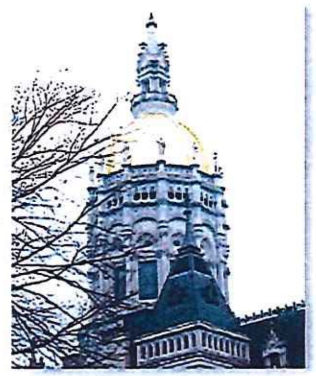
Current Issues With Managerial Compensation In State Government



Prepared by the
Department of Administrative Services
(May 2012)

Reform is Needed in the compensation and benefit system for
state managers in order to promote
excellence in state leadership
and provide our citizens with
quality, timely and cost-effective services.

Two Decades of Neglecting Managerial Compensation Has Created a Crisis for Leadership in Connecticut State Government

This report presents the current situation with regard to salary compression and salary inversion regarding union and managerial compensation in state government. It provides examples of salary compression and salary inversion and an explanation of how we got here. It also provides recommendations to consider to resolve this very serious situation and to avoid such a situation in the future. For ease of presentation, the information and examples contained in this report are job classes in the professional bargaining units, since they are the most common feeder groups for the managerial classes and represent actual situations that we encounter. We have also concentrated our presentation on managers in the MP pay plan. (Salary compression also exists between classes in non-professional bargaining unions and classes in management and between classes in professional bargaining unions and classes in the MD pay plan.)

A similar situation has occurred between management (and bargaining unit classes) and executive classes, particularly for those employees in executive classes for significant periods of time.

WHO ARE OUR MANAGERS?

- **Number of employees in the MP pay plan:** 1,870
- **Gender:** 48% male; 52% female
- **Race:** 80% white; 11% black; 7% Hispanic; 2% other or unknown
- **Age:** 9% are 40 or under; 39% are 41-50; 43% are 51-60; 9% are 61+
- **Years of State Service:** 19% have 10 years or less; 34% have 11 to 20 years; 39% have 21 to 30 years; 8% have 30 + years
- **A large percentage of managers are approaching retirement eligibility:** 43% will be able to retire in 2 years; 62% will be able to retire in 5 years; 83% will be able to retire in 10 years
- **Note:** Data available from 2004 to present shows that the state has fewer managers now than in any other year in this recent period. (High in 2007 of 2,557 managers and low in 2012 of 1,870 managers.)
- Employees in the MP pay plan are either managerial employees as defined in CGS 5-270(g) or confidential employees as defined in CGS 5-270(e). Of the 1,870 employees in the MP pay plan, 87% meet the definition of managerial and 13% meet the definition of confidential.
- There are 18 managers in the MD pay plan.

MP Pay Plan

- **RANGE PLAN.** Most managers are paid using the MP pay plan. This pay plan is a range plan where each salary group in the plan has a minimum and a maximum salary. There are no steps to this plan.
- **SALARY GROUPS.** There are 30 salary groups in the MP pay plan (MP51 to MP80). We currently use 22 of the salary groups (MP53 to MP77).
- **SALARY RANGES.** The range of each salary group in the MP pay plan is approximately 28% from minimum to maximum.
- **DISTANCE BETWEEN SALARY GROUPS.** The distance between salary groups is not constant but is most often 5% or less.
- **NUMBER OF MP JOB CLASSES:** 416
- More than one-third of the employees in the MP pay plan are at the maximum of the range for their salary group.
- The table that follows gives the ranges for each of the salary groups in the MP pay plan, the number of employees and job classes in each, and the number of employees that are at the maximum of their salary range.

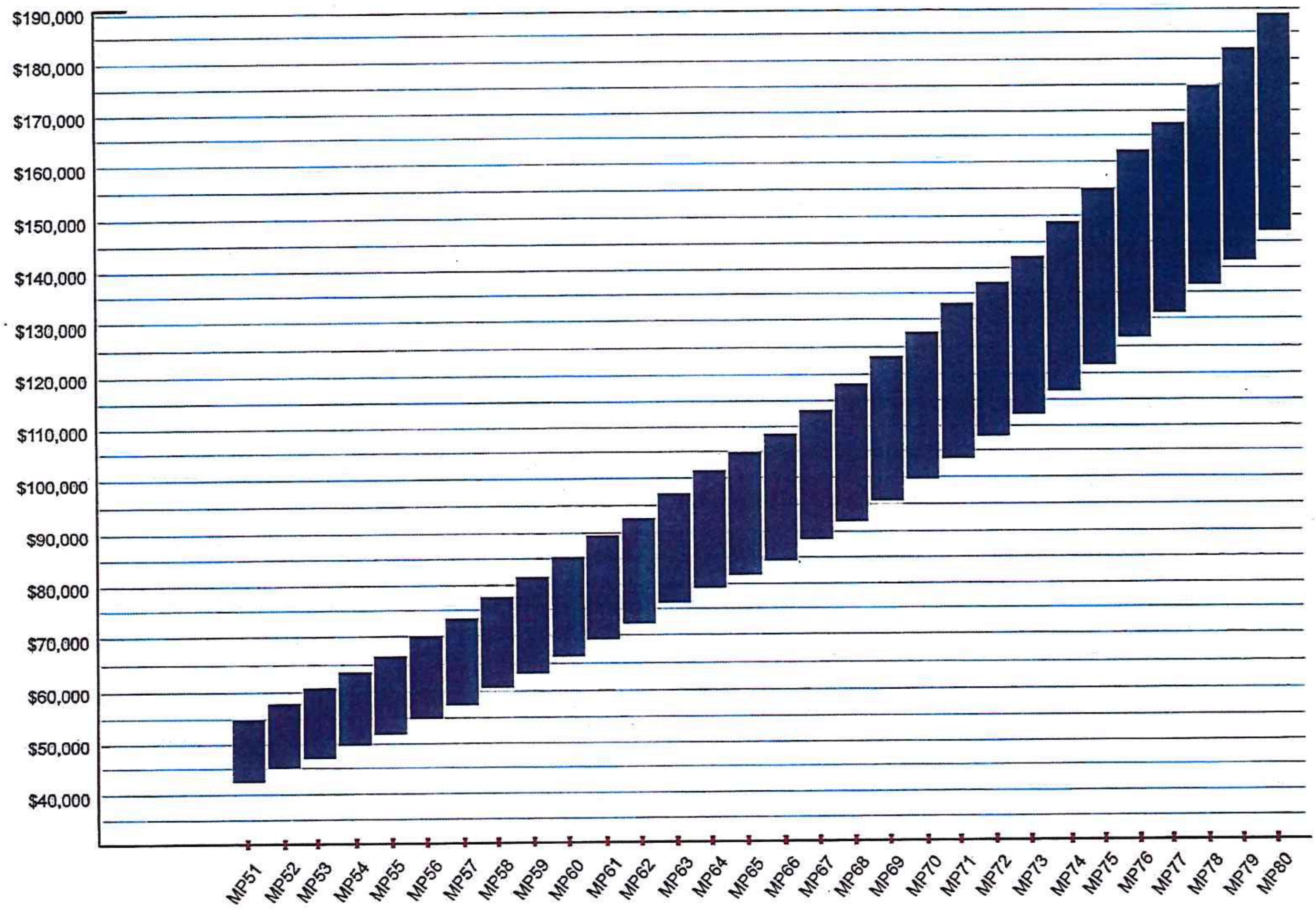
Note: The pay plans for the professional bargaining units are step plans that have a minimum and a maximum and anywhere from 9 to 13 steps. These plans are negotiated.

