

An aerial photograph of Baltimore, Maryland, showing the harbor, city buildings, and a large marina with many boats. The sky is clear and blue.

ICMA
conference

BALTIMORE
104th Annual Conference
SEPTEMBER 23-26 **2018**

COMPETITIVE PAY

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#ICMA2018

MUNICIPAL COMPENSATION



General areas that will be discussed today

- How to conduct a compensation analysis of positions
- How to select and use labor market data
- How to conduct custom surveys
- The *Total Compensation* equation
- Analyzing public safety, public works, and teachers' pay
- Developing a *Compensation Philosophy*
- Internal and External *Pay Equity*
- How to manage salary compression issues

Components of Compensation



What's in “Managing Compensation”

- Payroll accounts for 50% or more of a municipal budget
- Salaries should not be too high or too low
- Actively manage pay decisions
- Caution on municipal perceptions
- Fair and equitable approach; ensure non-discrimination (i.e. gender, ADA, age, minorities, sexual orientation)
- Compensation and Classification plan development
- Salary Administration Policy

Market Pricing/Strategy

- Compensation philosophy and strategy
- The compensation and total rewards design process
- Factors influencing compensation
- Market positioning
- Municipal budget cycle
- Compensation program objectives



Terminology/Base Pay

- Market pricing terminology
- Base-pay structure design
- Market-based structure design steps
- Market-based pay structure vs. pure market pricing approach
- Market-based job evaluation and pay structure design

Surveys

- Development of custom survey(s)
- Data sources; salary surveys
- Decision factors
- Survey data formats
- Survey data-statistical data points
- Survey selection
- Documentation
- Accuracy of survey data
- Data integrity components



How to Use the Data

- Utilizing the survey data
- Percentiles, Ranges, Medians, Averages
- Actual Pay
- Blending data
- Comparisons of data to positions
- How many data points are required
- What to do when no comparables exist
- Regression analysis
- Aging the data; updating the data



Other Compensation

- Longevity
- Educational Incentives
- Clothing Allowances
- Stipends
- Hazmat Pay
- Weekend/Holiday Pay
- Shift Differential Pay



Variable Pay

- Out of Classification Pay (typically union)
- Bonus Programs
 - Referral Bonus
 - Hiring Bonus
 - Retention Bonus
 - Project Completion Bonus
- Performance-System Based Pay
- Special Assignment Pay



Communication

- The purpose of communication
- Management's role in communicating compensation administration program
- Communication with employees and upper management
- Organization-wide communication
- Communication and survey sources



Compression



Compression Factors

- Supervisor-Employee Pay Relationships
- Entry Wage vs. Longevity Wage
- Promotions & Lack of Career Ladders
- Salary Structure
- Reclassifications
- Inconsistent Performance Ratings
- Pay Equity Laws
- Out of cycle increases



Pay Equity



Pay Equity Audit (sample)

- Name of employee and job title
- Gender
- Work type (full-time, part-time, temp, etc.)
- Exempt/non-exempt status/hours worked
- Date of hire/longevity
- Supervisor/department/division/unit
- Performance ratings/score
- Highest level of education
- Special licenses, certifications, etc.
- Shift differential
- Total compensation



Your Total Rewards System



COMPENSATION

- Base Wages
- Premium Pay
- Variable Pay
- Severance Pay



BENEFITS

- Legally Required Benefits
- Health and Welfare
- Retirement
- Leave Benefits
- Voluntary Benefits
- Perks



LIFE/WORK BALANCE

- Workplace Flexibility
- Community Involvement
- Caring for Dependents
- Financial Support
- Culture Change



RECOGNITION

- Performance Awards
- Merit
- Appreciation Lunches
- Goal Specific Awards
- Peer Recognition Awards



PERFORMANCE

- Pay Alignment and Connection to Rewards
- Project Completion Awards
- Goals/Objectives
- Coaching



DEVELOPMENT

- Learning Opportunities
- Coaching/Mentoring
- Advancement Opportunities
- Apprenticeships



Executive and Senior Manager Compensation



Overall Objectives

Motivate executives/senior managers to:

- Achieve operational excellence
- Meet short-term financial goals and strategic milestones
- Deliver on longer-term business strategies; build local government value

Discourage imprudent risk taking consistent with local government's business model, strategies and regulatory guidance

Pay for Performance

Link pay and performance by:

- Reviewing performance from both a financial and a strategic perspective, including risk/control and compliance
- Encouraging balanced performance and discouraging imprudent risk taking
- Using judgment/discretion to avoid relying solely on rigid formulaic designs; taking into account 'what' and 'how' goals were accomplished

Pay Mix

Provide competitive rewards by:

- Using a mix of some mostly fixed and some variable pay components (bonus, vehicle, etc.) to reward annual and sustained performance
- Deferring a majority of incentive compensation for one year for new executives
- Requiring executive officers, administrative officers, and senior managers to have significant outright latitude in scheduling work hours to account for evening, weekend, and on-call schedule

Pay and Classification Plans



Some Reasons for Pay/Class Plan

- Total review of internal equity and external equity at same time
- Grouping positions for comparable worth and pay equity purposes
- Differences in pay grade should be based on significant differences in education, knowledge, abilities, skills
- FLSA, ADA, EEO, pay equity and other state and federal laws
- Objective job evaluation process is typically used
- Reduced subjectivity in pay determination
- Provides career ladders
- Job descriptions are typically updated during this process through job analysis

Simple Pay Philosophy from a Town

“In an effort to attract, motivate, and retain quality employees committed to providing a high level of public service, it is the town of XYZ’s philosophy to maximize external market competitiveness while maintaining internal equity. At no time shall race, religion, creed, color, gender, national origin, age, or disability be considered in making any classification or compensation decisions.”

