Approved: February 4, 1999
Date

MINUTES OF THE HOUSE KANSAS 2000 SELECT COMMITTEE.

The meeting was called to order by Chairperson Kenny Wilk at 1:30 p.m. on January 28, 1999 in Room 526-S of the Capitol.

All members were present except: Representative Gene O'Brien - excused

Committee staff present: Alan Conroy, Legislative Research Department
Gordon Self, Revisor of Statutes
Janet Mosser, Committee Secretary

Conferees appearing before the committee: Bill Jarrell, Boeing Corporation
Suzanne Scott, Senior Manager Compensation/Benefits Boeing Corporation, Wichita
Jerl Banning, Process Leader of Compensation, Koch Industries, Wichita
Greg Musick, Director of Compensaiton, Benefits and Compliance, Western Resources, Topeka
Bob Young, Director of Human Resources, Blue Cross and Blue Shield of Kansas, Topeka

Others attending: See attached list

Mr. Bill Jarrell, Boeing Corporation introduced Ms. Suzanne Scott of Boeing who gave a presentation on Boeing compensation (**Attachment 1**).

Mr. Jerl Banning gave a presentation on Koch Industries compensation philosophy (**Attachment 2**).

Mr. Greg Musick gave a presentation on some of the changes Western Resources had made in its compensation programs in response to recent changes in the utilities industry (**Attachment 3**).

Mr. Bob Young gave a presentation on the compensation program at Blue Cross and Blue Shield (**Attachment 4**).

Chairperson Wilk adjourned the meeting at 3:08 p.m.

The next meeting is scheduled for February 1, 1999.

KANSAS 2000 SELECT COMMITTEE GUEST LIST

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NAME	TITLE	REPRESENTING
Keith Haxton	Lobbist	SEAK
Don Rezac	Lobbist	SEAK
Paul Wilson	Exec Dir.	KAPE
Bob Young	Dir H.R.	BCBS of KS
Tina Lewerenz	Intern	
Caroline Wroczynski	Intern	
Bill Lawrence	B	BOEING
Doug Scott		BOEING
Roger Franzke	lobbiest	KGC
Jenifer Gomez	HR Asst.	KS. Sec. of State
MARY BREAKSTONE	DIR OF ADMIN	KTEC
Jane Dickerson	Pers. Dir.	SRS
Collier Case	Director, Benefits	Western Resources
Jeff Dunning	KII COMP. PROCESS LEADER	KOCH
Diane Holthaus	Western Resources	Lobbyist
Jessie Cornejo	President / Executive Director	AFSCME Council 64
Peggy Marich	Dir-Compensation	Western Resources
Ray Lauber		DPS
S. Manani	Asst. Dr Per	DPS Dept of Adm
Steve Ashley	Ben Mgr DPS	DPS Dept of Admin
S. Kr		DPS / DOA

BOEING WICHITA COMPENSATION

SUZANNE SCOTT- SR. MGR. COMPENSATION/BENEFITS

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Attachment 1

Major Payrolls

Hourly - (4) Bargaining Units Approximately 11,000 employees	
Salaried - Executive Management -	100
Management -	2,400
Non- Management -	6,000
Engineering - (Bargaining Unit)	1,500

Executive Payroll

3 - Major Components

- Base Salary Adjustment
  - Annual base salary adjustments
- Short term Incentives
  - Cash award
  - Stock Units
- Long Term Incentives
  - Performance Shares

Salaried Job Classification
3 Elements

Scope Statements

- Broad job description of major occupations

Level Guides

- Levels of work within an occupation

Salary Reference Guide

- Salary Tables for each level of work

Scope Statement
Example

Finance - Cost Analysis

Collects data, allocates costs, and conducts cost analysis. Gathers historical cost data prices new services or products. Prepare financial reports. Recommends, designs, develops, or authorizes revisions to the cost accounting system.

