

**GOVERNOR'S
MANAGEMENT
REVIEW
COMMISSION**

**COMPARATIVE STUDY
OF
TOTAL COMPENSATION**

January 9, 1992

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GOVERNOR'S MANAGEMENT REVIEW COMMISSION

COMPARATIVE STUDY

OF

TOTAL COMPENSATION

This study combines the findings of the Operational Reviews of the "...State Compensation System" with those of "...Fringe Benefits". The purpose of this study is to develop an understanding of the total compensation of employees in the State of New Jersey. Our approach was to examine a sampling of Job Classifications that were identified to us as representative of the diverse population of approximately 71,000 active employees currently employed by the State. Our goal was to review specific positions through which we could give an understandable and realistic picture of the "typical" State employee.

The scope and structure of this review is designed to compare and contrast the major components of total compensation (direct and indirect) for active employees of the State of New Jersey with their peers in both the public and private sectors. We created our typical employees for each job class from what we learned in our previous efforts. In addition, a further analysis of participation trends and associated specific costs to the State for the spectrum of benefits available to State employees was undertaken. Through this process we developed an anecdotal approach to quantifying the total compensation system in New Jersey, i.e., the value of the direct and indirect compensation a State employee receives.

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The job classifications we chose to typify represent two thirds of the 71,000 State employees and are as follows:

<u>Classification</u>	<u># Employees</u>	<u>% Employees</u>
Clerical	10,379	14.6%
Professional	12,428	17.5%
Supervisory	14,108	19.9%
Mid Manager	4,641	6.6%
State Trooper	2,539	3.6%
Service Aide	3,336	4.7%

CASH (DIRECT) COMPENSATION

Overall, New Jersey pay levels for State employees is lagging the private sector by average of slightly less than 5% (4.7%). This determination was made using generally available published surveys and a sample size of 147 jobs covering 12,000 State employees. In gross terms, this position relative to the private sector is neither undesirable nor incompatible with an overall public employer compensation strategy. However, once one looks below the surface and examines the next level of detail, a number of incongruities become apparent.

The primary incongruity encountered is the range of State employee salaries around the average. The Compensation System Review quantified the range from +34.8% to -38.8%. In addition, the distribution of the salaries is not in a traditional bell curve across all (or most) job categories. Instead, the disparities occur in a job-by-job comparison with the private sector that result in some positions being grossly overpaid or underpaid relative to the competitive marketplace.

At this point, it is worth mentioning three of the most common types of positions that appear to be out of sync with the marketplace as well as contributing to the larger problem of the degree salaries range around the average.

- Clerical - pay lags the market by 5.6% but the deviation around the average ranges from +33.1% (overpaid) to -28.8% (underpaid).
- Technical - although survey data was limited, the anecdotal evidence indicates the State is paying over 12% above market rates.
- Professional - market lag is 5.5% but the dispersion around the average ranges from +23.1% to -30.0%.

While the above issues are important and need to be resolved as part of a long term, coordinated and coherent compensation strategy, it is not the objective of this document to propose solutions.

Instead, the focus is on benchmarking. Expressed in a somewhat different fashion, we are looking at what is, not what can be. To this end, there were a number of compensation surveys reviewed, the results of which were included in the Compensation System Review. They are summarized below:

HOSPITAL COMPENSATION SURVEY

Managers and professionals in New Jersey were measured against a national sample of proprietary and non-profit institutions. The results showed New Jersey at an average of almost 5% below market.

MERCER SURVEY

New Jersey upper middle manager and professional salaries were very unfavorable measured against the private sector. Attorney compensation is especially non-competitive.

NORTH JERSEY SURVEY

State pay lags the sample in 13 of 15 professional comparisons by a weighted factor of slightly over 6%.

PORT AUTHORITY SURVEY

A comparison of the premium payers in the area, e.g., pharmaceuticals, utilities, media, major money center banks, etc. New Jersey clerical pay lags in 20 of 24 comparisons.

BUREAU OF LABOR STATISTICS SURVEY

New Jersey pay is competitive against central and southern private sector employers for clerical positions but lags northern by 13%.

AMERICAN MANAGEMENT SOCIETY SURVEY

This survey focuses on Trenton and Newark exclusively. Technical and clerical are significantly favorable in both areas. Professional comparisons are significantly unfavorable in both areas.

NON-CASH (INDIRECT) COMPENSATION

This category includes life, health and retirement benefits, paid holidays and vacations. While most of these indirect compensation categories readily lend themselves to being expressed as an average cost, we developed estimated pension costs both as a function of the age/sex/length of service characteristics of the specific employee examples we've used as well as developing an average cost for all employees. While the former approach may have legitimate use in other contexts, we felt that it was best to use a consistent, i.e., average, cost approach when developing our comparative cost tables. As such, the pension costs are also shown as an average instead of the "true" cost per individual that one would incur when purchasing an identical benefit in the private market.

