

## *Classification Study Status Report*

*Act 85, Sec. E.108.1 (c), 2017 Legislative Session, The Department shall submit a status report to the General Assembly on or before January 31, 2018 that identifies progress in planning for the development and implementation of a new Classification and Compensation system.*

### **Background:**

In accordance with Act 85, Sec E.108.1, 2017 Legislative Session, and as a continuation of classification system analysis begun pursuant to 2015 Acts and Resolves No. 58, Sec. E.100.1, the Department of Human Resources (DHR) issued two formal Requests for Information (RFI) and focused on gathering information to better understand job evaluation options and available consultant resources. DHR also explored information to assist in understanding the costs associated with modernizing the classification and compensation system. In previous years DHR contracted for a diagnostic assessment of the current systems. Gallagher Benefit Services conducted the assessment and issued a report in the autumn of 2016 (**Appendix A**) DHR issued status reports in November 2016 and January 2017 (**Appendices B and C**).

### **Actions Taken:**

#### **Formal Requests for Information Issued**

Act 85 required the Department of Human Resources to issue an RFI for consultant services to assist DHR with needs assessment, subject matter expertise, and project planning necessary to identify and procure a new classification and compensation system. Two formal RFIs were issued in August 2017 (**Appendices D and E**). One RFI asked for information regarding job evaluation methods, and the other asked for information regarding consultant services to conduct needs assessment, project planning, and serve as a subject matter expert. No responses were received to either RFI. Feedback from vendors indicated two things: 1. they were reluctant to provide information if their system did not match our anticipated requirements; and 2. they were not sure what we were really trying to accomplish. We also heard from a potential bidder that they had ruled themselves out due to the estimated cost associated with the entire scope of work described in the RFI. They verbally informed us that to perform the scope of work (needs assessment, assist with project planning, and provide subject matter guidance) it would cost at least \$175,000 dollars for the first year, well above what they believed the state would be willing to spend.

#### **Outreach to other States**

Following review of the feedback and revisiting the formal RFI documents DHR determined that the RFIs as written were clear and understandable to potential vendors and consultants. After considering next steps DHR decided to seek information informally, focusing first on how other state governments manage classification and compensation and then asking if they have recently modernized the systems they use.

In September of 2017, DHR solicited information from other states through the National Association of State Personnel Executives (NASPE). The request is included below. Full responses can be found in **Appendix F**.

*Dear State HR Executive,*

*The State of Vermont is trying to understand our options for modernizing our classification and compensation systems. We are interested in how other states manage jobs and pay for the state*

workforce. Below are a few questions, however, we welcome any information you can provide about the systems you use.

- 1) Does your state use a tool/system to evaluate/measure jobs?
  - a. What is the type and name of the system(s)?
  - b. Is this tool used for all jobs, or only certain occupations or groups?
  - c. How does the tool/system integrate with salary structures, or specific compensation programs? Please explain.
  
- 2) Has your state recently implemented a new system for managing the job evaluation process? If so is there someone specific we can contact to learn more?

The fifteen states responding to our inquiry were: New Mexico, Louisiana, Ohio, Alaska, Utah, South Dakota, New Jersey, North Carolina, Nevada, Kentucky, Iowa, Pennsylvania, Florida, Rhode Island, and New York. In reviewing the responses, it became clear a shared or common terminology for classification/job evaluation activities does not exist. Some responders interpreted the term “system” to mean an information technology system. However, others interpreted the term as we do, to mean the tool or process for evaluating job content and slotting into relative levels, such as a point factor job evaluation system. Additional research and follow up questions were necessary as a result.

