

State of South Carolina

Classification and Compensation System Study

Project Report

Why was the project undertaken?

In the 2015-2016 General Appropriations Act, Proviso 93.33 authorized the Division of State Human Resources (DSHR) to seek a qualified contractor to conduct a review of the State's classification and compensation plan.

Executive Summary

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- The analysis shows that the current plan is experiencing some “signs of age,” having been in place for 20 years. Redesign is required and recommended.
- The current plan is administered primarily on a decentralized basis for the majority of employees, with agencies having significant authority for classification and compensation decisions made for employees in Pay Bands 1-6, which is 87.4% of all classified employees.
- This decentralized decision making, coupled with broad banded classifications and very wide salary bands, are contributing factors to the internal equity and salary disparity issues that the analysis shows.
- There are very few occupational categories or jobs families where employees are paid, on average, at the pay band midpoint.
- The overall market, shows current salaries lagging other States by an average of 15%, lagging the in-State public sector market by 16% and lagging the in-State private sector market by 18%, means that the State’s pay band midpoints and actual pay is **uncompetitive**. This creates challenges both in recruitment and retention of qualified employees.

Executive Summary (cont'd)

- Unlike in some other States where the overall competitiveness of the benefits package offsets the level of competitiveness of salaries, this is not the case for the State. While annual leave and holidays are above market, the 8.16% employee contribution to the retirement plan is the highest in the Southeastern States and significantly higher than employee contributions to defined benefit plans in the private sector.
- The employee cost sharing of 21.3% for healthcare is above the 7-15% in other State Governments and in line with the 15-29% in the private sector.
- The analysis shows that the level of competitiveness of benefits should not be a distraction from dealing with the main focus of the recommendations, that being a redesign of the classification and compensation plan and a move towards funding of salaries to a more competitive level.
- General increases should be made to start the process of addressing the overall level of lack of competitiveness.

What are the key findings
based on interviews?

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- The broad banded approach to classifications was viewed both from a positive and negative perspective. The positive is that it allows flexibility of classification and makes classification work easier.
- However, this is outweighed by having broad banded classifications that are too generic and has led to jobs which are different in job content, have differences in qualifications and have a different value in the market, being placed in the same classification. An example of this is a Paralegal role being classified in the Administrative Coordinator classification, as there is no Paralegal classification. Another example is that for the same classification, in one agency a High School diploma is required and in another agency, a Masters degree is required.
- Because classifications were consolidated when broad banding was implemented, this has led to the perception of a lack of career progression.

What are the key findings based on interviews? (cont'd)

- While the creation of career paths is important, agencies question whether employees see it as a progression when they are still in the same pay band.
- The existence of internal equity issues (pay as compared to another employee). The last can lead to “agency hopping” to get more pay for a similar job.
- In addition, the lack of competitiveness as compared to the market of the pay band and hiring range has created compression issues between newly recruited employees and longer serving current employees.
- Agency funding is also seen as contributing to salary disparities for similar jobs in different agencies.
- There is a questionable link between salary bands and the external market, affecting the ability to attract talent.
- The width of the salary bands is seen as creating non-competitive hiring rates.

What are the key findings based on interviews? (cont'd)

- There are inconsistent approaches to pay increases, including performance-based pay, contributing to salary disparities between agencies.
- Apart from General Increases appropriated by the legislature, pay delivery is decentralized and agencies create their own pay delivery mechanisms.
- The statewide performance management process (EPMS) is not viewed as effective for managing performance and/or as a link between performance and pay.
- While agencies appreciate the opportunity to have performance based pay plans, the existence of different performance based pay plans in different agencies and the different criteria used in these performance based pay plans is seen as contributing to salary disparities between agencies.
- The way in which performance based pay plans are funded varies across agencies.

What are the key findings based on interviews? (cont'd)

A summary for the key opportunities for improvement, as identified in the interviews, includes:

- Move away from one pay structure for classified employees to having structures that reflect the fact that the market is different for different occupations.
- Have more competitive pay bands with the potential for more pay ranges with less width between minimum and maximum.
- Have DSHR take a more active role in conducting salary surveys and gathering market data.
- Develop market based pay ranges and move pay ranges in line with market movement, not just move them when there is a general increase.
- Review and enhance the EPMS and create a more consistent approach to performance based pay.

What are the key findings based on component analysis?

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The current plan, which is known as a broad banded approach, has been in place for 20 years. It has 432 classifications in 10 pay bands, of which 356 have incumbents.

Component Analysis

Methods of Classification

What was found

Since 1995, there has not been a major review of the overall classification structure for the classified employee pay plan. The last major review of the content of Job Classification documents was in 2006-2007.

Component Analysis

Pay Ranges

What was found

The State is comprised of many, diverse professions. There is no other employer similar to a State in this respect. It is unreasonable to have a salary structure that is a “one size fits all.”

- A “one size fits all” structure with pay bands 1-6 covering 87.4% of all classified employees, coupled with generic classifications, can limit the State’s ability to respond to market pressures. In addition, as the analysis of internal equity shows, it has led to significant salary disparities within the same pay band.

The wider the pay bands, the greater the need for strong processes to move competent employees through the bands so that they can reach a competitive salary for the work performed.

Component Analysis

Pay Ranges

What was found (cont'd)

- From a recruitment standpoint, wider bands means the minimums of the bands are that much further from the market, marking recruitment more challenging due to the entry rates offered as compared to other public agencies or private companies.
- For example, the band midpoint in pay band 2 is \$12.10/hour. Based on the assumption that is the going market rate for a typical pay band 2 classification, why would it be expected we could attract qualified candidates at \$8.49/hour, which is the pay band minimum? “We can’t” is typically the response. This validates the concern that the pay bands are too wide.

