

## ***COMPENSATION AND BENEFITS STUDY***

March 21, 2007



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## ***OBJECTIVES***



# ***Aligning compensation and benefits with the vision is essential to achieving our objectives***

- Support becoming the “Best Managed State” by developing a compensation and benefits framework that:
  - Supports the transition from an entitlement-based culture to a performance-based culture
  - Enables career opportunities and financial rewards that compete effectively against the private sector
  - Motivates our workforce to excel in their role
  - Ensures a legacy of programs that are financially responsible and sustainable



## ***ACTIVITIES***

## ***Research was conducted into three distinct and interrelated perspectives to direct change***

### **EMPLOYER**

- Structured interviews with 30 State leaders
- Web survey of 55 Agency Commissioner and 38 Human Resource Directors

### **COMPETITIVENESS**

- Compensation benchmarking against the broad private sector
- Benefits benchmarking against a targeted group of private sector employers with large concentrations of employees within the State, including the Federal Government

### **EMPLOYEE**

- Web survey of State employees with statistically significant response rates across every State Agency and organizational level
- Conjoint analysis of the employee survey responses to isolate employee preferences and determine the relative value of each compensation and benefits program

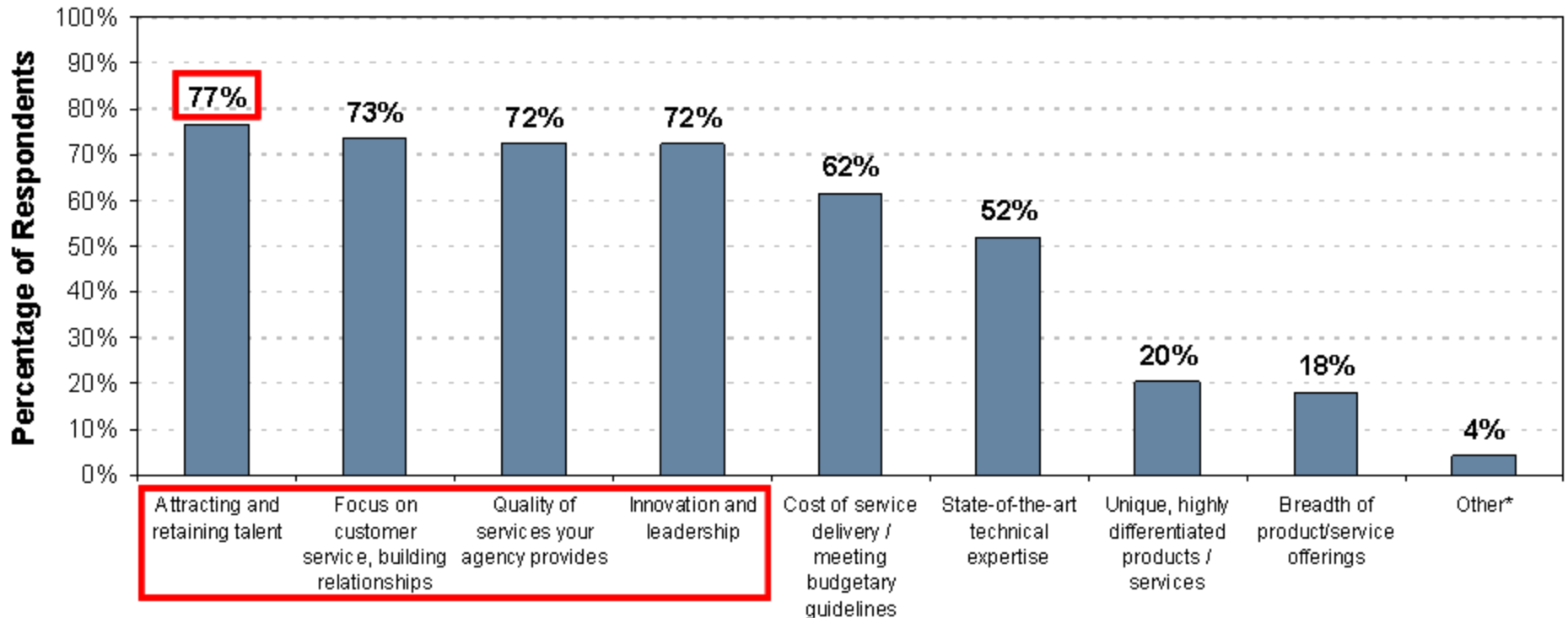


## ***EMPLOYER PERSPECTIVE***

## ***Attraction and retention of new talent is critical to being able to effectively manage the State***

### **Factors for the Agency's Future Success**

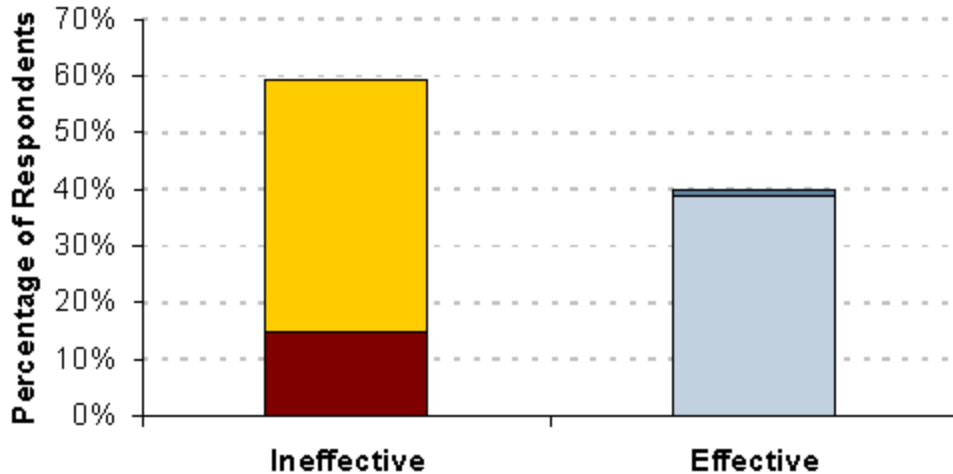
Percentage of respondents who believe a factor is critical