While we have identified and included gross data relating to pension costs, paid holidays and vacations, our primary focus in this section will be on the costs associated with the SHBP health care coverage.

A survey by the Martin E. Segal Company of all State health benefit plans in 1990 showed all have experienced a sharp cost increase over the past three years. Measured relative to the medical component of the CPI, the Segal survey shows actual plan cost increases at the approximate rate of twice the increase in the CPI.

<u>Year Ended</u> <u>January</u>	<u>CPI Medical</u> <u>Care Component</u>	<u>Average Cost</u> <u>All State Plans</u>	<u>Average Cost</u> <u>SHBP</u>
1990	8.4%	15.7%	15.8%
1989	7.0%	20.6%	16.6%
1988	6.2%	13.2%	14.1%

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A common basis of comparison of health plan costs is to measure on a per capita basis, i.e., the total cost divided by the number of active employees. The current New Jersey enrollment results of 30% of the employees having single coverage and 70% with family coverage are very similar to enrollment results nationally. This comparability allows for per capita comparisons to be made both with other State governments as employers as well as with private employers in various industries.

Note that in the following table, health care costs are adjusted to a "100% basis". The reason for this is that certain other specific public sector employers require employee contributions to the health plan. The SHBP essentially provides a fully paid benefit. Thus, the adjustment allows for a common basis of comparison. The costs in the following table are from both the Segal Survey (noted above) and the Foster Higgins Health Care Benefits Survey - 1990.

<u>Category</u>	<u>Annual Cost to Employer</u>	<u>Cost Adjusted to 100% Basis</u>	<u>New Jersey Cost</u>	<u>100% Cost vs. New Jersey Cost</u>
Public Sector				
New York (1)	\$3,026	\$3,648	\$2,978	122.5%
Pennsylvania (2)	2,767	2,767	2,978	92.9%
Maryland (3)	2,456	3,697	2,978	124.1%
All Public Sector (4)		3,239	2,978	108.8%
Private Sector				
Consumer Products (4)		3,250	2,978	109.1%
Wholesale/Retail (4)		2,494	2,978	83.7%
Utilities (4)		4,363	2,978	146.5%
Insurance (4)		3,180	2,978	106.8%

(1) State assumes 90% of employee cost, 82% of dependent cost

(2) State assumes 100% of all cost

(3) State assumes 66% of all cost

(4) Unknown

From a "snapshot" perspective, New Jersey's costs compared favorably with both the public and private sector. However, as the "Operational Review of Fringe Benefits" pointed out, the SHBP plan design and cost sharing realities are such that future increases will be significant and consistent. Two compelling examples of this forecast are (i) the actual increase in the SHBP plan costs in 1991 of almost 27% (aggregate) and (ii) a very early projection of the 1992 increase points to a magnitude in the high teens. If the 1992 cost projection holds true, the net result will be that the SHBP costs will have increased by approximately 50% between 1990 and 1992 making New Jersey's SHBP one of the most expensive public sector programs. Compared to average cost increases for similarly sized employers, the SHBP two year increases are significantly higher. As was highlighted in the original Fringe Benefit Study, this degree of cost escalation can be expected in the future unless fundamental changes are implemented in both design and funding. These types of changes would include requiring employees to contribute toward their coverage and to change some basic plan design features that currently encourage over utilization. Examples of the latter would be to implement a mandatory precertification of mental health benefits.

When viewed by size of workforce, the largest employers generated the highest per capita costs (\$3,999). One reason for an almost 1:1 correlation between size of employer and per capita cost is that larger employers tend to offer richer benefit plan, e.g., including Rx drug coverage and dental.

Health benefit costs as a percentage of payroll for all employers averaged 10.8% nationally. Public sectors costs nationwide were higher than average (13.3%). Contributing to the differential is a generally lower cash compensation base (denominator) in the public

sector. The average of all public and private sector employers in the Mid-Atlantic region generate a benefit cost of 11.2% of payroll. When benefit costs as a percentage of payroll are measured against the size of the workforce, the largest employers (40,000+ employees) generate the smallest cost (9.0%).

Our final review was done from the perspective of benchmarking public sector employer costs with those businesses most likely to be competing with the State for employees. While we were unable to identify a survey that incorporated this approach from a New Jersey specific perspective, we believe that national and regional survey results can be extrapolated and reasonably applied to the New Jersey specific situation. We have chosen a comparison group to include consumer products, utilities, health services and financial services.

