NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

**The State Personnel Office (SPO) is working to increase staffing at agencies statewide. However, low unemployment in New Mexico and a strong national economy is increasing competition for workers. Under these circumstances, it is imperative that the state provide not only competitive salaries, but a benefit package that reflects worker preferences. Additionally, given the state's stagnant population and increased national competition, the state must act to retain current workers. Increasing worker recruitment and retention to ensure the proper functioning of government agencies will require a strong strategic vision and a renewed focus on the elements of total compensation, particularly the balance between salaries and benefits.**

**AGENCY:** State Personnel Office

**DATE:** August 27th, 2019

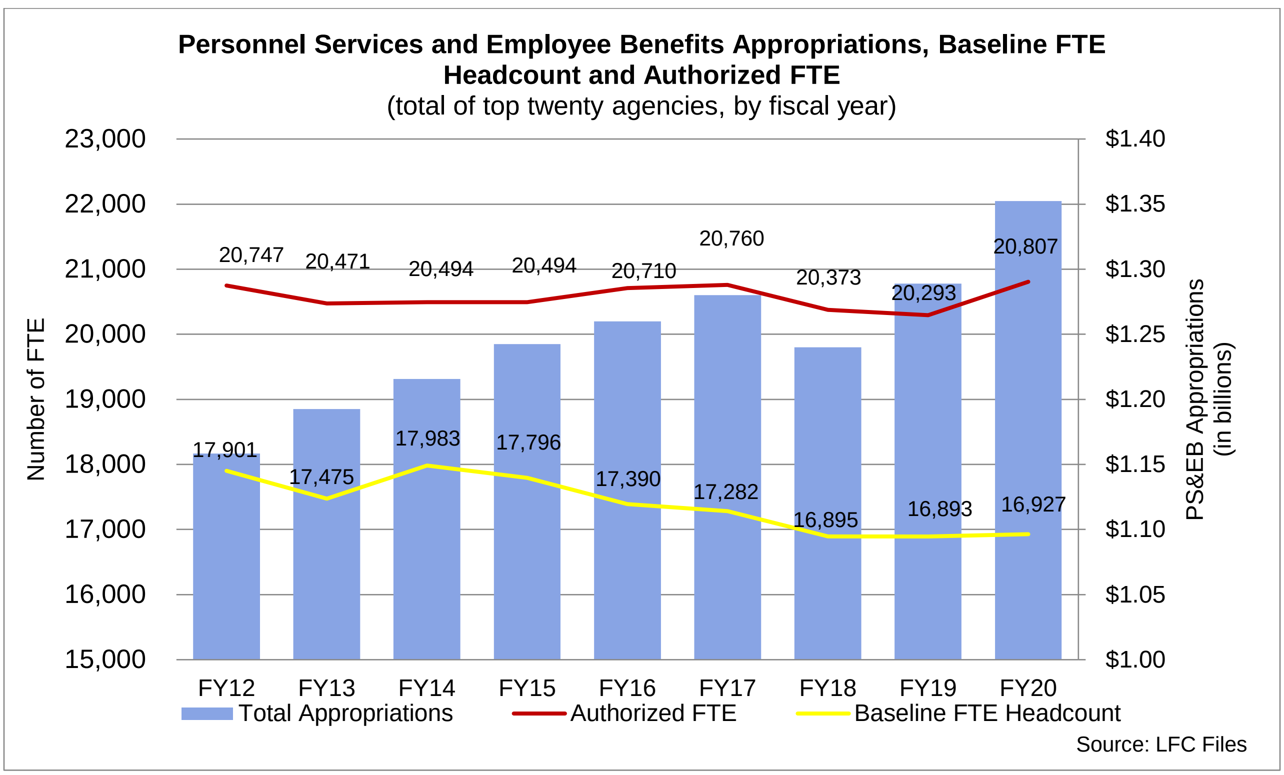
**PURPOSE OF HEARING:** Compensation status update

