

HJR – 17 SALARY MARKET SURVEY CONSIDERATIONS

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

As part of its continued work on HJR 17, a resolution to study the state's pay plans, the Legislative Finance Committee (LFC) requested additional information on the salary market survey that is conducted by the State Human Resource Division (SHRD) within the Department of Administration (DOA). The purpose of this report is to:

- Outline challenges contained in current law regarding the salary surveys
- Discuss additional components of employee pay that the legislature may wish to consider for inclusion in the salary survey
- Provide legislative options for consideration in the next legislative session

Statute outlines the intent of the legislature that compensation plans for state employees be based in part on an analysis of the labor market as provided by the Department of Administration in a biennial salary survey. Current statute requires that SHRD conduct two salary surveys;

- One surveying private and public employers within Montana and the four surrounding states and utilizing SHRD's current methodology
- One surveying only state and municipal employers in the four surrounding states and restricting the salary survey information to that provided by a single salary survey, the National Compensation Association of State Governments

Statute further requires that based on the biennial salary survey, DOA:

- Identify current market rates for all occupations
- Establish salary ranges for each pay band
- Recommend competitive pay zones

As part of HJR 17, Legislative Fiscal Division (LFD) staff prepared a report, HJR 17 Data Related to Pay Plans, for the September 2013 LFC meeting. The report examined the data used by Montana to establish the level of pay for its employees, including the salary survey conducted by SHRD. The report identified best practices that should be followed when conducting surveys and found issues with current statute as it relates to salary surveys.

CHALLENGES CONTAINED IN CURRENT LAW

As previously discussed in HJR 17 Data Related to Pay Plans, statute required the State Human Resources Division to conduct a salary survey in June 2013 of the state and municipal employers in the four surrounding states utilizing the salary information found in the National Compensation of State Governments survey and other information as necessary. The purpose of the requirement is to establish a government to government market for salaries.

The results of the survey were as follows. In examining this information please note that the use of a single survey, especially one that is not comprehensive, can result in issues with the comparability and validity of the data:

- The National Compensation Association of State Governments does not include salary data from municipal governments, and the division was unable to identify a survey that does provide this information
- Less than 50% of the benchmark jobs could be matched with the salary survey information developed by the National Compensation Association of State Governments
- In one case, only one other state had a similar job and they reported only one employee with the same position, which would make the market the amount paid this single employee in the other state
- Employers within Montana such as the federal government or private employers are not included as part of the survey but may be a large part of the relevant labor market for Montana state government
- The analysis showed that using this salary information results in an increase in the market midpoint for 118 job codes or 37% of those job codes that could be matched
- The analysis also showed a decrease in the market midpoint for 198 job codes or 63% of the job codes that were matched

Statute requires continued use of this salary survey information as part of the analysis of the determination of the competitiveness of state salaries, and that only salary information from state and municipal governments of the four surrounding states be used for one of two analyses going forward.

Statute requires that an additional survey be conducted to allow DOA to:

- Identify current market rates for all occupations
- Establish salary ranges for each pay band
- Recommend competitive pay zones

For the most part, the methodology used by SHRD follows best practices for producing results that provide comparable market information on state employee salaries.¹

Legislative Option

The LFC may wish to consider:

- Changing current statute to ensure the State Human Resources Division is able to follow best practices related to the use of relevant labor markets by broadening the requirement to include other state governments rather than the four outlined in statute or including federal and local government positions in Montana. This could address concerns regarding statistical validity of the survey and still allow for government to government salary comparisons
- Eliminating the reference to municipal governments, as a survey of these positions in the states required does not appear to exist

BROADENING THE COMPONENTS INCLUDED IN THE SALARY SURVEY

The components of pay included in the current salary survey conducted by the SHRD are limited to base salary. This ensures comparability of the data but does not consider differences between public and private employers in relation to the payment of health insurance and retirement benefits. According to the Montana Department of Labor and Industry Research and Analysis Bureau article in June 2011 *Montana Economy at a Glance*, national data suggest that the public sector offers better benefits than the private sector. Research suggests that total compensation is greater in the private sector for jobs requiring an advanced degree, while the public sector offers better total compensation for lower education and training levels in large part because benefits for health insurance are a set amount and consequently represent a higher percentage of total compensation for lower paid employees.

Finding a salary survey that includes benefit information has been a challenge. The federal Bureau of Labor Statistics conducts the National Compensation Survey on benefits, which produces comprehensive data on the percentage of workers with access to and participation in employer provided benefits plans and provisions of selected employee benefits plans. The information does not provide benefit costs by employee occupation as part of the information.

Previously SHRD testified that obtaining reliable survey information on employee benefits has been difficult. SHRS uses three salary surveys to establish the current market midpoints for state employee salaries. Of the three surveys only the National Compensation Association of State Governments conducts a benefit survey annually. Information from this survey would only apply to benefits offered by state governments which leaves a question as to a potential source for benefit information for private employers in Montana and the four surrounding states.

Another question in terms of a benefit survey would be which benefits should be included in the survey. Large private employers offer stock options, profit sharing or bonuses, and other benefits which are generally not part of the pay packages for state employees. Large private employers that are hire employees on the scale of the

¹ HJR 17 Data Related to Pay Plans identified areas where the data methodology could be improved to better comply with best practices.

state generally provide health insurance and retirement. The legislature may need to provide guidance on the benefits that should be included in the survey.

Legislative Option

To ensure a survey of employee benefits can be conducted reliably with statistically valid results, the LFC may wish to request that the SHRD report at its June meeting on a methodology it could use to provide the legislature with comparisons not only of employee salaries but also benefits.