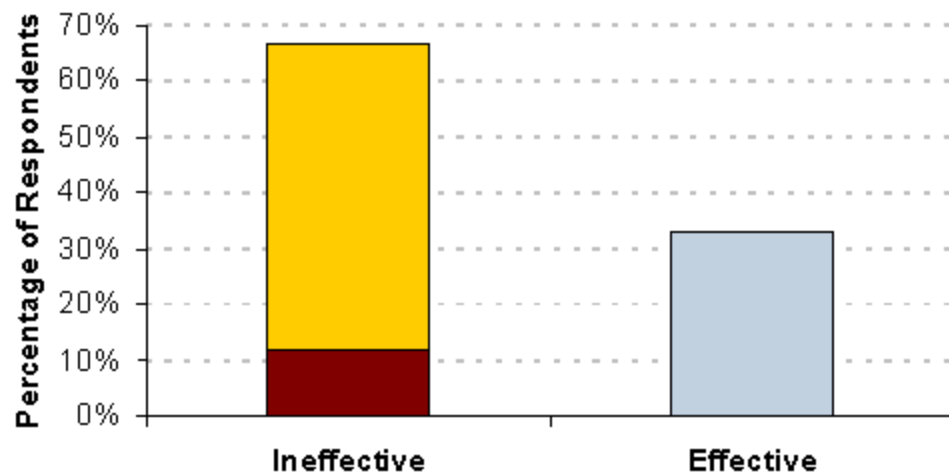


## Existing programs are viewed as ineffective to attract, retain and develop our future workforce

**Effectiveness of Compensation and Benefit Packages**  
in Attracting Key Talent

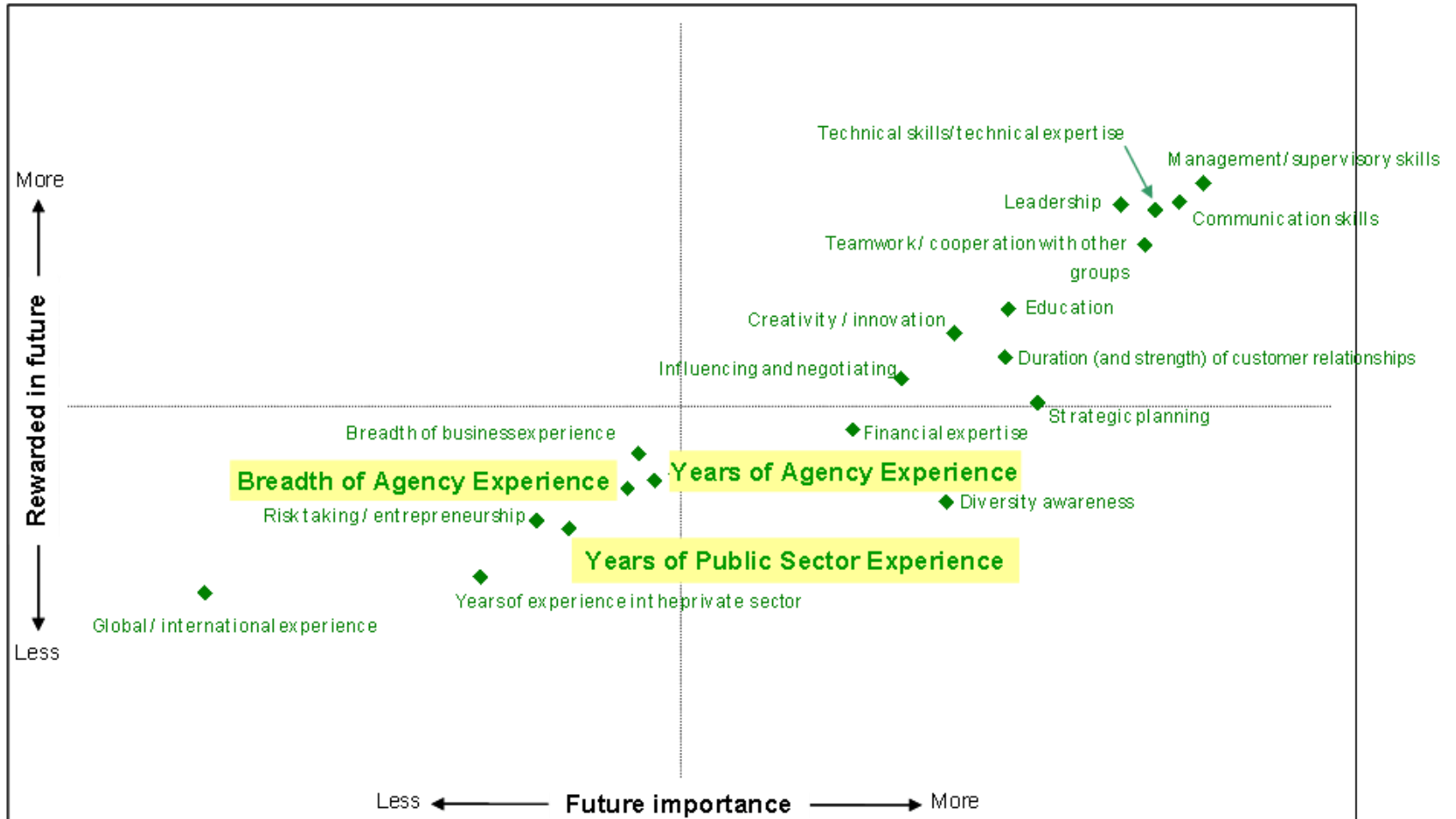