**WITNESS:** Pam Coleman, Director

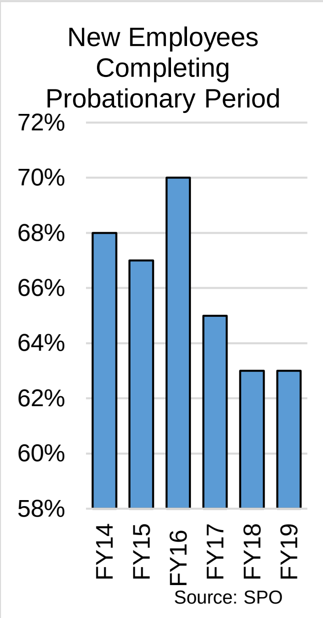
**PREPARED BY:** Connor Jorgensen, LFC Analyst

**EXPECTED OUTCOME:** Informational

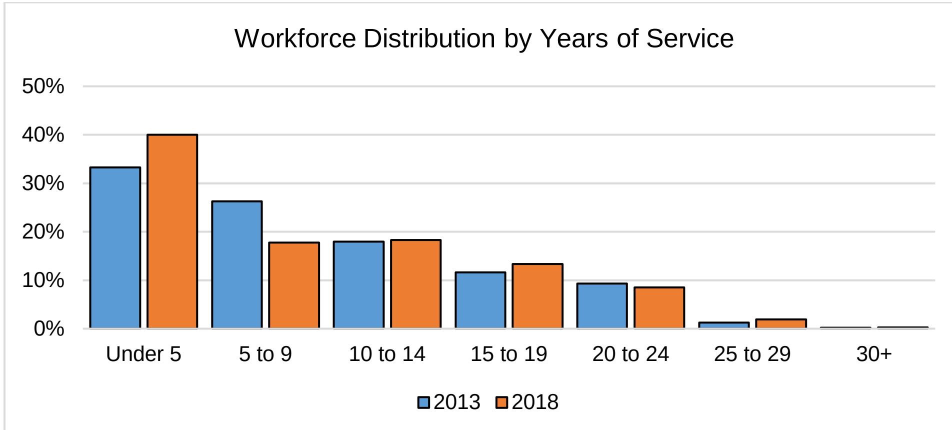
State funding for personnel has been increasing since FY12 when state budgets began recovering from the Great Recession of 2008. Despite the increases in funding, the number of filled full-time equivalent (FTE) positions remains well below the highs experienced in FY09; the 20 largest agencies in state government employed 20.3 thousand people and received $1.24 billion in personnel appropriations in FY09. As of July 1, 2019, there are 16.9 thousand individuals employed by these agencies and personnel appropriations of $1.35 billion.




Despite the increased appropriations, staffing levels generally trended down over the past decade. Vacancy rates increased as hiring freezes were implemented and agencies held back on hiring due to economic uncertainty. However, other factors also played a significant role. Between FY12 and FY18, SPO reported taking 68 days to fill a vacant position. The slow hiring process combined with a high turnover rate for employees in their first year of state service had the effect of reducing competitiveness and driving up state vacancy rates.




Data from the Public Employees' Retirement Association (PERA) show the state and local government workforce in New Mexico has not only shrunk, but is also much more likely to be made up of less experienced employees.




In 2013, 33 percent of the PERA workforce had less than 5 years' service credit while 26 percent had been in the system between 5 and 9 years. In 2018, the proportion with fewer than 5 years increased to 40 percent but only 18 percent had 5 to 9 years. This trend illustrates the difficulty in retaining public employees in New Mexico; current state and government workers appear less likely to view state employment as a long-term career than they were in the past.

The state's workforce is getting younger in addition to less experienced. While the total number of workers has fallen by 4 percent since 2013, the proportion of workers under 30 has increased by 4 percent while the number of workers aged 40-49 and 50-59 has fallen by 9 and 13 percent, respectively. The transition to a younger workforce may necessitate SPO re-examining the compensation package to ensure the benefits offered are of value to the contemporary state worker.

The State Personnel Office should consider whether the current compensation package is attractive to a workforce that is younger and less interested in spending a career in state service than prior generations.

## Compensation Adequacy

Determining compensation adequacy is often a question of goals. For example, employers may design a compensation philosophy that prioritizes increased retention through longevity pay or that intentionally pays salaries over the market rate to attract the best qualified employees in difficult-to-fill jobs or in remote areas. In order to determine compensation adequacy, many states look at the value of the total compensation package, salary and benefits, to see how it compares to the labor market.

