

Benchmarking the City's Total Compensation Package

**Presented by:
Human Resources Department
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Council Priorities Drive the Need to Review “Total Compensation”

- Five Key Focus Areas
 - Public Safety, Economic Development, Quality of Life, **Staff Accountability** and the Trinity River Project
- Staff Accountability requires a Self-Assessment of Human Capital
- All human capital policies and practices should be designed, implemented, and assessed by the standard of how well they help the organization pursue its shared vision

Align Organization to Pursue Council's Shared Vision

- Integrate human capital strategies with the organization's core business practices.
- Recruit, hire, develop, and retain employees with skills to accomplish the mission.
- Compensate appropriately to attract, motivate, and retain.
- Review Workplace Environment—part-time work, flextime, safe workplaces, fitness center, parking facilities, child or elder care policies, subsidies for mass transit?

Align Organization to Pursue Council's Shared Vision

- Other Considerations:
 - Human Capital Analysis should be ongoing;
 - The organization should constantly measure the effectiveness of human capital policies and practices;
 - Measuring policies and practices related to Human Capital requires multiple levels of statistical data;
 - Employee input and subject matter expert input is essential to the design and implementation of human capital policies and practices.

Overview

- **What is “Total Compensation”?**
- **Why is Total Compensation Important?**
- **Key Indicators, Trends and News Articles.**
- **Benchmarking national trends of organizations with a competitive edge.**
- **Process to review City’s Total Compensation package.**
- **Issues involving Attendance Incentive Leave (AIL).**

What is “Total Compensation”?

- All elements of pay or reward given to an employee for work or services rendered;
- Total Compensation is composed of the following elements:
 - Wages, Paid Leave, Retirement, Health Care, Incentives and other Benefits.

City of Dallas'

Total Compensation Elements

Wages

- base salary
- overtime
- merit pay
- performance incentive pay
- special pay (EMS certification, HAZMAT, education incentive, graduation incentive, patrol)
- assignment pay (interim assignment, language, shift)

Paid Leave

- sick
- vacation
- holidays
- compensatory
- death in family
- court

Retirement

- defined benefit plan (pension plan)
- 401/457k deferred compensation (Voluntary)

Health Care

- medical
- dental (voluntary)
- vision (voluntary)
- prescription drug program
- comprehensive wellness program
- employee assistance program

Other Benefits

- life insurance
- voluntary (long term care insurance, short and long term disability, AD&D, additional life, legal)
- DART pass subsidy

Incentive/Retention

- alternate work schedules
- service incentive pay
- attendance incentive leave

Why is “Total Compensation” Important?

- A competitive Total Compensation Package prepares an organization to attract, recruit, motivate and retain qualified employees;
- An organization must consider local, state & national compensation issues and benchmark against other major employers.

News Headlines—Some Indicators identifying the Need to Benchmark Compensation Package (See Articles in Appendix 1)

County puts off longevity-pay talk

“Commissioners to wait until budget season to discuss ending benefit”
November 23, 2005 - By ED HOUSEWRIGHT / The Dallas Morning News

Job forecast brightest in years

“Economy's growth, shortage of skilled workers are sparking gains, hiring experts say”
January 1, 2006 - By SUSAN KREIMER / Special Contributor to News / The Dallas Morning reports

That's Outrageous!: Just Sick of It

“How you (City of Dallas) are rewarding government employees millions of dollars they didn't earn.”
December 2005 - By Michael Crowley / Readers Digest

“Police Departments, Their Ranks of Officers Thin, Offer Bonuses, Bounties and More.”

December 28, 2005. The New York Times.

“Taxpayers can't afford public sector benefits”

November 2, 2005. Pittsburgh Tribune-Review

“The Next Retirement Time Bomb”

December 22, 2005. The New York Times.