Level Guide
Example
Non-management

Factors	Level 1 Entry	Level 2 Experienced	Level 3 Senior Career level	Level 4 Consultant to Mgmt	Level 5 Consultant to Top Mgmt
Knowledge	Limited use				
Problem Solving	Solves routine problems…				
Discretion/ Latitude	Work is closely monitored…				
Impact	are usually limited…..				
Liaison	contacts are primarily with….				

Level Guide
Example
Management

Factors	Level J	Level K	Level L	Level M
	First level over non-exempt	First level over exempt	Middle management	Senior management
Freedom to act	Provides direction to subordinates using policies and procedures			
Supervisory relationships	accomplishes tasks through direct supervision of non-exempt employees			
Direct work involvement	monitors daily operation of a unit			
Input	Ensures project completed or scheduled			
Liaison	majority of liaison is interval basis with subordinates			

Management of Salaries

- Performance
  - Goals and Objectives
  - Job responsibilities
  - Performance criteria
- Affordability
  - Industry Market Data
  - Business Objectives (profitability)
- Equity
  - Peer salary relationships
  - Target Salary

Performance Tools

- Performance Management (Goals and objectives)

  - Supervisor/ Employee establishes goals and objectives beginning each year.
  - Interim discussions mid-year on employee performance toward goals and objectives.

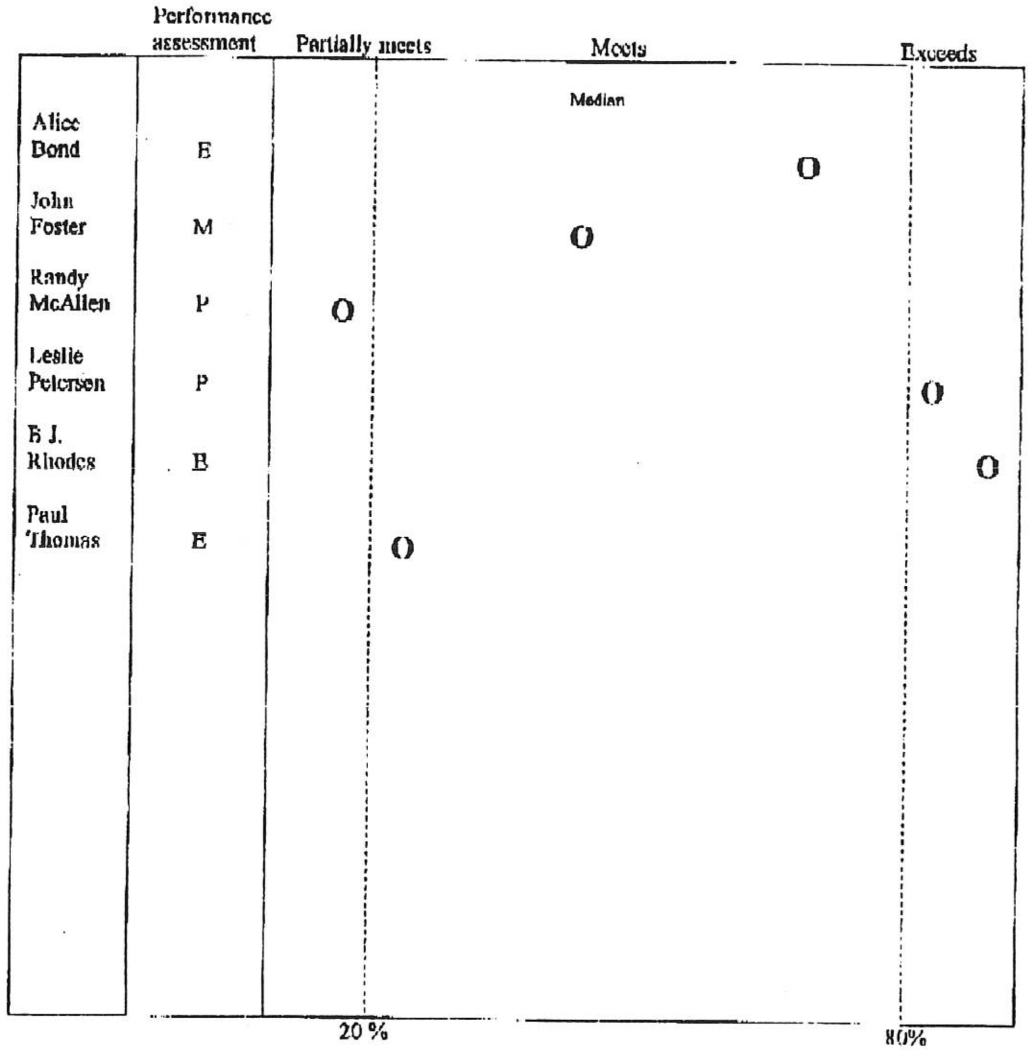
  - Year-end review with employees on goals and objectives that were accomplished (what the employee accomplished during the year).