The responding states report a variety of approaches to classification/job evaluation. Point factor job evaluation systems, primarily one known as the Hay method, are in use in seven states, two states use a decision banding system for at least some of their jobs, and the rest use a mixture of job evaluation methods, such as ranking, and market pricing with benchmarking as part of their approach to classification/job evaluation.<sup>1</sup>

The process for managing salary in conjunction with classification/job evaluation varies widely, and in some cases a change in classification **does not** necessarily result in a pay change. Many states manage a variety of pay plans, including step/grade and broad band systems depending on the employment category or occupational group. It was clear that in most states classification/job evaluation is not a significant ongoing process resulting in pay changes in the same way it is in Vermont. Rather, compensation administration is the primary activity. Classification plan maintenance is related to compensation, but is not the primary driver for pay changes, as is the case in Vermont.

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<sup>1</sup> Job evaluation methods: Point factor: jobs are expressed in terms of key factors, such as knowledge, problem solving, and accountability. Points are assigned to each factor in order of importance. The points are totaled to determine the pay rate for the job. Jobs with similar point totals are placed in similar pay grades. Decision Band: the value of jobs is based on level of responsibility. Responsibility level is based on the extent of decision making involved. Ranking: jobs are arranged based on their value to the organization. Jobs can also be arranged according to the relative difficulty in performing the duties. The jobs are examined as a whole, rather than based on specific factors in the job; the jobs are ranked from highest to lowest value. Market pricing: job value is based on the external value of jobs, supporting pay rates that are market sensitive. Market pricing involves matching an organizations jobs (benchmarking) to similar jobs in the market and comparing pay for those jobs with comparable jobs in other organizations.

### Researching Job Evaluation/Compensation Studies Conducted in other States

In addition to the inquiry to other states outlined above, we performed research of job evaluation options including:

- Careful review of the results of two surveys we participated in, New York State conducted one, and the other by the National Compensation Association of State Governments (NCASG), see **Appendix G**;
- Review of websites specific to state government classification and compensation divisions;
- Reaching out to leaders in classification and compensation as well as individuals responding to our NASPE inquiry.
- Review of classification and compensation websites for the above responding states, as well as other state human resource departments. Additional states reviewed included North Dakota, South Carolina, Connecticut, Kansas, Michigan, and Delaware. Samples of classification and compensation guidance and studies from other states are included in **Appendix H**.

### Costs associated with Classification and Compensation Modernization projects

We also attempted to gain better understanding of the potential cost for a comprehensive classification and compensation modernization project. The estimated costs for similar projects in other states are difficult to obtain because project scope and approach vary by state. It is also difficult to identify the costs incurred in other states because the information is not outlined on public websites, and inquiries to other states received either very general or no responses. We were able to obtain some approximate costs for activities associated with classification and compensation modernization efforts in public sector organizations with approximately the same number of classified employees as Vermont:

- \$1M - \$1.25M: Statewide Classification Study over 2 years
- \$125,000-\$200,000: Baseline Total Compensation Study
- \$25,000: Develop a Total Compensation Philosophy
- \$50,000: Adjust pay schedules
- \$50,000: Design and develop performance-based pay model

### Research Observations

All state human resources organizations have much in common because of our similar responsibilities for ensuring compliance with civil or merit service laws and rules. However, various states use different resources and tools to manage HR functions. After researching and gathering information about classification and compensation in other states we learned:

1. States use a variety of tools for evaluating jobs. Some use point factor methods, such as the commonly used Hay method, others use ranking of jobs, some use market pricing, and still others use multiple methods based on occupational group.
2. Many states have very structured classification systems in place. For example, changing a job classification, or creating a new classification, can only be done with pre-approval based on budget impact. In some states the governor issues formal executive orders to change and implement classification actions. (Example: Kansas and Michigan).

