Classification and Compensation Report

Presented to:
Interim Joint Committees on State Government
and Appropriations and Revenue

Prepared by:
Personnel Cabinet
Department of Human Resources Administration

Presented on:
July 6, 2022

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EXECUTIVE SUMMARY AND REPORT INTRODUCTION

The Personnel Cabinet has consistently endeavored to promote state government as an employer of choice. As we've moved further into the 21st Century, the Labor Market is changing and state government is no exception.

The cabinet has therefore reviewed recruitment initiatives from other states in order to improve our own recruiting efforts. Additionally, the cabinet has utilized mechanisms to ensure that employment in state government is more flexible and rewarding, by embracing and enhancing flexible work schedules.

As requested by the Kentucky General Assembly session in House Bill 1, this report will establish guidelines and provide a thorough examination on the historic progression of the state's past and current job classification and compensation systems, while outlining challenges and recommended solutions.

> House Bill 1, Part 1- Operating Budget, I- Personnel Cabinet, 1 General Operations, (1) Classification and Compensation Report:
>
> *The Personnel Cabinet Secretary shall perform a comprehensive review of the Kentucky Revised Statutes (KRS) Chapter 18A Classification and Compensation Plan, specifically the current salary schedule, and shall provide a report and recommendations for changes to the Interim Joint Committees on State Government and Appropriations and Revenue by July 7, 2022, for action by the 2023 General Assembly. The recommendations for changes shall include but not be limited to locality pay, seniority, job classification, and other factors as deemed necessary by the Secretary to provide competitive pay for Executive Branch employees. The Secretary shall work with the Office of State Budget Director to develop cost projections by fund source for their recommendations and include the projections in their report.*

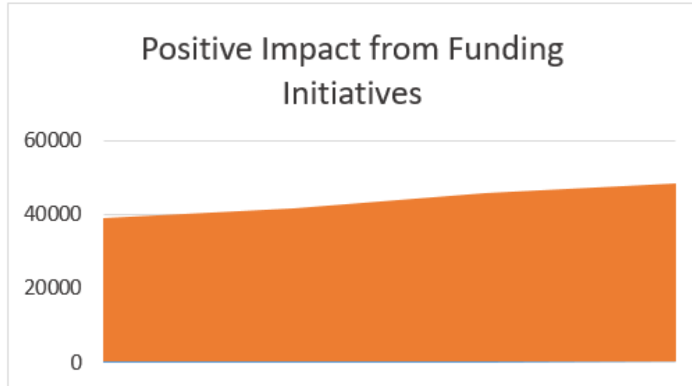
Three of the main challenges the Personnel Cabinet has faced with its administration of the state employee compensation system are: (1) the lack of annual raises for more than a decade, (2) reduction of benefits in the state's retirement system, and (3) lack of funding for adjustment of the entry level of the salary schedules (last updated in 2007).

Therefore, the major immediate recommendations are:

1) A standard 40-hour work week for all employees, which would raise pay for workers on 37.5-hour work week schedule;
2) Regular annual cost-of-living increases for state workers to maintain employees' standard of living;
3) Adjustments to the overall salary schedule;
4) Comprehensive job classification review with resources to expedite the review currently underway;
5) Flexible compensation options for specific compensation issues, including:
    - changes to locality premium adjustment
    - signing bonus
    - agency internal pay equity adjustments
    - adjustments due to new appointments
    - removal of ACE/ERA cap
    - pay grade changes
6) Creation of a student loan forgiveness retention program as a key retention benefit;
7) Pension reform for hazardous and State Police retirement systems;
8) Adjustments to the "pension spiking" provisions to accommodate high inflation and to generally make pension plans more attractive for Tier 3 employees, and
9) Increase staffing within the Department of Human Resources Administration.

If all of the fiscal year 2024 compensation recommendations were implemented, and after the July 1, 2022 8% across-the-board salary increases, a state employee could receive an additional 24.4% base pay increase in fiscal year 2024.

$38,880.00 – Current Salary
$41,473.20 – Increase to 40-Hour Work Week
$45,620.64 – 10% increase from job classification review
$48,358.08 – 6% across the board increase July 1, 2023



Recommendations for future consideration include:

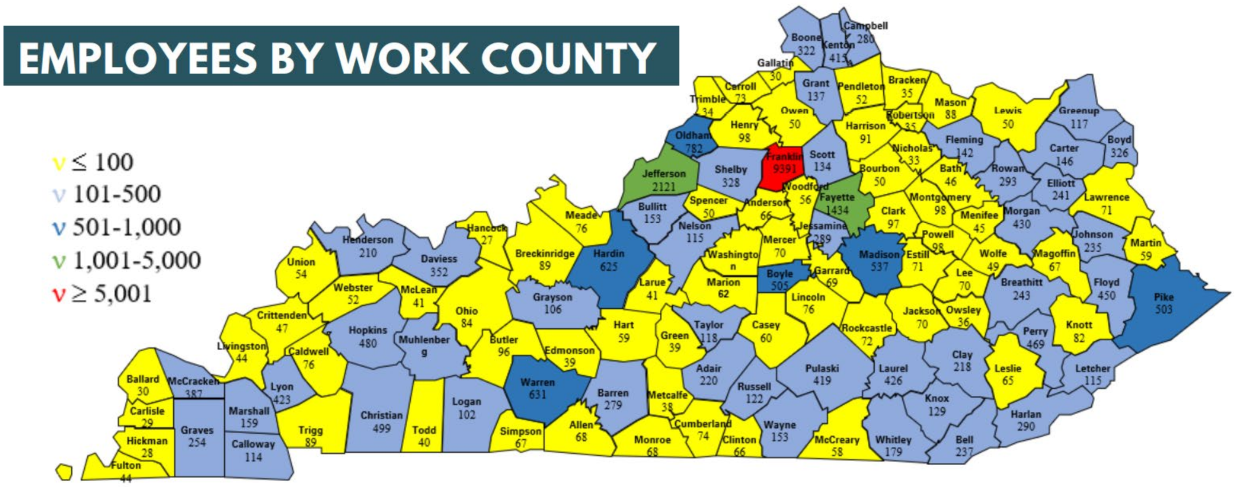
1) Implementation of a retention pay incentive program, and
2) Creation of an annual leave buyback program.

The Personnel Cabinet is confident that these changes are necessary for state government to continue to attract and retain a talented and diverse workforce to serve the needs of the Commonwealth.

