

How to Structure Employee Pay Raises to Maximize the State's Personnel Goals

State employee pay lags behind other public and private employers by 17 percent on average. State employees have been granted only three across-the-board salary increases in the past 12 years. Consequently, employee turnover has soared, averaging over 16 percent over the past five years and costing an estimated \$345 million in FY 2004 alone. Employees are also bearing a much greater share of health care costs, with the average state employee paying \$900 more annually in out-of-pocket health care costs.

Legislative leaders have a number of choices to make in determining how to structure employee pay raises and other compensation increases. TPEA believes that a properly structured package of compensation changes will maximize the state's goals of building and maintaining a stable and well-trained workforce that will efficiently deliver quality public services.

Goals--The State's overall compensation package should be structured to attain these goals:

- **Stability and Longevity**—experienced workers are more productive, and the state avoids the high cost of excessive turnover by incenting employee stability and longevity.
- **High Performance**—experienced employees are more knowledgeable and productive but state agencies generally lack the tools and the financial resources to compete to adequately reward high-performing employees.
- **Fair Compensation that Boosts Employee Morale**—compensation increases should be awarded equitably and build employee morale and productivity.

Structural Features—In fashioning a compensation package the Legislature should attempt to include the following features:

- **Annual Compensation Increases**—This is the norm among public and private employers because it builds morale. For state employees, annual increases in pay will reduce turnover, promote longevity and delay retirements.
- **Added Flexibility and Financial Resources to Reward High Performers**—Agencies should have both the flexibility and sufficient funds to attract and retain high performers or to match market requirements for key personnel.
- **Equitable Compensation**—A mixture of percentage salary increases with minimum dollar increases is fair for all employees, both lower paid and more highly paid. Merit increases and other discretionary compensation increases should be distributed throughout all levels of agency staff and should be based on a fair and uniform assessment of employee performance.

TPEA's Plan Will Maximize State's Personnel Goals—By promoting stability, rewarding high performance and assuring compensation changes are equitable, TPEA's plan below will reduce the cost of employee turnover and boost employee morale and productivity:

- In each year of the 2006-2007 biennium grant **4.5 percent cost of living salary increases** with an appropriate monthly dollar minimum increase for all classified state employees.
- **Increase state longevity pay** to \$25 a month for every 2 years of state service **and hazardous duty pay** to \$12.50 a month for each year of state service.
- Appropriate each state agency **additional funds** as a percentage of total payroll costs each year for use in providing **merit awards** and other discretionary compensation increases.

Total Cost of TPEA Proposal \$626.4 million in GR/GD for the 2006-2007 biennium.