

Approved: March 1, 2007

Date

MINUTES OF THE SELECT COMMITTEE ON STATE EMPLOYEE PAY PLAN

The meeting was called to order by Chairman Pat George at 9:30 A.M. on February 19, 2007 in Room 423-S of the Capitol.

All members were present except:

Representative Stan Frownfelter- excused
Representative John Grange- excused
Representative Tom Hawk- excused

Committee staff present:

Alan Conroy, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Cyndie Rexer, Committee Assistant

Conferees appearing before the committee:

Neville Kenning, Hay Group

Others attending:

See attached list.

The minutes of February 14, 2007 were distributed. Representative Ann Mah moved the minutes be approved, Representative Charles Roth seconded the motion. The minutes were approved.

Chairman George turned the floor over to Neville Kenning and asked the committee to hold their questions until the end of the presentation. Mr. Kenning presented what the Hay Group considers to be the important components of a review of employee pay. The key objective of a Classification and Compensation Plan review is to determine the answer to the questions of:

Are you getting “the best bang for your compensation buck?”

Is the compensation plan consistent with the State’s human resources objectives and aligned to reinforce the State’s mission, values, and objectives?

Does the compensation plan enable the State to attract, retain, and reward the quantity and quality of employees it needs?

Is the plan being managed and administered in accordance with “Code, Rules, Policies and Procedures

Who is accountable for what in terms of accountability for plan administration and are they effective?

Mr. Kenning outlined the 8 components of a compensation plan which are compensation philosophy, job documentation, classification and job evaluation methodology and process, grade structure, internal equity, external competitiveness, pay delivery mechanisms, and plan administration. Attachment 1

Included in the questions asked was a request by Representative Ann Mah for a listing of the State Statutes on the pay plan. Legislative Research will provide the list. Representative Charles Roth asked Mr. Kenning for any documentation he has from the State of Idaho, which is in the process of writing their Compensation Philosophy. Mr. Kenning agreed to provide this.

The meeting was adjourned at 10:10 A.M. The next meeting is scheduled for Thursday, March 1, 2007 at 7:45 A.M. in room 514-S.

State of Kansas

*Attachment 1
Select State Employee Pay Plan
2-19-2007*

Comprehensive Review of Compensation Plans

Discussion Paper
February, 2007



Select Committee On
State Employee Pay Plan
~~2/19/07~~
Attachment 1

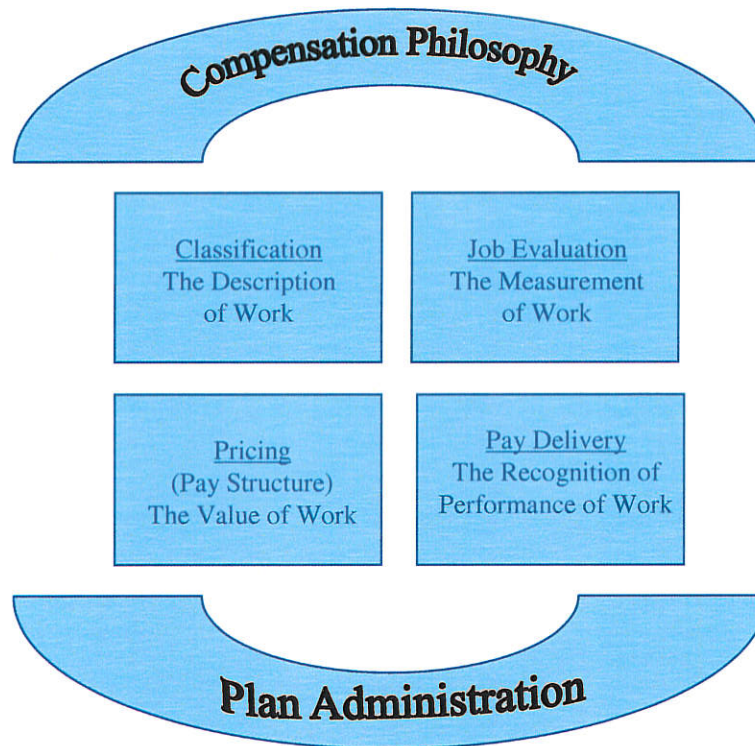
Introduction

Hay Group has recently completed a comprehensive Classified Plan salary survey for the State of Kansas (known as Phase I). Work is also being done on a review on the design of the State's Classified compensation plan (known as Phase II).

Legislative leadership has recently formed a Select Committee on Employee Pay. Following a meeting with that Committee on January 30, 2007, the Chair, Rep. George requested that Hay make a presentation to the Committee at its February 19, 2007 meeting on what Hay considers to be the important components of a review of employee pay. The content of this document provides that information.

Set out on the following page is the model used by Hay when designing a classification and compensation plan.

Components of an Effective Classification and Compensation Plan



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Review of Compensation Plans – Objectives

OBJECTIVES: Each year, organizations undergo a financial audit as required by law. Yet, the major expenditure of many organizations, particularly in the Public Sector, is its **compensation** costs. Hay recommends that a review of the effectiveness be conducted every 5 - 7 years, depending on the degree of stability/change in the organization. The key objective of a Classification and Compensation Plan review is to determine the answer to the questions of:

- Are you getting “the best bang for your compensation buck?”
- Is the compensation plan consistent with the State’s human resources objectives and aligned to reinforce the State’s mission, values and objectives?
- Does the compensation plan enable the State to attract, retain and reward the quantity and quality of employees it needs?
- Is the plan being managed and administered in accordance with “Code, Rules, Policies and Procedures?” and
- “Who is accountable for what” in terms of accountability for plan administration? Are accountabilities, roles, clear and effective?