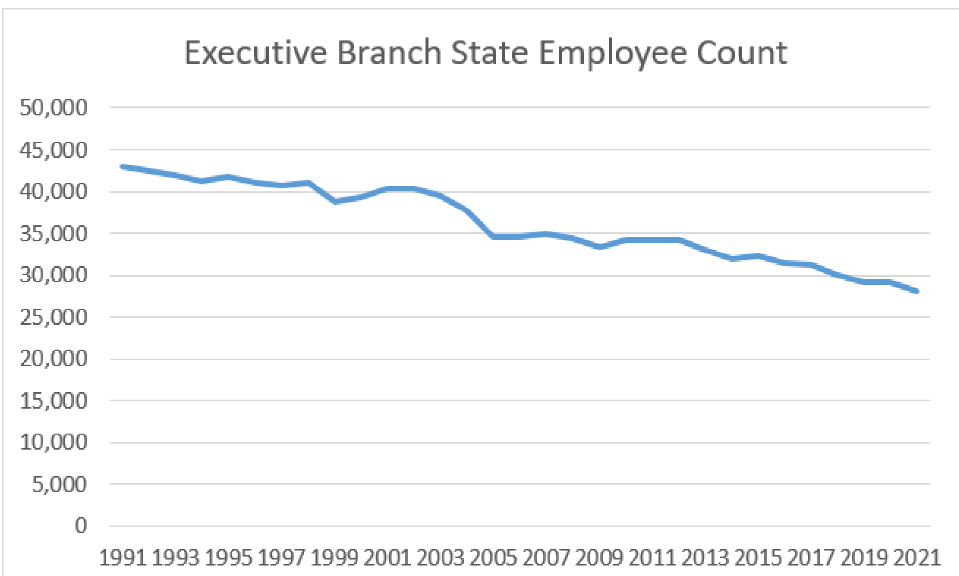
NOTE: The work involved in generating a report of this nature and magnitude would typically involve our 3rd party consulting firm, Korn Ferry. Korn Ferry has the capacity to utilize vast resources and experienced staff who would be dedicated to this project and the production of this report. Due to lack of funding, the Personnel Cabinet was unable to utilize Korn Ferry's services before this report's applicable deadline. Accordingly, all work performed in the creation of this report was done with limited resources and staff.

OVERVIEW OF KENTUCKY STATE GOVERNMENT WORKFORCE

The Commonwealth of Kentucky has a population of 4.462 million, of which 0.61% are state employees. Kentucky State Government is one of the largest employers in the state. With more than 27,000 employees across the Commonwealth, we impact each of the 120 counties and easily maintain a strong statewide presence.



We are a diverse workforce of more than 1,100 job classifications. State employees consistently evolve to meet the ever-rising needs of the state. Compensation continues to be an extremely complex and important issue, as we continue to experience a decline in the labor workforce. The chart below depicts the historically low staffing in state government.



See Appendix #1 – Executive Branch Employee Counts

KRS CHAPTER 18A MERIT SYSTEM CLASSIFICATION AND COMPENSATION REPORT

Background and Methodology

Chapter 18A of the Kentucky Revised Statutes (KRS) established the Commonwealth of Kentucky's state merit system. KRS 18A.010 defines the merit system as a system of personnel administration based on merit principles and scientific methods governing personnel actions, to include recruitment, appointment, promotion, and welfare of the classified (merit) employees. In order to understand the KRS Chapter 18A merit system compensation system, it is important to understand the merit system principles regarding pay and the compensation methodology utilized for merit pay.

KRS Chapter 18A does not list in detail the principles upon which our merit compensation system was based; however, KRS 18A.040 requires the Kentucky Personnel Board and the Personnel Cabinet Secretary to comply with the federal merit system standards that are prerequisites for federal grants-in-aid. The Civil Service Reform Act of 1978 incorporated the federal merit system principles into law at Section 2301 of Title 5 of the United States Code. The relevant merit principle related to compensation is as follows:

> *Equal pay should be provided for work of equal value, with appropriate consideration of both national and local rates paid by employers in the private sector, and appropriate incentives and recognition should be provided for excellence in performance.*

The United States Merit Systems Protection Board (MSPB) gives a tangible substantive background of this compensation principle that Kentucky follows. The MSPB guidance provides that the purposes of this principle are primarily: (1) envisioning pay that is both competitive and commensurate with non-government employers, (2) developing methods to maintain acceptably competitive salaries, such as locality pay, special salary rates, recruitment bonuses, and retention allowances, and (3) developing options for recognizing high performance, such as pay increases, cash awards, time off, and nonmonetary recognition.

Merit system employees are assigned to job classifications according to their duties and responsibilities. Each job classification in the classified service is assigned to one of the pay grades in a salary schedule which has a guaranteed minimum salary requirement for all pay grades. Employees are appointed to a job classification based upon their education and experience. After an employee's appointment, as an employee's career begins to progress, an employee's individual compensation can change based on a variety of factors, including, but not limited to, career path, location of employment, demotions, transfers, reclassifications, Adjustment for Continuing Excellence (ACE) awards, Employee Recognition Awards (ERA), Education Achievement awards, promotions, and position premiums.

The current KRS Chapter 18A classification and compensation system, established in KRS 18A.037, required a new system of job classification and compensation as follows:

> <u>KRS 18A.037 New system of job classification and compensation</u>
>
> *(1) The commissioner shall develop and propose a new system of classification and compensation to be transmitted to the Legislative Research Commission by November 15, 1997. The system proposed by the commissioner shall be developed using a nationally-recognized system for evaluating job requirements. The proposed system shall determine the requirements of each job classification by using factors such as, but not limited to, knowledge, skill, effort, responsibility, accountability, problem solving, discretion, challenge, and working conditions, to ensure pay equity as required by KRS Chapters 337 and 344.*

KRS 18A.037 resulted in the inception of the new classification and compensation system that has been historically administered by the Department of Human Resources Administration (DHRA) within the Personnel Cabinet.

Since 1977, the Personnel Cabinet has contracted with the globally recognized human resource consulting firm, Korn Ferry (formerly the Hay Group) to provide methodologies and consultation on the evaluation and point factoring of the classification and compensation system. Korn Ferry is a premier leader in the job evaluation and total compensation industry and has worked with federal, state, and local government agencies, including 34 state governments.

While a lack of budget funding has resulted in the Cabinet's declining utilization of Korn Ferry's services for continued analysis of the state's classification and compensation system, **utilization of the Korn Ferry methodology is not the cause of the current compensation crisis.** Although used since 1977, the Korn Ferry methodology is a modern system utilized by 34 states (not just the Commonwealth of Kentucky). The Korn Ferry methodology provides an agency with direction as to the pay grade that should be assigned to a position, based upon the attributes of the job classification (duties, responsibilities, etc., as further explained below). When a salary schedule is current, it works in unison with Korn Ferry's methodology, assigning a job class to a range of pay that is competitive with other public and some private sector employers. **Any change in a system of methodology would require significant time, manpower, and taxpayer dollars to implement. Unfortunately, the lack of funding to revise the entry level of the salary schedules for 15 years (since 2007) has diminished the impact of the Korn Ferry methodology. Simply put, the outdated salary schedules are a leading contributor to the current compensation crisis, as further outlined in the recommendations section of this report.**

Understanding Disparities in Merit System Compensation

Disparities of pay in a merit system do sometimes occur. Historically, some employees have asserted that other employees in their same job classification are unfairly making more pay. In fact, given the various rates of pay that do result from lawful application of the merit compensation system, numerous employees have filed appeals with the Kentucky Personnel Board and complaints with legislators seeking "equal pay for equal work," as the term is commonly used in the private sector. These complaints are usually filed without consideration of various merit system factors which can result in differentiating pay, such as location, career path, etc. Contrary to these allegations, federal and state laws do allow employers to compensate employees differently based on a bona fide seniority, merit, or incentive system. Wage differentials under the Federal Equal Pay Act are justified under one of four affirmative defenses:

- A seniority system;
- A merit system;
- A system which measures earnings by quantity or quality of production; or
- Any other factor other than gender.

