

**MISSOURI COMMISSION ON TOTAL COMPENSATION
ANNUAL REPORT TO THE GOVERNOR
JULY, 2003**

Executive Order 01-15 established the Missouri Commission on Total Compensation. The primary task of the Commission is to analyze, determine and make recommendations on courses of action related to total compensation issues for state employees. One of the duties of the Commission is to issue a report annually to the Governor and General Assembly regarding the progress the Missouri Commission on Total Compensation has achieved in meeting the objectives set forth in the Executive Order. This document is being submitted in accordance with that directive. It is the Missouri Commission on Total Compensation's expectation that future annual reports will be issued in July of each calendar year.

This report will cover issues the Missouri Commission on Total Compensation has addressed since its initial meeting and outlines subjects that will be addressed in the future.

ADMINISTRATIVE LAW JUDGES

One of the first issues the Commission addressed was identified in Executive Order 01-15. Specifically, the Executive Order required the Commission to "evaluate the criteria for membership in the Administrative Law Judges' (ALJ) and Legal Advisors Plan (LAP) to determine whether or not sufficient evidence exists to expand, limit, or contract findings to the Governor by March 1, 2002."

After reviewing the history and background that culminated into the development of the existing retirement system for Administrative Law Judges, the Commission compared the ALJ retirement system with the retirement benefits of the average MOSERS member. Building on analysis and conclusions reached in the development of Missouri State Employees' Plan (MSEP) 2000 the Commission decided that it was not prudent nor in the best interest of the state to expand the current retirement system established for Administrative Law Judges. On March 15, 2002, the Commission sent a letter to the Governor along with a report documenting its conclusions and recommendations. The recommendation was that all ALJ members currently enrolled in the ALJ LAP be allowed to receive retirement benefits that were in existence at the time of their hiring, however, all new employed ALJ's should be incorporated in to the MSEP 2000 Program. This approach supported and reinforced the concept of the state of Missouri as one employer and benefit equity for employees. This was a concept that had been previously advocated and adopted by earlier studies and the Commission's predecessors.

OVERARCHING POLICY

In an effort to define the scope of the Commission as well as establish criteria to be used in deciding what issues would be considered by the Commission, it was decided that an overarching policy should be developed. There were a number of issues and criteria discussed by the Commission. Members of the Commission felt that the policy statement's ultimate design had to ensure that citizens, businesses, and visitors to our state were the beneficiaries of services provided by a highly trained and motivated state workforce. To accomplish that task, the overarching policy had to encompass concepts that fostered equitable, cost effective, approaches that help the state achieve its goal of increasing the availability of competent applicants and the hiring and retaining of a highly productive workforce. The final overarching policy adopted by the Missouri Commission on Total Compensation is provided in Attachment A.

PRINCIPLES IN DESIGNING RETIREMENT PLANS

After adopting the overarching policy statement, the Commission further adopted principles to be incorporated in the development of state retirement benefits. The principles would be used to guide discussions and decisions the Commission would make related to retirement issues. It was the Commission's position the principles should include the following provisions:

- Non-contributory defined benefit plan
- Career target of 30 years for state employees
- Wage replacement of 75% of final average pay
- Maintenance of the purchasing power of retired members
- Equitable benefits for all employees
- Casualty benefits (duty-related deaths)
- Subsidize retiree and dependent health care
- Personal retirement savings incentives

After considering and discussing the provisions identified above, the Commission adopted the provisions as guiding principles for state employee benefit issues.

SENATOR'S REQUEST FOR ADVICE AND RECOMMENDATIONS RELATED TO JUVENILE COURT EMPLOYEES

In February 2002, Senator Stoll requested that the Commission conduct an analysis of the employee status of certain court employees and provide recommendations to him and other members of the General Assembly. Certain juvenile court employees were seeking a legislative remedy regarding their eligibility for state and/or county retirement benefits, in particular their inability to become members of the County Employees' Retirement System (CERF). The Commission responded to Senator Stoll in June 2002 with a letter and a report summarizing the findings of their study.

The Commission spent several months studying this complex issue. Following legislative changes, in 1999 juvenile court personnel in the 35 multi-county circuits became state employees. Many of these employees had worked for the court for a number of years without

any retirement, health insurance, or other fringe benefits. These employees became subject to the appropriate state salary structure and rules and also were provided the same fringe benefits as other state employees. The employees in the remaining ten single county circuits became county employees. Additionally, juvenile court employees in both single county and multi-county circuits were specifically prohibited from participating in CERF due to system funding concerns. Some juvenile court employees were seeking legislative support to rescind the provision prohibiting juvenile court employees from receiving CERF retirement benefits.

