

City of Phoenix

TOTAL COMPENSATION STUDY FINDINGS City Council Meeting

February 7, 2012

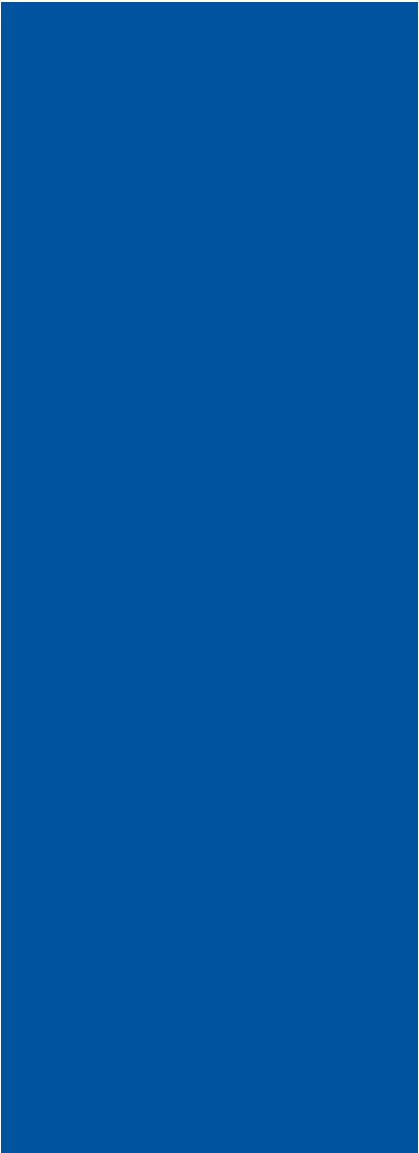
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① Methodology

② Key Findings

③ Implementation

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Study Methodology

Benchmark Representation

- We selected 601 benchmarks found in both public and private sector representative of the City's workforce as shown below:
 - 100% of employee groups
 - 95% of exempt employees; 98% of non-exempt employees
 - 100% of occupational groups; 79% of job titles
 - 89% by salary grade
- Total compensation was then calculated on a subset of approximately 150 benchmarks which represents 61% of employees in jobs that can be found in both the public and private sectors
- We were then asked to separate out the private sector specific benchmarks from the 150, resulting in a data cut of 42 benchmarks for Total Compensation
- Based on concerns expressed, additional benchmarks found in the private sector were added to the total compensation calculation

Study Methodology

Survey Sources

➤ Public Sector:

- National custom survey of public sector employers & the Arizona state government
- Job Information Management System (JIMS) for local public sector peers

➤ Private Sector:

- Local custom survey of private sector employers
- Published data representing multiple private sector employers, nationally and locally

Peers have been identified as being:

- ✓ *Similar in size or services provided*
- ✓ *Similar in job functions, or*
- ✓ *Competitors for talent*

Public Sector Peers

➤ Custom Survey

- Peers surveyed*
 - Cities (similar services/pop. size)
 - » ***Los Angeles, CA (3.8M)***
 - » ***Houston, TX (2M)***
 - » ***Philadelphia, PA (1.5M)***
 - » **CITY OF PHOENIX (1.4M)**
 - » San Antonio, TX (1.3M)
 - » ***San Diego, CA (1.3M)***
 - » ***Dallas, TX (1.2M)***
 - » San Jose, CA (946,000)
 - » Indianapolis, IN (820,000)
 - » ***Jacksonville, FL (820,000)***
 - » ***San Francisco, CA (805,000)***
 - » ***Austin, TX (790,000)***
 - ***State of Arizona (6.4M)***

➤ JIMS Database

- Local public sector peers (similar services/competitors for talent)
 - » ***City of Avondale***
 - » ***City of Chandler***
 - » ***City of Flagstaff***
 - » ***City of Glendale***
 - » ***City of Goodyear***
 - » ***City of Mesa***
 - » ***City of Peoria***
 - » ***City of Scottsdale***
 - » ***City of Surprise***
 - » ***City of Tempe***
 - » ***City of Tucson***
 - » ***Maricopa County***
 - » ***Town of Gilbert***

*Bold and Italicized indicates participant

Local Private Sector Peers/Published Sources

➤ **Custom Survey**

- Surveyed 13 local private sector/quasi-governmental peers (local, similar services and competitors for talent)
- Seven responded