29 U.S.C.A § 206(d)(1). In the Commonwealth, Kentucky's own General Assembly recognizes that "it is not an unlawful practice for an employer to apply **different standards of compensation**, or different terms, conditions, or privileges of employment **pursuant to a bona fide seniority or merit system… or to employees who work in different locations** if the differences are not the result of an intention to discriminate because of race, color, religion, national origin, sex, or age forty (40) and over, or because the person is a qualified individual with a disability." KRS 344.100 (emphasis added).

Additionally, in a recent order, the Kentucky Personnel Board explained differences of pay in the merit system as follows:

> KRS 344.100 allows for different compensation payments for state employees in the same classification. The Personnel Board has previously held that the wage disparity complained of by the Appellants is the by-product of KRS Chapter 18A merit and seniority systems. *Kathryn Parrish v. Office of the Attorney General*, 2014 WL 2191021 (Ky. PB 5/14/14). The Personnel Board has further held that there is no regulation or statute which provides that similarly situated or classified employees of the Commonwealth are to be paid at the same wage rate. *George Fortune v. Cabinet for Health and Family Services*, 2008 WL 4329627 (Ky PB 8/13/08).

Frost, et al. v. KYTC and Personnel Cabinet (2019 WL 5212758 (KY PB).

Likewise, Franklin Circuit Court recently opined that "[t]here is no statutory authority that grants Petitioners a right to uniformity of pay… Although Kentucky has a merit system, there is no requirement that uniformity of pay exist in the merit system, absent discrimination." *Emerson Adkins, et al. v. Energy and Environment and Personnel Cabinets*, Civil Action No. 18-CI-00027, Franklin Circuit Court, February 4, 2020.

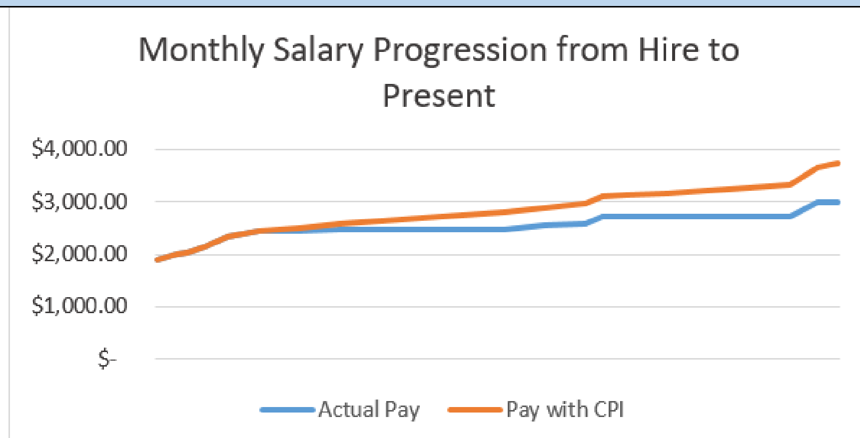
Compression

Even though individual rates of pay may differ among employees in a merit system, a goal of the Personnel Cabinet in the administration of the state employee compensation system is to prevent what is referred to as "compression." The merit compensation system has two main components:

1) Salary Schedule: Sets the initial compensation for new employees.
2) Statutory Increment Policy (SIP): The application of regular Annual Increments or Adjustments for Cost–of-Living to provide a steady progression of pay for current employees.

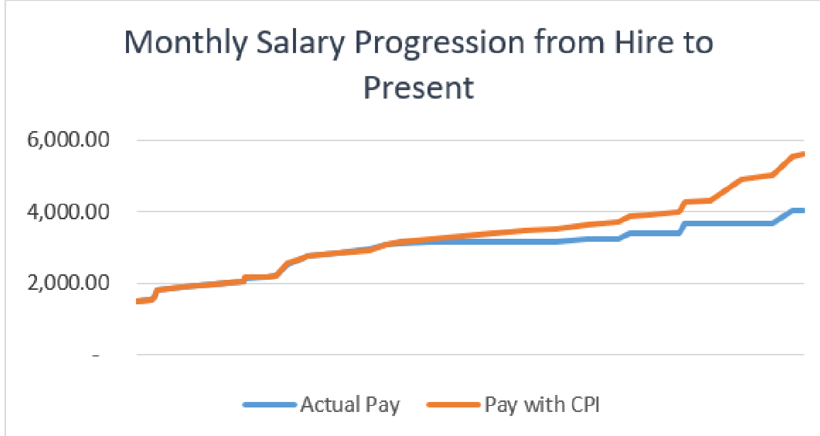
When these two components are maintained in unison, the merit compensation system works as intended. When they are not maintained in unison, and the initial compensation of a new employee is gradually permitted to encroach on that of a current employee, regardless of their respective experience and seniority, compression occurs. There is no federal or state legal requirements for uniformity of pay within a merit system; however, the General Assembly has discretion to grant merit employees this annual increment or adjustment for cost-of-living in order to minimize compression. See Appendix #2 – Annual Increment and Across the Board Increase History.

The following illustrates how current employees are impacted by non-adherence to the Statutory Increment Policy (SIP).

<table>
<tr><th>Hired October 2005</th><th colspan="2">Today</th></tr>
<tr><th>Family Support Specialist I
(Grade 10)</th><th colspan="2">Family Support Specialist II (Grade 13 - 37.5 HR WW)</th></tr>
<tr><td></td><td colspan="2">
</td></tr>
<tr><td>Pay at Hire
$1,892.80 month
$22,713.60 year</td><td>Pay with Consumer Price Index (CPI)
$3,730.20 month
$44,762.41 year</td><td>Actual Current Pay
$2,978.24 month (-$751.96)
$35,738.88 year (-$9,023.53)</td></tr>
<tr><td colspan="3">Actual pay includes typical job life-cycle events: probationary increase, reclassification, grade changes, and actual increments/adjustments.
Pay with CPI includes the above but replaces actual increments/adjustments with CPI.</td></tr>
</table>

KENTUCKY PERSONNEL CABINET

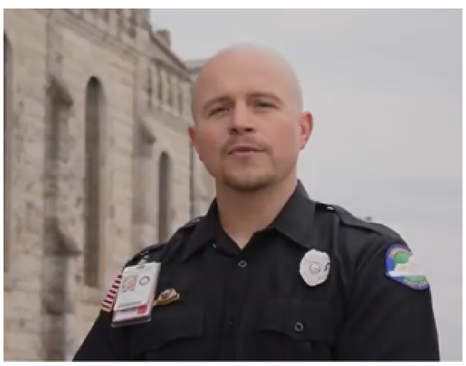
Hired October 2000	Today:
Youth Worker I (Grade 9)	Social Service Clinician I (Grade 15 - 37.5 HR WW)