MP Pay Plan and Number of Employees by Salary Grade*

Salary Plan	Grade	MP Salary Grade Minimum	MP Salary Grade Maximum	Total Employees By MP level	Employees at or above max	Total # classes per MP level
MP	053	$47,330	$60,713	2	0	1
MP	056	$54,792	$70,283	4	2	3
MP	057	$57,534	$73,803	80	10	6
MP	058	$60,416	$77,493	5	1	3
MP	059	$63,435	$81,368	8	2	6
MP	060	$66,604	$85,436	109	30	10
MP	061	$69,945	$89,709	12	6	5
MP	062	$72,741	$93,304	152	91	20
MP	063	$75,653	$97,032	230	77	36
MP	064	$78,672	$100,917	42	24	19
MP	065	$81,829	$104,954	153	46	30
MP	066	$85,099	$109,159	214	74	33
MP	067	$88,505	$113,525	240	69	53
MP	068	$92,041	$118,069	109	42	39
MP	069	$95,728	$122,791	86	27	26
MP	070	$99,559	$127,707	195	63	44
MP	071	$103,539	$132,804	45	14	20
MP	072	$107,679	$138,123	114	48	24
MP	073	$111,992	$143,652	54	20	23
MP	074	$117,084	$149,403	2	1	2
MP	075	$121,126	$155,371	10	1	9
MP	077	$130,823	$168,049	4	0	4
Totals				**1870**	**648**	**416**

* *There are no manager jobs paid at MP 51, MP52, MP 54, MP55, MP76, MP78, MP79, MP80.*

MP Pay Plan Ranges



WHAT IS SALARY COMPRESSION?

- **Salary Compression** is defined as differences in pay between a manager and a subordinate that are too little to be considered equitable.
- **Connecticut state government is experiencing significant salary compression between bargaining unit and managerial classes.**
- For all too many employees, a move from a union class to a management class would mean no increase in pay or only a small increase in pay with little or no room in the salary range for future increases.
- Compression also exists between management classes, where a subordinate management employee is making more than his/her manager, and between employees in the same management class, where an employee with more years of service as a manager is earning less than an employee with fewer years of management service.
- Salary compression creates a negative impression that managerial positions/employees are not valued and has a substantial negative effect on the morale of the managers. This ultimately effects job performance, the workplace environment, and organizational outcomes.

EXAMPLES OF SALARY COMPRESSION

Below are two of the many examples of salary compression that currently exist. These are situations where there is a significant difference in level of responsibility and qualifications and little difference in salary. In both cases, the management position supervises employees in the union position.

Classes	Salary Group	Hourly Salary Range	If 5% Increase from Max	Comments
Retirement and Benefits System Coordinator	AR29	$37.26 - $48.43		
State Comptroller Assistant Division Director	MP66	$40.76 - $52.28	$50.86	Standard 5% increase would bring employee close to top of range with little room for increases.

Classes	Salary Group	Hourly Salary Range	If 5% Increase from Max	Comments
Nurse Supervisor Supervising Clinician Behavioral Health Unit Supervisor	HC28	$37.00 - $49.64		
DMHAS Behavioral Health Clinical Manager	MP65	$39.20 - $50.27	$52.13	Not room in range for standard 5% promotional increase.

WHAT IS SALARY INVERSION?

- **Salary Inversion** is the situation where job classes in higher levels in an organization are being paid less than job classes at lower levels in an organization. It also exists when employees with more experience are being paid less than employees with less experience.
- **Connecticut state government is experiencing significant salary inversion between bargaining unit and managerial classes.** Salary inversion is becoming more common between management classes and the bargaining unit classes they supervise.
- For some employees, a move to a management class would mean a reduction in an employee's hourly salary.

Examples of Salary Inversion

Below and on the following page are three of the many examples of salary inversion that currently exists. These are situations where there is a significant difference in level of responsibility and qualifications, but where the hourly salary for the management class is less than the union class. A union employee at the top of the range would take a reduction in hourly salary to go to the management position.

Classes	Salary Group	Hourly Salary Range	Comments
Information Technology Supervisor	EU32	$42.65 - $54.57	
Information Technology Manager 1	MP65/66	$39.20 - $52.28	The max of the union class is higher than the max of both management classes.
Agency Information Technology Manager	MP67	$42.39 - $54.38	

Classes	Salary Group	Hourly Salary Range	Comments
Accounting Specialist Accounting Supervisor	AR29	$37.26 - $48.43	
Accounting Manager	MP64	$37.68 - $48.34	The max of the union classes is higher than the max of the management class.