- Performance Criteria
  (How the employee accomplished the goals and objectives)

  (Examples)

  - Problem Solving/ Judgement
  - Communication
  - Technical skills/knowledge
  - Leadership
  - Integrity
  - Quality
  - Customer satisfaction
  - Teaming
  - Shareholder value

Performance and Market Related Pay



O = Employee Salary
E = Exceeds Performance Objectives
M = Met Performance Objectives
P = Partially met performance objectives

Koch Industries Compensation Philosophy

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Attachment 2

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The Framework

- Vision
- Decision Rights
- Values and Beliefs
- Incentives
- Knowledge Systems

We believe that incentives are equally important to vision, decision rights, values and beliefs, and knowledge systems in creating an effective MBM™ system. NO element is "most important."

Koch's Compensation Philosophy

- "TOTAL COMPENSATION FOR TOTAL CONTRIBUTION
- Every employee should be evaluated and rewarded based on his/her total net contributions to KII's NPV.
- Incentive compensation has and will be a critical factor in KII's success.
- An effective system has both objective and subjective components.

KII Value/Reward Philosophy

- ❖ The more decision rights someone has the more pay they should have at risk.
- ❖ Lack of development feedback can cause confusion regarding employee's view of performance and in turn compensation.
- ❖ Formulas don't work
  - Secondary effects

2-6

KII Value/Reward Philosophy

- ❖ Need to consider many variables
  - Market compensation (multiple data points)
  - Contribution
  - Future Potential
  - Marginal Analysis
- ❖ Mutual trust

Requirements for Leaders

Requirements for Leaders

- Make inferences about employee contribution & value (Use Marginal Analysis)
  - Estimate contribution
  - Project future contributions
  - Include contributions to culture and framework

2-8

Requirements for Leaders...

- Make reward decisions that build trust
  - Consistent with culture and framework
  - Make sense to the employee & company
  - Consistent in application
  - Tie rewards to employee development

Requirements for Leaders...

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- ❖ Motivate employees to maximize their contribution
  - Understand individual motivations
  - Provide focus and feedback
  - Build confidence and courage
  - Utilize capabilities optimally
  - Connect individuals to key business objectives
  - Continually raise expectations

Requirements for Leaders...

- ❖ Make sure we reward based on "Total compensation for total contribution"
    - Make sure most productive people are rewarded the most
    - Don't fall into seniority/point system trap
    - Compensation moves up and down yearly to reflect total contribution

2-11

Summary for Leaders

- It *ain't* easy
- Start with the ideal, then work out the practical issues
- We'll never peg pay exactly with performance, therefore, need trust that all will correct over time

2-12

Western Resources

- A consumer services company
  - Monitored Security - Protection One
  - Natural Gas - ONEOK
  - Electric Service - KPL & KGE

- Electric Services
  - 2,350 employees
    - 60% union represented
    - 10% nonexempt
    - 30% exempt

- Benefits comparable to other major employers.

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Compensation Prior to 1995

- Focus on base salary, limited incentives
- Performance Appraisal - MBO with metrics
- Annual merit increases based on centralized matrix
- 14 grades with a 50% spread.

3-2

Problem - Base Pay Orientation

- Concerns
  - Employees did not share risk with shareholders.
  - Not a good reflection of current contribution.

- Corrective Steps
  - Increase management incentives & improve formula.

