

## EXECUTIVE SUMMARY

### **Background**

Human resource programs are developed and administered according to the Human Resources Philosophy adopted by the City Council. The City of Charlotte is committed to attracting and retaining qualified, productive and motivated employees, who will provide efficient and effective services to its citizens.

Compensation and benefits recommendations are guided by the mission to help employees THRIVE by creating a work environment that embraces diversity. The city recognizes and values the unique and changing needs of our workforce throughout their career life cycle.

FY 2020 guiding principles:

- 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 encourage teamwork.
- Employees will also be rewarded for attaining skills which make them more flexible and useful in helping the city meet its goals, such as language incentive.
- Benefits plans will provide an appropriate level of income protection against unexpected health, life and disability risks.
- Health care costs will be aggressively managed with employees sharing in the cost of benefits.
- Wellness initiatives will be integrated across our human resources programs.

### **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 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. A summary of the average market movement can be found in **Attachment A**.

### **Survey Findings**

- Mercer Consulting's *2018/2019 U.S. Compensation Planning Survey* reports 2019 expected increases are largely consistent with the past 5 years at 2.9 percent.
- According to the World at Work's *2018/2019 Salary Budget Survey*, respondents report that total salary increase budgets in the United States increased slightly from one year ago to a 3.1 percent average.
- AON Hewitt's *2018/2019 U.S. Salary Increase Survey* reports projected salary increase spending for 2019 is expected to increase modestly to 3.1 percent and is the highest projected level of spending since 2008.

- Mercer Consulting's *National Survey of Employer-Sponsored Health Plans 2018 Survey* reports that 68% of all larger employers offer consumer-directed health plans and most continue to provide these high-deductible plans alongside other medical choices. In addition, prescription drug benefit cost per employee rose 6.5 percent in 2018, driven by spending on specialty drugs, which rose nearly 12 percent. About half of employers (51 percent) now steer members to specialty pharmacies for better pricing and more intensive support for patients with complex disease states.
- Gallagher's Best-In-Class Benchmarking Analysis reports that employer-subsidized hospital indemnity coverage is more often offered by best in class employers. Providing employees greater financial security in the face of unexpected health issues and treatment costs.

### **Conclusions and Recommendations**

- **Compensation**

- In the Public Safety Pay Plan, the following is recommended:
  - Merit steps of 2.5 percent to five percent be funded.
  - Market adjustment to the pay steps funded at 1.5 percent effective July 6, 2019.
  - Revisions to Police Officer steps to increase the city's ability to attract and retain Police Officers.
  - Create Senior Police Officer I step for eligible employees to move to on July 6, 2019.
  - Implement a Senior Police Officer II program in FY 2020.
  - Revisions to Fire steps to better align with market competitiveness.
- Create new Salaried Pay Plan
  - Transition employees in Broadbanding to Salaried Pay Plan
  - A three percent merit pool increase is recommended.
- In the Hourly Pay Plan, the following is recommended:
  - Merit increase pool funded at 1.5 percent.
  - Market adjustment to the ranges of 1.5 percent, effective December 7, 2019.
  - Increase minimum starting hourly rate to \$16.00 by the end of the fiscal year.
- Provide at least a \$1.00 per hour increase to current eligible employees, with good performance, in the Salaried or Hourly Pay Plans, earning less than \$33.33 per hour by the end of FY 2020, as a combination of merit and market adjustment.

- **Benefits**

- No medical plan premium increase to HSA Plan A, PPO Plan D, or PPO Plan E, for all tiers.
- Reduce the current HSA Plan B premiums, for all tiers, by five percent in 2020.

- Discontinue HRA Plan C medical plan.
- Enhance plan design in HSA Plan A medical plan.
- Enhance the specialty drug benefit in the prescription drug plan.
- Provide city-paid Hospital Indemnity coverage for all employees covered by the city's health plan.
- Add adult orthodontia coverage to the dental plan.
- Add additional employee-paid voluntary benefits, such home, auto, ID theft, and legal.
- Replace leave awarded for non-use of sick time to one personal day per year.
- Add a one percent city contribution to a deferred compensation plan for employees in the Charlotte Firefighters' Retirement System beginning in January 2020.

## FY 2020 COMPENSATION RECOMMENDATIONS

### Public Safety Pay Plan

The city's Public Safety Pay Plan, as shown in **Attachment B**, 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. The following recommendations are made:

- Merit steps of 2.5 percent to five percent be funded.
- Market adjustment to the pay steps funded at 1.5 percent effective July 6, 2019.
- Revisions to Police Officer steps to increase the city's ability to attract and retain Police Officers.
  - Merge steps seven and eight from two 2.5 percent steps to one five percent step.
  - Merge steps nine and ten from two 2.5 percent steps to one five percent step.
  - Move the merit date of all Police Officers on step eight and above to July 6, to prevent leapfrogging.
- Create Senior Police Officer I step for eligible Police Officers to receive a five percent step the later of July 6, 2019, or one year from reaching the top police officer step.
- Implement a Senior Police Officer II program in FY 2020
  - Officers who have completed SPO I requirements can enroll in the program in FY 2020 and be eligible to receive a five percent salary step the later of one year from reaching SPO I step or December 2020.
- Adjust Police Sergeant steps by 5 percent each.
- Revisions to Fire steps to better align with market competitiveness.
  - Add a 2.5 percent step to Fire Engineer.
  - Adjust Fire Captain steps by 2.5 percent each.