Classes	Salary Group	Hourly Salary Range	Comments
Transportation Supervising Engineer	ES30a	$39.43 - $56.63	
Transportation Principal Engineer	ES32a	$42.65 - $61.01	
Transportation Assistant Director of Research Transportation Assistant Director of Material Testing	MP67	$42.39 - $54.38	The max of the union classes is higher than the max of the management classes.

HOW DID WE GET HERE?

- **COLA's.** Over the past decade or so union employees have been given greater and more consistent cost of living (COLA) increases than managers. (COLA's move the salary range up as well as the salaries of the employees in each range.)
- **AI's.** Over the past decade or so union employees have been given more consistent **annual increases** (AI's) than have managers and often times the amount of these step increases are greater than those authorized for managers. (AI's increase the salaries of employees within a salary range. For bargaining unit employees these increases move employees from step to step within the pay plan. For managerial employees the AI is a percentage increase.)
- **Steps.** A number of bargaining units have negotiated additional steps in their pay plans thus widening their salary ranges, while managerial salary ranges have stayed static.
- **Policy.** While managerial ranges were designed by concept to allow salary growth within a job over ten or eleven years, no actual policy exists for managerial increases. Managerial increases are driven solely by budgets rather than by a state compensation policy.
- Managers have not received increases since June 2008.

- The table below shows a comparison of the total percentage of COLA increases received by the managers as compared to the professional bargaining units since 2000. It also shows the number of AI's received by each and the number of additional steps, if any, added to each of the plans.

SALARY INCREASES 2000 – 2011

Salary Increase	MP	P-1 HC	P-2 SH	P-3-A EA	P-3B EB	P-4 ET, ES, EU	P-5 AR
Total % COLA*	26.5	29	28.5	29.5	29.5	30.5	31.25
# of AI's**	8	10	10	10	10	10	9
Additional steps	0	2	0	1	2***	2	2

IMPORTANT NOTES:

* *The percentage for COLA's is a raw total of the percentage awarded each year – it does not take into account the compounding of increase differences over time.*

** *The amount of AI's (PARS for managers) is not the same. When managers have received PARS (AI's), the amount has been between 2.5% and 3%. This is typically less than the percentage increase a union employee receives when moving from one step to another. Again, this does not take into account the compounding of increase differences over time.*

*** *When each of the two steps were added to the P-3B pay plan, the bottom step was eliminated in the pay plan, thus moving the whole range up.*

Summary Bargaining Unit vs. Managerial

The table below summarizes the differences in salary at hire and today if an employee were hired in 1999 in a class assigned to either of the following comparable salary groups: HC28, ES28 MP62. This example assumes that each employee was hired at the minimum of their range, stayed in the class for the entire time, and received all authorized increases. It is clear that the compensation of the employee hired into the MP pay plan is not progressing at the same rate as the employee hired in the HC or ES plans.

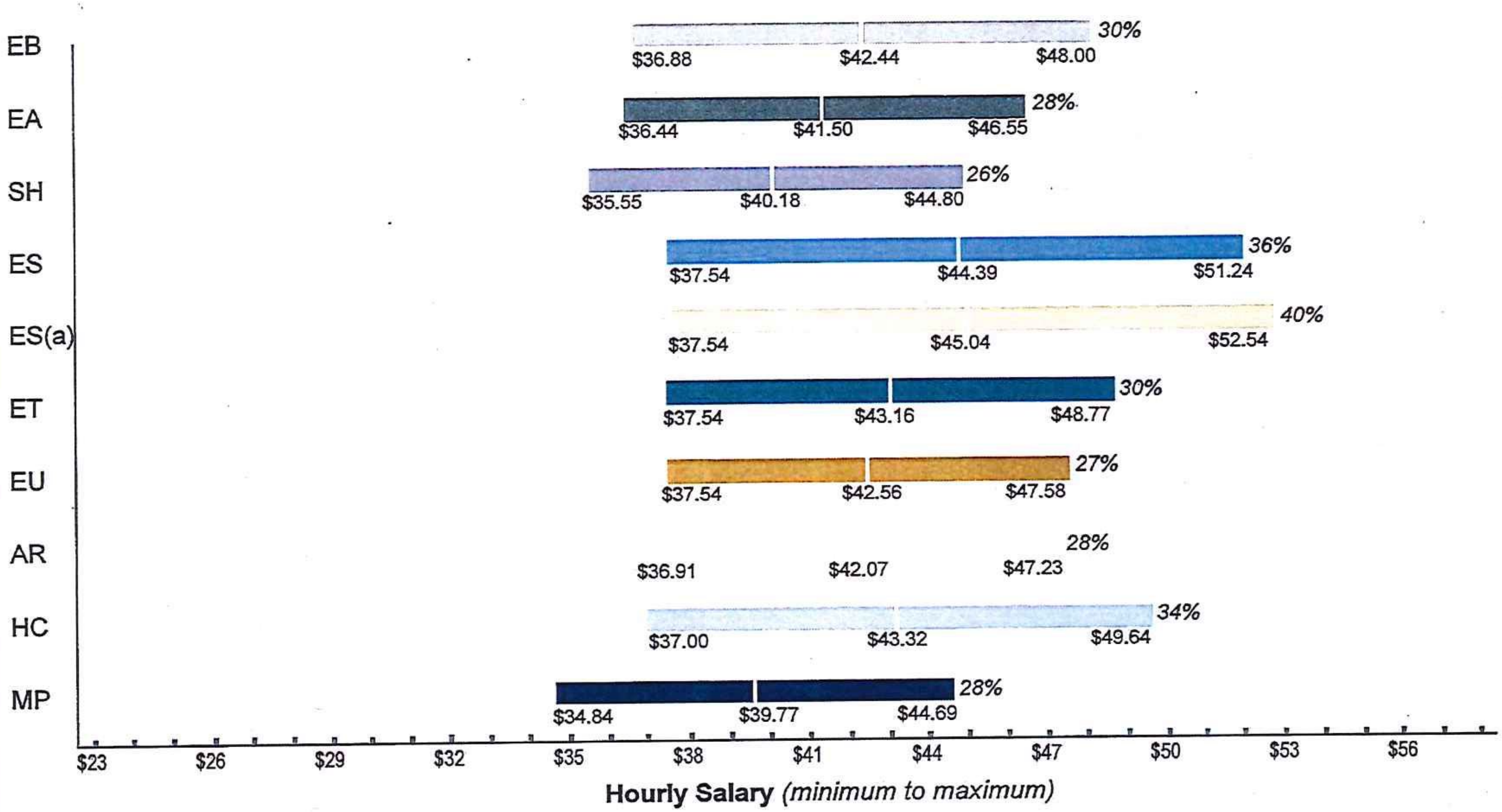
	Employee Hired into MP62 *(e.g., Payroll Systems Manager)*	Employee Hired into HC28 *(e.g., Nurse Supervisor)*	Employee Hired into ES62 *(e.g., Transportation Supervising Planner)*
Hourly Rate **1999**	$26.83	$27.80	$27.80
Hourly Rate **2011**	$43.73	$49.64	$48.77
Percent Salary Increase Received	**63%**	**79%**	**75%**
Comments	*Employee has not reached top of range, although range is narrower than HC28*	*Employee reached top step (step 11) in 2011*	*Employee has not reached top step. (Range is greater than MP range.)*