➤ **Published Sources**

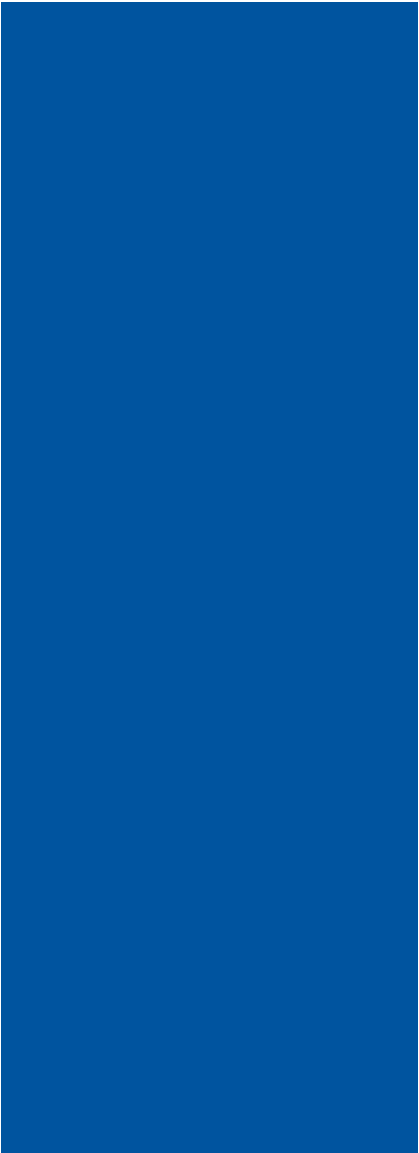
- Airports Council International Compensation Survey
- Bureau of Labor Statistics (BLS)
- CompTrack (Towers Watson) data base
- Economic Research Institute (ERI) data base
- Job Information Management Systems (JIMS) data base
- Milliman Arizona Compensation Survey
- PayMonitor (Mercer) database
- Segal's local benefits database

Total Compensation Survey

➤ Topics Covered

- Demographics
- Pay range information by benchmark
- Pay practices (pay schedule design and adjustments, pay progression, additions to base pay, tuition reimbursement, additional benefits, etc.)
- Paid time off (vacation, sick and other paid leave as well as carry over and cash out policies)
- Disability leave (short- and long-term)
- Retirement benefits - Defined Benefit (DB)¹ and Defined Contribution (DC)
- Retiree health
- Health benefits (medical, dental and vision)

¹The DB plan was reviewed and analyzed by the Pension Task Force

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- ① Methodology
 - ② **Key Findings**
 - ③ Implementation

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Market Competitiveness

- Compensation is considered market competitive when base salaries are **between 95% and 105%** of market pay range midpoints

For example if the market average for a job is \$50,000, a City job would be “at market” if it ranges between \$47,500 and \$52,500. However, if the City rate is \$53,000, it would be 106% of the market average ($\$53,000/\$50,000$)

- A job found to be at 106%, is 1 percentage point above market

Key Findings

Base Salaries

We found in aggregate across all benchmarks, the City to be **at market** (within the competitive range). When considering Phoenix's competitive pay range midpoint to each specific labor market, we found the City's base pay is:

- **Significantly below local private sector employers** by 19 percentage points
- **At market compared to published data** representative of the City's recruitment markets for both non-exempt and exempt employees
- **Slightly above national public sector employers** by 2 percentage points
- **At market compared to local public sector employers**

In drilling down, overall we found:

- **General employee benchmarks to be at market**
- **Sworn public safety benchmarks slightly above market** by 1 percentage point

86% of the City's jobs were found to be in appropriate grades

Key Findings *continued*

Total Compensation

(Based on a subset of benchmarks representing 61% of employees)

➤ **Public and Private Sector:**

- **Slightly above market for General Employees** by 1 percentage point above the competitive range

➤ **Private Sector:**

- **Below market for General Employees**

➤ **Public Sector:**

- **Above market for Sworn Public Safety** by 5 percentage points above the competitive range

The market competitive range of 95% - 105%

Combined Paid Time Off by Market Sector

Market Sector	Vacation 6-10 years	Sick*	Holiday	Personal	Total
Public Sector					
Executives	18	11	10	2	41
Managers	17	11	10	2	40
General Employees	17	11	10	1	39
Police	17	12	11	1	41
Fire	18	13	11	2	44
Private Sector					
Executives	19	11	9	1	40
Managers	19	11	9	1	40
General Employees	19	9	9	1	38
Published Data					
Executives	22	9	9	3	43
Managers	22	9	9	3	43
General Employees	22	10	9	3	44
Phoenix					
Executives	15	15	11.5	3	44.5
Managers	15	15	11.5	3	44.5
General Employees	15	15	11.5	3	44.5
Police	15	15	11.5	2.5	44
Fire	15	15	11.5	0	41.5