Compensation Trends on the National Front

- Work/life balance issues such as flexible schedules and telecommuting are valued by employees nearing retirement and young workers beginning their careers
- Traditional pay plans are most common for employers (base pay is determined by job performed, rather than competency-based pay)
- Health insurance is the most important benefit to the majority of employees (Employee Benefits Research Institute's 2004 study, Aon Consults 2004 *United States @Work*)
- The aging workforce drives interest in phased retirement, retiree healthcare issues, and concern over retiree financial security (corporate pension changes, reliability of Social Security)

*Source: Society for Human Resource Management (SHRM) Special Expertise Panels 2005 Trends Report

Benchmarking to Stay Competitive

- **Aon Consulting FORUM (5/2005, Loyalty Institute Article)**
 - What benefits do employees value in the US?
 - Medical insurance ranked first
 - Paid vacation time and holidays rank second
 - Retirement savings plans and employer-paid pension plans rank third and fourth
- **Mercer HR Consulting LLC survey shows many employers enhance total rewards packages (*Mercer HR, press release, 7/2005*)**
 - variable pay like signing bonuses, spot cash awards, and project milestone awards
 - non-monetary recognition awards continue to top the chart
- **BuckConsultants, an ACS company (9/2005, Health Care is Biggest Business Cost Concern...)**
 - Key findings of survey
 - 60% of respondents ranked health care as their first or second greatest business cost concern
 - Organizations reporting success in controlling health care costs tend to:
 - Employ health risk assessments
 - Wellness programs
 - Employee education
 - Systems that track employees' health-related behavior changes
 - Providing incentives to adopt healthy lifestyles

Benchmarking to Stay Competitive, cont'd

- **SAM's Club introduces affordable health insurance solution nationwide (*CNNMoney.com, 12/30/2005, BENTONVILLE, Ark. [PRNewswire]*)**
 - Joining with Extend Benefits Group LLC to provide individual health insurance plans
- **Baylor Health Care System (*Baylor Health Care System website 1/2006*)**
 - Baylor spends over 50% of its patient care revenues on employees' salaries and benefits?
- **The Costco Challenge: An Alternative to Wal-Martization?**
 - (*By Moira Herbst July 6, 2005Costco*)
 - (Costco) Chief Financial Officer Richard Galanti explained: "From day one, we've run the company with the philosophy that if we pay better than average, provide a salary people can live on, have a positive environment and good benefits, we'll be able to hire better people, they'll stay longer and be more efficient."

In Order to Address the Council's Key Focus Areas...

- A competitive Total Compensation package is key to attracting & retaining skilled employees.
- City plans to review the City's Total Compensation Package.
- Taskforce of private and public sector compensation experts plus representatives from the Employee/Retiree Benefit Committee.
- 60-120 day review of all aspects of the City's total compensation package to include benchmarking and measuring effectiveness toward recruiting and retaining an appropriate workforce.
- Staff support will be provided by Human Resources and the City Attorney's Office.

Total Compensation Taskforce

Scope of Work

- Evaluate the history of Total Compensation for the City of Dallas;
- Review all legal considerations regarding Total Compensation;
- Assess existing pay plans, benefits, incentives and cost to maintain the current structure;
- Study workforce statistics (aging workforce and pending retirements within the City);
- Identify Subject Matter Experts (SME's) to Benchmark Data that compares with the City of Dallas' Total Compensation;
- Assist in the development of a Total Compensation philosophy, and assess the current package's effectiveness in supporting that philosophy;
- The Task Force shall make recommendations to the City Manager within 120 days congruent with the "Price of Government" budget process.

Total Compensation Taskforce

Member Organizations

- AT&T
- Dean Foods
- TD Industries
- TXU Electric Delivery
- Texas Instruments
- Public sector representative
- Employee/Retiree Benefits Committee representative
- Other representatives from companies identified as Best Places to Work have been approached about participating

Previous Reviews

- In 2003 the City contracted with The Hay Group to evaluate the City's Total Compensation Plan.
- Review indicated that:
 - City of Dallas employer-paid benefits are at the 25% percentile
 - 75% of all surveyed employers offer better employer-paid benefits
- In 2004 Dallas Employees' Retirement Fund Study Committee was appointed to develop recommendations regarding the civilian pension fund.
- The Study Committee recommended that the City:
 - Maintain the current benefits offered by ERF
 - Maintain the cost-sharing ratio between City & employee
 - Increase City & employee contributions
 - Automatic future adjustments to contribution levels based on actuarial studies