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Review of Compensation Plans - Process

PROCESS: The focus of a review is typically on the following eight Core components of a Plan. Additional components can be added.

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	COMPONENTS	DESCRIPTION	ACTION and ANALYSIS
1	Compensation Philosophy	A compensation philosophy statement is intended to provide a foundation for the design and administration of compensation plans. It defines what you pay for and why . A compensation philosophy should be written in general terms in order to provide a lasting basis for future compensation design and administration decisions.	
2	Job Documentation	The extent to which current job documentation accurately and succinctly describes current job content.	
3	Classification and Job Evaluation Methodology and Process	The extent to which there is an objective, fair and defensible means by which to measure and differentiate job content and provide a means by which to establish internal relativity of jobs across the State.	

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Review of Compensation Plans – Process (cont'd.)

	COMPONENTS	DESCRIPTION	ACTION and ANALYSIS
4	Grade Structure	The extent to which the number of grades and the construct of those grades are designed to reinforce differences in job content and the extent to which they enhance the design and administration of pay.	
5	Internal Equity	The extent to which pay is aligned internally and the basis of that alignment and an analysis of the amount of horizontal and/or vertical dispersion from an appropriate internal alignment of positions exists.	
6	External Competitiveness	The extent to which your pay policy sets pay at an appropriate level to the relative market and your pay structure practice is aligned with your pay policy. In addition, the extent to which your pay policy aids or inhibits your ability to attract, retain and reward the quantity and quality of employees you need to meet your service objectives. The definition of the market and the extent to which compensation decisions are based on base pay or total compensation (base salary, benefits, etc).	

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Review of Compensation Plans – Process (cont'd.)

	COMPONENTS	DESCRIPTION	ACTION and ANALYSIS
7	Pay Delivery Mechanisms	The extent to which the plan's pay delivery processes (skills, tenure, education, performance, etc.) reinforce the State's values and culture. If the State has a pay-for-performance philosophy, the effectiveness of the linkage between the performance management plan and pay delivery.	
8	Plan Administration	The extent to which the plan meets the criteria for effective plan administration, that being: flexible, dynamic, readily maintained, easily understood by employees and managers, meets legal requirements and provides the State with optimal return on human resources investment (ROHRI).	
9	Other Components	This section provides the State with the opportunity to add other issues that it may wish to address.	

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Review of Compensation Plans – The Value Proposition

THE VALUE PROPOSITION: Such a review adds value for the State. The outcomes of the review are not about the compensation plan costing more or costing less. They are about *the appropriate expenditure of compensation dollars. Is the State getting “the best bang for its compensation buck?”* To better understand the magnitude of the value the State can potentially gain from understanding where changes need to be made in its compensation plan, the following shows an example from another State Government. Pages 9 and 10 provides you with the opportunity to consider the potential value proposition for the State of Kansas.

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Review of Compensation Plans – The Value Proposition (cont'd.)

1	Number of employees: approximately 24,000
2	Average salary and benefits cost/employee: \$40,000*
3	Total payroll: \$960MM (24,000 Employees x \$40,000)
4	Assumed misalignment of classification and compensation that is likely to exist due to time lapse since plan was last reviewed: 15% of employees*
5	Estimated misallocation of compensation: \$144MM (\$960MM x 15%)
In addition:	
6	Average rate of turnover for the organization: 12% per year
7	Estimated percentage of turnover caused by compensation issues: 33%*
8	Approximate cost to replace an employee: 75% of the annual salary of the position*
9	Total cost of employee turnover caused by compensation issues in the organization: \$28.512MM (\$960MM x 12% turnover x 33% compensation factor x 75% of the salaries of the position)
* Hay assumptions (conservative)	

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Review of Compensation Plans – The State of Kansas’ Value Proposition – Classified Plan

1	Number of employees:
2	Average salary and benefits cost/employee:
3	Total payroll:
4	Assumed misalignment of classification and compensation that is likely to exist due to time lapse since plan was last reviewed:
5	Estimated misallocation of compensation:
In addition:	
6	Average rate of turnover for the organization:
7	Estimated percentage of turnover caused by compensation issues:
8	Approximate cost to replace an employee:
9	Total cost of employee turnover caused by compensation issues in the State:

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Review of Compensation Plans – The State of Kansas’ Value Proposition – Unclassified Plan

1	Number of employees:
2	Average salary and benefits cost/employee:
3	Total payroll:
4	Assumed misalignment of classification and compensation that is likely to exist due to time lapse since plan was last reviewed:
5	Estimated misallocation of compensation:
In addition:	
6	Average rate of turnover for the organization:
7	Estimated percentage of turnover caused by compensation issues:
8	Approximate cost to replace an employee:
9	Total cost of employee turnover caused by compensation issues in the State:

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Discussion Outcomes/Next Steps

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