**Phoenix sick time is higher in that Phoenix does not have short-term disability.*

Phoenix's paid leave is slightly more generous than the market

Sick Leave Carry Over

- Maximum number of days in the market for carry over range from 52 – unlimited
 - National Public Sector Employers
 - 83% allow
 - 40% allow unlimited days
 - Local Public Sector Employers
 - 100% allow
 - 70% allow unlimited days
 - Local Private Sector Employers
 - 60% allow
 - 33% allow unlimited days
 - Published Data – Not Available

***Phoenix does not offer short-term disability;
carry over is unlimited***

Sick Leave Cash-Out

- Maximum number of days in the market for cash out at separation or retirement range from 31 to unlimited
 - National Public Sector Employers
 - 50% allow cash-out at separation; 33% allow unlimited days
 - 67% allow cash-out at retirement; 50% allow unlimited days
 - Local Public Sector Employers
 - 50% allow cash-out at separation; 20% allow unlimited days
 - 70% allow cash-out at retirement; 57% allow unlimited days
 - Local Private Sector Employers
 - 40% allow cash-out at separation; 100% allow unlimited days
 - 40% allow cash-out at retirement; 50% allow unlimited days
 - Published Data – Not Available

➤ ***Phoenix does not allow cash out upon separation***

➤ ***Phoenix allows cash out at retirement based on eligibility rules***

Vacation Leave Carry Over

- Maximum number of days in the market for carry over range from 8 to unlimited
 - National Public Sector Employers
 - 88% allow
 - 14% allow unlimited days
 - Local Public Sector Employers
 - 91% allow
 - 10% allow unlimited days
 - Local Private Sector Employers
 - 71% allow
 - 20% allow unlimited days
 - Published Data
 - 63% allow
 - 11% allow unlimited days

Phoenix carry over allows up to 45 days

Vacation Leave Cash-Out

- Maximum number of days in the market for cash out at separation or retirement range from 20 to unlimited
 - National Public Sector Employers
 - 86% allow cash-out at separation; 83% allow unlimited days
 - 100% allow cash-out at retirement; 100% allow unlimited days
 - Local Public Sector Employers
 - 91% allow cash-out at separation; 60% allow unlimited days
 - 91% allow cash-out at retirement; 60% allow unlimited days
 - Local Private Sector Employers
 - 86% allow cash-out at separation; 100% allow unlimited days
 - 71% allow cash-out at retirement; 100% allow unlimited days

Published Data – Not Available

***Phoenix allows cash out upon separation
and at retirement up to 56.25 days***

Medical Benefit PPO

Monthly Employer (ER) / Employee (EE) Contribution

Survey Source	Single ER / EE	Family ER / EE
Public Sector Custom	\$585 / \$67	\$1,184 / \$643
Local Public Sector	\$423 / \$103	\$913 / \$285
Private Sector Custom	\$429 / \$76	\$1,208 / \$342
Published Data	\$385 / \$104	\$1,058 / \$333
OVERALL	\$464 / \$85	\$1,086 / \$400
Phoenix	\$415 / \$104	\$1,195 / \$299

Phoenix is slightly below market in employer contribution costs for single coverage and slightly above market for family coverage

Medical Benefit PPO

Monthly Employer (ER) / Employee (EE) Cost Sharing Percentage

Survey Source	Single ER / EE	Family ER / EE
Public Sector Custom	90% / 10%	65% / 35%
Local Public Sector	80% / 20%	76% / 24%
Private Sector Custom	85% / 15%	78% / 22%
Published Data	NA	N/A
OVERALL	85% / 15%	73% / 27%
Phoenix	80% / 20%	80% / 20%

*Phoenix's share of cost is slightly below market for single coverage
and above market for family coverage*

Medical Benefit HMO

Monthly Employer (ER) / Employee Contribution (EE)

Survey Source	Single ER / EE	Family ER / EE
Public Sector Custom	\$427 / \$22	\$1,077 / \$251
Local Public Sector	\$405 / \$47	\$1,038 / \$285
Private Sector Custom	\$446 / \$24	\$1,622 / \$364
Published Data	\$376 / \$93	\$1,025 / \$305
OVERALL	\$410 / \$44	\$1,082 / \$261
Phoenix	\$377 / \$94	\$1,085 / \$271