WHERE ARE WE TODAY?

- The chart on the following page demonstrates the current situation with regard to salary ranges. (For comparison purposes charts for 2000 and 1996 are included.) Although only one salary group has been chosen, the same situation exists across all salary groups.
- The salary group 28 in the professional units has traditionally been considered to be comparable to MP62. (Commonly called the rule of 34.) The minimum, maximum and midpoints for the union salaries and the MP salary should be very similar. As is clear, this is not the case.
- In all cases, the minimum, midpoint and maximum of the MP62 range is lower than the salary ranges for grade 28 for all unions.
- The width of the range for the management salary range is narrower than many of the union ranges. (Compensation principles recommend that salary ranges for positions higher in an organization are broader than the salary ranges for positions lower in the organization.)
- The result of the current situation is that movement to management that should be lateral, often leads to a reduction in hourly salary and movement to management that should be a promotion may also lead to a reduction in hourly salary.

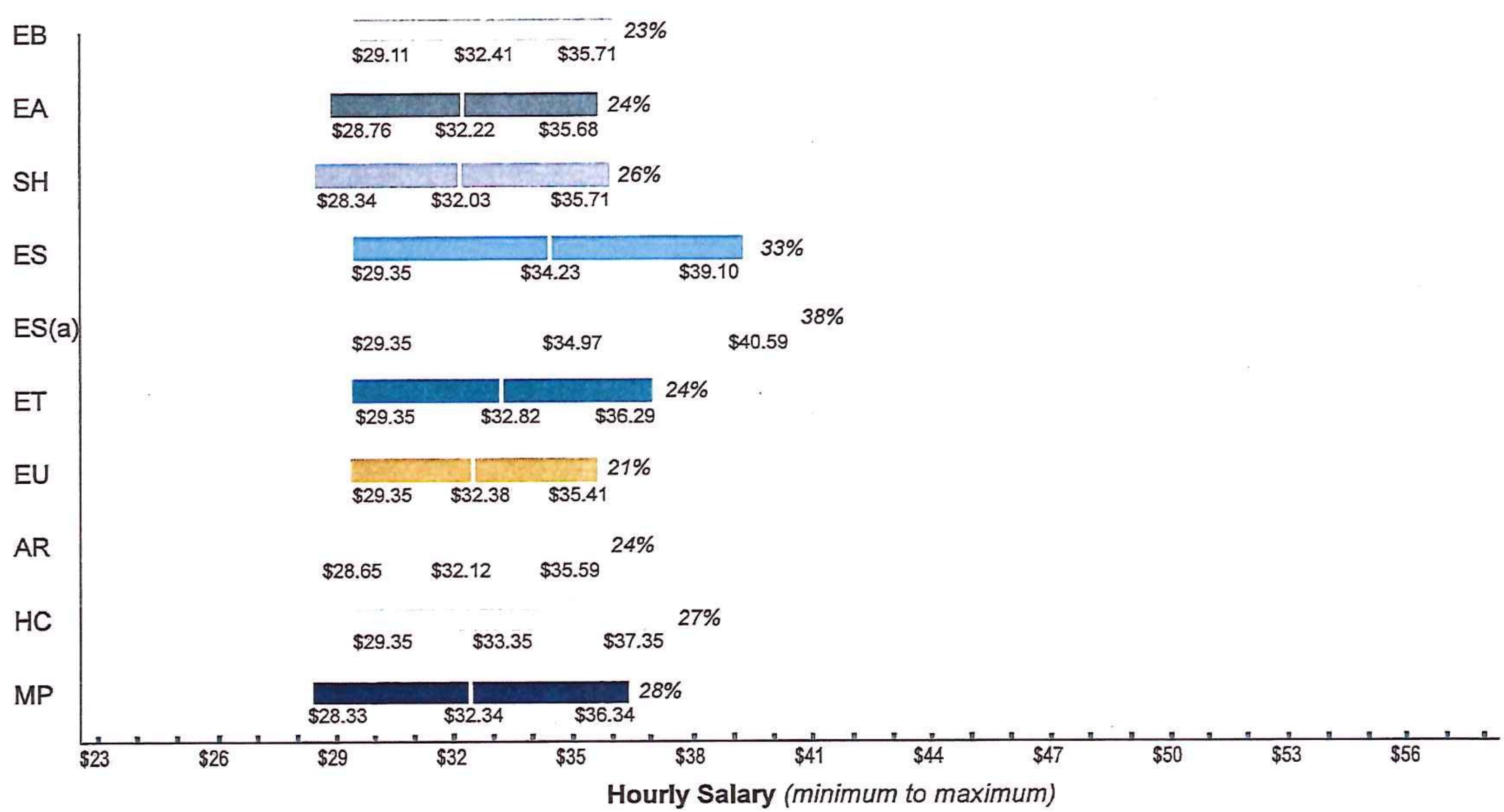
Comparison of Salary Group 28 and MP 62 for 2011