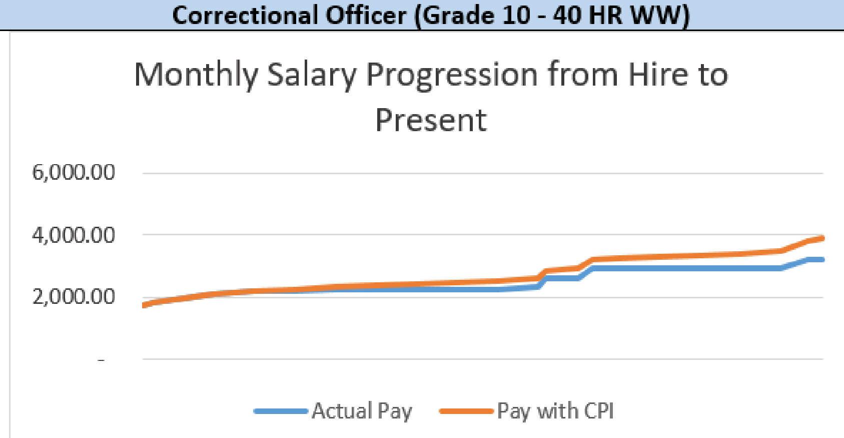


Pay at Hire	Pay with Consumer Price Index (CPI)	Actual Current Pay
$1,480.00 month	$5,632.20 month	$4,022.74 month (-$1,609.46)
$17,760.00 year	$67,586.42 year	$48,272.88 year (-$19,313.54)

Actual pay includes typical job life-cycle events: probationary and promotional increases, reclassification, grade and range changes, educational increase, and actual increments/adjustments.
Pay with CPI includes the above but replaces actual increments/adjustments with CPI.

Hired July 2005	Today
Correctional Officer (Grade 9)	Correctional Officer (Grade 10 - 40 HR WW)





Pay at Hire	Pay with Consumer Price Index (CPI)	Actual Current Pay
$1,720.88 month	$3,893.44 month	$3,233.28 month (-660.16)
$20,650.56 year	$46,721.28 year	$38,799.36 year (-$7,921.92)

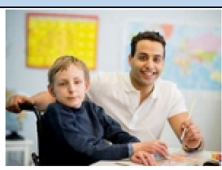
Actual pay includes typical job life-cycle events: probationary increase, grade and range changes, and actual increments/adjustments.
Pay with CPI includes the above but replaces actual increments/adjustments with CPI.

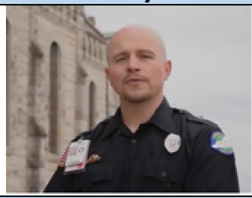
Another problem that results from compression is that new employees are often hired at the same rate of pay as current employees. For example, if Employee A was appointed to a Grade 11 position on July 1, 2015, at the minimum of the pay grade per the salary schedule, their salary would have been set at $2,354.04 per month. Five years later, on July 1, 2020, Employee A was still earning $2,354.04, because there were no annual increments over that period and no increase to minimum salaries (i.e., no change to the salary schedule entry level). Employee B, a newly appointed employee hired to a grade 11 position on July 1, 2020, would also earn the entry level salary of $2,354.04, despite Employee A being a more senior employee. Additionally, as another complication of compression, once a new employee completes initial probation, they receive a 5% probationary increase, which could possibly place their salary above other, current (senior) employees.

As previously stated, there is no federal or state legal requirements for uniformity of pay within a merit system; however, the General Assembly has discretion to grant all merit employees an annual increment or adjustment to meet increases in the cost-of-living in order to minimize compression. (See Appendix #2 – Annual Increment and Across the Board Increase History.) Likewise, regular increases in the entry level of salary schedules, and funding for the same, also help address compression. **These 2 items (salary schedule maintenance and cost-of-living increases), if corrected and modernized together, would largely address the current compensation challenges.**

The following are some additional examples of current compression scenarios in the state government compensation system due to the lack of regular annual increments for state employees (i.e., non-adherence to the Statutory Increment Policy (SIP)) and the lack of adjustment to the entry level of the salary schedules:

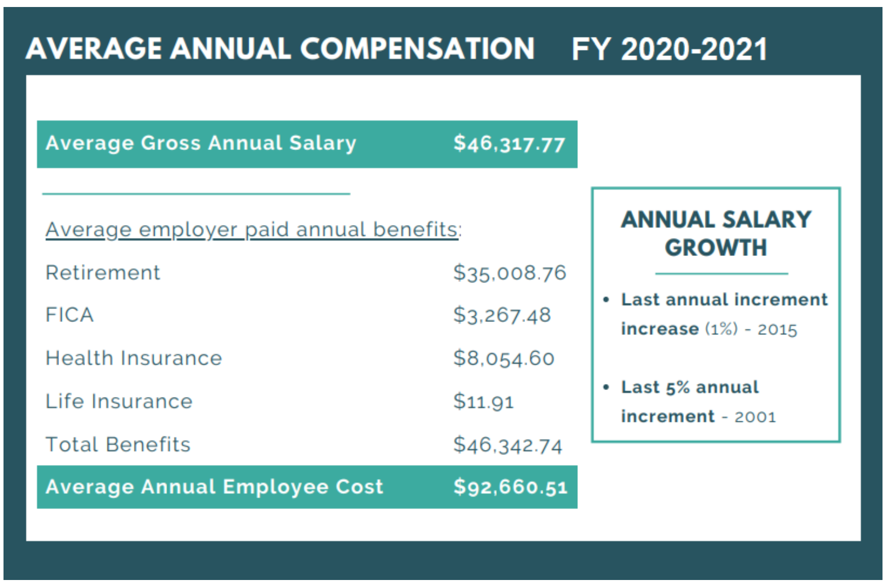
<table>
<tr><th colspan="6">FAMILY SUPPORT SPECIALIST II
(Grade 13 - 37.5 HR WW)</th></tr>
<tr><th>CURRENT EMPLOYEE
Hired October 2005</th><th colspan="5">NEW EMPLOYEE</th></tr>
<tr><td rowspan="4"></td><th>Pay Grade</th><th colspan="2">Rate</th><th>Entry Level Wage</th><th>Midpoint Wage</th></tr>
<tr><td rowspan="3">13</td><td colspan="2">Hourly</td><td>$16.432</td><td>$26.292</td></tr>
<tr><td colspan="2">Monthly</td><td>$2,670.20</td><td>$4,272.46</td></tr>
<tr><td colspan="2">Annually</td><td>$32,042.40</td><td>$51,269.52</td></tr>
<tr><td>Current Pay
$2,978.24 month
$35,738.88 year</td><td colspan="2">Equal Starting Pay
$2,978.24 month
$35,738.88 year</td><td colspan="3">Higher Pay After Probationary Increase
$3,127.16 month (+$148.92)
$37,525.92 year (+$1,787.04)</td></tr>
</table>