Phoenix is slightly below market in employer contribution costs for single coverage and at market for family coverage

Medical Benefit HMO

Monthly Employer (ER) / Employee (EE) Cost Sharing Percentage

Survey Source	Single ER / EE	Family ER / EE
Public Sector Custom	95% / 5%	81% / 19%
Local Public Sector	90% / 10%	81% / 19%
Private Sector Custom	95% / 5%	82% / 18%
Published Data	N/A	N/A
OVERALL	92% / 8%	81% / 19%
Phoenix	80% / 20%	80% / 20%

*Phoenix's share of cost is slightly below market for single coverage
and at market for family coverage*

Dental Benefit

Monthly Employer (ER) / Employee Contribution (EE)

Survey Source	Single ER / EE	Family ER / EE
Public Sector Custom	\$9 / \$10	\$26 / \$32
Local Public Sector	\$37 / \$3	\$70 / \$44
Private Sector Custom	\$30 / \$9	\$92 / \$47
Published Data	\$16 / \$10	\$48 / \$31
OVERALL	\$27 / \$7	\$64 / \$40
Phoenix	\$52 / \$0	\$107 / \$36

Phoenix is above market in employer contribution costs for dental benefits

Dental Benefit

Monthly Employer (ER)/Employee (EE) Cost Sharing Percentage

Survey Source	Single ER / EE	Family ER / EE
Public Sector Custom	47% / 53%	45% / 55%
Local Public Sector	93% / 7%	61% / 39%
Private Sector Custom	75% / 25%	66% / 34%
Published Data	61% / 39%	61% / 39%
OVERALL	79% / 21%	61% / 39%
Phoenix	100% / 0%	75% / 25%

Phoenix's share of cost is above market for single coverage and for family coverage

Retirement Benefits

➤ National Public Sector Employers

- All have DB programs
- 14% have a DC program with a required employer contribution

➤ Local Public Sector Employers

- All have DB programs
- 22% have a DC program with a required employer contribution

➤ Local Private Sector Employers

- 43% have DB programs
- None have a DC program with a required employer contribution; however, 43% have a matching program

➤ Published Data

- 40% contribute 10% or more to DB programs¹
- 4% average contribution to DC program¹

¹Towers Watson

Other Benefits

Annual Tuition Reimbursements

- Majority of peers offer a tuition reimbursement program
- The City's tuition reimbursement policy is more generous than both public and private sector employers
 - ✓ **City of Phoenix** - \$9,208 (equal to full-time tuition at ASU for 2 semesters)
 - ✓ **Market** – Ranges from \$1,000 - \$11,844; majority around \$5,000. (The Federal standard for job related educational expense that is excluded from an employee's income is \$5,250 according to IRC§ 127)

Pay Policies

Longevity Differentials – Are Prevalent in Surveyed Market

- *Organizations that have pay for performance systems typically do not reward longevity*
- Longevity differentials are granted as additions to base pay to retain long service employees
- In the public sector 53% provide longevity differentials to General Employees; 63% to Police; and 63% to Fire
- Private sector employers do not offer longevity differentials

City of Phoenix offers longevity differentials to all employee groups, except Middle Managers and Executives

Shift Differentials

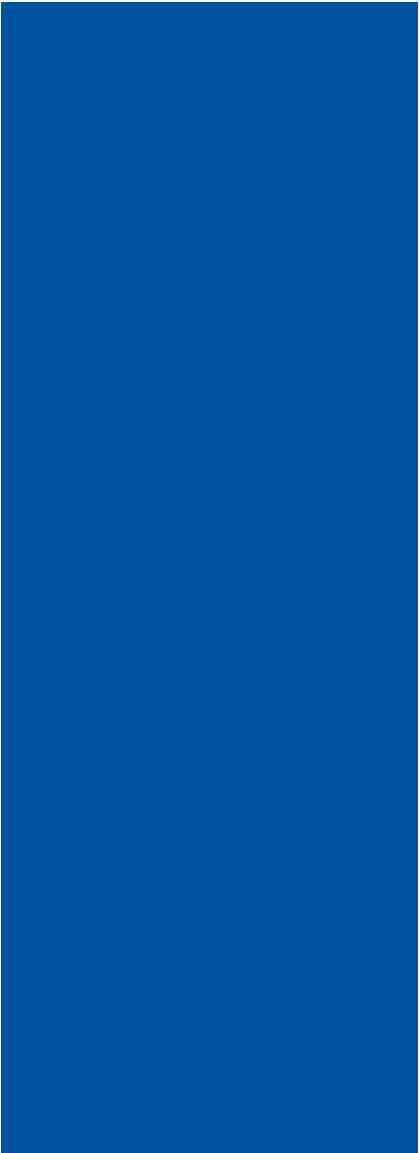
- Most organizations provide shift differentials to General Employees and Uniform Police
- Weekend shift differentials are not prevalent in the market