After studying the issue, the Commission adopted a set of policy guidelines in June 2002 to provide guidance and support to the General Assembly regarding benefit enhancement issues proposed by interest groups and constituents. The guidelines are:

- Say no to unfunded mandates. The state opposes federal unfunded mandates and should not impose state unfunded mandates on political subdivisions. This would include opposing legislation that increases the size of CERF without adequate funding.
- Say no to double-dipping. The state supports reasonable benefits for all public employees; however, it opposes duplicative benefit designs that may ultimately impose financial burdens on the state, political subdivisions, and the taxpayers.
- Say no to benefit shopping. The state opposes treating similarly situated state employees differently. Through the appropriations process, state departments and the legislature have roles in approving compensation levels, including both pay and benefits, of all groups identified as state employees. It is important that the state, as the employer, maintain control of all aspects of employee compensation, and that certain groups of state employees (such as juvenile court employees) are not provided additional pay or benefits provided by the county. Benefit equity must be maintained. State policy should not be driven by employee special interest groups or benefit decisions made by political subdivisions.
- Ensure that the employer is clearly identified when positions are added to the court through county funding, and that funding is also included for the appropriate benefits for all full-time, permanent positions added in this manner.
- Maintain the current benefit structure for circuit court employees, including the single/multi-county design of HB 971 for juvenile court employees.

EARNED TIME OFF

The Missouri Department of Conservation, during a time of declining revenues, considered implementing an Earned Time Off (ETO) policy. The ETO concept was initiated in the health care industry approximately 15 years ago. An ETO establishes a pre-determined number of days that employees can use for annual leave and/or sick leave during a fiscal year. ETO programs should reduce the amount of time employees use for annual or sick leave during the course of the fiscal year. This is accomplished by reducing the total number of hours of annual and sick leave an employee would have had available under an existing plan. In exchange for fewer hours, the employee receives more flexible use of time earned. Some ETO plans have processes that allow an employee who does not use all of their ETO to be paid for some or all of the time they did not use.

Under the existing MOSERS and Highway & Transportation Employees and Highway Patrol Retirement System, at retirement an employee is credited for unused sick leave. This additional service is used in calculating the amount of the retirees' monthly retirement benefit. Because Conservation's ETO collapsed the annual leave and sick leave into an ETO, it would not have been possible for MOSERS to calculate the sick leave conversion. As a result, Conservation was unable to implement an ETO system.

Based on Conservation's initiative, the Commission decided to further examine the ETO concept to determine if Missouri state government should consider converting from its current annual and sick leave accrual to an ETO process.

After completing a review and analysis of earned time off, the Commission identified the following advantages and disadvantages to the state in implementing ETO:

Advantages

- Reduction in costs if earned hours per employee is decreased;
- Leave abuse could possibly be reduced;
- Possible reduction in the amount of time and resources required for record keeping dependent upon how ETO was structured.

Disadvantages

- Increased costs due to retirement conversions;
- Uncertainty of acceptance by employees if total hours of leave were reduced;
- ETO could be perceived by the public as an expansion of a generous leave benefit;
- Potential increase of leave abuse;
- May have negative impact on donations to shareleave pools;
- Employees may take more time off legitimately, requiring more employees to complete work;
- Unless ETO is cost neutral it would be difficult to implement. There must be a benefit to the state.

The Commission identified the following advantages and disadvantages for state employees:

Advantages

- Depending on how the ETO was structured, it was possible to increase the number of hours used for conversion at retirement.
- More flexible leave hours.

Disadvantages

- If the number of leave days were reduced, the reduction may be perceived by employees as a loss of benefits;
- Possible reduction of shareleave hours donated for employees in need.

Based on the analysis, the Commission recommended that ETO not be pursued at this time. Further, the Commission took the position that if ETO is considered at some future date, it should be implemented uniformly in all state agencies, there must be a cost savings to the state, and it should not affect a state employee's retirement benefit positively or negatively.

STATE HEALTH CARE SUBSIDIES FOR RETIREES

In a recent legislative session, the Missouri General Assembly passed Joint Resolution 27. The resolution established the criteria by which the state would fund retirees' state health care premium subsidies. This resolution was supported by a Governor's State Retirement Advisory Commission and the predecessor organization to the Missouri Commission on Total Compensation. The formula developed in establishing the premium subsidies was based upon the total number of creditable years of service x 2.5%. The state contribution would be capped at 75% (30 years x 2.5%). To ensure that current retirees were not adversely affected by this change in policy, existing retirees would receive the subsidy in effect at the time of the policy change. Implementation of the policy was contingent upon available state revenues.