  - Implement incentive pool concept for remainder of the non-union work force.
    - Pool based on combination of budget & company earnings.
    - Allocated to departments based on % of payroll
    - Allocated to individuals by dept. management.

Problem - Base Pay Orientation

- Corrective Steps (continued)
  - Labor market comparisons based on total compensation. Grade midpoints frozen for two years.
  - Lump sum merit increases above the control point.
  - Promote stock ownership to better link the employees to the shareholders.
    - Stock options
    - 401(k) match in stock
    - Employee stock purchase plan
    - Stock for compensation

Problem - Centralized Merit Process

- Concerns
  - ▶ Removed managers from pay decisions.
  - ▶ Inconsistent with increased business unit accountability.
  - ▶ Employees did not have confidence in process.

- Corrective Steps
  - ▶ Improved performance assessment process.
    - Implemented performance management program less focused on metrics.
    - Piloted multi-source assessment

  - ▶ Merit pool developed for each business unit. Unit management determine individual increase amount.

Problem - Pay Structure

- Concerns
  - Difficult to move through the range from minimum to control point.
  - Too many grades, preoccupation with position upgrades.

- Corrective Steps
  - Implemented more narrow ranges (35% spread)
  - Consolidated pay structure into 10 grades.
  - Install more stringent review for position upgrades.

3-7

Union Compensation

- Step rate structure
- Annual general wage increases
- Progress toward new philosophy
  - Performance evaluation
  - Skill based pay
  - Preliminary talks about pay at risk

SECTION 4 - COMPENSATION PROGRAM

IMPORTANT NOTICE

The company has the right with respect to all covered persons, including active and former employees and/or their dependents to add, modify, or terminate any compensation program policies.

If you have any questions about the compensation program, please contact the Compensation Specialist, Ext. 8127, for clarification or additional information.

PROGRAM ADMINISTRATION

The Human Resources department coordinates the salary program in accordance with policies and procedures that are approved by the Steering Committee. The Compensation Committee of the Blue Cross and Blue Shield of Kansas Board of Directors approves changes in salary levels and annual merit allocation.

Each spring/summer, the Human Resources Compensation Specialist and Director of Human Resources meet with the Steering Committee members and the President/CEO of the company to ascertain what changes, if any, are needed in the salary program for the following year.

Preliminary data is received from the Hay Group, our compensation consultants, regarding their annual survey of Blue Plans to project salaried employees' compensation for the following year.

An annual survey of hourly employees' salaries in the community is used to ensure our salaries remain competitive. The survey includes utilities, large school districts, insurance companies, financial institutions, hospitals, and other companies throughout the state.

COMPENSATION PHILOSOPHY

The Compensation Committee of the Board of Directors approves the compensation philosophy for our company. Following is the philosophy:

Blue Cross and Blue Shield of Kansas will compensate all employees fairly, equitably and competitively to achieve the organization's objectives of providing excellent service to customers while maintaining adequate financial controls and quality operations. This philosophy is based on the following principles:

1. Compensation will be distinctive and opportunity based, in order to reinforce the Plan's business strategies, corporate culture, and management processes.

2. Compensation programs will be designed to reward excellence in performance and achievement, both individually and collectively.

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3. Compensation programs will include base salary levels that reward all employees fairly and competitively, commensurate with individual skills, performance, job contribution, and market conditions as well as performance-based incentive plans and other variable compensation programs.

THEORY OF SALARY PROGRAM

Its purpose is to secure and keep the most competent people possible and at the same time be economical with the company's funds. In accomplishing this purpose, the program must maintain fair and consistent pay relationships among employees.

JOB EVALUATION

A. Salaried Employees

To assure objective judgment in evaluating positions, the Exempt Job Committee (EJC) is responsible for the evaluation of salaried positions. This committee is chaired by the Director of Human Resources and is comprised of Steering Committee members from three separate divisions.

The EJC meets on an as-needed basis to review all new and revised salaried jobs.

Salaried positions are evaluated using the Hay Group Evaluation system. This system provides a systematic process for measuring job content that enables organizations to evaluate and rank jobs in an organized and consistent manner. The Hay system provides equity in the administration of salaries through the consistent application of its job measurement system.