**Effectiveness of Opportunities for Advancement and Development (performance)**  
in Attracting Key Talent



■ Very Ineffective 
 ■ Ineffective 
 ■ Effective 
 ■ Very Effective

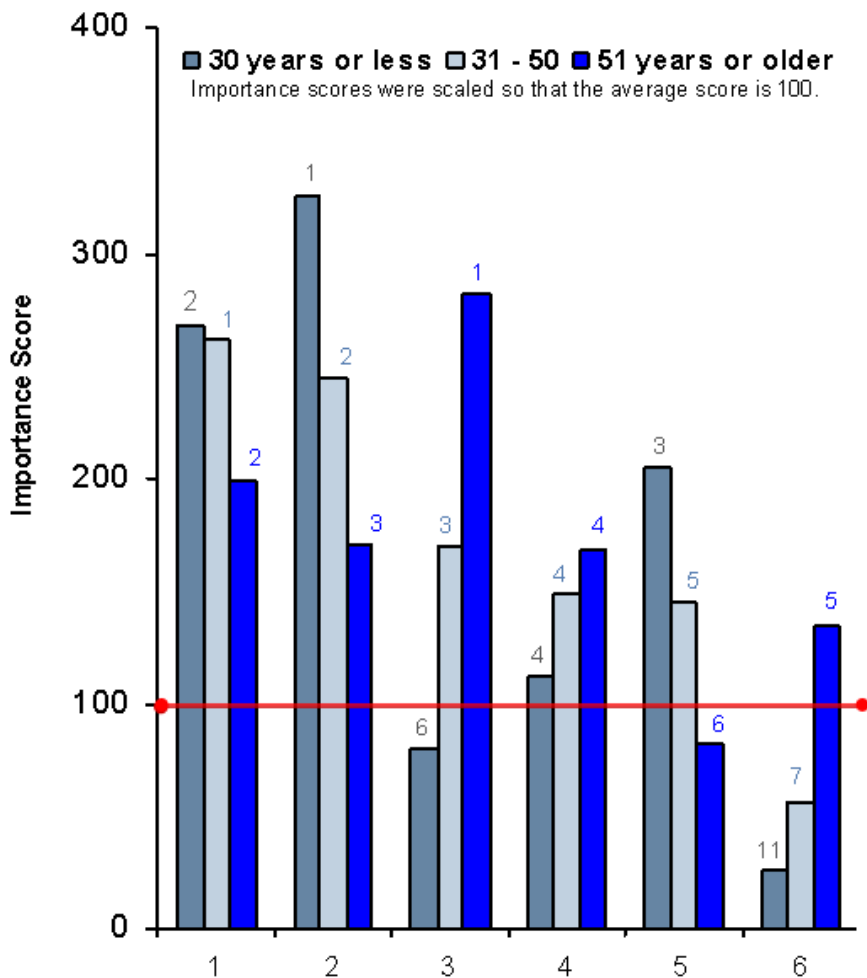
## Reduced importance on tenure with future focus on management, communication, technical and leadership