During the Commission's deliberation of the issue, it was determined that the Department of Conservation and the Missouri Department of Transportation had not adopted this policy. Because these two agencies are administered by commissions, their respective commissions set the state health care premium subsidies for their retirees. The Conservation Commission and the Missouri Department of Transportation Commission have established their premium subsidies for retirees at 35% and 58% respectively. To ensure parity and equity between and among the state departments, it is important that all departments provide the same subsidy levels for their retired employees.

PAY PLAN

The Missouri Commission on Total Compensation has developed an excellent working relationship with the Personnel Advisory Board on issues related to employee pay. Having a member of the Personnel Advisory Board serving on the Commission on Total Compensation has been very helpful in fostering that relationship.

The Commission concurred with the Personnel Advisory Board's pay plan proposal and recommended the adoption of that plan by the Governor's Office. In FY04, the pay plan proposed a three pronged approach to addressing state employees salaries. Those were general pay structure, market rate within grade, and critical pay classes. All three of these components are necessary to ensure a complete and comprehensive employee salary package. Keeping up with the general cost of living requires a general pay structure component. Assuring staff are paid consistent with market rate salaries strengthens the state of Missouri's ability to retain a high quality, trained workforce. Addressing critical pay classes in facilities that operate 24 hours and seven days a week (24/7), experience high turnover, and are substantially below market rate allows the state to focus resources on critical classes necessary to maintain our 24/7 facilities. The Commission realizes that in times of declining revenues pay issues, like all other demands on the budget, are difficult to address. It is important, however, that the three components identified above be addressed in a balanced approach. Without a balanced approach, it is

extremely difficult to maintain a pay system that is fair, equitable and provides incentives that assists the state in maintaining a high quality, motivated workforce.

PRESENTATIONS TO THE COMMISSION

The Commission has been very open and has sought input from individuals or groups that would be affected by issues being reviewed and discussed by the Commission. When discussing the ALJ issue, individuals from the Public Service Commission attended and made presentations to the Commission expressing their concerns.

During our discussions of the proposed budget for the Missouri Consolidated Health Care Plan, members of American Federation of State, County, and Municipal Employees (AFSCME) attended the meeting. Several of the attendees made presentations to the Commission identifying specific concerns about the state health care plan.

The Commission also provided the Missouri Department of Transportation Employee Association the opportunity to discuss with the Commission their proposed legislative agenda related to pay and benefits for employees in the Missouri Department of Transportation.

In addition to these specific presentations, the Commission has encouraged visitors and staff to express their concerns or ideas on issues that have been taken under review. This inclusiveness has been very beneficial in broadening the perspective of the Commission in addressing issues pertinent to the mission of the Commission.

FUTURE ISSUES

There are critical issues facing the state of Missouri that the Missouri Commission on Total Compensation will be addressing over the course of the next several months. The following items will address several of those issues.

Employee Compensation

Addressing employee compensation will be the major issue facing the state if the state is going to recruit, hire, and maintain the quality workforce that the people we serve deserve. There is no doubt that there will be competing interests for the limited resources available to address this pressing need. Setting and maintaining a course for a predictable compensation package that is tied to the market will, in the long run, reduce demands for subsidies to employee medical premiums and modifications to the retirement system that increase long term costs. A solid pay package ensures that employees have adequate resources to pay their health care premiums and builds the foundation upon which the state's retirement system is based. Every effort should be made to focus resources toward addressing employee compensation as a high priority budget item for the state.

Market Rate and Hiring Issues for Selected Employees

The Commission will be contacting the Department of Public Safety, Missouri Highway Patrol to coordinate a salary survey for employees particularly uniformed officers of the Patrol. There have been a number of concerns raised indicating that the salaries of Missouri Highway Patrol officers are inadequate and behind other surrounding states or metropolitan areas in Missouri. Working with the Missouri Highway Patrol and the Office of Administration, Division of Personnel, the Commission will be in a position to make a recommendation to the Governor's Office on this issue prior to the FY05 budget being finalized.

During the Commission's discussions on critical pay classifications, it became clear that there is a need to review and analyze the pay issues related to client attendant trainees, developmental assistants and psychiatric aides within the Department of Mental Health. The information reviewed by the Commission indicated that the Client Attendant Trainee classification incurs a turnover rate in excess of 100%. Undertaking the review of these classes and how the Department of Mental Health budgets and pays these three classifications may offer the Commission an opportunity to make recommendations to the Governor on how to reduce turnover and keep a quality workforce.