The job description is used to evaluate the job itself and not the person in the job, outlining essential functions of the position. Each position is evaluated in relation to how much Know How, Problem Solving and Accountability are involved in performing those functions in a competent manner.

B. Hourly Employees

Hourly positions are evaluated by the Personnel Advisory Committee (PAC) which consists of eight members representing divisions from throughout the company. The Director of Human Resources serves as the chairperson to this committee.

The Personnel Advisory Committee meets bi-weekly to evaluate all new and/or revised hourly job descriptions.

Hourly positions are evaluated in terms of their importance to the company and in comparison to each other. This results in jobs of approximately equal value being placed in the same job level.

The entire hourly job description is evaluated by PAC, but the seven specifications at the end of the hourly job description are each assigned a rating. It is the total of these ratings that determines the level of the position.

The seven specifications are:

- Knowledge/Skills
- Impact on Customer Satisfaction
- Judgment
- Work of Others
- Scope of Contacts
- Likely Consequence of Errors
- Working Conditions.

WHEN JOBS ARE EVALUATED

Job descriptions are evaluated for the following reasons:

1. for all new positions.
2. anytime there have been significant changes to the duties of an existing position.
3. when there has been a reorganization in a department.
4. when the person reporting to the Steering Committee member requests it for hourly positions.
5. when the Steering Committee member requests an evaluation for salaried positions.

SALARY PRACTICES

There should be an interval of at least six months between salary increases regardless of the type of increase. The only exceptions would be in the situation where an employee receives a merit increase and is then promoted less than six months later; or a proficiency increase for an hourly employee (generally three months after hire date).

Salary increases are always effective on the first day of a pay period.

PROMOTIONAL INCREASES

1. Promotional increases are awarded at the time of promotion.

2. Promotional increases and merit increases should not be given concurrently.

3. Employees are not eligible to receive promotional increases if their salary is already at or above the midpoint of the new salary range. (The employee's salary after a promotional increase should not exceed the new midpoint.)

4. The maximum increase is 5% except in the situation where more than 5% is required to bring the salary to minimum of the new range.

   a. **Hourly Employees**

      Promotional increases are given when an individual is promoted from one hourly level to a higher level, or the position is re-evaluated to a higher level.

   b. **Salaried Employees**

      Promotional increases are given whenever an employee is promoted to a position which has a point value 15% (or more) greater than the previous job, the point value of the existing job increases 15% or more; or an employee is promoted from hourly status to salaried status.

MERIT INCREASES

1. A merit increase is awarded when performance on the job warrants an increase.
2. Merit increases will not be given if the employee's salary is already at the maximum of the salary range for the position.

   a) **Hourly Employees:**

   - Merit increases may be granted no more than every six months.
   - Performance Evaluations

     There are five performance levels determined as the result of the performance evaluations:

     unsatisfactory
     fair
     expected
     commendable
     distinguished

     Merit increases are granted only if the overall performance is at the expected level or higher.

   b) **Salaried Employees:**

   - There should be approximately a one-year interval between merit increases. There should be an interval of at least six months between salary increases (other than promotional increases).
   - There are three performance levels determined as the result of the performance evaluation:

     does not meet job requirements
     meets job requirements
     exceeds job requirements

     Merit increases are granted only if the overall performance is at the "meets job requirements" level or higher.

   c) **Both hourly and salaried employees:**

   Performance evaluations should be conducted on at least an annual basis. If a merit increase is appropriate, the increase should be granted based upon the performance level.

   Anytime an employee is currently being formally counseled for unsatisfactory performance in any area (i.e., quality, attendance, etc.) that employee should not receive a merit increase until improvement is shown, in accordance with the terms of the notice of unsatisfactory performance.

PROFICIENCY INCREASES

1. There are three circumstances when an employee may be awarded a proficiency increase:

    - new employees
    - employees selected/promoted to a higher level position
    - employees who have received a progressional level change in their position.