3. Many states have a decentralized process for managing day-to-day job and pay-related activities, while the central human resources department focuses on system maintenance, class studies, market analysis, and similar pay plan maintenance activities.
4. In some states salaries do not change, or do not change significantly, because of reclassification. (Example, Kansas).
5. Most states appear to focus less on job evaluation and ongoing classification reviews than we do. Instead they use other tools to manage compensation. Most use job evaluation to update or to revise the existing class structure periodically. Day to day activities do not involve evaluating changes to individual positions using a formal job evaluation process. Creating and reallocating job classes is more controlled, involves planning, and multiple levels of approval.
6. Other states seem to focus on managing compensation, as a primary activity rather than conducting ongoing reclassification. (Example: Louisiana)
7. Complicated, out-of-date, and inefficient pay and job structures are a problem for many organizations. Modernizing classification and compensation systems is at least an area of interest for other states. Many of the states listed above, are exploring modernization options, or have initiated projects to implement new classification and/or compensation systems.
8. “Modern” solutions, previously recommended to Vermont, such as compressed class structures, pay-for-performance, and pay banding, are in place in a few states. However, at least one state is exploring options for moving away from pay banding and is expanding their class structure. Even more modern systems can be difficult to administrator. (Examples: South Carolina)
9. It is not entirely clear what factors lead to successful implementation of classification and compensation projects, although it appears that scope control and well-structured project governance are factors for success. (Example: North Dakota)
10. Some of the issues that appear to hamper such projects are: ill-defined project; too broad scope; complexity of the job evaluation/pay methods being implemented; lack of ongoing funding; political changes (new administrations with different priorities); and insufficient support at all levels. (Example: Rhode Island and Louisiana)

### Vermont Classification and Compensation

Vermont law requires the DHR to adopt a “uniform and equitable plan of classification for each position in state service...” The broad aim of classification or job evaluation is to maintain comparable pay grade assignments for comparable work across all agency lines. Through job evaluation, we rank all classified positions in relation to each other by gauging them against the same “ruler.” Among the many factors considered are the difficulty, demands and responsibility of each role. The key to fairness is the uniform approach to evaluation. The DHR uses the Willis Position Evaluation Method/Tool, “Willis”, to rate all classified jobs. It is a common misconception that Willis IS the classification system. This is incorrect. The classification system is an amalgam of both Willis and the collective bargaining agreements (CBAs), as described below.

#### **The Classification System**

##### *Willis*

The Willis Position Evaluation Method/Tool (**see Appendix I**) enables a classification analyst to compare very different kinds of work by the same method of measurement. Using detailed information about the role, the analyst scores the four main components of a position. These are: Knowledge and Skills, Mental Demands, Accountability, and Working Conditions. These factors are weighted differently. Further information on the Willis Tool can be found on the DHR website at

<http://humanresources.vermont.gov/content/guide-position-management-willis>. The total score for all four categories equals the final rating. It is important to note that job evaluation does not measure workload or performance, nor does it measure longevity or individual employee education and experience.

### ***CBA's***

When the job evaluation process is complete, and a pay grade has been assigned, the incumbent employees in the job (either a single position or an entire class) will receive a pay adjustment because of a change in pay grade. Pay adjustments are governed by the Collective Bargaining Unit Agreement Wage and Salary articles <http://humanresources.vermont.gov/labor-relations/labor-relations-policies/collective-bargaining-agreements>. The CBAs require pay adjustments for a 1 or 2 pay grade increase to be no less than 5% and for changes of 3 or more pay grades no less than 8%. Pay adjustments resulting from classification actions are implemented retroactively, to the date the Classification Division received the request for classification review.

Per the CBAs, employees subject to a classification action have the right to request an informal meeting, and if the position was determined to be properly classified or was reallocated to a lower pay grade, the employee can grieve the classification decision. Employees who are ascertained to be properly classified following a grievance hearing can appeal to the Vermont Labor Relations Board.

The CBAs allow employees to submit requests for classification review for their individual position at any time, and as often as they wish. Management may also submit requests for classification review at any time which is for any single-position job class, filled or vacant, and may also submit as often as they wish. Only management, DHR, and VSEA or VTA may initiate requests for classification analysis of multiple position job classes, "class action request". Per the CBAs, class action requests are submitted during July and August of each year, and classification analysts must complete the evaluations by December 31.

