philosophy Component Statements (cont'd)

6. Total compensation, as defined above, will be targeted at a competitive level when compared to the appropriate labor markets to allow the State to attract and retain the quality and quantity of employees needed to fulfill service commitments to its citizens.
7. The State is committed to ensuring that its salary structures are up to date through the conduct of market surveys at regular intervals. There will be a planned approach to ensure that the classification structure and classification of employees is kept current.
8. The compensation programs will reinforce a work culture and climate where employees are recognized and rewarded for their contribution. Any changes to compensation must be reasonable and take into consideration the needs of the State as an employer, the work culture afforded to the employees as public service providers and the citizens receiving services from the State.