<table>
<tr><th colspan="6">SOCIAL SERVICE CLINICIAN I
(Grade 15 - 37.5 HR WW)</th></tr>
<tr><th>CURRENT EMPLOYEE
Hired October 2000</th><th colspan="5">NEW EMPLOYEE</th></tr>
<tr><td rowspan="4"></td><th>Pay Grade</th><th colspan="2">Rate</th><th>Entry Level Wage</th><th>Midpoint Wage</th></tr>
<tr><td rowspan="3">15</td><td colspan="2">Hourly</td><td>$19.882</td><td>$31.812</td></tr>
<tr><td colspan="2">Monthly</td><td>$3,230.84</td><td>$5,169.46</td></tr>
<tr><td colspan="2">Annually</td><td>$38,770.08</td><td>$62,033.52</td></tr>
<tr><td>Current Pay
$4,022.74 month
$48,272.88 year</td><td colspan="2">Equal Starting Pay
$4,022.74 month
$48,272.88 year</td><td colspan="3">Higher Pay After Probationary Increase
$4,223.88 month (+$201.14)
$50,686.56 year (+$2,413.68)</td></tr>
</table>

CORRECTIONAL OFFICER (Grade 10 - 40 HR WW)					
CURRENT EMPLOYEE Hired July 2005	**NEW EMPLOYEE**				
	**Pay Grade**	**Rate**	**Entry**	**Midpoint**	**Special Entrance Rate**
	10	**Hourly**	$12.345	$19.752	$14.424
		Monthly	$2,139.80	$3,423.68	$2,500.00
		Annually	$25,677.60	$41,084.16	$30,000.00
Current Pay $3,233.28 month $38,799.36 year	**Equal Starting Pay** $3,233.28 month $38,799.36 year	**Higher Pay After Probationary Increase** $3,394.96 month (+$161.68) $40,739.52 year (+$1,940.16)			

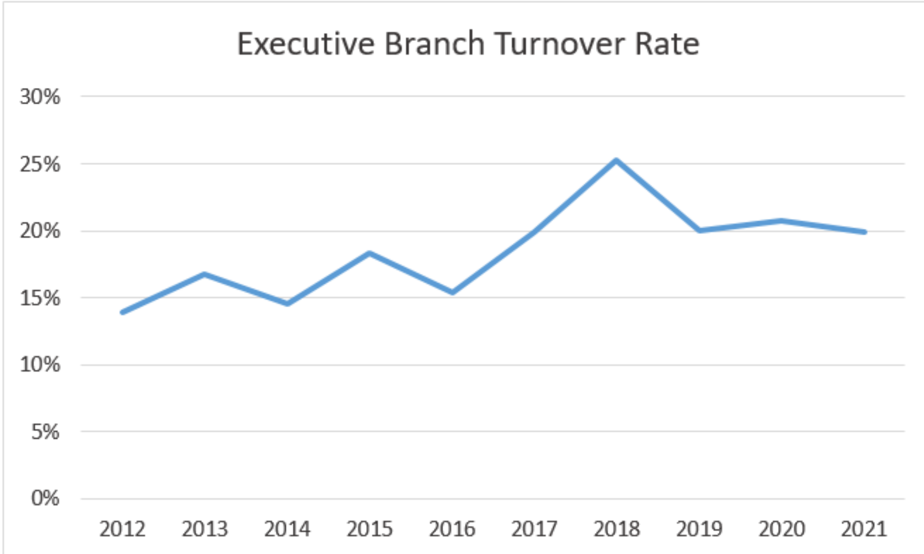
Total Compensation Package

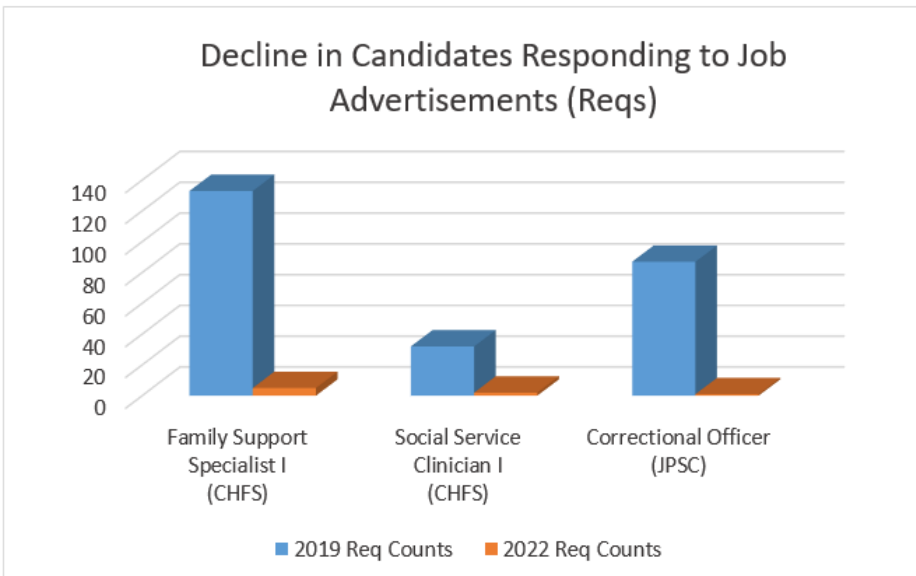
When appropriately funded, the compensation methodology utilized by the Personnel Cabinet, in conjunction with other robust employee benefits, creates a total compensation package that enables agencies to attract, recruit and retain a qualified workforce. The average annual compensation is illustrated below:



While state government salaries in Kentucky have never been equal to those in the private sector, state government employers were, historically, able to remain competitive with the private sector by offering an exemplary total compensation package, to include a rewarding retirement plan, generous health insurance benefits, and other indirect benefits. Workers were often willing to trade a higher private sector salary for benefits that were unique to state government employment.

Unfortunately, state government employers have lost their competitive advantage over the private sector. Over the past 20 years, there has been a 48% decline in state government staffing. Reduction of benefits, such as retirement and health insurance plans, and the failure to raise wages has led to high rates of turnover, inexperienced staff, staffing shortages, and unanswered recruitment efforts.





To once again become competitive, and not only attract but retain quality employees and secure the success of state government, it is imperative that the Executive Branch recover its once attractive total compensation package.

The analysis below will review what is included in the different components of total compensation, both ideal and our actual offerings.

Direct Compensation

Direct compensation is comprised of the following:

- Base Pay
- Bonuses (if applicable, such as American Rescue Plan Act (ARPA) funds)
- Overtime Pay (straight compensatory time vs. time and a half pay/compensatory time)
- Premiums (not part of base pay) – shift, weekend and holidays, locality, critical position, multi-lingual

Regular annual increases to an employee's base pay are critical in retaining employees and preventing salary compression as previously discussed. For example, Executive Branch employees have not seen a meaningful raise to their base pay in at least a decade. This lack of base pay increases has led to a wage decline (after adjusting for cost-of-living increases) since 2008, when compared to rising wages for private sector workers. In fact, state employees have received only 2 annual increases in the past 12 years (see Annual Increment and Across the Board Increase History in Appendix 2).

In addition to employee salaries lagging behind the salaries of other public and private sector employees due to the lack of annual increments, the salary schedules have also not been regularly adjusted, due to a lack of funding. House Bill 1, passed in the 2022 legislative session, authorized an 8% increase for eligible employees on July 1, 2022. This appropriation is much appreciated, but it is only a beginning, as it does not adequately address the lack of regular annual increments that repeatedly occurred over the past 20 years, nor does it address the need to continually update the salary schedules for Executive Branch state employees.