## ***EMPLOYEE PERSPECTIVE***

## Emerging workforce preferences are different from the vested workforce with emphasis on current cash flow



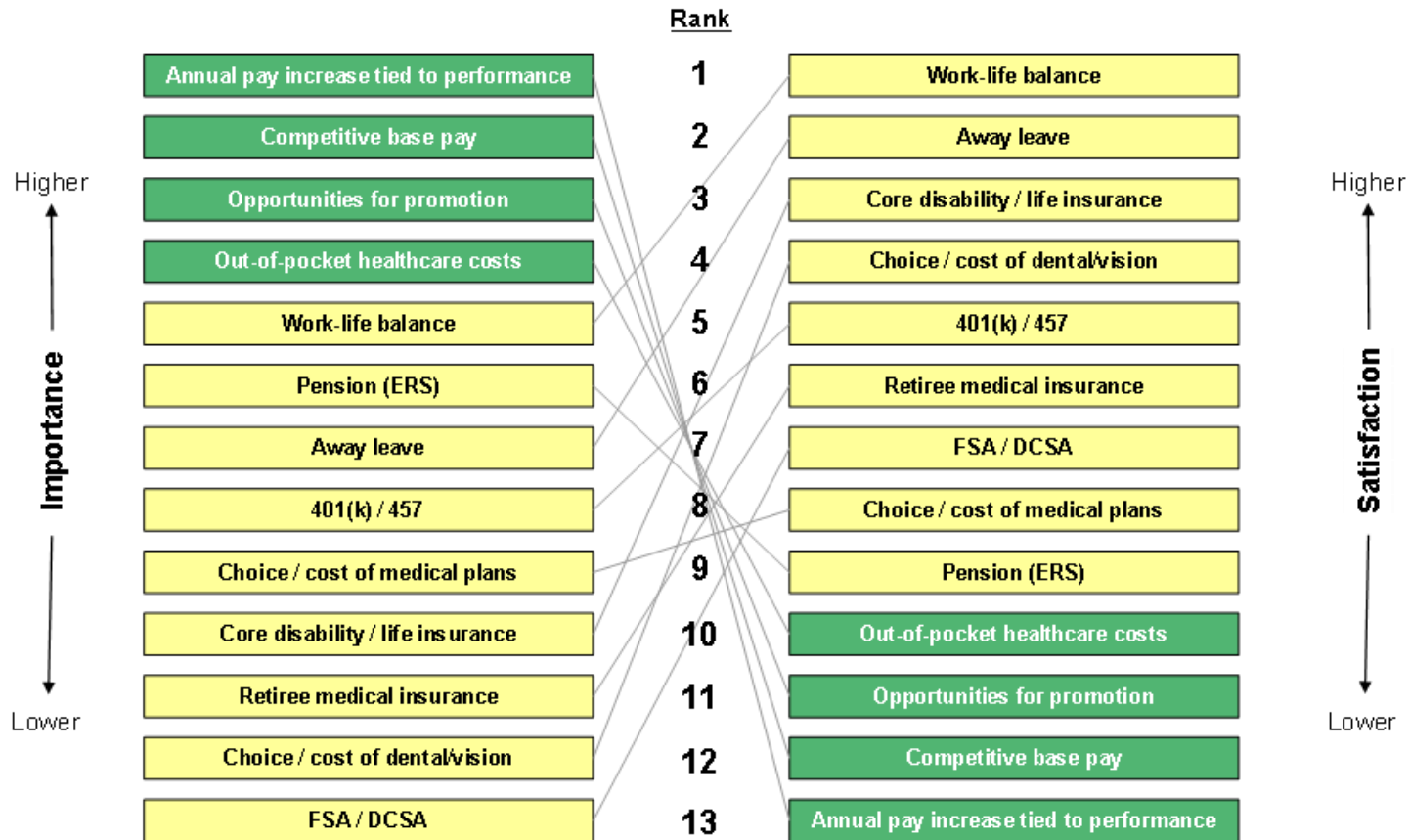
### Items Covered in Employee Survey

- 1 Competitive Base Pay
- 2 Annual Pay Increase Based on Performance
- 3 Pension - ERS
- 4 Low Out-of-Pocket Healthcare Costs
- 5 Opportunities for Promotion
- 6 Retiree Medical Health Insurance

### Age Distribution:

	EE's	% of Total	% of Total
30 Years or less	12,820	15.7%	
31 to 50 Years	44,351	54.3%	70.0%
Over 50 Years	24,527	30.0%	100.0%
<b>Total</b>	<b>81,698</b>	<b>100.0%</b>	

## Compensation and benefit programs are misaligned for our emerging workforce



Received a conjoint relative importance score greater than 100



## ***OBSERVATIONS***



## *Half our workforce has less than six years of tenure and turnover at almost twice the rate*

### Retention – Short Term and Long Term:

Length of Service	EE's	Voluntary Terminations	Annualized Turnover %
Up to 6 Years	39,099	16,123	20.6%
Over 6 Years	42,599	2,876	3.4%
<b>Total</b>	<b>81,698</b>	<b>18,999</b>	<b>11.6%</b>

