Comprehensive Pay Plan Update
Mercer Human Resource Consulting Report Recommendations
July, 2007

Background

At the direction of the Governor and the 104th General Assembly, the Department of Human Resources (DOHR) is developing a comprehensive pay plan as part of a group of initiatives designed to improve the State's ability to attract, retain and motivate staff. The plan is designed to move beyond the joint study of salary compression conducted by the DOHR and Tennessee State Employees Association (TSEA) in fiscal year 2005-06. While the compression study focused on realigning employee pay within the salary range based on seniority, the comprehensive pay plan is intended to address a wider range of classification and compensation issues.

The fiscal year 2006-07 appropriations bill provided for the development of a comprehensive pay plan which recognizes factors such as experience, training, performance, internal equity between job classifications and job market competitiveness, as well as providing for progression through the salary ranges to avoid compression. In December 2006, the Department developed a strategy for producing the plan.

Phase 1 of the strategy involved contracting with Mercer Human Resource Consulting to analyze the State's Executive Branch pay plan and review the competitiveness of the State's total cash compensation (base pay plus longevity) and total remuneration (base pay, other cash compensation and benefits) in relation to other Tennessee employers. As part of the project, Mercer conducted an employee opinion survey and focus group sessions with key stakeholders to assess employee and management perspectives regarding the current compensation package, pay practices and structure.

The study is a result of Mercer's research. It gives the governor, the legislature and department leadership basic information on salary structure and related issues. Using this information, the state will analyze state employee compensation against the information provided and consider options for future compensation program improvements.

Mercer Observations and Recommendations

Data in the report is based on a sample of 120 job classifications representing 41% of the workforce. Job market is defined as the median salary for classifications surveyed. (For purposes of this study, "median" is defined as the rate at which 50% of the companies surveyed pay more and 50% pay less.)

Average state employee base salary overall is at 92% of the market median. However, individual jobs vary widely in competiveness with higher level jobs paid significantly less competitively.

When the longevity bonus is added to base salary, state employee pay for the jobs sampled is at 94% of the job market with director level jobs and above paid even less competitively due to the prevailing practice of bonus/incentive pay in the private sector.

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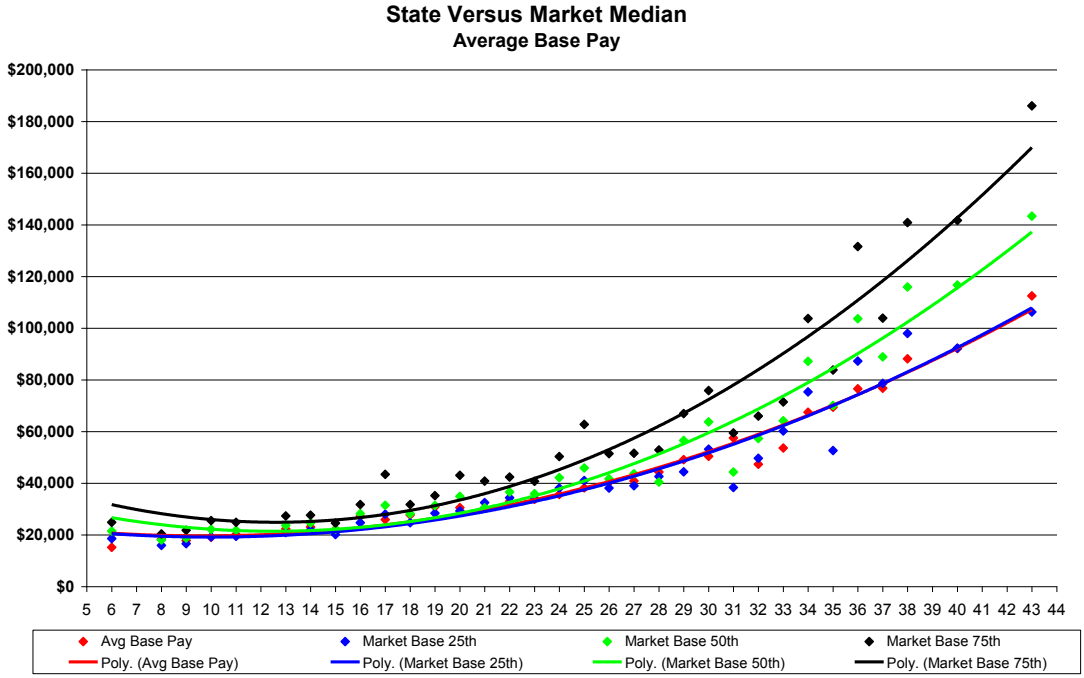
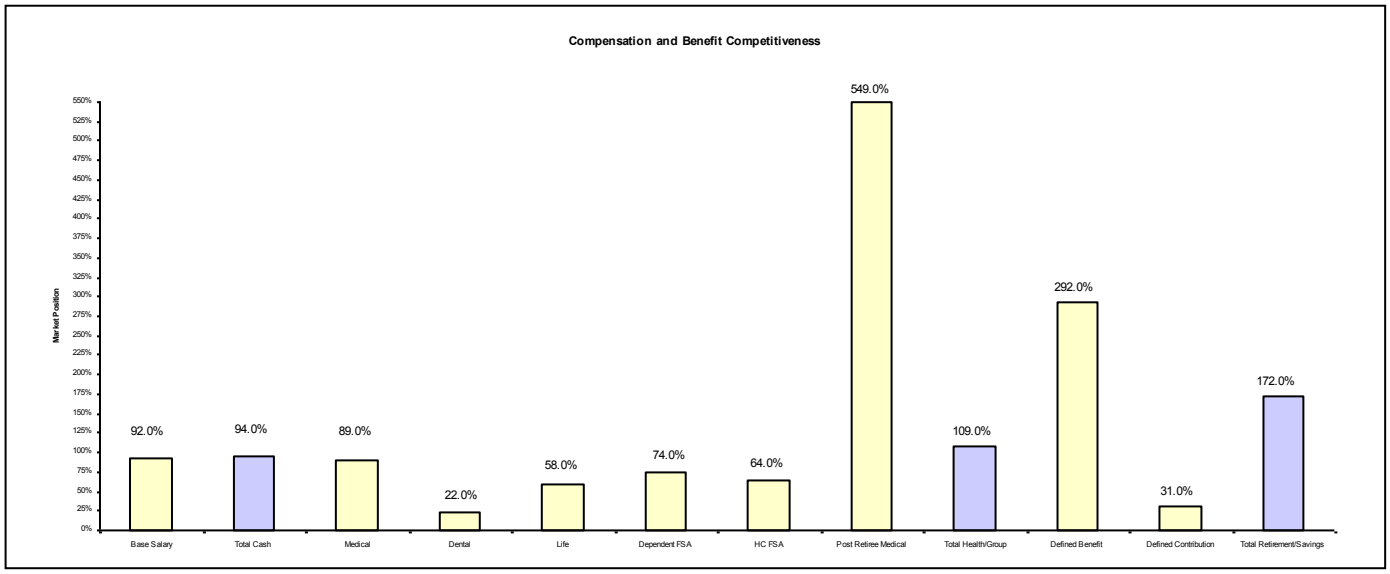
Salary range midpoints for the lower/middle part of the salary range structure (below grade 25), when compared to the job market median, are competitive on average while jobs classified in the upper part of the structure are progressively less competitive.