Indirect Compensation

Indirect compensation is comprised of the following:

- Health Insurance
- Health Reimbursement Arrangement (HRA), Health Savings Account (HSA), Flexible Spending Account (FSA)
- Life Insurance
- Optional Insurance (Dental / Vision)
- Paid Leave (annual, sick, compensatory, jury, voting, election, blood donation, living organ, educational, military)
- Paid holidays (11.5 days per year, 12.5 days in a Presidential Election year)
- Sick and Annual Leave Sharing
- Annual Leave increases at certain longevity levels
- Sick Leave Bonus days at certain longevity levels
- Family and Medical Leave
- Deferred Compensation
- Educational / Tuition Assistance
- Adoption Benefit Assistance
- Employee Suggestion System
- Annual Leave award for Performance Management (eligible employees and certain criteria must be met)
- Workers Compensation Insurance (ability to use leave to supplement pay)
- Unemployment Insurance
- Employer FICA (Federal Insurance Contributions Act) match payments (Social Security and Medicare), excluding Teachers Retirement System participants. Currently employer pays 6.2% for Social Security and 1.45% for Medicare – as do applicable employees)
- State Employee Discounts for participating providers
- Discretionary salary increases including Adjustment for Continued Excellence (ACE) (added to base salary) and Employee Recognition Award (ERA) lump sum award
- Educational Achievement Award (added to base salary)
- Retirement

One of the most crucial parts of indirect compensation is retirement benefits. The state retirement system previously served as a key incentive for attracting and retaining employees. In order to reap full retirement benefits under what is known as Tier 1 of the retirement plan (an option which is no longer available to new employees), employees were required to serve 27 years of state service in the Non-Hazardous plan. Unfortunately, the enticement of great retirement benefits began to wane beginning in 2014, when the General Assembly made drastic changes to state employee retirement benefits, reducing the benefits, and creating what is now referred to as Tier 3 retirement. This change was effectuated on January 1, 2014, and all new employees hired since that date are enrolled in Tier 3.

To better explain this change and illustrate its impact on what was once an exemplary tool for recruitment and retention, a review of all three retirement tiers is provided below. Also, see Appendix for Kentucky Public Pension Authority (KPPA) publications: #3 "Benefit Tier Comparison" and #4 "Evolution of Benefits."

There are 3 retirement tiers offered to state employees under the KPPA. This includes: the Kentucky Employees Retirement System (KERS) Non-Hazardous, KERS Hazardous, and State Police Retirement System (SPRS) Hazardous. County Employee Retirement System (CERS) is not covered in this analysis.

- **Tier 1**
  Tier 1 was the sole state employee retirement plan through September 1, 2008. This plan applies to all employees hired prior to September 1, 2008. KERS Non-Hazardous employees pay 5% of their salaries towards retirement, while KERS Hazardous and SPRS paid 8% retirement contributions. This is a Defined Benefit Plan based on a retirement formula for final compensation, to include benefit factors multiplied by years of service. It considers the high 5 years of compensation for Non-Hazardous, and the high 3 years of compensation for Hazardous. If the member met the service requirement, retirement could begin at any age. If employees in Tier 1 were members before July 1, 2003, then a percentage of monthly health insurance contribution rates were guaranteed. In addition, sick leave credit towards retirement is unlimited, meaning that an employee can use sick leave for service credit without a maximum. Full time employees earn sick leave each month, and for those employees who are fortunate enough to remain healthy and productive at work, the balance of unused sick leave days earned may be used in the retirement calculation. Employees are under an "inviolable contract," and no cost-of-living to their retirement income is guaranteed.

- **Tier 2**
  This plan applies to employees who commenced employment between September 1, 2008 and December 31, 2013. Like Tier 1, Tier 2 is a Defined Benefit Plan. A change was made in employee retirement contributions to add an extra 1% for a health insurance contribution (HIC) to the health insurance fund which is not credited to the individual's account and is not refundable. Changes were also made to final compensation, such as requiring 5 full fiscal years (or 3 years for Hazardous) before calculation. The benefit factor percentages are based on years of service. A major change was the "Rule of 87," which requires Non-Hazardous members to be at least 57 years of age, with their age and service equaling 87. For Hazardous, the required service was changed from 20 years for full retirement to 25 years. The HIC rules were changed to a dollar amount per year of service ($10 per month for Non-Hazardous, $15 per month for Hazardous). Another major change was sick leave credit could not exceed 12 months of service. Employees are under an "inviolable contract," and no cost-of-living is guaranteed.

- **Tier 3**
  This plan started on January 1, 2014 and is the current plan for all new hires. This plan is no longer strictly a defined benefit plan, but rather, considered a Cash Balance Plan, sometimes referred to as a hybrid plan. It has some components of a defined benefit plan; however, the benefits are not equivalent to the benefits of the Tier 1 or Tier 2 plans. The contribution rates remain the same as Tier 2; however, there is not a final compensation calculation, and there is not a benefit factor. It does require the "Rule of 87" for Non-Hazardous, and 25 years of service for Hazardous, the same requirement as Tier 2. For health insurance, the rules remain the same as Tier 2. There is no provision to allow any sick leave credit towards retirement, and no cost-of-living is guaranteed. Tier 3 is not considered an "inviolable contract," meaning that although accrued benefits should remain protected, the General Assembly could change prospective benefits if fiscal circumstances warrant it.

The change in retirement plans has been met with criticism and skepticism by prospective applicants and new hires. The Cash Balance Plan that is utilized in Tier 3 is considered a hybrid plan because it contains characteristics of both a defined benefit plan and a defined contribution plan. It resembles a defined contribution plan because it determines the value of benefits for each participant based on the account of each individual. However, the assets of the plan remain in a single investment pool like a defined benefit plan. Under this plan, participants contribute the same rates as Tier 2 participants into the member's account. If criteria are met, each fiscal year (with 1st year exception), additional funds are placed in the member's account such as the employer pay credit, employer interest, and member interest. A member's account earns 4% annually on both the member's contributions and the employer pay credit. Additionally, an upside sharing credit may be applied to the account. This provision looks at average net return for the 5 previous fiscal years to see if it exceeds 4%, then 75% of this may be applied to the member's account. This can change based on the investment returns, with strong returns crediting more, and lesser returns only guaranteeing the 4%. An employee's final balance at retirement is divided by an actuarial factor to determine the monthly benefit. Since a retiree is limited to the amount in their account, the monthly life annuity may be lower to reflect the actuarial factors. These changes reflect a major difference between the retirement benefits that may be achieved by employees enrolled in the Tier 1 and Tier 2 retirement plans, and the changes are a contributing factor in the decreased number of applicants for positions and long-term retention of employees.

