



CHARLOTTE.

FY2016

PAY & BENEFITS RECOMMENDATION



EXECUTIVE SUMMARY

Background

The Human Resources Philosophy adopted by the City Council is the guiding force for the development and administration of human resources programs. The Philosophy is included as **Attachment A** of this report. Of utmost importance, as provided in the Philosophy, is that the City of Charlotte “attract and retain qualified, productive and motivated employees who will provide efficient and effective services to the citizens.”

With regard to the development of pay and benefits recommendations, staff is guided by the provisions of the Philosophy which state:

- Pay will be based on performance while considering market conditions.
- Base pay is the primary type of pay used to maintain market competitiveness. City Council-approved policy is that market competitiveness for a specific job is based on the median of actual salaries paid in the applicable recruitment area for jobs of a similar nature.
- Incentive pay will be the primary pay method used to communicate the changing goals of the City and to encourage teamwork.
- Employees will also be rewarded for attaining skills which make them more flexible and useful in helping Departments meet their goals.
- Benefits plans will provide a moderate level of income protection against unexpected health, life and disability risks.
- Health care costs will be aggressively managed and employees will be expected to share fairly in the costs of their benefits.
- Wellness programs will be actively supported.

Survey of Market Conditions and Market Competitiveness

Market competitiveness is determined through ongoing surveys of the pay and benefits practices of other employers. Human Resources staff recently completed a review of local, regional and national pay increase trends, as well as a review of employer benefits practices. Competitive practice information was gathered directly by the Human Resources staff and evaluated along with survey information compiled from several consulting firms representing a large number of employers.

Survey Findings

- Mercer Consulting's *2014/2015 U.S. Compensation Planning Survey* reports that salary increases for 2015 are expected to rise to 3.0% with 99% of organizations planning to provide increases.
- According to the *Mercer National Survey of Employer Sponsored Health Plans* released in 2014, workforce health management or “wellness” is one of employers’ top strategies for controlling health spending long term – and for avoiding or minimizing the impact of the excise tax on high-cost plans that goes into effect in 2018. Key findings from this survey indicate that employers remain committed to offering employer-sponsored coverage to their employees.

Conclusions and Recommendations

- **Compensation**

- In the Public Safety Pay Plan, the following is recommended:
 - Merit steps of 2.5% to 5% be funded.
 - Market adjustment to the pay steps funded at .75% effective July 4, 2015.
- In the Broadbanding Pay Plan, it is recommended that there be funding for a 1.5% merit increase budget.
- Anticipate proposing new pay plan for Field Services and Non-Exempt jobs in FY2016 for implementation in FY2017.

- **Employees Currently Earning Below 60% of Area Median Income**

- An evaluation of all current full-time City employees earning levels was conducted to determine where the City stands with regard to Living Wage and Area Median Income comparisons. The evaluation showed that there are no City employees currently earning less than the annual Living Wage amount of \$20,842. The Area Median Income is \$45,000. The evaluation showed that the City has no employees earning less than 50% of the Area Median Income while there are 88 City employees currently earning less than 60% of the Area Median Income, or less than \$27,000 annually. The recommended budget includes funds to bring these 88 employees up to 60% of Area Median Income at a total cost of \$138,483. Nine of the 88 employees are located in Enterprise Funds and the remaining 79 are in the General Fund. The City has 931 employees who earn less than 80% of the Area Median Income of \$35,950.

- **Benefits**

- It is recommended that the City's overall funding for group insurance coverages be increased by 4%.

FY 2016 PAY RECOMMENDATIONS

Public Safety Pay Plan

The City's Public Safety Pay Plan covers all Police classes below the rank of Police Lieutenant and all Fire classes below the rank of Battalion Fire Chief. There are two components to the Public Safety Pay Plan. The first is progression through the steps and the second is market adjustments to the steps. In FY 2016 it is anticipated that approximately 40.4% of Police employees and 49.3% of Fire employees in the Public Safety Pay Plan will reach top step. The following recommendations are made:

- Funding for steps in the Public Safety Pay Plan at a range of 2.5% to 5.0%, so that those employees who have not yet reached the maximum step of their pay range will receive a step increase on their merit date.
- A .75% market adjustment to the Public Safety Pay Plan. Public Safety employees will receive this increase effective July 4, 2015.