	<u>Average Annual Cost Per Employee</u>	<u>Health Program Cost as Percent of Payroll</u>
National Average	\$3,217	10.8%
Public Sector	\$3,239	13.3%
Consumer Products	\$3,250	16.4%
Utilities	\$4,363	12.0%
Health Services	\$2,665	9.7%
Financial Services	\$2,850	10.3%
New Jersey SHBP	\$2,978	9.2%
Mid-Atlantic Region	\$3,553	11.2%

We looked at data related to comparative pension costs and associated employer contributions and found that there were too many variables impacting both specific employer and industry sector results to produce a meaningful comparison. An employer's contribution in any one year may be affected by many factors, e.g., contributions to fully funded plans are not tax deductible and are subject to a 10% excise tax so affected employers would not make contributions in a given year. Generally speaking, we found that

almost half (49%) of all employers surveyed by The Wyatt Company in their 1990 Survey of Retirement and Capital Accumulation Plans made no contribution in the last plan year. Fifteen percent contributed between .01-2.99% of payroll and another 15% contributed between 3.00-4.99% of payroll. Ten percent contributed between 5.00-6.99% of payroll and eleven percent funded their plans at a level of 7.00% or more. We believe that the significant number of employers who made little or no contribution last year represent employers who realized significantly better investment results in the mid and late 80's than their actuarial assumptions contained. Contrast this with the costs to New Jersey last year and the recommendations made in the Fringe Benefit Review to consider more current portfolio management techniques and to involve outside investment expertise.

Paid leave (holidays and vacations) for State employees is on the liberal end of the spectrum of data we reviewed. A Bureau of Labor Statistics survey found that the average of all office workers in all metropolitan areas received a total of 20.6 paid leave days annually. (In this case, office workers is used to differentiate from skilled maintenance and unskilled plant workers. For our purposes, we equate this category to State employees.) The average varied by section of the country with the highest total in the northeast (21.7) and the lowest in the south (19.4). Interestingly enough, the survey found the highest paid leave days anywhere in the country to be in Trenton. The general observations were that leave levels are influenced by the same forces that influence pay, namely areas with concentrations of larger employers and areas with greater degrees of unionization.

CONCLUSIONS

There are no surprises in this data. We have been able to identify and review independent data that reaffirms what the individual compensation and fringe benefit task force efforts found relative to public sector employees.

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- Public sector employees on average are compensated less than their private sector counterparts
- Indirect compensation costs are typically higher than average
- The combination of direct and indirect compensation elements of public sector employees compares favorably with private sector counterparts for classifications other than professional or management.

The objective of this report was to combine the distinct elements of compensation addressed in the two original Studies done for the Governor's Management Review Commission. While further recommendations were not contemplated, we do believe that the perspective this report provides underscores what has been recommended in the previous two efforts. Specifically, a more rational and competitive total compensation strategy is needed by New Jersey. The new strategy must incorporate the means to control total expenditures going forward while retaining the flexibility to spend dollars where they have the most efficient investment payback. Expressed in other terms, be less beneficent with indirect compensation where the long term costs are less under direct control and recipients tend to be unaware (if not unappreciative) of the true costs of such benefits. Use the budget to hire and retain (and reward) State employees on a basis comparable with the private sector as appropriate.

**NEW JERSEY STATE
EMPLOYEES
DIRECT AND INDIRECT
COMPENSATION - 1991**

<u>JOB DESCRIPTION</u>	<u>SYSTEM</u>	<u>SALARY RANGE</u>	<u>CASH COMPENSATION</u>	<u>LIFE & HEALTH EXCL. DISABILITY (a)</u>	<u>RETIREMENT (b)</u>	<u>PAID TIME OFF (c)</u>	<u>HOLIDAYS AND VACATIONS (d)</u>	<u>TAXES (e)</u>	<u>TOTAL INCL. BENEFITS</u>	<u>TOTAL INDIRECT COMP.</u>	<u>PERCENTAGE OF DIRECT TO INDIRECT</u>
ENTRY LEVEL CLERK-STENO	PERS	13,544-18,971	17,152	5,191	686	443	1,461	1,427	24,456	7,304	42.6
ATT'Y GEN'L, GRADE 4	JRS	41,664-58,329	52,747	5,531	2,110	1,362	4,492	4,389	64,776	12,029	22.8
SUPERVISOR, BLDG SVCS	PERS	29,607-41,464	37,485	5,347	1,499	988	3,192	3,119	47,450	9,965	26.6
SUPERVISOR, DATA I/P	PERS	32,641-45,708	39,174	5,360	1,567	1,012	3,336	3,259	49,360	10,186	26.0
STATE TROOPER	SPRS	29,886-43,503	37,848	5,348	9,935	977	3,223	3,054	56,185	18,337	48.5
NURSES AIDE (GENERIC)	PERS	18,237-25,515	22,617	5,233	1,583	584	1,926	1,882	31,315	8,698	38.5

(a) See Exhibit II for detail of calculation.

(b) Average 4% salary load except for State Trooper (26.25%).

(c) Equates to sick days. Average used per year = 9.4 days

(d) Assumes average of 13 paid holidays and 18 vacation and ALS days.

(e) Represents FICA of 7.65% and WC of .42% for SPRS and .67% for all others.

Life, Retirement, Medical and Dental Benefit Summary

[illegible]