(Salary range as % of minimum is shown at right)



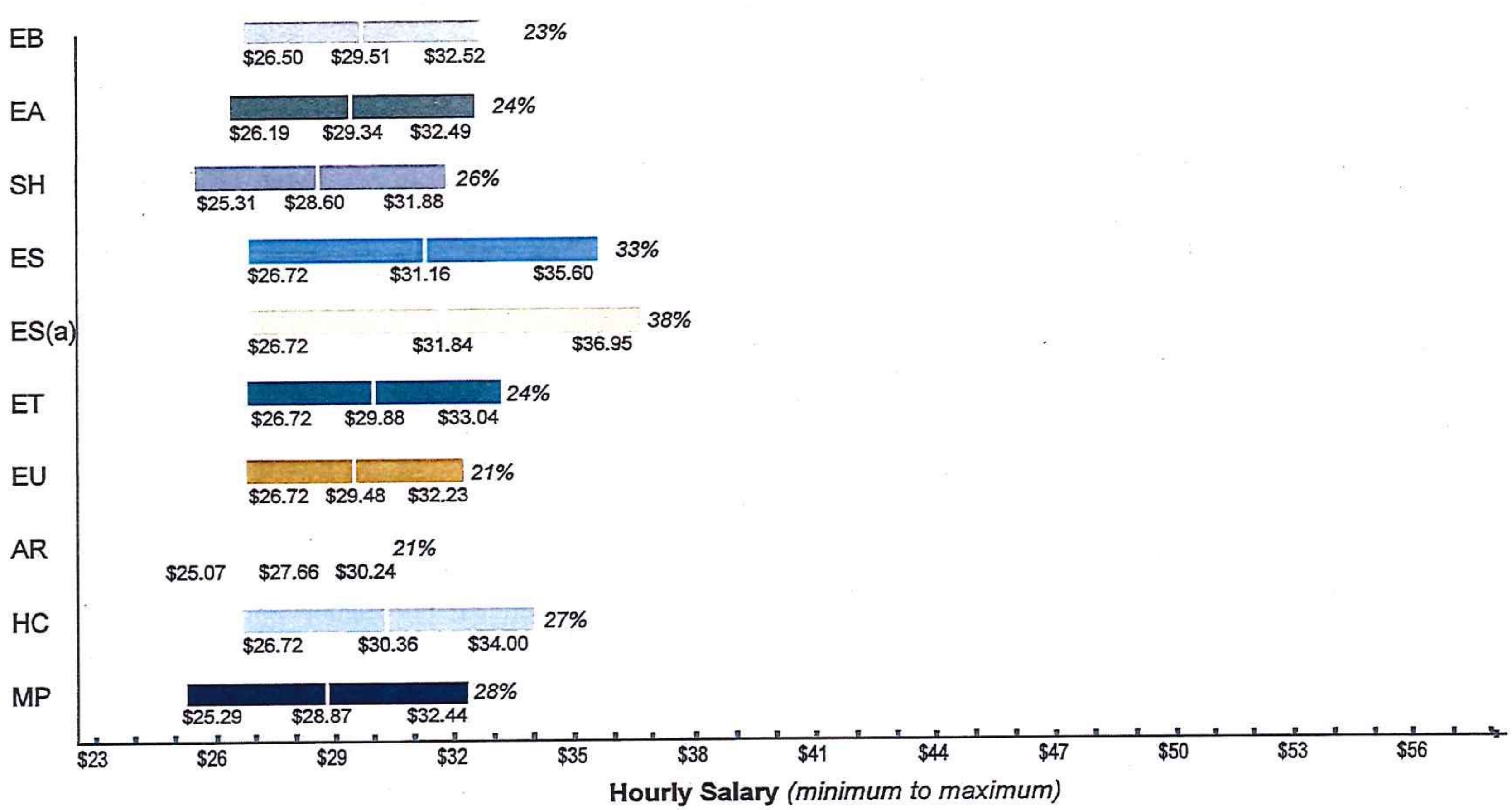
COMPARISON OF SALARY GROUP 28 AND MP 62 FOR 2000

(Salary range as % of minimum is shown at right)



Comparison of Salary Group 28 and MP 62 for 1996

(Salary range as % of minimum is shown at right)



SALARY INCREASES FOR FY13-14, FY14-15, FY15-16 PER SEBAC 2011 AGREEMENT

The table below details the FY13-14, FY14-15, FY15-16 salary increases for employees of the professional bargaining units covered by the signed the 2011 SEBAC Agreement. (It should be noted that employees in the Correctional Supervisor and State Police Unions are receiving increases in 2011-2012 and 2012-2013.) This will exacerbate the current compression/inversion situation. The chart on the following page shows the comparison in salary ranges in FY16, if managerial salary ranges are not adjusted in FY13-14, FY14-15 and FY15-16.