Retirees Returning to State Employment

The Commission has established a workgroup to address the issue of retired state employees returning to state employment. There are inconsistencies between state departments regarding how retirees are treated when they return to state service. Employees under the MOSERS system cannot be re-employed full-time by another state agency without losing their retirement benefits. Retirees of the Department of Transportation retirement system cannot return to work full-time at MoDOT, but if they retired under the MSEP they can be employed full-time in a MOSERS covered position and receive their full retirement benefit in addition to their salary. Retirees of both systems who chose the MSEP 2000 and return to work full-time will have their retirement benefit stopped while they are employed. This inequity must be addressed.

Developing the criteria under which retirees can be re-hired is an issue that needs to be addressed. Retirees offer the state a pool of well-trained, seasoned employees that can be hired with minimal investment in training by the state. It is important to clarify policies regarding the use of retirees in full-time positions, as well as in part-time or seasonal employment, such as season tax staff at the Department of Revenue or seasonal staff in the Division of State Parks within the Department of Natural Resources. Developing a consistent policy regarding how retirees will be used to meet the state of Missouri's employment needs is important, not only to the state agency trying to provide service, but also to the public.

It is also important that a policy be established related to the rate of pay a retiree will receive if they are re-employed. Compensation should be based on the service being provided rather than the pay the retiree was receiving prior to retirement. Addressing this issue will ensure fairness and equity.

Most state departments maintain their own internal systems to monitor the amount of time a state retiree works. The monitoring is undertaken to ensure that the retiree does not work more than 1,000 hours, thereby putting their state retirement benefit at risk. Because state agencies maintain their own individual monitoring, there is no assurance that a state retiree is not accruing more than 1,000 hours if they are employed part-time by more than one state agency. A central monitoring process needs to be implemented to capture the hours worked from a state perspective rather than a department perspective.

Employee Health Insurance

The Missouri State Employee Health Plan (MSEHP) and the Departments of Conservation and Transportation have seen substantial increased costs associated with providing health insurance to state employees covered under their respective plans. There is no consistency between the three plans on the state's contribution on behalf of the employee and their dependents. The state contribution amounts or percentages should be consistently applied regardless of the department or plan the state employee is enrolled in.

Just as important, efforts should be undertaken to identify alternative approaches to providing health care services to state employees that will ensure a standard health care package that is reasonable and cost effective for both the state and the provider of the service.

Legislation

Typically the Commission has monitored legislation introduced that would affect compensation, whether in salary or benefits, for Missouri state employees. The Commission occasionally has taken official positions on proposed legislation regarding compensation and benefit issues. In the future the Commission anticipates providing feedback to the Governor's Office on each piece of legislation that affects state employee compensation. The comments will indicate the Commission's position on the bill, along with justification for the position.

Inquiries from the Legislature or Other Groups

The Commission continues to receive inquiries from the legislature on compensation items or issues for which a specific legislator is seeking guidance or a recommendation from the Commission. Each request received by the Commission is discussed to determine if it is within the purview of the Commission. If so, the issue(s) is reviewed, analyzed, and a recommendation provided to the elected official. The Commission will continue to address each inquiry as it is received.

Recommendations for Additional Members to the Missouri Commission on Total Compensation

The current composition of the Missouri Commission on Total Compensation provides a diverse membership. Each of the members bring with them unique perspectives, talents, and expertise that have been very useful in addressing the issues the Commission has faced.

The membership of the Commission has three state departments represented: the Office of Administration, the Department of Revenue, and the Department of Natural Resources. It would be the Commission's recommendation that the Department of Conservation and the Missouri Department of Transportation be added to the Commission. These agencies have shown a willingness to assign staff to work with the Commission; however, we believe it would be appropriate to have these two agencies as official members to the Missouri Commission on Total Compensation. Both the Department of Conservation and the Missouri Department of Transportation administer their own separate employee health care plans. In addition, employees of the Missouri Department of Transportation are members of the MoDOT and Patrol Retirement System, which is a separate system from MOSERS. Including these two departments on the Missouri Commission on Total Compensation will help ensure that decisions reached by the Commission are equitable and provide parity for all state employees regardless of the department in which they are employed.

Should you have any questions regarding items in this report, please feel free to contact Stephen Mahfood.

On behalf of the Commission, thank you for your continued support.