Intangible Benefits

It should also be noted that in addition to the above direct and indirect compensation benefits, employees receive several intangible benefits, to include:

- Flexible Work Schedules (applicable employees)
- Telecommuting
- Adverse Weather Leave (applicable employees)
- Employee Assistance Program
- Wellness Program
- Training and Development Opportunities
- Employee Resource Groups
- Employee Recognition
- Mediation / Workplace Resolution
- Tobacco Free Workplace
- Direct Deposit, Electronic Salary and Time Statements, and Online W-2's

Despite the Personnel Cabinet's best efforts to keep the total compensation and benefits package competitive with the private sector, salaries must now be the priority. The current lack of competitive salaries and annual increases/cost-of-living allowances and the reduction of benefits in the state retirement system have created a substantial hardship for agencies working to attract and retain a quality workforce.

RECOMMENDATIONS

In response to the requirements of House Bill 1, the Personnel Cabinet offers the following recommendations to improve the current Executive Branch state employee compensation. Together, these steps would result in an additional 24.4% base pay increase in fiscal year 2024:

1. 40-Hour Work Week

Each position within the Executive Branch is established as a 37.5 or 40-hour work week depending on the job classification or organizational structure. Currently 11,425 positions are 40-hour work week and 17,839 positions are 37.5-hour work week.

RECOMMENDATION: Standardize the Executive Branch work week to 40 hours. The 6.67% increase to an employee's base pay to compensate for these additional hours (2.5 hours each week) would benefit employees and not only provide consistency between the majority of state agencies but also make state government more competitive with the private sector's standard work week.

The total cost of changing these positions to 40-hour work week is approximately $111 million, $61 million from the General Fund.

2. Annual Increment or Salary Adjustment

The General Assembly should consider implementation of an annual cost-of-living adjustment or annual increment for state employees.

RECOMMENDATION: The Administration recommends a 6% salary increase for all state employees for fiscal year 2024, to be uniformly effective on July 1, 2023. The approximate cost is $169 million, $81.5 million from the General Fund.

3. Salary Schedule Adjustment

As required in KRS Chapter 64.640(1), the salary schedule is the foundation for setting rates of pay for each job classification. From 1995-2003, during his administration, Governor Paul Patton implemented a policy that called for an annual inflationary revision to the salary schedule. As a result, the salary schedule was increased based on the increase in cost-of-living for fiscal years 2001-2008. Unfortunately, due to the Great Recession (2007 – 2009), and the slow economic recovery, inflationary increases to the schedule have not taken place on a regular basis since 2008. Included, is a draft salary schedule (Appendix #5), that illustrates what the salary schedule would look like today, had regular, annual and inflation adjustments been made to the schedule since 2007.

In order to prevent compression, to be competitive with recruitment, to retain employees, and to ensure existing employees are paid at a rate higher than the federal poverty level (see Appendix #6– Annual Update of the HHS Poverty Guidelines), the salary schedule should be adjusted each fiscal year. Currently over 1,500 Executive Branch state employees are on public assistance due to low pay. Due to the 8% salary increase adopted for Executive Branch employees in the fiscal year 2023 budget, the salary schedule will be increased by 8%, effective September 16, 2022. (See Appendix #7). It should be noted that the revised schedule would not impact every employee's salary, especially those incumbent employees whose years of service already place them well above the entry level wage for their job classification.

RECOMMENDATION: Funding should be appropriated to adjust the salary schedule annually by the amount of the annual increment or cost-of-living increase. This modification would assist in making state employee compensation more competitive as compared to the private sector, which would greatly assist with recruitment and retention.

The Personnel Cabinet recommends an additional 6% increase to the salary schedule which will be effective September 16, 2023, to align with the recommendation provided above (#1). (See Appendix #8)

4. Comprehensive Job Classification Review Project and Applicable Salary Changes

While the Personnel Cabinet is continually reviewing, creating, amending, and abolishing job classifications to ensure agencies have the best job classifications to attract the necessary workforce and fulfill the mission of the agency at all times. Job Review Projects are also performed and facilitated by the Kentucky Personnel Cabinet on a recurring basis as noted in more detail below. This round of reviews began in January 2020.

Currently there are 1,157 active job classification specifications, with approximately 41% of job reviews having been completed, and 11% are currently under review. (See Appendix #9 – Job Review Project). Of the completed job reviews, 96 have resulted in the assignment of a higher pay grade with applicable salary increases. There are 48% of job classification specifications remaining to be reviewed as part of the active Job Review Project. Of the remaining, several are in the Nursing, Auxiliary and Medical Therapy, Engineering and Geological, and Revenue job families, all which include jobs that experience turnover and recruitment and retention issues. These job families, or groups of jobs with like purpose and function, represent approximately 1,800 employees. Based on the number of those that have resulted in the assignment of a higher pay grade, it can be projected that the remaining job classification specification reviews may result in approximately 139 higher pay grade assignments, at an anticipated cost of approximately $63 million.

A Job Review Project gives an ongoing analysis of all active job classification specifications. This analysis performed by the Personnel Cabinet every 7 to 10 years. This thorough and in-depth project takes up to 4 years to complete, with the most recent review project beginning in 2020. The purpose of these comprehensive job reviews is to assess the intent and accuracy of each individual job classification to determine the effectiveness and to identify any necessary modifications. The reviews are in-depth and include the assessment of all aspects of the current job classification specification, as noted in the chart below, for completeness, accuracy, and application of any necessary updates. A collective review is performed on job families simultaneously to ensure the entire series is clearly defined, does not overlap, and represents a necessary purpose for user agencies. In addition to the Personnel Cabinet's independent review, data is collected from all agencies that employ individuals in the specific job classification(s). This data requires feedback from the agency's Human Resources (HR) office and subject matter experts within the agency that manage and/or work directly with employees in the specified job classification(s) under review. This is necessary to obtain and document first-hand knowledge of each job's purpose and expectations and to aid in identifying necessary modifications.

The chart below depicts some of the in-depth analysis that is applied during the assessment performed on each individual job classification specification.

Requirements	Description
Job Characteristics	Identification of: • The purpose and main function of the job • The level of decision-making authority • Employee contact and communication expectations • The level of problem-solving required to successfully perform the job tasks • Budget and/or financial responsibility • Change management responsibility • Supervision or management responsibilities • The job classifications that this job may directly supervise • The job classification that this job typically reports to
Minimum Requirements: Education Applicable substitution of Experience for Education	Identification of: • The minimum education required to successfully perform the job tasks, including specific degree and/or credit hours within a specific study • Specific job-related experience that would substitute for the required education and in what measurable portions (i.e., year-for year)
Minimum Requirements: Experience Applicable substitution of Education for Experience	Identification of: • The expected level of know-how to successfully perform the job tasks • The minimum experience required to successfully perform the job tasks in measurable periods (i.e., one year) • Specific skills required to successfully perform the job tasks experience (i.e., management) • Specific skills required to successfully perform the job tasks • Specific education that would substitute for the required experience and in what measurable period (i.e., year-for-year)
Minimum Requirements: Special Requirements	Identification of: • Specific licensure(s) and/or certifications required to successfully and legally perform the job duties • How are the licensures/certifications obtained? • Are the licensures/certifications verifiable? If so, how? • Ongoing competencies or professional development required to successfully perform the job tasks
Examples of Duties	• Identification of the required use, operation, maintenance, or repair of any specialized machinery, tools, equipment, instruments, vehicles, or computer hardware/software
Physical Requirements	• Identification of unique physical requirements to successfully perform the job tasks (i.e., stooping, bending, lifting objects in excess of 50 pounds, etc.)
Typical Working Conditions	Identification of: • The typical working conditions for employees in this job (i.e., office setting, outdoors in extreme weather conditions, etc.) • Travel requirements
Additional Requirements	If applicable

Additionally, reviews of national compensation survey data from other state governments and available market data are complete. These reviews identify other states' and/or businesses' comparable job classifications and the associated job duties, required education, experience, licensures/certifications, and compensation. When survey data is not readily available, the Personnel Cabinet may initiate a survey for a specific job classification or job series and distribute it to other state governments or businesses for response.