### Components of Total Compensation

Total compensation refers to the mix of salary and benefits received by state employees and accounts for the total employer cost of employee compensation. Analysis of total compensation in New Mexico shows the state provides a disproportionate share of its compensation through benefits. In its 2018 compensation report, SPO states: "when compared to both public and private sectors, the state contributes significantly more to employees in both medical and retirement benefits."

Employer costs of employee compensation include salary, retirement benefits, insurance, and other costs such as Medicare, workers' compensation, and retiree health care. LFC analysis suggests that salary accounts for approximately 70 percent of the cost of total compensation, the second lowest in the region. However, salaries account for a much smaller proportion of total compensation for some employees. For example, correctional officers receive 52 percent of their total compensation in benefits.

**Employer Cost of Employee Compensation**

| State | Salary | Pension | Social Security | Insurance | Other | Total | % Salary |
|---|---|---|---|---|---|---|---|
| **New Mexico** | **51,223** | **8,831** | **3,176** | **7,928** | **1,767** | **72,925** | **70.2%** |
| Texas | 46,475 | 4,648 | 3,555 | 8,132 | 1,209 | 64,019 | 72.6% |
| Colorado | 62,956 | 9,758 | - | 9,835 | 573 | 83,122 | 75.7% |
| Nevada | 51,193 | 7,423 | - | 8,885 | 2,032 | 69,533 | 73.6% |
| Arizona | 46,548 | 5,493 | 2,886 | 8,245 | 675 | 63,847 | 72.9% |
| Utah | 55,547 | 6,180 | 3,444 | 9,368 | 1,444 | 75,982 | 73.1% |
| Wyoming | 54,571 | 7,607 | 3,383 | 13,051 | 1,741 | 80,354 | 67.9% |

Source: LFC Files

Pension contributions are the largest employer cost and are significantly higher in New Mexico than they are in surrounding states. Only one state, Colorado, has a higher employer pension contribution, however, Colorado state employees do not participate in social security. When all retirement contributions, including social security are accounted for, New Mexico pays approximately $12 thousand while the average pension contribution is approximately $9 thousand.

In addition to employer costs of employee compensation, employees must pay for costs of benefits, reducing their total take home pay. LFC analysis found that New Mexico state employees pay, on average, $4.6 thousand for retirement; employees in the region pay $4.8 thousand on average. However, the cost to state employees for insurance coverage, $3 thousand on average, is much higher than the $1.7 thousand paid by employees in the seven surrounding states. The discrepancy in insurance costs is the primary factor explaining New Mexico workers having the lowest proportion of take home pay in the region.

**Comparison of Total Compensation and Take Home Pay**

| State | Total Comp | Salary | Take Home Pay | % of Total Comp. |
|---|---|---|---|---|
| **New Mexico** | **72,925** | **51,223** | **39,919** | **54.7%** |
| Texas | 64,019 | 46,475 | 36,896 | 57.6% |
| Colorado | 83,122 | 62,956 | 54,613 | 65.7% |
| Nevada | 69,533 | 51,193 | 41,672 | 59.9% |
| Arizona | 63,847 | 46,548 | 36,937 | 57.9% |
| Utah | 75,982 | 55,547 | 47,118 | 62.0% |
| Wyoming | 80,354 | 54,571 | 48,603 | 60.5% |

Source: LFC Files

**Employer and Employee Cost of Health Insurance**

| | ER | EE | Total |
|---|---|---|---|
| NM | 7,928 | 3,021 | 10,949 |
| TX | 8,132 | 2,283 | 10,415 |
| CO | 9,835 | 2,047 | 11,882 |
| NV | 8,885 | 2,098 | 10,983 |
| AZ | 8,245 | 1,232 | 9,477 |
| UT | 9,368 | 1,653 | 11,020 |
| WY | 13,051 | 850 | 13,901 |

Source: LFC Files

**Employer and Employee Cost of Pension Contributions**

| | ER | EE | Total |
|---|---|---|---|
| NM | 8,831 | 4,595 | 13,426 |
| TX | 4,648 | 4,415 | 9,063 |
| CO | 9,758 | 6,296 | 16,054 |
| NV | 7,423 | 7,423 | 14,846 |
| AZ | 5,493 | 5,493 | 10,985 |
| UT | 6,180 | 3,333 | 9,512 |
| WY | 7,607 | 1,735 | 9,343 |