Does not include involuntary, retirement, death or reductions in force

### Retention – Short Term:

Length of Service	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 6 Years	Total
Active Employees	9,723	9,074	5,468	5,284	4,572	4,978	39,099
Voluntary Terminations - 2 Year Average	3,618	1,597	1,030	780	601	436	8,062
<b>% Turnover per Service Segment</b>	<b>37.2%</b>	<b>17.6%</b>	<b>18.8%</b>	<b>14.8%</b>	<b>13.1%</b>	<b>8.8%</b>	<b>20.6%</b>

### Retiring Workforce – FY 2005 & 2006:

Age	Length of Service					Total
	Less than 10 Years	10 - 14 Years	15 - 19 Years	20 - 24 Years	More than 25	
Less than 50	24	34	91	69	110	<b>328</b>
50 - 54	33	28	75	85	761	<b>982</b>
55 - 59	39	50	98	118	885	<b>1,190</b>
60 - 64	122	297	369	245	374	<b>1,407</b>
65 or Over	38	114	95	59	99	<b>405</b>
<b>Total</b>	<b>256</b>	<b>523</b>	<b>728</b>	<b>576</b>	<b>2,229</b>	<b>4,312</b>

## ***At current attrition rates the State will hire more than 66,000 employees over the next five years***

- 17,800 of these employees will leave voluntarily in their first year of employment
- 39,500 of these employees will leave voluntarily within their first five years
- As a result, only 26,500 of the 66,000 employees hired, or 40%, will work more than five years for the State

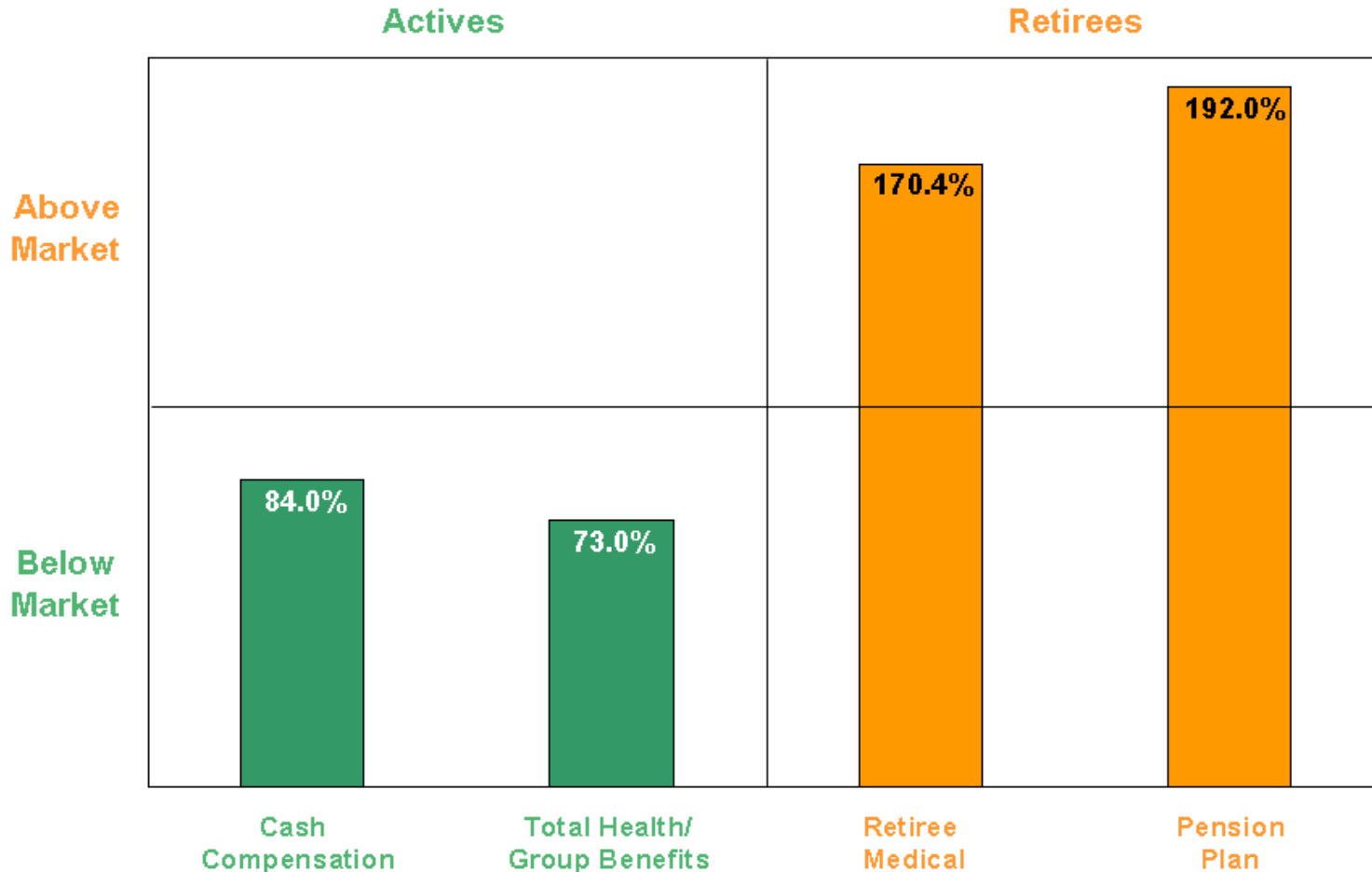
- 12,500 employees will retire in the next five years, most of whom have higher than average skills and experience
- Supply side workforce availability will tighten, adding additional pressure to successful attraction and hiring efforts