SALARY INCREASES

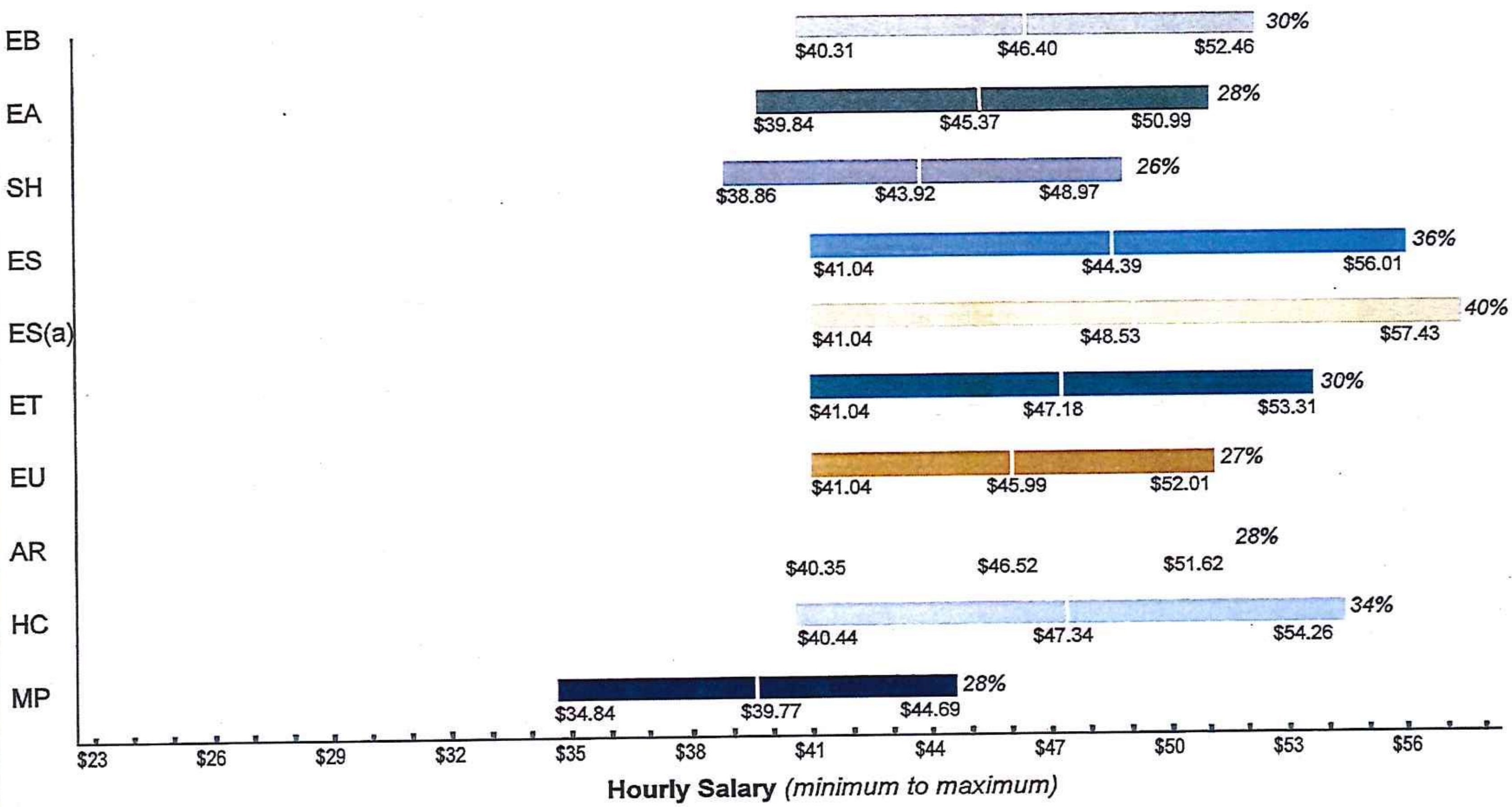
Salary Increase	MP	P-1 HC	P-2 SH	P-3-A EA	P-3B EB	P-4 ET, ES, EU	P-5 AR
Total % COLA*	NA	9	9	9	9	9	9
# of AI's	NA	3	3	3	3	3	3
Additional steps	NA	0	0	0	0	0	0

IMPORTANT NOTES:

* *The percentage for COLA's is a raw total of the percentage awarded each year – it does not take into account the compounding of increase differences over time.*

Comparison of Salary Group 28 and MP 62 for FY 2016 If Managers Do Not Receive the Increases in the SEBAC 2011 Agreement

(Salary range as % of minimum is shown at right)



ADDITIONAL FACTORS TO CONSIDER WHEN REVIEWING THE CURRENT SITUATION

- **Differences in benefits.** Bargaining unit employees are often eligible to receive additional pay and benefits that are not afforded to managers. These additional pay and benefits are governed by contract and often include: Overtime pay, shift and weekend differential, stipends, recruitment and retention bonuses, meal allowance, portal-to-portal pay, call back pay, on-call pay, tuition reimbursement, reimbursement for job required licenses, and flexible and alternate work schedules.
- Such additional pay and benefits exacerbate the compression/inversion situation but are not obvious in a comparison of pay ranges.
- The 2011 SEBAC Agreement provides salary increases in Fiscal Year 13-14, 14-15 and 15-16 (COLA's and AI's) for employees in unions approving the agreement. It also provides for job security. Neither the salary increases nor job security provisions have been applied, to date, to managers.
- Two unions did not approve the agreement and therefore the employees have and will be receiving increases in Fiscal Years 11-12, and 12-13.
- State Police Lieutenants and Captains have recently moved from management to union and have negotiated a new compensation schedule with significant increases in salary. If other managerial groups follow, the result will likely be the same.
- Managers are penalized at time of retirement because the pension amounts are based on employee's highest three years of salary. In addition, statutory breakpoint reductions assume on-going annual raises for managers at 6%. Each year managers receive increases that are less than 6%, this lowers their pension benefit.