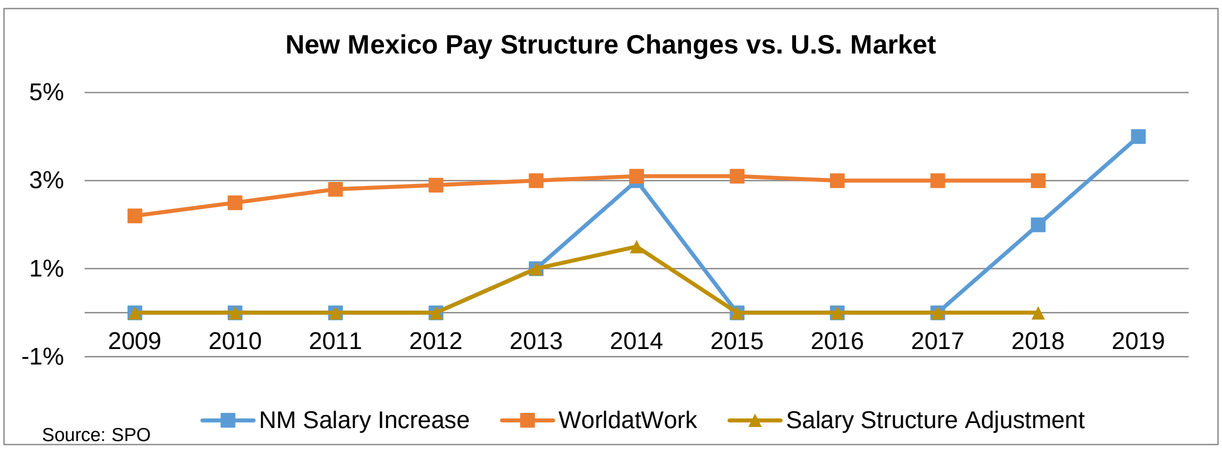
Source: LFC Files

While New Mexico's total insurance costs are in-line with regional state employers, a higher portion of the cost is paid by the employee. Additionally, all of the other states reviewed offered either a no- or low-cost (under $400 per year) insurance plan for single coverage. The cheapest annual single coverage plan for a New Mexico state employee is approximately $1.4 thousand. New Mexico's relatively high employee costs occur even as the state is the only one in the region that adjusts insurance premiums based on employee income.

### Compensation Increases

For the past several years, the Legislature has provided both across-the-board and targeted salary increases in the General Appropriations Act. The targeted increases tended to focus on direct service positions which had the largest impact on public health and safety such as police and correctional officers, nurses, and social workers. Across-the-board increases were given to offset the loss of purchasing power due to normal inflation and are thought of as being akin to a cost of living adjustment (COLA). While the COLAs appropriated kept salaries falling further behind the market, they were often not sufficient to match wage increases in the broader labor market.

Even in years when the Legislature provided COLA, SPO often did not adjust the pay structure. The graph below shows legislatively-authorized salary increases, average wage growth in the U.S. labor market, and adjustments made to the salary structure by SPO. With three changes between 2009 and 2018 and average U.S. wage growth of approximately 3 percent per year over this time, it is unsurprising that the pay structure has fallen significantly behind the market.




When a salary structure falls behind the market, the pay ranges assigned to individual jobs are affected. When a pay range is no longer sufficient to offer a competitive salary, agencies may use alternative pay bands (APB) to provide salaries in excess of SPO's recommended salary for a given position. The use of APB's continues to be common; in 2018, 25 percent of job classifications were assigned to an APB.

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Other indicators of an inadequate compensation system include a large proportion of workers not completing their first year of employment, or probationary period. For FY18, SPO reported that 63 percent of new employees completed their probationary period, a significant decrease from prior years. Additionally, SPO conducts an annual comparison of compensation between New Mexico and eight surrounding states and found New Mexico's average salary to be 9.1 percent lower than the comparator market.

Finally, misclassification occurs when agencies place employees into elevated job titles, often assigning them supervisory or managerial roles, to justify increased salaries even when employees' job duties may not be strictly supervisory or managerial. For example, there are 254 registered nurse FTE within the Department of Health of which 119 are classified as supervisors. A ratio of 2.1 nurses per supervisor may indicate misclassification.