### Salaried Pay Plan

The city's current Broadbanding Pay Plan covers all salaried 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 like there is for employees in the Public Safety and the Hourly Pay Plans. Merit increases are based on the employee's performance and the employee's pay rate in relation to market.

FY 2020 recommendations include:

- Create a salaried pay plan for employees, in professional, management, and executive positions, as reflected in **Attachment C**. The proposed new pay plan will consist of 26 traditional ranges, each with a minimum and maximum equal to 80 percent and 125 percent, respectively, of benchmarked market data.
- Transition employees from Broadbanding to the new Salaried Pay Plan in FY 2020. No employee will receive an increase as a result of this recommendation, because no employee's salary falls below the minimum of the range for their job classification.

- Funding for a three percent merit pool. Department Directors will be held accountable for staying within department personnel services budget. Pay decisions will be based on an employee's level of performance and a comparison of current salary to the competitive rate for their specific job. Increases may be awarded as base pay and/or lump sum on the employee's merit.

### **Hourly Pay Plan**

The city's Hourly Pay Plan covers hourly employees in labor, trades, and administrative positions. This pay plan consists of 20 traditional ranges, each with a minimum and maximum. Hourly employees receive an annual market adjustment equal to half of the Salaried Pay Plan merit percentage increase. These employees also receive a merit increase each year equal to half of the Salaried Pay Plan merit percentage increase, on average. Merit increases are based on the employee's performance and the employee's pay rate in relation to the competitive rate for their specific job. The following recommendations are made:

- Funding for a 1.5 percent merit pool. Department Directors will be held accountable for staying within budget. Pay decisions will be based on an employee's level of performance and a comparison of current salary to the midpoint for their specific job. Increases may be awarded as base pay or lump sum on the employee's merit date.
- A 1.5 percent market adjustment to the Hourly Pay Plan, as reflected in **Attachment D**. Hourly employees will receive this increase effective December 7, 2019.

### **General Employees Currently Earning Below \$16.00 per hour**

In FY 2018, City Council brought the minimum starting pay for City of Charlotte employees to \$15.00 per hour. To continue to attract and retain employees in a competitive market, to remain an employer of choice, and to provide good paying jobs, it is recommended that the city's minimum pay be increased to \$16.00 per hour by the end of FY 2020. The following recommendations are made:

- Funding to bring all non-intern/apprentice employees, with good performance, hired prior to July 6, 2019 making less than \$16.00 per hour to the city's minimum starting pay of \$16.00 per hour by the end of FY 2020 through a combination of merit and market adjustment.
- Funding to bring all non-intern/apprentice employees, with good performance, hired on or after July 6, 2019 making less than \$16.00 per hour to the city's minimum starting pay of \$16.00 per hour by the end of FY 2020 through market adjustment.

### **General Employees Currently Earning Below \$33.33 per hour**

It is also recommended that eligible employees in the Salaried and Hourly Pay Plans, with good performance, earning less than \$33.33 per hour, receive at least a \$1.00 per hour increase by the end of FY 2020, as a combination of merit and market adjustment. This will ensure these employees receive a three percent or higher increase and avoid any compression that may have resulted from the increase to minimum pay.

## **FY 2020 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; employee assistance program; and disability coverage.

It is recommended that the city's allocated funding remain flat for FY 2020.

### **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 \$475,000 per individual in a calendar 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**

- BlueCross BlueShield of North Carolina is the claims administrator for the self-funded medical insurance plan. The city is currently conducting a rebidding process for these services.
- It is recommended that the City Manager or designee be authorized select the vendor and execute the contract and further contract amendments with the selected vendor upon completion of the rebidding process.
- Recommended plan design changes include:
  - Discontinue HRA Plan C (PPO Plan with Health Reimbursement Account).
  - Reduce the Individual Deductible and Out-of-Pocket Maximums in HSA Plan A from \$6,550 to \$4,000.
  - Reduce the Family Deductible and Out-of-Pocket Maximums in HSA Plan A from \$13,100 to \$8,000.
  - Reduce the prescription drug specialty tier maximum by \$50 in PPO Plan D and PPO Plan E.