Effects of Compression and Inversion

The problem of salary compression and salary inversion cannot be ignored as they have many negative effects on the employees and the organization. The State of Connecticut is experiencing many of these effects and with more frequency as the situation has progressed. Some of the effects include:

- Managers earning less in hourly pay than their subordinates.
- Long time managers earning less than newly appointed union employees to the same job class.
- Managers hired from outside of state service earning more than current managers due to an increased need to give these individuals hiring rates as our salaries are often not competitive.
- Difficulty attracting, retaining and motivating qualified and knowledgeable managers/leaders.
- Highly qualified and knowledgeable union employees not willing to move to management positions for reasons of benefits and pay.
- Current managers requesting to take demotions to union positions for reasons of benefits and pay.
- Loss of experienced and knowledgeable managers through resignations, retirements and voluntary demotions.
- Reliance on hiring managers from outside of state service (rather than promoting from within). These individuals may have less directly related experience and may also, if given an opportunity, choose a union job over a management job due to pay and benefits.
- Managers feeling they and their knowledge, experience and contribution to the organization are not valued.
- Reduced morale, job satisfaction, organizational loyalty and productivity. Negative effects on work relationships.
- Possible increase in allegations of illegal discrimination.
- Efforts by managers to unionize, which if successful, will have a substantial impact on state services and the budget. (The most recent example is the State Police Lieutenants and Captains.)

MANAGEMENT ADVISORY COUNCIL (MAC)

MAC has met with OPM and DAS regarding salary and benefit inequity between managers and those employees they supervise and has sent a letter to the Lieutenant Governor and DAS and OPM officials outlining their concerns and specific areas of inequities. The specific inequities they list are:

- Salary increments and expansion of salary ranges (additional "steps)
- Tuition reimbursement
- Conference funds
- Reimbursement for mandatory continuing education for licensed professionals
- Compensatory time for significant additional hours worked
- Freezing of longevity payments (temporary vs. permanent)
- Flex time/Alternative Work Schedules
- Telecommuting

MAC is asking the state to partner with them to find solutions and to take the steps to address the issues of salary and benefit inequities. This will allow the state to recruit and retain the best and brightest managers.

RECOMMENDATIONS

The following pages outline recommendations for the state to consider in resolving the current salary compression/inversion for state managers.

The recommendations are organized by:

- Low cost recommendations.
- Recommendations to keep salary compression/inversion from getting worse.
- Recommendations to reduce or eliminate the current salary compression/inversion.
- Recommendations so salary compression/inversion does not resurface in the future.

It should be noted that no recommendation by itself will resolve the current situation. The current situation took years to create and it will take a plan including many of the following recommendations to tackle managerial salary compression and inversion.

Note: Recommendations would also apply to managers in the MD pay plan.

No or Low Cost Recommendations for Consideration

- Take steps to show that managers are valued and are a vital part of the state organization.
- Offer managers similar alternate work schedule (AWS) options such as flex time and compressed work schedules as are offered to union employees. A draft pilot AWS program has been drafted for consideration.
- In limited situations, consider on-call or shift pay.
- Consider a limited pool of funding for tuition reimbursement and conferences for education that is directly related to a manager's current job.
- Consider a limited pool of funding for reimbursement of license fees and mandatory continuing education for employees in positions requiring a professional license.

Recommendations for Consideration to Keep Salary Compression/Inversion from Getting Worse

- Grant to managers the salary increases guaranteed to union employees in the 2011 SEBAC agreement.
  - 3% COLA's in Fiscal Years 2013-2014, 2014-2015, 2015-2016.
  - AI's (PARS) in July of 2014, 2015 and 2016 (The amount should keep pace with the amount granted to the professional bargaining units.)

- This should be announced to managers as part of a communication recognizing their value to the state; the current situation with regard to salary compression and the steps that are and will be taken in the future to create salary equity.

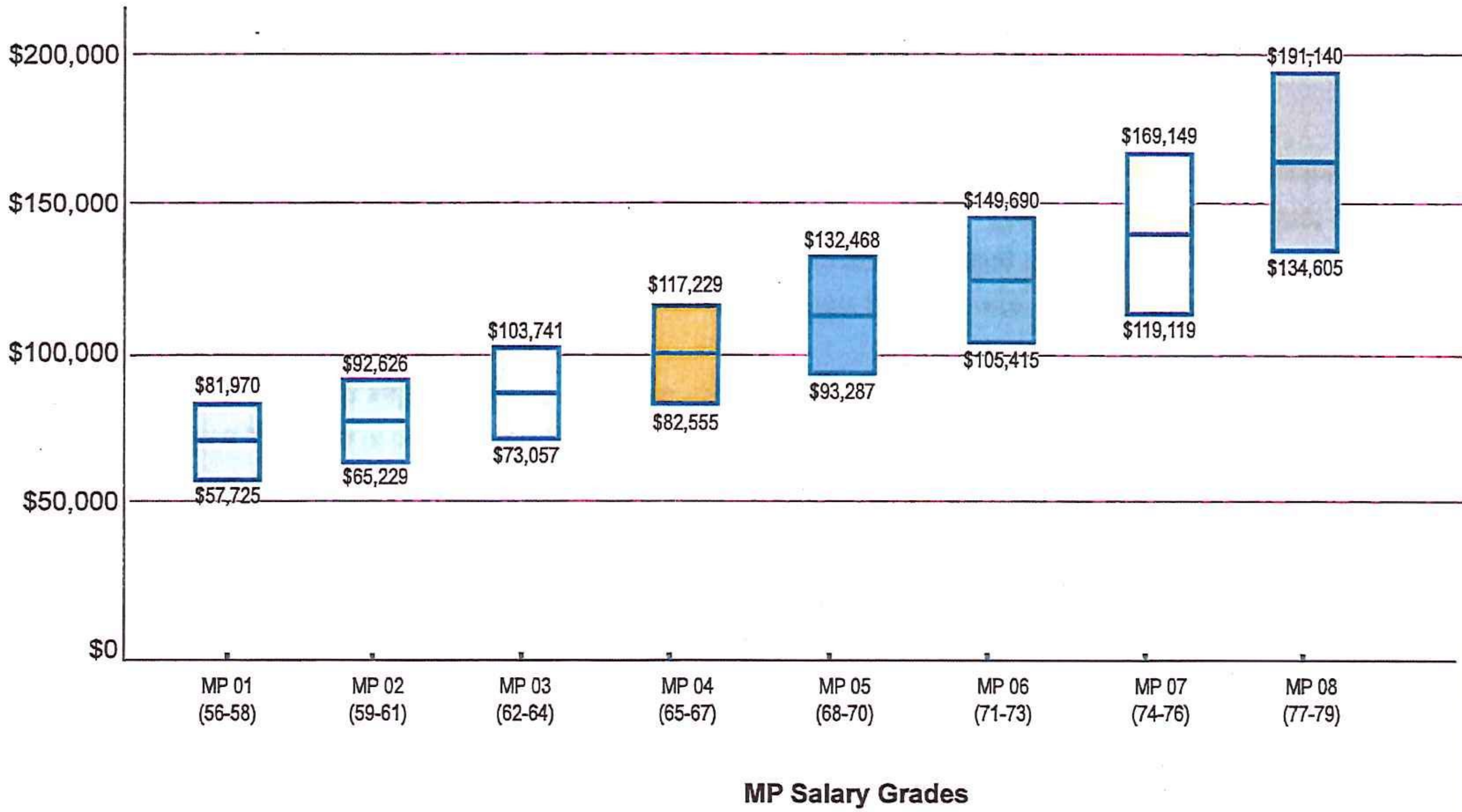
- Develop a state compensation philosophy and framework that:
  - achieves internal equity
  - fairly compensates managers, including both salary and benefits, and
  - facilitates a reduction in the levels of management in an agency
  - is easy to understand and administer
  - links pay and performance
  - is based on professionally accepted compensation standards
  - contains safeguards to avoid future salary compression
  - has the flexibility to be competitive with labor market, where appropriate

