

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 2021 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 survey information was compiled and analyzed 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 *2019/2020 U.S. Compensation Planning Survey* reports that salary increase budgets have remained close to 3 percent for the last several years and are expected to continue to do so in 2020.
- According to the World at Work's *2019/2020 Salary Budget Survey*, respondents report that total salary increase budgets in the United States increased slightly from one year ago to a 3.2 percent average.
- AON Hewitt's *2019/2020 U.S. Salary Increase Survey* reports projected salary increase spending for 2020 is expected to increase modestly to 3.2 percent and is the highest projected level of spending since 2008.

- Consumer Price Index reports health care trend in 2019 at 4.3 percent for the Public Sector and Education cohort. This compares to the city's trend at 2.8 percent.
- Willis Health Outcomes Report indicates the city's plan members with the top 10 chronic conditions had fewer office visits, ER visits and hospital admissions than the norm.
- According to the annual Mercer *National Survey of Employer-Sponsored Health Plans*, 2019 enrollment in high-deductible account-based plans rose from 33 percent of all covered employees last year to 36 percent in 2019. These plans are offered by 71 percent of large and midsize employers, up from 68 percent in 2018, and by 37 percent of small employers.

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 4, 2020.
 - Revisions to Police Officer steps to increase the city's ability to attract and retain Police Officers.
 - Create Senior Police Officer II step for eligible employees on December 5, 2020, increasing top pay by five percent.
 - Revisions to Police Sergeant steps to maintain structural integrity within the Public Safety Pay Plan effective December 5, 2020.
 - Revisions to Fire steps to better align with market competitiveness effective November 14, 2020.
 - Add one 2.5 percent step to the top of Firefighter II and two 2.5 percent steps to Firefighter Engineer effective November 14, 2020.
 - Firefighter Engineers at top of scale to receive two 2.5 percent steps on or after November 14, 2020.
 - Eliminate the bottom step of Fire Captain and adjust remaining steps by 3.75 percent each effective November 14, 2020.
- In the Salaried Pay Plan, the following is recommended:
 - Merit increase pool funded at 3.0 percent.
- 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 5, 2020.

- **Benefits**

- No employee medical plan premium increase.
- No non-Medicare eligible medical plan premium increase for retirees with 20 years of service.
- Medical plan design and cost share enhancements will be evaluated once impact of COVID-19 is determined.

If enhancements are possible, they will be done within the overall health insurance budget.

- Increase Employee Assistance Plan (EAP) visits to ten (10).

FY 2020 COMPENSATION RECOMMENDATIONS

Public Safety Pay Plan

The city's Public Safety Pay Plan, as shown in **Attachments B and C**, 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 4, 2020.
- Revisions to Police Officer steps to increase the city's ability to attract and retain Police Officers.
 - Merge steps nine and ten from two 2.5 percent steps to one five percent step.
- Create Senior Police Officer II step for eligible Police Officers to receive a five percent step the later of December 5, 2020, or one year from reaching the SPOI step.
- Eliminate the bottom step and add a five percent step to the top of Police Sergeant effective December 5, 2020.
- Revisions to Fire steps effective November 14, 2020, to better align with market competitiveness.
 - Merge Firefighter II steps four and five from two 2.5 percent steps to one five percent step.
 - Merge Firefighter II steps six and seven from two 2.5 percent steps to one five percent step.
 - Add a 2.5 percent step to the top of Firefighter II.
 - Merge Firefighter Engineer steps one and two from two 2.5 percent steps to one five percent step.
 - Merge Firefighter Engineer steps three and four from two 2.5 percent steps to one five percent step.
 - Add two 2.5 percent steps to Firefighter Engineer.
 - Eliminate the bottom step of Fire Captain and adjust remaining steps by 3.75 percent each.
- Firefighter Engineers at top of scale by the end of FY 2020 to receive two 2.5 percent steps the later of November 14, 2020 or their FY 2021 merit date.

Salaried Pay Plan

The city's Salaried Pay Plan covers all salaried city employees with the exception of non-managerial Sworn Police and Uniformed Fire employees. This pay plan consists of 26 traditional ranges, each with a minimum and maximum. 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 the competitive rate for their specific job. The following recommendations are made:

- 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 date, with merit dates varying by employee throughout the year.

- A 1.5 percent market adjustment to the Salaried Pay Plan, as reflected in **Attachment D**. The impact of this recommendation will be to change the minimum and maximum rates in the pay grades. Because no employee salary falls below the minimum of their respective pay grade, no employee will receive an increase as a result of this recommendation.

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, with merit dates varying by employee throughout the year.
- A 1.5 percent market adjustment to the Hourly Pay Plan, as reflected in **Attachment E**. Hourly employees will receive this increase effective December 5, 2020.

FY 2021 BENEFITS RECOMMENDATIONS

Impact of COVID-19

COVID-19 is placing growing pressure on the healthcare system and will likely result in an increase in employer health care plan costs in 2020. Despite this, no healthcare premium increases will be passed on to employees in 2021.