Broadbanding Pay Plan

The City's Broadbanding Pay Plan covers all City employees with the exception of non-managerial Sworn Police and Uniformed Fire employees. There is no general pay (market) adjustment for employees in this pay plan as there is for employees in the Public Safety Pay Plan. Merit increases are based on the employee's performance and the employee's pay rate in relation to market.

In keeping with policy approved by the City Council, the City benchmarks its competitiveness for a specific job based on the median of actual salaries paid in the applicable recruitment area for jobs of a similar nature. The median, or 50th percentile, is the middle salary in a list of salaries arranged from high to low. This benchmark, median salary, is for people at the midpoint or sometimes called the "journey" level. Starting salary is typically less than the midpoint. Therefore, in Charlotte, we typically start new workers, depending on their experience, at 85% of market pay. Therefore, the City's policy of maintaining market competitiveness results in 50% of comparable employers paying more and 50% of comparable employers paying less than the City. The following recommendations are made:

- Funding for a 1.5% merit pool for all departments. Department Directors will be held accountable for staying within budgeted funds. Pay decisions will be based on an employee's level of performance and a comparison of current salary to the market's 50th percentile for their specific job. Increases may be awarded as base pay or lump sum on the employee's merit date. Department Directors are required to make intentional efforts to allocate merit increases proportionately across all job levels, and between exempt and non-exempt staff.
- Increasing the band minimum and maximum rates in the Broadbanding Pay Plan structure by 1.5%, as reflected in **Attachment D**. The only impact of this recommendation will be to change the minimum and maximum rates in the City's six bands. Because no employee salary falls below the minimum of Band A, no employee will receive an increase as a result of this recommendation. The FY2016 minimum salary for Band A is approximately 16% above the area Living Wage of \$20,842.

FY 2016 BENEFITS RECOMMENDATIONS

Funding for Insurance Coverages

The following group insurance coverages are provided and consistent with the Human Resources Philosophy adopted by the City Council: medical, including prescription drug; medical stop-loss; life; dental; and disability coverage.

It is recommended that the City's funding for group insurance coverages be increased by 4% for FY 2016.

Health Coverage

The City's medical insurance program is self-insured for active employees and non-Medicare retirees. Stop-loss insurance is purchased by the City to cover catastrophic claims that exceed \$425,000 per individual in a fiscal year. Third-party claims administrators are retained to provide medical management services and pay medical and prescription drug claims. When budgeting for future costs, the two cost components for the medical insurance plan are the claims projected to incur and the administrative fees to be paid to the claims administrators. BlueCross BlueShield NC is the medical claims administrator and CVS Caremark is the prescription drug plan administrator. The City has a fully-insured medical and prescription drug plan administered by AmWINS for Medicare-eligible retirees.

The following recommendations are being made:

- **Medical Plans**

- Currently the medical benefit plan is administered by Blue Cross Blue Shield of North Carolina (BCBSNC). It is recommended that the City Manager or his designee be authorized to either renegotiate or rebid the current contract during FY 2016. If the contract is rebid, it is recommended that the City Manager or his designee be authorized to select a vendor and execute the contract and future contract amendments with the selected vendor upon completion of the bid process.
- In an effort to continue to control rising health care costs, it is anticipated the City will evaluate the feasibility of implementing a Consumer Driven Health Plan (also referred to as a CDHP or High-deductible health plan) with either a Health Reimbursement Arrangement (HRA) or a Health Care Savings Account (HSA) in FY 2016. In order to successfully implement this option, an approximate 12-18 month lead time is required for set-up and communications. If the plan is warranted, provide the City Manager or his designee the authority to proceed with implementation of a Consumer Driven Health Plan upon completion of the evaluation process.