    The proficiency increase of 3% to 5% is awarded when these employees have proven they can satisfactorily perform the duties of the position.

2. If hired in over minimum, but less than midpoint, a proficiency increase may be given, but the increase should not take the employee above midpoint for the new position.

3. Employees making a lateral transfer, or accepting a lower level position (at other than the minimum) are not eligible for a proficiency increase.

4. If the employee's performance is not satisfactory, the employee should be terminated, transferred, or be given a formal extension of the proficiency period.

    a) Hourly Employees:

    The proficiency period for hourly positions is normally 90 days. However, this period may be longer for some positions.

    b) Salaried Employees:

    - The proficiency period for salaried employees is normally six months. It may vary somewhat due to the complexity of the job and the abilities and potential of the employee.

    - Employees making a lateral transfer or whose position has been re-evaluated and did not increase the required 15% to qualify for a promotional increase, are not eligible for a proficiency increase.

PROGRESSION INCREASES

1. A progression occurs anytime an employee has "progressed", or advanced, to a higher level within the same position (position number). For hourly employees, a progression is to a higher salary range level; for salaried employees, a progression would be Hay points of 15% (or more) greater. Examples of progressions are as follows: level 3 correspondent to level 4 senior correspondent, programmer to programmer/analyst.

2. Progressional increases and merit increase should not be given concurrently.

3. Employees are not eligible to receive progressional increases if their salary is already at or above the midpoint of the higher salary range. (The employee's salary after a progressional increase should not exceed the new midpoint.)

4. The maximum increase is 5% except in the situation where more than 5% is required to bring the salary to minimum of the new range.

5. Employees who receive a progressional increase are eligible for a proficiency increase based on the guidelines contained in the previous section on proficiency increases.

LATERAL TRANSFERS

When an hourly employee transfers to a salaried position, it is considered a promotion, not a lateral transfer. Therefore, the employee may be considered for a promotional and proficiency increase.

1. **Hourly Employees:**

   A lateral transfer is a transfer from one hourly job level to a position with the same hourly job level.

2. **Salaried Employees:**

   A lateral transfer occurs when the salary range for the new position is within 15% (higher or lower) of the previous job's salary range.

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PERFORMANCE EVALUATIONS

Formal performance reviews with employees are to be performed annually, at a minimum. A copy of each employee's review is sent to Human Resources to be kept in their employee file. Informal performance reviews may be given at any time by the supervisor.

The purpose of a performance review is to improve performance of the employee by establishing an understanding between the evaluator and the employee of weaknesses and how they can be improved. Equally important is the recognition of the employee's strong points. The review is also an aid in determining persons to select for promotion, recommending merit salary increases, or terminating the employee, if necessary. Supervisors should discuss unsatisfactory performance or conduct with employees.

A. SALARIED EMPLOYEES PERFORMANCE EVALUATION

The approved three-tiered performance rating system has the following levels of performance:

1. Performance Does Not Meet Requirements:

   Used to identify the performance standard of both experienced employees not fulfilling job requirements, as well as those new employees who are performing appropriately, but because of the time on the job still need improvement in the mastering of the job as a whole.

2. Performance Meets Job Requirements:

   Used to identify the performance level of employees who are meeting job expectations and are proficient in performing job accountabilities.

3. Performance Exceeds Job Requirements:

   Used to identify the performance level of employees who are easily recognized by their high standard of excellence and extraordinary contribution for above and beyond expected standard.

The three level performance management and appraisal system will give management the opportunity to measure and reward performance more effectively. Each division may choose the performance appraisal format that will work best in their specific area.

B. HOURLY EMPLOYEES PERFORMANCE EVALUATION

The approved hourly employees performance evaluation has the following levels of performance:

1. Unsatisfactory

   The employee is either inexperienced in the job or whose performance is clearly below the acceptable level.

2. Fair

   Performance comes close to being acceptable, but the need for improvement is recognizable.

3. Expected

   Performance is expected or satisfactory.

4. Commendable

   Performance is noticeably better than expected.

5. Distinguished

   Performance is distinguished so that it is recognized by others.