## Personnel Surplus and Ad Hoc Raises

LFC analysis shows agencies have approximately $120 million in surplus funding for personnel, which translates to an average 6.7 percent vacancy rate. Based on the average cost per employee by agency, LFC estimates agencies could hire an additional 1.3 thousand FTE with the current budgets. However, there is large variation in the funded vacancy rates. For example, the Environment Department has a 9.1 percent funded vacancy rate while the Department of Health has a 2.5 percent funded vacancy rate. The additional personnel funding is often transferred into another budget category or used to provide pay increases.

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Agencies awarded pay increases averaging 8.4 percent to 3.5 thousand FTE at a cost of approximately $15 million in FY19. These raises are often performed in an ad hoc fashion with agencies rewarding individual employees. However, some agencies used excess personnel funding to provide for targeted pay increases for certain types of jobs. While ad hoc pay increases allow agencies to reward good performance and better retain employees, they are often done outside of a larger compensation strategy designed to adapt to broader labor market conditions.

Proposed Occupation Groups:

1. Corrections*
2. Information Technology*
3. Engineering*
4. Architecture*
5. Healthcare
6. Legal**
7. Public Safety and Security
8. Social Services**
9. General Administration
10. Scientific
11. Trades and Labor

*Completed
**Partially completed

## Occupation-Based Pay Structure

In order to address problems in the compensation structure, SPO has advocated for the creation of an occupation-based pay structure to allow targeted pay adjustments to be made to better align state agency pay with the broader labor market. Because the current pay structure does not distinguish between job types and skills, an adjustment to the structure will affect the entire state work force equally. An occupation-based structure will allow SPO to recommend salary structure adjustments that target specific jobs and skill sets. For example, pay for IT workers often grows at a faster rate than for general administration. An occupation-based structure would allow SPO to adjust the pay ranges for IT personnel at a different rate than other job types.

SPO began advocating for implementation of the occupation-based compensation system in 2012. The occupation-based plan would replace a single pay plan with 11 occupation-based groups corresponding to job type. The goal of the new structure is to minimize salary inequities between jobs across agencies and provide policymakers greater flexibility to target salary increases to fix inequities, and address recruitment, retention, and turnover issues. Once implemented, the structure must be kept up-to-date to account for changes in inflation and market demand in different fields.

While SPO made progress over the past seven years adding classifications (jobs titles) into the appropriate new occupational group, the executive has yet to deliver a comprehensive compensation plan to the Legislature. Additionally, seven of the 11 occupation groups have been implemented, though two, social services and legal, have only been partially implemented. Implementation of occupation groups requires a compensation study to determine the proper pay for a given occupation and adjustment of the pay band minimum and maximum levels to align state worker pay with the industry standard. The lack of progress on this issue may be exacerbating problems with pay adequacy. Following the 2018 legislative session, the Department of Health implemented an average 25 percent salary increase from vacancy savings for nurses to improve recruitment and retention. The need for such a large salary increase points to a long-term failure to maintain pay competitiveness both across the board and for targeted to specific occupations.

### Pay plan adjustment

In order to prevent the state's compensation structure from falling further behind the market, it is necessary to pursue COLA or targeted increases, or some combination of the two. The New Mexico Legislature has historically pursued a COLA *and* targeted compensation strategy to recognize the tendency of wages to rise with inflation as well as specific market pressures that push up salaries of specific occupations faster than the overall labor market.

During the 2018 legislative session, the Legislature continued its efforts to provide adequate compensation to some of the most high-demand job classifications. The $90.6 million compensation package included targeted funding for front-line staff at CYFD, public safety increases for police and correctional officers, and nurses. The pay increase also included a 2 percent cost of living increase to prevent salaries from falling behind the broader market. In 2019, the Legislature pursued a 4 percent COLA but refrained from targeting raises to executive branch employees.

Moving forward, it will be essential for SPO to work closely with both the Legislature and the Department of Finance and Administration to determine which, if any, occupations are in need of targeted adjustments as well as how much the general pay structure needs to be adjusted to prevent it falling further behind the market. Finally, SPO should conduct studies to determine how the state's compensation could be altered, if at all, to better reflect employee preferences and ultimately to improve recruitment efforts and retain employees longer.