- The established practice of “building talent” internally rather than “buying talent” externally may be put at risk as employees with critical, internally developed skills leave faster than they can be “built and replaced”.





## **Total reward package is competitive at 98% of market but is delivered largely through retirement benefits**





**We cannot achieve our goal of becoming the “Best Managed State” unless we replace our retiring workforce with high performing new hires supported by competitive and sustainable pay and benefit programs**



# ***STRATEGY***

***Protect our vested workforce while aligning with emerging workforce preferences and offering choice in the middle***

**CURRENT EMPLOYEES**

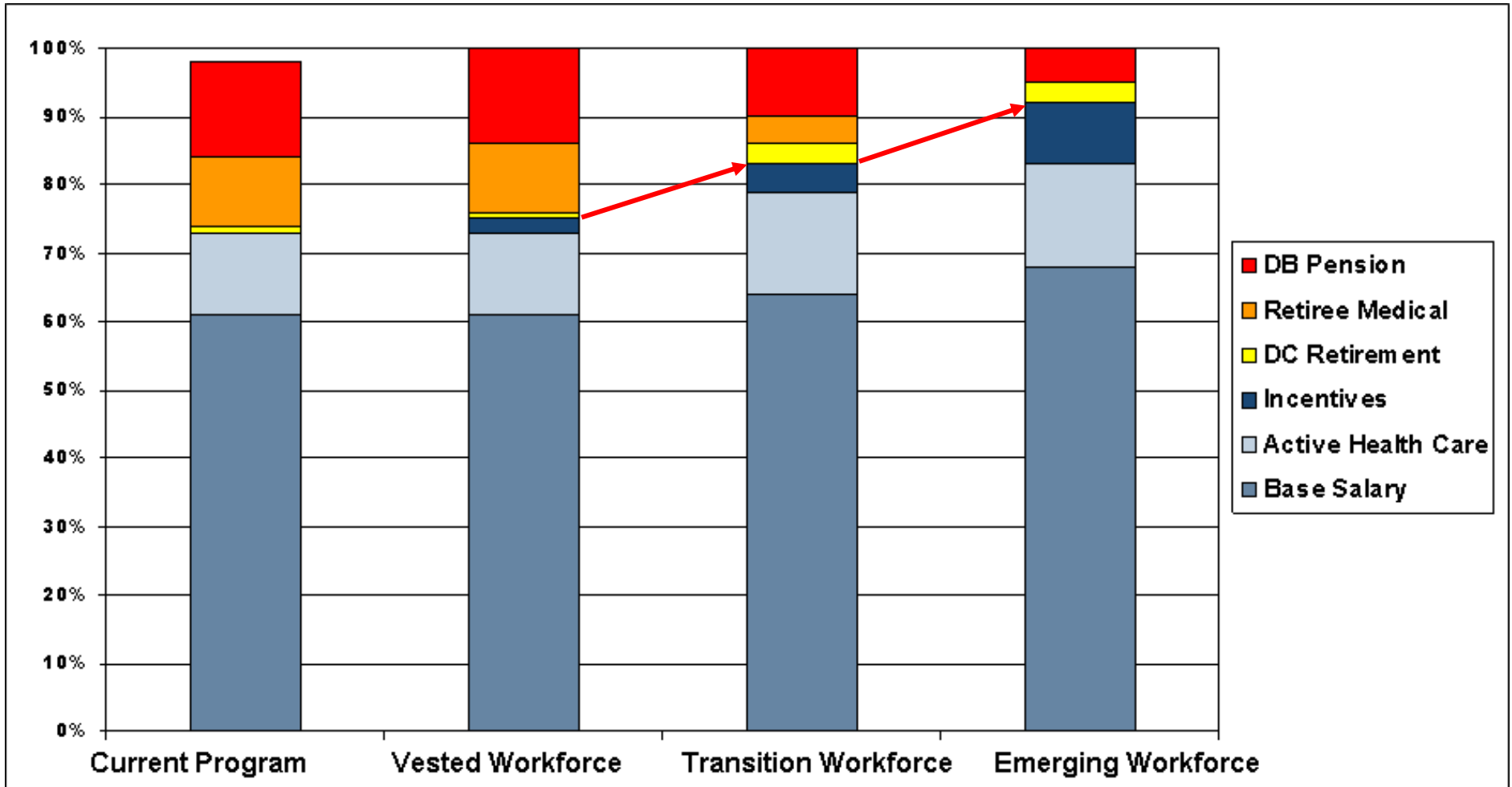
- Maintain current market position on base pay
- Keep our pension promise
- Offer choice
- Manage our retiree medical trend obligation prudently