Factors the Taskforce Must Review:

Legal Considerations Regarding Total Compensation

- Federal and State laws
 - Wages and special pay
 - Fair Labor Standards Act
 - Equal Pay Act
 - Age Discrimination in Employment Act
 - Texas Local Government Code
 - Protected medical leave
 - Texas Local Government Code
 - Family and Medical Leave Act
 - Unemployment
 - Federal Unemployment Tax ACT
 - Texas Compensation Unemployment Act
 - Workers' Compensation
 - Texas Workers' Compensation Act

Factors the Taskforce Must Review:

Legal Considerations Regarding Total Compensation

- Health care & other benefits
 - Texas Local Government Code
 - Health Insurance Portability and Accountability Act (HIPAA)
 - Consolidated Omnibus Budget Reconciliation Act (COBRA)
 - Revenue Act
 - Retirement Equity Act (Protects spousal beneficiaries.)
 - Tax Reform Act
 - Older Worker's Benefit Protection Act
 - Uniformed Services Employment and Reemployment Rights Act (USERRA)

Factors the Taskforce Must Review:

Legal Considerations Regarding Total Compensation

- City Charter
 - Chapter II, Section 1., (35) & (36)
 - Make provision for the care and sustenance of police, fire, and all officers and employees who:
 - Become disabled while in service of City [e.g. *disability pension*]
 - Become incapacitated due to age or infirmity [e.g. *retirement, health care, sick leave*]
 - Become incapacitated due to longevity of service alone [e.g. *retirement*]
 - Provide aid and relief of widows, minor children and dependents
 - Create funds for above purposes

Factors the Taskforce Must Review:

Legal Considerations Regarding Total Compensation

- City Charter (cont'd)
 - Chapter XVI, Section 14.— Adoption of Personnel System and establishment of rules and regulations, including
 - Description of employment positions
 - Methods of determining merit and fitness
 - Hours of work, attendance, provisions for sick leave and vacation leave
 - Equitable pay scales
- City Personnel Rules
 - Health and life benefits
 - Paid and unpaid leave

Factors the Taskforce must Review:

Workforce Statistics Regarding Total Compensation as of 12/01/05

Civilians 7,623
 Uniformed 4,626
 Total: 12,249

Gender

Female 30.7%
 Male 69.3%

Age Ranges

16-19	18	50-59	3045
20-29	1205	60-69	423
30-39	3050	70-79	27
40-49	4480	80 plus	1

Ethnicity

African-American	35.5%
Asian	1.6%
Hispanic	20.5%
Native American	.9%
Non-Minority	41.1%
Not Disclosed	.3%

Factors the Taskforce must Review:

Workforce Statistics Regarding Total Compensation as of 12/01/05

● <u>Employees Years of Service (Average)</u>	<u>13.3 years</u>
● Administrative Support/Officials/Clerical	11.5
● Officials and Administrators	16.2
● Paraprofessionals	11.3
● Professionals	11.3
● Protective Service Workers (Includes Uniformed)	15.8
● Service-Maintenance	8.8
● Service Skilled Workers	13.3
● Technicians	14.7

● Average Age	43.8 (age)
● Average Annual Salary	\$46,951
● Average Hourly Rate of Pay	\$21.87

Factors the Taskforce must Review: Workforce Statistics Regarding Total Compensation

Turnover as of 12/01/05:

- **Civilian**
 - Due to retirement 2.28%
 - Other reasons 10.79%
 - Total 13.08%
 - **Police**
 - Due to retirement 1.79%
 - Other reasons 2.98%
 - Total 4.78%
 - **Fire**
 - Due to retirement 2.26%
 - Other reasons 1.43%
 - Total 3.69%
 - **Total Citywide: 9.80%**
-

Retirement Eligible as of 10/01/05:

- **Civilian: 11%**
- **Uniformed: 44%**

In Preparing for Total Compensation Review, Issues with Attendance Incentive Leave (AIL) were identified....

