MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Tuesday, December 12, 2023
TIME:	2:30 P.M.
PLACE:	EW 42
MEMBERS PRESENT:	Senators Co-chairman Cook, Burtenshaw, Carlson
	Representatives Co-chairman Bundy, Holtzclaw, Kingsley, Wheeler, Gannon
ABSENT/ EXCUSED:	Senators Guthrie, Ward-Engelking, Representative(s) Holtzclaw, Representative(s) Kingsley

Co-Chairman Bundy called the meeting to order at 2:30 P.M.

Co-Chairman Bundy welcomed attendees to the meeting and provided an overview of the committee's focus along with a summary of the three CEC meetings. He stressed necessity for open dialogue and collaboration in the best interests of employees and the state.

Ms. Christine Otto, Principal Analyst, Budget & Policy Analysis Division, Legislative Services Office, provided a CEC overview and committee goals per Idaho Code 67-5309 to attract, retain, motivate, and reward employees. Ms. Otto also summarized steps for CEC recommendation and the required components of compensation for funding that the legislature must address: salary structure, payline exceptions, merit increases, and the benefits package.

In response to a question from **Co-chairman Cook, Ms. Otto** clarified that the DHR fee listed on slide #5 is the fee each agency pays for its employees to receive DHR services.

Ms. Janelle White, Interim Administrator, Division of Human Resources (DHR), presented an overview of the state employee workforce, compensation metrics, and recommendations for FY2025 CEC. Ms. White specified that the data points would account for both last year's CEC recommendation to set policy rates at 25th percentile of the market, and the DHR's recommended target toward the 50th percentile of the market. These details are in the slide presentation. Ms. White noted that because of last year's legislative action, state employees of primary structure received on average a 4% pay increase and public safety employees received on average a 10% pay increase, with a higher percentage going to employees in lower paygrades. Last year DHR recommended a 2-year strategy to implement functional pay structures targeting positions that demand a market premium; FY2024 included implementation of the public safety pay structure and a 6% pay increase for these positions. This year's recommendation was to implement two new structures in IT/Engineering and Nursing/Healthcare plus an additional 5.5% market based increase for these positions. Turnover has increased 5% over the past 4 years, but has decreased by 3% during FY 22-23, coinciding with the highest CEC increase in state's history in FY2023. However, the state has continued to see challenges in recruitment particularly in IT and nursing positions, due to lack of competitive pay and qualified applicants within Idaho. Citing exit interview data, Ms. White added that nearly 25% of those leaving cited pay as a reason for leaving.

According to analysis conducted by Korn Ferry, average total compensation is 18.3% and 14.6% behind the public and private sectors, respectively, for an average of 16.4% behind overall. Citing data from the custom survey deployed by Milliman, Idaho is on average 24.9% behind the market when comparing base salary.

Ms. White then provided an overview of salary structure and organization of pay grades and salary ranges and noted the state has improved for lower pay grades but falls behind for higher pay grade positions. For lower pay grades, the state pay is above the 50th percentile for market. But for higher pay grades, the pay midpoints are below 25th percentile and thus less competitive. Idaho's health care benefits are very competitive when compared to the private sector, at 22% above the 50th percentile for the private sector, but 4% below for the public. The state's defined benefit plan (PERSI) continues to be competitive compared to private sector, at 161% above median value but 2% below in the public sector.

Ms. White also referenced a report on salary savings generated by DHR for FY 2023, breaking down personnel cost (PC) appropriation, fund sources, and unplanned expenses. Of $1.365B appropriated for PC amongst all fund sources, $554M or 27% were from the General Fund (GF) the rest were from Federal or Dedicated. Of that amount, $23M were transferred to Operating Expenses (OE) or Capital Outlay (CO), or approximately 4%, and $10.4M were reverted to GF, or approximately 2%. The remainder was spent on PC. $48M in unplanned expenses. Those in 2023 included overtime payouts, leave accruals, on call, shift differential and bonuses. For FY 2025 DHR recommends a 4.5% merit-based increase for all permanent positions; two new salary structures for IT and Nursing/Healthcare positions; funding an additional market-based 5.5% increase for positions within these two new structures and maintaining the state's current retirement package. The total fiscal impact would be $88.2M in total funds, of which $44.6M would be from GF.