- **Medical Premiums**

- Effective January 1, 2016, keep rates flat in the Basic PPO Wellness Plan and increase employee contributions for medical coverage in the PPO Plus Wellness Plan by 4%.
- Effective July 4, 2015, restrict enrollment in to the PPO Plus Plan to only those employees and pre-65 retirees currently enrolled in the health insurance plan. New hires will only be permitted to enroll in the PPO Basic Plan and any future plan additions.

- In an effort to continue to address rising health care costs and improve employee health and productivity, the City is currently in the final stages of recommending implementation of near-site employee health clinics through a third party vendor with a target implementation date of January 1, 2016. The first year costs for implementation of the health clinics will be approximately \$1,659,000. This cost will initially be funded by the anticipated FY 2015 projected claims surplus in excess of \$2,400,000. Additional information will come back to the City Council before a commitment is made.
- Upon completion of the employee health clinics recommendation process and pending the outcome of approval, provide the City Manager the authority to establish the medical premium structure and wellness incentive amounts within the overall health insurance budget.
- **Dental Plan/Premiums**
 - The City currently contributes \$28 per month to both dental plan options. Continue to fund the dental plans at the currently level of \$28 month.
 - Currently the dental plan is administered by Ameritas. The current contract will expire December 31, 2015. Upon receipt of renewal information, it may be necessary to rebid the dental plan.
 - Provide the City Manager the authority to renegotiate the current contract or if the contract is rebid, it is recommended that the City Manager or his designee be authorized to select a vendor and execute the contract and future contract amendments with the selected vendor upon completion of the bid process.
 - Provide the City Manager the authority to establish the dental premium structure within the overall health insurance budget.
- **Non-Medicare Retiree Premiums**
 - Effective January 1, 2016, increase non-Medicare retiree premiums consistent with the overall health insurance budget increases. Provide the City Manager or his designee the authority to establish the premium structure for non-Medicare retirees within the overall health insurance budget.
- **Medicare-Eligible Retiree Premiums**
 - As part of the FY 2010 budget process, City Council provided the City Manager or his designee the authority to approve changes including plan options, vendors, and future contracts/contract amendments to the fully-insured medical and prescription drug plans for Medicare-eligible retirees.
 - Since these plans are fully insured, it is recommended that the City Manager or his designee be authorized to approve rate increases and vendor changes as necessary to appropriately fund these plans upon receipt of renewal rates from the Administrator of the Medicare-eligible retiree coverage.

- **Charlotte Firefighters' Retirement System's Disability Regulations**

- Approve amendments to the definitions of the Charlotte Firefighters' Retirement System ("CFRS") to be effective July 1, 2015. Specifically, Section 2.A.(2) deletes a reference to a non-existing safety board and Section 2.A.(3) modifies the language to include individuals who are injured during active military service or those responding to acts of war as being classified as having a disability.
- The CFRS Act requires CFRS and City Council to adopt the amendments to make them effective. CFRS adopted the amendment on January 23, 2015.

- **Other benefits**

- The City is currently evaluating provisions in the School Support Leave Policy related to an increase in the number of matching hours granted for employee involvement in school activities and tutoring. Following the completion of the evaluation, provide the City Manager or his designee the authority to increase the number of matching hours of School Support Leave from the current maximum of eight to a maximum of twenty-four. This change will incent employees to become more actively involved in educational activities such as volunteering, tutoring and coaching.
- The City is currently evaluating provisions in the Vacation Leave Policy related to carryover of unused vacation at the end of the calendar year. Currently, any accrued vacation leave balance over twice an employee's annual accrual is forfeited at the end of each calendar year, during the pay period containing December 31st. Upon completion of the evaluation process, provide the City Manager or his designee the authority to change the current Vacation Leave Policy to allow for the rollover of forfeited vacation leave in to the employee's sick leave balance. This change will offer an additional level of protection of income protection for employees who suffer significant or catastrophic health conditions of their own or of their dependent(s).
- One or both of these changes may be implemented only following a thorough analysis of the operational as well as budgetary impacts.

Attachments

Attachment A – **Human Resources Philosophy**

Attachment B – **Market Movement Summary**

Summary of actual market movement for 2012-2015, 2016 projected market movement, and the five-year market movement average.