Phoenix pays both shift and weekend differentials

Pay Policies

Additional Benefits - Executives and Managers

Benefits	Executive Benefits Prevalence Count of Respondents		City of Phoenix
	Executives	Managers	
Sabbaticals	Public Sector: 30% Private Sector: 17%	Public Sector: 27% Private Sector: 0%	No
Car Allowances	Public Sector: 73% Private Sector: 57%	Public Sector: 25% Private Sector: 0%	Yes
Expense Accounts	Public Sector: 9% Private Sector: 29%	Public Sector: 8% Private Sector: 17%	No
Executive Physicals	Public Sector: 18% Private Sector: 57%	Public Sector: 0% Private Sector: 0%	No
Relocation Allowance	Public Sector: 55% Private Sector: 86%	Public Sector: 33% Private Sector: 67%	Yes
Stock Options	Public Sector: N/A Private Sector: 57%	Public Sector: N/A Private Sector: 17%	No

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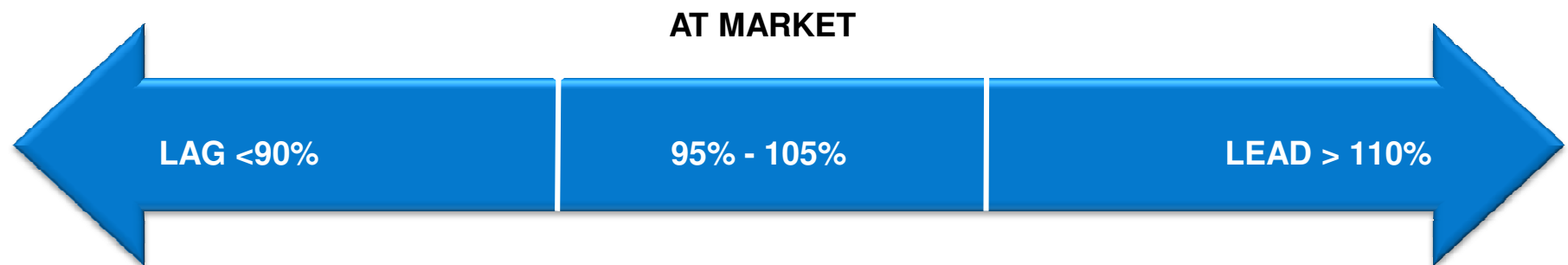
Implementation Steps

1. *City of Phoenix Market Position*

Develop a Compensation Philosophy:

- Defined labor markets
- City's relative position to the market – **at market, lead or lag**
- Market-based system vs internal equity
- Mix of total compensation components

TARGET TOTAL COMPENSATION



Implementation Steps *continued*

2. Determine Proposed Grades

- Pay ranges, in aggregate, are market competitive
- With this in mind, we find that certain individual jobs within occupational groups may be above or below market
- Align pay grade assignments with compensation philosophy

3. Determine Costs/Savings Estimate

- Based on compensation philosophy determine cost, or savings

Implementation Steps *continued*

4. Model Retirement Changes

- Changes to the defined benefit plan will affect overall total compensation costs
- Potential changes to the defined contribution program might include:
 - Reducing City contributions to be more line with the market
 - Changing City contribution so that it is a match to an employee contribution
 - Rolling defined contribution into base pay for all employee groups as done with some groups

5. Continue to monitor health offerings

- Review medical program design
- Determine changes based on overall total compensation costs

Implementation Steps *continued*

6. Modify compensation practices and policies

- Consider changes that will provide the City greater flexibility in recruiting and retaining staff
 - Hot skills differential – difficult to fill jobs based on supply and demand of talent (i.e. IT)
 - New hire policies – increased flexibility in hiring

City of Phoenix Total Compensation Study

- Overall, City of Phoenix compensation is in line with other comparable public and private sector employers