There is no requirement that employees, management, VSEA, or VTA provide DHR advance notice or plans to submit classification review requests, or class action requests. No pre-approval process is in place before initiating a review or analyzing a request, and there is no mechanism in place for addressing the budget impact prior to initiating these. The only budget oversight required is if a class action request has an impact of 1% or greater on the submitting department's salary and wage portion of the personal services budget (per the CBAs). DHR has been unable to develop a proactive process for managing the classification system due to the reactive nature of the current system, leading to a lack of controls for managing the workload. Vermont currently has approximately 1,800 active classified job titles, and 7,200 classified employees. Some job titles have been essentially unchanged since 1986 when the current classification system (Willis in combination with terms of the CBAs) was implemented, and some job titles are under review today. The average number of classification reviews performed each year is 700 to 1,000, with an impact currently on over 1,200 positions. There are currently three full time classification analysts to manage the workload.

### **Recommendations:**

1. Continue to work toward full modernization of the classification and compensation systems in the executive branch through the following: Contract with an HR classification and compensation

consultant specializing in state government, or with a public-sector focus. Requires RFP process and funding. The consultant duties to include:

- a. Serve as a subject matter expert/resource for the state; and
  - b. Work with DHR to complete a full needs assessment of the classification and compensation systems, including: identifying options; developing and costing scope of work; and identifying barriers, risks, staffing impact, and training needs. This analysis will include exempt employee compensation.
2. Continue in-house activities:
- a. Implement a policy or administrative bulletin to require a formal classification plan which includes:
    - i. Ongoing maintenance of the classification structure,
    - ii. Formal workforce planning process,
    - iii. A statewide schedule for classification requests,
    - iv. A process for pre-approval of management requested classification review, and
    - v. Collaboration with the unions to mutually agree upon a schedule for union-submitted class action classification reviews.
  - b. Develop and implement specific requirements, procedures, and processes for all classification reviews, regardless of the submitting entity. Potential requirements may include:
    - i. A thorough program and operational justification for each suggested review,
    - ii. Comprehensive documentation of the cost impact, and how the current and future budget impact will be managed,
    - iii. Formal planning process to include vetting by DHR and the Department of Finance and Management **prior** to submission of classification requests,
    - iv. A timeline for planning and pre-approval to allow thorough vetting and budget impact analysis.
  - c. Accelerate and focus on the following activities performed by the classification division:
    - i. Review current class structure,
    - ii. Abolish job classes that are no longer in use,
    - iii. Revise out-of-date job specifications, and
    - iv. Develop a plan to retire out-of-date classes where a more modern option is available.
  - d. Update classification and compensation policies
  - e. Recognize and evaluate the impact of classification on compensation, and develop recommendations for improvement. Evaluation will include current compensation options that may be under-utilized.
  - f. Develop an overall compensation philosophy.

### Conclusion:

Vermont is not alone in struggling with out-of-date systems for managing pay and jobs. Issues to address include budget impact, inefficiency and ineffectiveness, system and process complexity, lack of sufficient controls, impact on ability to recruit and fill positions, increased turnover, and lack of resources to properly maintain compensation programs. Continuing to rely on a job evaluation tool implemented in

the 1980s, and a pay structure set up in the 1970s is not a long-term option. However, it is important to note that simply changing the job evaluation tool (Willis) will not resolve any of the issues associated with the current classification and compensation systems, except that the job evaluation tool which is used to comply with statute and which supports the CBA processes will be more up to date and supported. Replacing one part of the classification and compensation system, such as Willis, will not address the key issues. The current CBA process in Vermont allows unlimited classification actions, approximately 700-1,000 each year, and each classification action impacts budgets immediately and into the future.

A comprehensive modernization project does not need to be complicated, but it will require significant changes to bargained agreements and current practices. These changes will have a significant impact on all agencies and departments. Impact on DHR may be substantial – and staffing changes may be required to implement and manage more modern classification and compensation processes. Finally, without professional assistance, and modifications to the current unlimited classification request process, the current DHR staff will not be able to devote time and attention to the project.

It will not be easy, but Vermonters will be better served if costly inefficient systems for managing state employee jobs and pay are modernized.