Attachment C – **Recommended FY2016 Public Safety Pay Plan Structure**

New minimum, maximum and step rates in the Public Safety Pay Plan based on the .75% structural market adjustment recommended for FY2016.

Attachment D – **Recommended FY2016 Broadbanding Pay Plan Structure**

New minimum and maximum rates in the Broadbanding Pay Plan based on the 1.5% structural adjustment recommended for FY2016.

City of Charlotte

Human Resources Philosophy

The City of Charlotte will attract and retain qualified, productive and motivated employees who will provide efficient and effective services to the citizens. Human resource programs will provide constructive support for the City's customer service, business and financial strategies. These programs will be reviewed on a regular basis and changed as circumstances warrant. They will be directed toward attaining measurable goals and organizational success.

Recruitment

The City will recruit and hire employees who are technically competent and customer focused.

Employee Responsibility

Employees will be held accountable for producing quality work and for exhibiting the highest commitment to honesty, integrity and customer service.

Commitment to Competition

The City of Charlotte is committed to providing quality services at a market competitive cost through service delivery by City employees or, when costs would be lower, through privatization. The City is committed to the skills development of its employees to enhance services to citizens and to make the City more competitive. When necessary due to organizational changes or privatization, the City is further committed to skills development to prepare employees for other opportunities within or outside of the City organization.

Employee Pay and Benefits

All types of employee pay, whether base pay, incentives or benefits, will be used to encourage employees to attain measurable performance goals/targets that support the City's mission. Pay will be based on performance while considering market conditions.

Base pay is the primary type of pay used to maintain market competitiveness; incentive pay will be the primary pay method used to communicate the changing goals of the City and to encourage teamwork. Employees will also be rewarded for attaining skills which make them more flexible and useful in helping Business Units meet their goals.

The City's Benefits Plan will provide a moderate level of income protection to employees against unexpected health, life and disability risks. Employees will be expected to share fairly in the cost of their benefits. The City will aggressively manage health care costs and actively support employee safety and wellness programs to reduce future health care costs.

Health and Safety

Employees will be reasonably protected against safety and environmental risks in the workplace.

Training and Development

Employees will receive sufficient training and counseling to successfully perform their jobs.

Employee Communications

Employees will receive clear and timely communications on issues which affect their work life and will have a reasonable opportunity for input into decisions on these issues.

Employee Relations

Employees will be treated with respect and without regard to race, religion, color, sex, national origin, sexual orientation, age, disability, political affiliation, or on the basis of actual or perceived gender as expressed through dress, appearance or behavior or for any other reason not related to their organizational contributions. Diversity will be respected and viewed as an asset to our workforce.

Approved by City Council 1993, revised 1995, revised 2014 in FY15 Pay & Benefits Recommendation

Market Movement Summary (Average Change)

Source	2012 Actual Market Movement	2013 Actual Market Movement	2014 Actual Market Movement	2015 Actual Market Movement	2016 Projected Market Movement (to date)	5 Year Average Market Movement
National Statistics Provided by World at Work, Hewitt, Mercer	2.9	3.0	2.9	3.0	3.0	3.0
National Municipalities	1.5	1.7	2.4	2.7	1.6	2.0
Charlotte Area Municipalities	2.3	2.8	2.6	2.6	2.8	2.6
Large Charlotte Employers (private sector)	2.4	2.5	2.5	2.7	2.9	2.6
The Employers Association	2.7	2.6	3.1	3.1	3.1	2.9
City of Charlotte	3.0	2.0	2.0	3.0	1.5	2.3

* In the FY12 Budget, City Council authorized the City Manager to grant to employees a one-time lump sum payment, up to 1%, based on meeting organizational savings targets for FY2011, which is not included in average.

**Recommended FY2016
Broadbanding Pay Plan Structure**

Band A	\$24,196	\$60,494
Band B	\$37,108	\$74,217
Band C	\$48,230	\$96,460
Band D	\$65,097	\$130,194
Band E	\$87,860	\$175,721
Band F	\$118,625	\$237,250



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HUMAN RESOURCES