In response to questions from committee members, **Ms. White** clarified that the determination of the relevant competitive labor market includes both the public and private sectors due to some types of jobs existing in one, or both sectors. She also noted that benefits are not factored into hourly rates when determining range of pay; benefit amount is factored into the total compensation equation. Employee contribution rates can increase when PERSI rates are adjusted. When asked about the possibility of mitigating the expense of unplanned vacation payouts, Ms. White stated that although vacation time should be used, this presents a challenge for some employees due to increased workload resulting from turnover and unfilled vacancies.

Ms. White also noted that the state has had a telecommuting policy for about 15 years and that DHR updated these policies in 2020; the state will continue to evaluate the best approach but the ability for employees to work remotely provides a competitive advantage for recruitment and retention.

Ms. Valerie Bollinger, Administrator, Division of Purchasing, presented on group insurance and began with an update of the ITN (Invitation to Negotiate) process which began in July of 2022, and is ongoing as of 11/15/23. Regence was selected as the apparently successful bidder, but there is currently an appeal pending. She noted that under the current circumstances, there are two possibilities for what the health insurance package would look like in FY 2025: The first is to award the contract to Regence. The second is to extend BCI (Blue Cross of Idaho) for an additional year depending on the outcome of the appeal. Ms. Bollinger stressed that her presentation would be an overview of the current contract versus Regence if they were awarded a contract and not a comparison of the proposals submitted.

Due to anticipated concerns about the change in network providers, the Division engaged an independent actuary to evaluate projected medical claims and analysis of network coverage of all three finalists in the ITN. Overall coverage across all three is very similar with less than a 2% shift (in or out of network disruption) in a representative year of claims.

Ms. Bollinger pointed out that the plan design (i.e., co-pays, deductibles, etc.) is not determined by the carrier but rather the Office of Group Insurance (OGI), nor was it part of the ITN evaluation; cost projections assume keeping the current plan design. The scope of work included negotiations with Regence to provide transition support for members.

Ms. Bollinger then compared benefits and cost savings in more detail, reviewing some of core benefits which would remain under Regence along with enhanced benefits which are detailed on the slide presentation. For FY 2025, there would be a 11% cost savings overall under a Regence contract.

Implementation would begin as soon as a contract is awarded, or if BCI is extended. **Ms. Bollinger** added that if a contract were awarded to Regence, implementation would include preparation for rollout including Luma testing, which may not all be completed in time for open enrollment beginning on April 22, 2024.

In response to questions from the committee, **Ms. Bollinger** summarized the complexity and length of the ITN. The ITN was discussed with the Group Insurance Advisory Committee with three objectives: Cost containment, improved health outcomes and competitive benefits. Cost was one of four factors considered in the process, along with evaluations of technical proposals, scope of work, and interviews, each of which were 25% of the total evaluation. Regarding concerns about similar quality of customer service, all finalists included performance guarantees. The specific transition costs the state would incur were not yet known, but costs associated with LUMA could be anticipated. Factoring in transition costs in the evaluation would present a greater challenge for a non-incumbent. Based on the actuarial analysis and information provided by the carrier, Regence has a network comparable to BCI.

Responding to a question about membership coverage and service complaints, **Ms. Jennifer Pike,** Benefits Administrator, Office of Group Insurance, stated that there are about 60,000 members and no formal count of complaints, but that she personally handles about 1-2 complaints per month. When asked about the purpose of the ITN given the relatively small number of customer complaints, **Ms. Bollinger** explained that it was typical for OGI to perform periodic cost comparisons as an opportunity to evaluate other options.

Ms. Bollinger further clarified for the committee that copays and deductibles were not considered during the ITN because OGI determines those costs, not the carrier. There was not yet information available regarding a possible change in premium cost to employees. Per statute, the non-winner of the bid can challenge the decision and the Director of the Department of Administration could appoint a determinations officer, pointing out that a challenge is not unusual under the circumstances. Addressing concerns about denial rates, Ms. Bollinger stated that denial rates were not part of the ITN evaluation but information about the carrier's appeal process were submitted within the scope of work. Core administrative costs were negotiated to be locked in for three years. Costs would be part of OGI's annual evaluation and determination.

Representative Gannon commented on the value of health insurance and PERSI when attracting applicants to state jobs and ensuring that the state's health plan could continue to serve as a factor in retention and recruitment should remain a top priority.

ADJOURN: There being no further business to come before the committee, the meeting adjourned at 4:33 P.M.

Representative Bundy Chair	Tamara Figueiredo Secretary