Component Analysis

Market Definition and Comparisons

Survey Data Used

- Based on the current compensation system, there is no requirement for DSHR compensation unit to conduct regular market surveys.
- There is no evidence of a clearly defined market or a statement of a targeted policy level as the basis for the review of the competitiveness of the current pay bands.
- The width of the salary bands from minimum to maximum has falsely masked the need for regular market data and the statement of a targeted policy position.

Component Analysis

Market Definition and Comparisons

Position Relative to Market

- No evidence of a defined market or targeted policy position
- The combination of midpoints lagging market and an overall compa-ratio of 91% of the current band midpoints shows an overall lack of competitiveness of both the pay band structure and actual pay.
- Without a clear compensation philosophy, definition of the market, statement of market policy position and lack of regular gathering of market data, it can be assumed that more emphasis is placed on an internal perspective in the administration of the classified employee pay plan. If this is the case, the internal equity and salary disparity analysis shows that this emphasis is not being achieved.

Component Analysis

Market Definition and Comparisons

Benefits

- The level of overall competitiveness of benefits is driven by three components of a benefits package: retirement, healthcare and holidays and vacations.
- As compared to other State Governments, with specific emphasis on the Southeastern States, the current benefits package is average to slightly less than average. The employee contribution cost sharing for healthcare premiums and the employee contribution to the defined benefit, which at 8.16% is the highest of the Southeastern States and over 3% higher than the average for all States, reduces the level of competitiveness.

Component Analysis

Market Definition and Comparisons

Benefits (cont'd)

- As compared to the private sector, the current benefits package is average to slightly above average. The employee contribution cost sharing for healthcare premiums is in line with the typical practice in the private sector.
- Private sector organizations that still offer a Defined Benefit plan typically do not require an employee contribution.
- It is the experience of Kenning Consulting that there is often the perception in State Governments that is expressed as follows: “we don’t need to be competitive on base salary as our benefits are more than competitive.”
- As one of the main drivers of the level of competitiveness of benefits, that being the retirement benefit, is influenced by salary, if the level of salary is lagging in competitiveness, as is the case for the State, the overall level of competitiveness of benefits will not be high.

Component Analysis

Market Definition and Comparisons

Benefits (cont'd)

In summary, the analysis of the level of competitiveness for the State shows that it is not excessive and hence should not be a distraction from the fact that both the salary bands and actual salary practice lag the market.

Component Analysis

Long-Term Salary Increase Processes

What Was Found

Agency requested increases for specific occupational categories, job families or classifications. For these, we can find no consistent template or criteria used for such requests and this can lead to the perception that the “squeaky wheel gets the oil.”

Component Analysis

Longevity Pay Deficits

What Was Found

- In first reading this component, it was the assumption of Kenning Consulting that this was an analysis of longevity pay. However, longevity pay, as it is traditionally defined in other States, was discontinued in the State in 1985. The State is commended for taking this action at that time as longevity pay has grown to be a significant sum in other States and only reinforces tenure. (For example, it is in excess of \$50m on an annualized basis in the State of North Carolina.)

Component Analysis

Compensation Philosophy

Description of Component

- A compensation philosophy statement is intended to provide a foundation for the design and administration of compensation plans.
 - It defines what you pay for and why
 - Written in general terms in order to provide a lasting basis for future compensation design and administration decisions
- State Human Resources regulations were reviewed. While there are statements of policy in sections 19-702 and 19-705, Kenning Consulting does not find in law or policy any statements that clearly sets out a Compensation Philosophy.
- A Compensation Philosophy should provide the basis upon which all decisions regarding compensation should be made.

Component Analysis

Compensation Philosophy

Description of Component (cont'd)

- The level of competitiveness of compensation relative to the market should be done against a philosophy and policy statement of targeted market competitiveness.
- Salary ranges should be developed based on setting a market policy position as the midpoint or targeted policy position.

Component Analysis

Unnecessary, Underutilized and Duplicative Positions

Was Was Found

- Compared to other States, the number of classifications with 1 and 2 incumbents is very low. This is most likely a function of the generic broad banded approach taken to classifications.

Recommendations

Recommendations

- Develop a State compensation philosophy
- Create classifications which have a stronger linkage between like kind job content and qualification requirements.
- Develop pay structures that are based on the setting of a market policy position.
- Redesign a number of pay bands/ranges that are aligned with a new classification structure.
- Regular gathering of market data.
- Prepare an annual compensation report as the basis for and justification of appropriation for compensation change. Annual salary recommendations to be based on relativity to market, performance and requests for targeted funding.

Recommendations (cont'd)

- Redefine the basis for pay changes, with a heightened emphasis in internal equity, relativity to market, and performance.
- Develop statewide criteria for assessing targeted funding requests.
- Redesign/strengthen EPMS as the basis for a statewide consistent approach to performance management.
- Develop statewide guidelines for the use of performance based pay to minimize different practices within agencies.
- Development statewide guidelines for the use of recruitment and retention bonuses.
- Educate Legislative branch leadership on using language in appropriation provisos that state that salary monies appropriated will be administered consistently in accordance with the State's compensation philosophy and compensation policies developed by DSHR.

Recommendations (cont'd)

- Educate Legislative branch leadership on the important of considering employee compensation early in a legislative session as a means by which to reinforce the importance of the state workforce.