

State of North Dakota Salary and Benefits Survey Presentation to State Employee Compensation Commission

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Why was the Project Conducted?

The economy of North Dakota continues to experience unprecedented growth, spurred by the continued development and production from the Bakken formation. According to data from Baker Hughes, there were 587 oil rigs operating in the US in 1999; today there are over 2300. Much of this growth has come in North Dakota.

Such growth brings both opportunities and challenges, with two main challenges being the strain on infrastructure and the demand for labor. The demand for labor puts pressure on compensation and it is important for employers to have current and relevant data on which to make compensation decisions.

The State of North Dakota (the State) had a total compensation study conducted in 2011 and that was used as the basis for the development of a new compensation plan, which was implemented with effect July 2012.

Against that background, the objective of this project was to conduct a market compensation survey that will provide the basis for HRMS recommendations on the following three components of an effective compensation plan:

1. Movement of salary ranges (salary structure);
2. Salary budgets (salary funding); and
3. The means by which salary funding should be allocated (pay delivery).

How was the Project Conducted?

To achieve the project objective, the following steps have been undertaken:

- Project Planning meeting to agree on project scope, objectives and expected outcomes
- Understanding of movement in salary structure and salaries since 2011
- Agreement on custom survey benchmark classifications
- Agreement on organizations to be invited to participate in custom survey
- Agreement on data to be collected in custom survey
- Design and distribution of custom survey data submission
- Follow-up of custom survey invited participants
- Matching of jobs and data collection from NCASG and NDJS surveys
- Analysis of market data
- Preparation of preliminary report to HRMS compensation team
- Today's presentation

What were the Sources of Market Data?

Three sources of market data were used:

- Selected States (NCASG) - 10 States that have been agreed upon in the past as being relevant comparators, being CO, IA, KS, MN, MO, MT, NE, OK, SD, WY. 143 benchmark classifications were used in this survey. The data from this survey source was taken from the October 2013 survey.
- Custom Survey – 42 public and private sector organizations, representing approximately 2700 employees. 103 benchmark classifications were used in this survey. A list of participating organizations is shown on the last page of this presentation. The effective date of this data is June 1, 2014.
- North Dakota Job Service (NDJS)- over 3000 North Dakota establishments. 177 benchmark classifications were used in this survey. The data from this survey source was from the 2013 year survey of data.
- The State of North Dakota data used was salaries with effect June 1, 2014 and the 2013/2014 salary ranges.

What were the Sources of Market Data?

- Of the number of benchmark classifications used:
 - There are 41 that are common between the Custom Survey and NCASG survey
 - There are 72 classifications that are common between the NCASG survey and the NDJS survey
 - There are 50 classifications that are common between the Custom Survey and the NDJS survey.

What are the results of the analysis of competitiveness with the Selected States?

As compared to the 10 Selected States, the analysis shows the following:

- The State's current average pay based on benchmark comparison is 6% above the average actual pay as compared to the selected States.
- The State's MPP is 9.25% above the average salary structure midpoint as compared to the selected States.

This level of competitiveness as compared to selected States is not an unexpected result for three key reasons:

- The development and implementation of a new salary structure by the State in 2012 that *was more reflective of competitiveness with in-State employers*.
- The movement of the salary structure both before and after the implementation of the new structure as compared to other States.
- The level of funding of salary movement over the past 5 years as compared to other States.

What are the results of the analysis of competitiveness with the Custom Survey?

As compared to the 42 In-State employers in the Custom Survey, the analysis shows the following:

- The State's current average pay based on benchmark comparison is 11.50% behind the average actual pay as compared to the Custom Survey participants.
- The State's MPP is 8% behind the average salary structure midpoint as compared to the custom survey.
- The Occupational Groups that lag the market the most are:
 - Custodial, Food Service and Laundry; and
 - Labor, Labor Supervision, Equipment Operations and Trades.

This level of competitiveness as compared to the in-State Custom Survey participants is not an unexpected result for two key reasons:

- The participants in this survey are a cross-section of primarily large employers in the State who are most effected by the pressure in the labor market and have been moving both their salary ranges and their salaries on a regular basis.
- The two occupational groups that show the greatest lag from the market are the types of jobs for which there has been the greatest demand with the growth of employment in the Oil Patch, being lower level service workers and trades/equipment operation type positions.

What are the results of the analysis of competitiveness with the In-State NDJS Survey?

As compared to the NDJS survey database, the analysis shows the following:

- The State's current average pay based on benchmark comparison is 3.35% behind the average actual pay as compared to the NDJS participant data.

This level of competitiveness as compared to the in-State NDJS participants is not an unexpected result for two key reasons:

- The constituency of this large database is reflective of a lot more medium to small employers (over 70% of the participants have 20 or less employees) who may not have the economic capacity to pay at market wages and salaries.
- It is our experience that the more small employers there are in a database, when compared to a database that is primarily large employers, the data shown for the smaller employers tends to be lower.

What are the results of the analysis of the Non Cash Survey questions?

In addition to analyzing market competitiveness for actual salaries and salary structures, data was collected from the Custom Survey participants in two categories:

- Salary Administration practices; and
- Changes made in benefits programs since the 2011 survey.