CONSTRUCT A NEW PAY PLAN STRUCTURE FOR MANAGERS

- **Construct a new pay plan structure.** Construct and implement a new managerial pay plan that reflects standard compensation principles. The plan would have:
  - Fewer salary grades. We would recommend 8 -10 grades/bands rather than the current 25. If done carefully, this could have a minimal initial cost by collapsing the current salary groups. This strategy would also facilitate actions to reduce the layers of management in an agency.
  - Wider salary ranges. The current managerial salary range is approximately 28%. The standard is between 30% and 50%.
  - Larger differences between salary ranges. The current difference is about 4%-5% (sometimes less). The standard difference is between 8% and 30%.
- Develop a strategy for moving current job classes to the new pay plan while red circling classes that may not fit.
- Some managerial job classes may need to have their salary groups adjusted more immediately to address situations where the current inversion or compression is most severe.
- Look at discrepancies in compensation due to recent changes to the longevity for managers. (Longevity was once a factor that offset some compression issues for long term employees. The recent changes in longevity will eliminate this partial offset and lead to additional inequities. One option is to build longevity into an employee's current salary for those currently receiving longevity.)

- The following page contains a **possible new pay plan** to consider implementing in the short term.
- This proposed salary plan will not eliminate salary compression/inversion. It is only a first step in setting a salary structure that will set the stage for solutions to this issue. Additional compression adjustments will be needed to move the range up to be comparable to ranges in the bargaining units and to move employee's salaries up in this the range.
- This pay plan is built to incorporate the current MP salary groups into 8 new salary groups. The range of each salary group is 42% and the difference between the tops of the range for each salary group is 13%.
- The map between the current MP levels and the new pay plan are detailed on the following page.
- There would be minimal cost (less than $40,000) in implementing this new pay plan as 98% of the management employees would fall within the new ranges. Those few employees that are below the new ranges are only slightly below those ranges. (A more aggresive pay structure could be developed, but the initial cost would be larger.)
- Benefits of implementation:
  - fewer levels of management
  - fewer managerial job classifications
  - more flexibility for agencies in moving staff
  - fewer examinations needed

PROPOSED SALARY PLAN



Recommendations for Consideration to Reduce or Eliminate the Current Salary Compression/Inversion

- In order to tackle the current salary compression/inversion, we need two types of **compression adjustments** in addition to standard COLA and AI increases.
- The compression adjustments could be implemented as mid-year adjustments and be implemented over a two to three-year period to spread out the budget impact.
- **Range correction**. This would involve moving the MP salary ranges up and moving the employees within the ranges up the same amount.
  - Involve an increase in ranges of approximately 8% to bring the minimum of the MP ranges comparable to the union ranges.
  - Account for the differences in COLA's received.
- **Additional salary correction.** This would involve moving employees in the MP salary ranges up to account for differences in annual increments received between managers and union employees.
  - Amount given to each employee would be based on the amount of time an employee was in the MP pay plan, with newer employees receiving a smaller percentage.
  - Involve an increase in the ranges of approximately 6% for those longer term employees to account for the differences in AI's received.
  - Some increases handled as lump sums as is standard with Performance Assessment and Recognition System (PARS.)

Recommendations for Consideration So Salary Compression/Inversion Does not Resurface

- Develop a policy (or legislation) so that once equity is achieved, salary increases (COLA's and AI's) for managers keep pace with union increases to avoid salary compression/inversion in the future.
- Develop a policy (or legislation) that makes automatic a review of managerial classes in a career series when the bargaining unit classes are reevaluated and the salaries are raised.
- A consistent - effective performance management system must be developed and implemented.
- Consistent funding of the PARS program is critical.
- Revise current PARS program to better incorporate performance management into compensation strategies and structures. The current system and inconsistency of funding does not serve to motivate high performance. Goals and achievements of managers should be aligned with the governor's mission and goals and with the mission and goals of their agency. All managers should have goals concentrating on streamlining government, saving money, and where applicable, generating revenue, in addition to their goals around managing their programs, divisions and bureaus.
  - Implementation of goals would help fund performance increases.
  - Reduction in longevity could also help fund performance increases.

BENEFITS OF REFORM

- A system that promotes talented managers to stay and allows the state to recruit top quality and knowledgeable managers from bargaining unit classes and from outside of state service.
- A system that encourages and rewards managers to achieve excellence.
- A system that encourages and rewards professional development.
- A system that is more flexible and easier to administer.
- A system that achieves greater efficiency by reducing layers of management and reducing numbers of managerial job classifications.
- A system that facilitates succession planning and provides continuity in management of state government services.