### **Active Employee Medical Premiums**

- Effective January 1, 2020 no medical plan premium increase to HSA Plan A, PPO Plan D, or PPO Plan E, for all tiers.
- Effective January 1, 2020 reduce HSA Plan B premiums, for all tiers, by 5 percent.
- Provide the City Manager or designee the authority to establish the wellness incentive design within the overall health insurance budget.
- Provide the City Manager or designee the authority to continue the income based premium relief program, establish program criteria and income means testing.

### **Non-Medicare Retiree Premiums**

- Effective January 1, 2020 reduce HSA Plan B premiums, all tiers, by 5 percent.

- Effective January 1, 2020 no medical plan premium increase to HSA Plan A, PPO Plan D, or PPO Plan E, for all tiers, for retirees with 20 years of service.

#### **Medicare-Eligible Retiree Premiums**

- As part of the FY 2010 budget process, City Council provided the City Manager or 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 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.
- No changes to the current cost share philosophy for retirees in this plan are recommended.

#### **Employee Health Clinic**

- Currently the MyHealth employee health clinic is administered by Our Health. The current contract will expire December 31, 2019 with one renewal remaining.
- Provide the City Manager or designee the authority to enhance the scope of services and execute the contract renewal.

#### **Dental Plan/Premiums**

- The dental plan is administered by Ameritas. The current policy will expire December 31, 2019. The City is currently conducting a rebidding process for these services.
- It is recommended that the City Manager or designee be authorized select the vendor and execute the policy and further policy amendments with the selected vendor upon completion of the rebidding process.
- Provide the City Manager the authority to establish the dental premium structure within the overall health insurance budget.
- Recommended plan design changes include:
  - Addition of adult orthodontic coverage.
  - Based on the rebidding, other plan design enhancements may be available. Provide the City Manager or designee the authority to make plan design changes based on vendor selection outcome.

#### **Vision Plan/Premiums**

- The vision plan is fully insured and administered by VSP. It is recommended that the City Manager or designee be authorized to approve plan design upon receipt of renewal from VSP.

#### **Employee Assistance Program**

- The city currently offers an Employee Assistance Program (EAP) administered by Business Health Services (BHS). The current contract will expire December 31, 2019. The city is currently conducting a rebidding process for these services.
- It is recommended that the City Manager or designee be authorized select the vendor and execute the contract and further contract amendments with the selected vendor upon completion of the rebidding process.

### **Hospital Indemnity**

- The city currently contracts with Voya to provide voluntary, employee-paid Hospital Indemnity coverage.
- It is recommended that this benefit be converted to a city paid benefit for employees as it is an enhancement to the medical plan offering. The benefit would be provided to all employees covered by the city's medical plan. Employees would have the opportunity to purchase coverage for their covered family members.
- The city is currently conducting a rebidding process for these services. It is recommended that the city Manager or designee be authorized select the vendor and execute the policy and further policy amendments with the selected vendor upon completion of the rebidding process.

### **Voluntary Benefits**

- It is recommended the city continue to enhance the benefits offering by providing access for employees to purchase additional employee-paid voluntary benefits that would provide income protection and security. These insurance benefits may include home, auto, ID theft and legal. A bidding process is currently underway to assess the options available and secure the most favorable pricing for these options.
- It is recommended that the City Manager or designee be authorized to establish the new plans, select a vendor and execute the policy and further policy amendments with the selected vendor.

### **Stop Loss Insurance**

- The city currently contracts with BlueCross BlueShield of North Carolina for stop-loss insurance to provide protection against catastrophic or unpredictable medical claims. The policy expires December 31, 2019.
- The city will be conducting a rebidding process for stop-loss insurance. It is recommended that the city Manager or designee be authorized to either renew the current contract or select a new vendor(s) and execute the contract and further contract amendments with the selected vendor(s) upon completion of the rebidding process.

### **Leave**

- The city currently awards four hours of vacation for every thirteen weeks an employee does not use sick leave. It is recommended that the City Manager or designee be authorized to replace this leave program into an award of one personal day per calendar year, effective January 1, 2020. This personal day must be used in the year received and will not be eligible for carry-over to future years. In addition, the personal day will not be paid out upon termination or retirement.

### **Deferred Compensation**

- It is recommended the City Manager or designee be authorized to add a one percent city contribution to a deferred compensation plan for employees in the Charlotte Firefighters' Retirement System beginning in January 2020.



## **Attachments**

**Attachment A – Market Movement Summary**

Summary of actual market movement for 2015-2018, 2019 projected market movement, and the five-year market movement average.

**Attachment B – Recommended FY 2020 Public Safety Pay Plan Structure**

New minimum, maximum and step rates in the Public Safety Pay Plan based on the 1.5 percent structural market adjustment recommended for FY 2020.

**Attachment C – Recommended FY 2020 Salaried Pay Plan Structure**

Twenty-six range Salaried Pay Plan recommended for FY 2020.

**Attachment D – Recommended FY 2020 Hourly Pay Plan Structure**

New minimum and maximum rates in the Hourly Pay Plan based on the 1.5 percent structural adjustment recommended for FY 2020.