**NEW HIRES**

- Increase base pay rates
- Reduce pension benefits
- Enhance defined contribution benefits
- Reduce retiree medical obligation

- Taking a multi-tiered approach will enable us to respond to the concerns of our leaders, the preferences of our employees and our fiduciary obligation to manage our costs.

***New approach illustrates the transition from deferred benefit value to current cash value***



## ***Salary Recommendation Plan will mark a departure from an entitlement approach to pay for performance alignment***

### **FY08 Salary Recommendation**

### **FY09 Salary Recommended Plan**

#### **Base Salary Management Recommendations**

- Maintain current purchase power for all employees (3.0% general increase)
- Introduce some differentiation based on performance and market position (0.5% performance/equity increase)
- Provide opportunity to address competitiveness of some critical job categories (\$7.5 mm critical job increase)

- Continue to maintain current purchase power for all employees (2.5% general increase)
- Embed differentiation based on performance and market position through matrix management (1.0% performance/equity increase)
- Provide further opportunity to address competitiveness of critical job categories (0.5% critical job increase)
- Improve competitiveness of new hire rates (3.0% structure adjustment)

## ***Additional investment in critical job categories is needed to improve our market position***



- A group of critical jobs were selected for additional salary adjustment in FY08 with an additional group of critical jobs expected to be focused on in FY09 and beyond.

## ***Modification to multiple programs over a multi-year period is necessary to achieve our objectives***

### IMMEDIATE ACTION

#### Active Programs

- FY08 salary allocation budget submitted
- Active health care program review and consolidation in process

#### Retiree Programs

- Legislation to modify the retirement program for new hires must be submitted this session to be effective FY09
- Reevaluate retiree medical benefits for new hires

### NEXT STEPS

#### Active Programs

- FY09 salary allocation strategy for salaries to be refined and communicated
- Design and cost alternatives for a incentive program structure to be developed
- Modifications to the active health care plan design

#### Retiree Programs

- Finalize new hire pension plan design features
- Model long-term cost impact and transition strategy
- Develop recommendations for retiree medical plan design changes





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