Methods for Job Analysis

- Review and maintain job descriptions
- Monitor for changes in job content
- Communicate with incumbents regarding changes
- Decide when an appropriate change is needed
- Submit current job descriptions to Human Resources for their review and approval

Methods for Grade Plan

- Point Rating System
- Job Ranking System
- Classification Method
- Strict Market System

The Grade Plan ties directly to the Compensation Plan

Simple Policy Statement on a Town's Pay/Class System

“Internally consistent pay relationships are based on the content of the work performed, the skills required and the relative contribution of the work to the town's overall objectives. Positions are evaluated at the time of creation and when duties and responsibilities have significantly changed. Several methods are used to evaluate jobs to determine their relative worth and may include point factor analysis, a review of market data relative to that job and internal equity within the department and town-wide. Based on the results of the job evaluation, a pay grade is assigned. In certain cases, because of market demand for a particular job title, a job may have an expanded range.”

BASE RATES

- Hourly Wage Rate
- Weekly Salary Rate
- Bi-Weekly Salary Rate
- Actual Salary Rate
- Annual Salary Rate
- Exempt/Non-Exempt



SCHEDULE TYPE

- Step System
- Pay Ranges (Min-Mid-Max)
- Quartiles/Percentiles
- Pay Lanes (Education based, Teachers)
- Broad Banding
- Skilled Based Pay System
- Blended System Steps and Movement through ranges

Other Considerations

- Percentages from Minimum to Maximum
- Percentages between Grades, Steps and Lanes
- COLA Adjustments
- Other Wage Adjustments
- CPI

Union Considerations

- Work in partnership with union leaders when developing a new compensation and classification plan
- Negotiation Compensation Plan
- Develop Standard Appeals Process
- Transparency and Communication

5 MISTAKES NOT TO MAKE

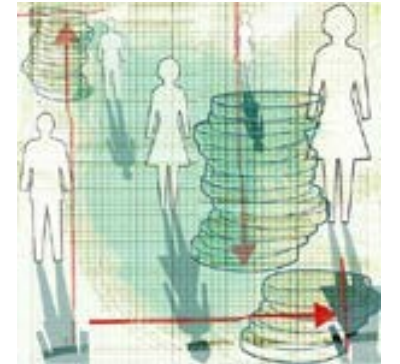
1. Not differentiating performance and rewards enough
2. Assuming employees have no other options regarding job opportunities
3. Not making changes to compensation plans
4. Not communicating compensation changes clearly
5. Not implementing pay plans in a consistent manner

THE COST OF TURNOVER



REASONS

- Calculate and analyze your department's turnover rate
- Determine causes of turnover among your employees
- Identify the costs of excessive turnover
- Understand what your employees want from their jobs
- Develop an effective turnover reduction strategy



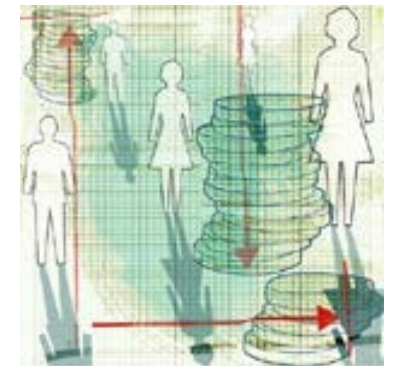
COSTS

- High Costs of Turnover
 - Direct Cost
 - Indirect Cost
 - Total Cost
- Direct and indirect costs of turnover
- Voluntary vs. involuntary turnover
- What employees really want
- Tactics for retaining employees



20% FACTOR

- Be aware that some groups of employees typically have a higher turnover rate than others.
- Taking all the issues into account, analyze turnover in your department. You likely have a problem if:
 - Your department's voluntary turnover rate is substantially higher than 20 percent (the national average).
 - Your department has a substantially higher turnover rate than the municipal organization as a whole.



LABOR LAWS



Compliance

There are a number of laws that are a crucial part of an employer's compliance efforts.



Compliance Factors

- Fair Labor Standards Act (FLSA)
 - Exempt-Non Exempt
 - Minimum Wage
 - Child Labor Law
 - Americans With Disabilities Act
 - Title VII of the Civil Rights Act
 - EEOC/Equal Pay Act
 - Pregnancy Discrimination Act
 - Age Discrimination in Employment Act
 - Federal Anti-Trust Law
 - USERRA
 - Family and Medical Leave Act
 - Davis-Bacon Act
 - Federal Wage Garnishment Law
 - Specific laws by state such as MEPA in Massachusetts
- And much more...



FLSA

- Job descriptions are critical for the process of classifying jobs as exempt or nonexempt.
- Proper classification is dependent upon actual duties and responsibilities, NOT by job title.
- Misclassification of employees as being exempt from overtime is the most common violation of the FLSA.
- Engage the services of an employment lawyer or human resources consultant to assist in the process.

The ADA

- The ADA protects individuals who:
 - Have a disability
 - Have a history of disability
 - Are regarded as having a disability

Department of Labor ADA:

<https://www.dol.gov/general/topic/disability/ada>

Department of Labor-Wage/Hour Division

<https://www.dol.gov/whd/reg-library.htm>



SUMMARY CONCLUSION



CONCLUSION

- Use multiple survey sources for each job
- Use specific matching criteria – location, budget, form of government, industry
- It's important to keep your job descriptions current
- Position matches should comprise at least 70% of the market position being surveyed.
- Use internal rating system for jobs which you have no data points
- Know your union contracts
- Be knowledgeable of the fundamentals of FLSA, ADA, EEO, and the Anti-Trust Laws
- For objectivity, it is always best to hire a third party to conduct these analyses.

THANK YOU!!

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