These changes in the benefits program for participants should be seen in light of the following:

- The results of the analysis of the State's benefits program in 2011 showed it to be 5-7% above the market average with the primary driver of that level of competitiveness being the retirement plan.
- Retirement benefits were at P75 as compared to the private sector;
- Healthcare and time off benefits were at the market median; and
- Death and disability benefits were at P25.

In addition, it is important to note the changes in employee contribution to the retirement plan that will have impacted the level of competitiveness of that plan component.

What are the results of the analysis of the Non Cash Survey questions?

Organization Data for Custom Survey participants

| # of Organizations Responding | Average # of Full Time Employees | Average # of Part Time Employees |
|-------------------------------|----------------------------------|----------------------------------|
| 40 | 663 | 172 |

Pay Structure

| % of Organizations Who Moved Their Pay Structure | | | |
|--|------|------|----------------|
| 2012 | 2013 | 2014 | 2015 (planned) |
| 73% | 80% | 88% | 50% |

| % of Organizations With More Than One Pay Structure |
|---|
| 44% |

| Of those Organizations With More Than One Structure It was for The Following Reasons: | | | |
|---|-------------------------------------|--|-------|
| Geography | Occupational group market pressures | Combination of geography/Occupational group market pressures | Other |
| 6% | 29% | 35% | 29%* |

*A number of organizations had multiple salary structures for union related reasons. Other reasons consisted of the cost of labor and seasonal or limited term employees.

What are the results of the analysis of the Non Cash Survey questions?

Salary Increase

| % of Organizations planning to give an overall salary increase during the rest of 2014? | Average planned Increase percentage |
|--|--|
| 26% | 3.25% |

Organizations that Made Changes to Their Benefits Package

| Life Insurance (Death Benefit) |
|---------------------------------------|
| 8% |

These changes were related to a change in provider or vendor.

| Sick leave, Short and Long Term Disability |
|---|
| 10% |

Examples of these changes consisted of: Adding to the overall accrual rate, decreasing short term disability benefit and changing to a PTO plan.

What are the results of the analysis of the Non Cash Survey questions?

Healthcare Insurance (Medical, Vision, Dental, Prescription)

51%

Many of these changes are organizations conforming to the ACA rules. Other changes consisted of adding additional benefits (dental, vision, etc.), adding additional providers and changing co-pays.

Retirement and Savings Plan

36%

Many of these changes were to increase the employee contribution rate. One organization moved from a cash balance retirement plan to a 401K plan.

Holidays and Vacations

21%

Changes consist of: adding floating holidays, decrease/increase of accrual rates, decreasing employment time before accrual begins, and moving to earn-as-you-go plan

What are the results of the analysis of the Non Cash Survey questions?

The conclusions that can be drawn from the analysis of the non cash survey questions include:

- The nature of types of jobs in the growth in the North Dakota economy are primarily focused on cash compensation. Concern about benefits packages is typically viewed as secondary for employees in these jobs.
- The benefits component in which there has been the highest % of change is healthcare. However, this has been primarily to conform with ACA.
- The changes in retirement plans is aligned with what the State has done.
- There is evidence that some organizations are moving pay more than once a year to “keep up” with labor market pressures.

How should the State use the results of this project in its salary planning and pay delivery?

When the State implemented the results of the 2011 study with effect July 2012, it not only implemented a salary structure that was more focused on competitiveness with in-State employers, it also adopted salary budgeting and pay delivery mechanisms that were and continue to be at the forefront of innovation in State Governments and aligned with such components in the private sector.

It is the opinion of Kenning Consulting that the main message from the results of this analysis is **Stay the Course**, based on the following:

- Salary ranges have been moved by 3% with effect July 2014. This will help to close the gap on competitiveness of ranges with the in-State market. Moving ranges by not less than 7% in the 2015-2017 biennium will keep salary ranges in the realm of reasonable competitiveness and will aid in recruitment.
- Continue to base pay delivery on relativity to MPP and performance. Feedback from both HRMS and the Agencies indicate that this process worked very well in 2013-2014 and should continue.
- Consider targeted funding for classifications in the Occupational Groups as identified in the analysis that lag the market the greatest amount.
- Continue to make cash compensation the primary focus, while taking opportunities where appropriate to achieve the optimal mix between salaries and benefits.

Appendix

1st International Bank

Altru Health System

Anne Carlsen Center

Basin Electric Power Cooperative

Bismarck Public Schools

Bismarck State College

BNI Coal, Ltd.

Burleigh County

Cass County Government

City of Bismarck

City of Dickinson

City of Fargo

ComDel Innovation

Coteau Properties

Dickinson State University

Doosan Construction Equipment

Friendship, Inc.

Hess Corporation

Hit Inc.

Mandan Public Schools

Mid Dakota Clinic

Minnkota Power

Minot Public Schools

Minot State University

Missouri Slope Lutheran Care Center

North Dakota State University

Prairie St. John

Quality Printing

Rugby Manufacturing

St. Alexius Medical Center

Stark County

Steffes Corporation

Supervalu

Tesoro

The Mentor Network

TrueNorth Steel

University of North Dakota

Valley Memorial Home

Wahpeton Public Schools

Ward County

WBI Energy

Williams County