Other healthcare costs such as dental and vision will likely decrease due to the reduction in discretionary healthcare, however, once normal daily activities resume, a spike in those costs may occur due to the delayed treatment during the pandemic. Additionally, life insurance and short-term disability will be impacted by the pandemic based on infection and mortality rates as well.

In compliance with the Families First Coronavirus Act, the city has implemented emergency paid sick leave and expanded family medical leave.

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 benefit funding for active positions remain flat for FY 2021.

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 \$500,000 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.

In 2019, employees did not experience a premium increase. In addition, employees paid \$1.5M less in medical out of pocket expenses. This further indicates the positive experience of the employee health clinic – MyClinic.

The following recommendations are being made:

Medical Plans

- BlueCross BlueShield of North Carolina is the claims administrator for the self-funded medical insurance plan.
- Plan design enhancements will be reviewed once the impact of COVID-19 is known. It is recommended to provide the City Manager or designee the authority to make plan design enhancements within the overall health insurance budget.

Prescription Drug Plan

CVS/Caremark is the pharmacy benefits manager for the prescription drug plan. A rebidding process is currently underway.

It is recommended that the City Manager or designee be authorized to select the vendor and execute the contract and further contract amendments with the selected vendor upon completion of the rebidding process.

Active Employee Health Plan Premiums

Due to the unknown financial impact of COVID-19, the following premium recommendations are being made:

- Recommend no employee premium increase.
- Provide the City Manager or designee the authority to establish the 2021 medical plan premiums within the overall health insurance budget.
- Provide the City Manager or designee the authority to establish the wellness incentive design within the overall health insurance budget.

Retiree Medical Eligibility Clarification

Employees hired before 07/01/2009 with 10 years of continuous city service are eligible for retiree medical benefits. It is recommended to clarify the eligibility language to “10 years of continuous city services in a medical benefits-eligible position”.

Non-Medicare Retiree Health Plan Premiums

Due to the unknown financial impact of COVID-19, the following premium recommendations are being made:

- Recommend no retiree premium increase in the 20 Years of Service category.
- Provide the City Manager or designee the authority to establish the 2021 medical plan premiums within the overall health insurance budget.

Medicare-Eligible Retiree Health Plan

- This plan is fully insured and currently administered by AmWINS. 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

The employee health clinic is administered by Our Health. The current contract will expire December 31, 2020. A rebid process is currently underway for healthcare, wellness and occupational health services. It is recommended that the City Manager or his designee be authorized to select a vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.

Employee Assistance Program (EAP)

The EAP is administered by MyGroup. It is recommended that the City Manager or his designee be authorized to approve benefit enhancements to this contract to include ten (10) counseling sessions per issue and enhanced behavioral health services for public safety employees.

Dental Plan

The dental plan is fully insured and administered by Ameritas. A rebid process is will be initiated in 2021. It is recommended that the City Manager or his designee be authorized to select a vendor(s), determine the scope of services, execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.

Vision Plan/Premiums

The vision plan is fully insured and administered by VSP. The current policy will expire December 31, 2020. A rebid process is currently underway. It is recommended that the City Manager or his designee be authorized to select a vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.

Since this plan is fully insured, it is recommended that the City Manager or his designee be authorized to approve vision plan design and premiums.

Flexible Spending Account & Health Savings Account Administration

The Flexible Spending Accounts and Health Savings Accounts are administered by Health Equity. The current contract will expire December 31, 2020. The city will be conducting a rebidding process for administration of these plans. 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.

Benefits Administration Platform

The city currently has a contract with Hodges Mace for benefits administration platform. The currently contract will expire December 31, 2021.

It is recommended that the City Manager or his designee be authorized to either renew the current contract(s) or select a new vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the renewal process.

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, 2020.

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.

Benefits Consulting Services

The city currently has a contract with Willis Towers Watson for benefits consulting services. The current contract expires December 31, 2021. The city will be conducting a rebidding process for benefits consulting services.

It is recommended that the City Manager or his designee be authorized to either renew the current contract or select a new vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.

Vacation

Currently vacation time is accrued weekly. It is recommended that the City Manager or designee be authorized to change the vacation from a weekly accrual to a twice per year advancement.

Military Leave

It is recommended the city continue to provide military leave supplement pay for employees on active military duty.

Attachments

Attachment A – Market Movement Summary

Summary of actual market movement for 2016-2019, 2020 projected market movement, and the five-year market movement average.

Attachment B – Recommended FY 2021 Public Safety Pay Plan Structure Effective July 4, 2020

New minimum, maximum and step rates in the Public Safety Pay Plan based on the 1.5 percent structural market adjustment recommended for FY 2021.

Attachment C – Recommended FY 2021 Public Safety Pay Plan Structure Effective November 14, 2020

Structural revisions to Public Safety Pay Plan recommended for FY 2021.

Attachment D – Recommended FY 2021 Salaried Pay Plan Structure

Twenty-six range Salaried Pay Plan recommended for FY 2021.

Attachment E – Recommended FY 2021 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 2021.