The following graph demonstrates how the state's total compensation package compares to the job market.



The state's total benefits package is fully competitive with comparable employers in the private sector.

- Retirement/Savings exceeds the median by 72%
- Health/Group Insurance exceeds median by 9%



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Adopt a pay structure that more closely resembles pay structures in the private sector with fewer salary grades, 6-10% between salary grade midpoints, and range widths increasing from 50% to 60%. Salary range midpoints should be at 100% of market median.

Include steps in the structure that would take employees to the midpoint of their salary grade in 10 years, with opportunities to earn additional steps by attaining licenses, certifications and/or credentials beyond the scope of minimum job requirements.

Job titles should be reviewed and consolidated.

Cautiously consider adopting traditional private sector forms of pay for performance.

Mercer also addressed executive pay in conjunction with the primary report. This data is being used to provide guidance in determining a more appropriate executive level pay structure. With the top end of the pay structure compressing salaries of other employees, executive pay must be addressed to properly align lower level director and manager salaries.

Opinion Survey Observations

Over 12,600 employees responded to Mercer's opinion survey, of which over 11,000 were employees working in the Executive Branch of state government.

The most favorable item in the entire survey was employees' willingness to go "above and beyond" to help the State succeed. Compared to the norm (defined by Mercer as the average of past survey responses to the same question by employees in other companies), state employees' responses to the survey question were 88% favorable, as compared to 75% of employees in other companies.

The second most favorable item in the survey was about employees' sense of pride in working for the State, with 78% of state employees responding favorably to this question in contrast to 71% of employees in other companies.

Base pay, health benefits and the pension plan are the pay elements employees value most.

Across-the-board increases for all employees tied to individual performance and increases tied to market competitiveness were cited as the most important types of pay alternatives.

Other opinions on questions regarding benefits, compensation, career and training opportunities and work-life balance were mixed and are included in the report details.

In Conclusion

While this report provides important information, it is not an action plan for the Department of Human Resources or state government. The DOHR, the Governor and the Legislature will use this information to further analyze and define the state's

compensation issues. It is important to understand that implementation of any Mercer report recommendations will only occur after considerable evaluation of overall cost, assessment of compensation priorities within the entire state system, planning and discussion. While the data supports that several job classifications are below the job market, plans to address employee pay will likely require a phased, multi-year approach to funding and implementation.

Click on the following link to view the entire report from Mercer Human Resource Consulting.

http://state.tn.us/dohr/Salary Policy/Mercer Review.pdf