- What is Attendance Incentive Leave (AIL)?
- An incentive program that awards additional vacation time to employees who do not use sick leave;
- Authorized by the Personnel Rules:
 - *“In addition to vacation leave earned under this section, an employee may earn vacation leave under incentive programs approved by the city manager and adopted by the city council. If total vacation leave entitlement exceeds the maximum limitation of Subsection (d) as a result of vacation earned under an incentive program, further vacation accrual will cease until vacation leave is taken sufficient to reduce the total accrual below the maximum allowed.*

How does AIL work?

- Program administration covered by Administrative Directive 3-39 (attached in Appendix 2);
- Eligibility: all permanent employees who have completed one year of employment;
- Employees who do not use sick leave during a quarter earn an additional vacation day.
 - When an employee has 4 consecutive quarters without sick leave, an additional 2 vacation days are awarded.
 - Upon award of the 2 extra days OR the use of sick leave, the year starts over and 4 consecutive quarters are required to earn the extra days.

AIL History

- Implemented 1/1/86 — 4 days per year
 - Initiated as a strategy to decrease employee sick leave usage
 - Original program allowed employees to earn partial days of incentive leave based on partial sick leave usage
 - Maximum award of 8 hours per quarter (4 days per year) for zero sick leave usage;
- Revised in 2001— Potential for 6 days per year
 - Changes by DPD lawsuit settlement
 - Eligibility extended to uniformed fire & civilians without appropriate Council authorization
 - Maximum award of 1 day per quarter plus 2 extra days (6 days per year)
 - No awards made for partial sick leave usage

Has AIL been effective in reducing Sick Leave utilization?

- AIL achieved original objective to reduce sick leave usage
- Previous City studies* indicate:
 - A 2004 ICMA Study revealed that the COD had the lowest sick leave usage per 1,000 hours worked***
 - Average usage among 37 jurisdictions surveyed is 30 days.
 - COD Average usage per year: 3.8 days of sick leave
 - 30% of all COD employees use zero sick leave
 - City's rate of unscheduled absence lower than national average**

* Calendar 2003 data from 10/5/04 briefing on sick leave
** Commerce Clearing House Unscheduled Absenteeism survey
*** ICMA Center for Performance Management (Human Resources Report)

Issues with Attendance Incentive Leave (AIL)

- No council authorization for existing program for civilian and fire uniformed employees
- No cap on accumulation of AIL award; all other forms of leave have caps
- Legal issues with application of AIL (executive session required)

Current AIL Program

- 8,004 employees (64%) earned AIL in July 04-June 05
- Average number of extra vacation days earned (July 04-June 05) due to AIL program:
 - Civilians: 3.15
 - Fire Uniformed: 3.64
 - Police Uniformed: 3.2
- 1,568 employees have “over the max” vacation days due to AIL earned
 - In 04-05, 3 employees who terminated were paid a total of \$21,704 in “over the max” vacation hours

Recommendations for AIL

- Amend Personnel Rules to gain official Council approval for program
- Establish a maximum accumulation for Attendance Incentive Leave
 - Vacation and sick leave have accumulation limit
- Track AIL separately from vacation leave
 - Allows monitoring of use and maximum accumulation
- Examine application of incentive relative to Family Medical Leave

Questions?

Appendices

Appendix 1

News Articles (from page 9)

Appendix 2

Administrative Directive 3-39

Appendix 3

City of Dallas

Strategic Analysis of City's Human Capital

Civilian Employees

eligible to retire as of October 1, 2005

Current Headcount 7,718

30+ years of svc	172
60+ years of age	328
Rule of 78	<u>359</u>
Total	859

11.12% eligible

There are an additional 1,222 civilian (15.8%) employees with 20-29 years of service eligible to retire with a reduced monthly pension (penalty).

Uniformed Employees

eligible to retire as of October 1, 2005

Current Headcount 4,598

Age 50 with 5 yrs	94
Age 45 with 5 yrs	241
20 years of svc	<u>1689</u>
Total	2,024

44% eligible

--Not used--

Impact of AIL Revisions

- Employees maintain current vacation balances
- Future AIL earnings will be tracked and capped separately
- Employees taking approved leave may choose whether to use vacation or attendance incentive leave
- City Auditor's Office has previously identified potential savings of \$807,408 by changing Attendance Incentive Leave program*

*Potential savings figures not verified by CMO