After the necessary data compilation, appropriate revisions are made to the job classification(s) to ensure the job is up-to-date, complete, and reflective of the current duties. A detailed job evaluation profile, which is a systematic process for ranking jobs logically and fairly by comparing job against job or against a predetermined scale to determine the relative importance of jobs to an organization, is completed on the updated job classification. Point factoring methodologies are also applied which correlate to a specific pay grade on our salary schedule. The association of the compensation associated to a job classification system formalizes the relationship of an organization's jobs into a pay framework based on an objective assessment of the value of those jobs. These are part of the Korn Ferry Job Evaluation and Point Factoring methodologies, which ensure the successful operation of the state's compensation system, as required by the KRS Chapter 18A statutes.

The count of active job classification specifications fluctuates as a result of the continual review performed by the Personnel Cabinet, outside of scheduled Job Review Projects, to meet the ongoing needs of agencies within the Executive Branch.

Within the last year the cabinet has completed the job reviews and updates of several job classifications that have consistently experienced high turnover and recruitment and retention struggles. These job classification revisions resulted in an increase in the pay grade assigned to the job, positively impacting more than 4,100 employees. Some of these job classifications included the Correctional Officer job series, Youth Worker job series, Social Service Worker job series, Case Management Specialist job series, and the Family Support Specialist job series. In addition to the Job Review Projects, the Personnel Cabinet works with agencies to address the impacts of high turnover and recruitment and retention struggles by applying shift and locality premiums and Special Entrance Rates, as provided by KAR 101 2:034 and 101 KAR 3:045. Currently the cabinet is working with the Justice and Public Safety Cabinet to implement salary increases to the Medical Examiner and the Staff Attorney job series, and an adjusted salary schedule for Kentucky State Police and Commercial Vehicle Enforcement Officers per fund allocations specified within legislation. Additionally, employees within the Public Safety Telecommunicator job series were assigned to a 40-hour work week on May 15, 2022, which provided a 6.67% compensation increase for the additional weekly hours worked.

While this continuous review is necessary to keep jobs current, as outlined in KAR 101 2:034, Section 3(4) and 101 KAR 3:045, Section 3(4), a change or increase to a job classification's pay grade assignment does not guarantee a salary increase for employees in that job classification.

The Job Review Project is coordinated and executed by the Personnel Cabinet's Department of Human Resources Administration, Classification, Compensation & Organizational Management Branch, staffed with only four (4) full-time personnel and one manager. All staff are trained extensively on the intricate and detailed Korn Ferry job analysis and point factoring methodologies to ensure accuracy and consistency throughout the entire project. The detailed and in-depth analysis and expertise required to successfully complete each job review is time consuming and requires the commitment and resources of not only the Personnel Cabinet, but of the agencies who employ individuals within each job classification. Personnel Cabinet staff assigned to continually work on the Job Review Project are also responsible for a wide range of tasks that service not only the Executive Branch, but also the Judicial and Legislative Branches of government.

RECOMMENDATION: For fiscal year 2024, to accommodate an estimate of salary increases associated with upcoming job reviews that result in pay grade changes, appropriate approximately $63 million to a central pool account, $37 million from the General Fund. Also, to expedite the thorough process required for the Job Review Project, appropriate $500,000 to the Personnel Cabinet to procure Korn Ferry's participation and assistance in the project so that it can be completed by June 30, 2024.

5. Providing More Ability to Address Compensation Problems through Amendments to Regulations

In an effort to continue offering flexible compensation options to agencies to assist with recruitment and retention of our workforce, the Personnel Cabinet intends to file the following amendments to 101 KAR 2:034 and 101 KAR 3:045, the compensation regulations that apply to the KRS Chapter 18A classified and unclassified employees:

Locality Premium

The Personnel Cabinet's compensation regulations, 101 KAR 2:034 and 101 KAR 3:045, currently contain provisions that allow agencies to offer locality premiums. (See Appendix #10 – Locality Premium Report). The current locality premium gives the agencies the flexibility to compensate employees in a specific job classification and work county at a different rate than other employees in the same job classification in a different work county based on a demonstrated sustained recruitment and retention issue impacting the mission of the agency. This premium is not part of an employee's base pay, but rather, it is paid for each hour worked. Since the premium only remains in place while the employee stays in the job classification and in the designated county and is not part of base pay, the employee will no longer receive the higher rate of pay if the employee transfers or promotes out of the job classification and work county for which the premium was approved. For example, due to the recruitment and retention issues which are impacting social workers in Jefferson County, employees are receiving an additional $4.00 an hour increase for working in that job classification and in that work county, as opposed to another work county in the state. If the employee leaves the social worker job classification in Jefferson County, then the $4.00 premium increase would not transfer to the new position and work county. The proposed amendments to the current locality premium sections of the Personnel Cabinet regulations would give the Personnel Cabinet the ability to set a premium amount, after demonstrated sustained recruitment and retention issues are presented by the agency to the Personnel Cabinet for final determination, based on a series of report statistics and agency justification.

Sign-On Bonus

A new provision will be proposed to give agencies the ability to offer a sign-on bonus of up to $5,000 to an employee, if employed in a job classification that has a demonstrated sustained recruitment and retention issues as proposed by the agency and approved by the Personnel Cabinet. The employee will receive 25% of the bonus upon hire, 25% once they have been employed for 6 months, and the remaining 50% of the bonus after 1 year of employment.

Agency Internal Equity Salary Adjustment

A new provision will be proposed to allow an agency, if sufficient funds are available, to adjust the salary of one or more employees due to internal pay equity issues within a job classification for sustained recruitment issues impacting the mission of the agency.

New Appointments

An amendment will be proposed to allow an agency, if sufficient funds are available, to adjust the salary of incumbent (current) employees if it is anticipated that a new appointee's salary will surpass the incumbent employee's salary upon completing probation and receiving their probationary increase.

Adjustment for Continuing Excellence (ACE) and Employee Recognition Award (ERA)

An amendment will be proposed that removes the restriction that an Appointing Authority may only grant an award for up to 25% of the total number of full-time employees in the department or office in a calendar year. The maximum monetary amount available to be awarded will not change.

Pay Grade Change

A new provision will be proposed to allow the Personnel Cabinet to determine a percentage increase for a respective grade change, if the Cabinet deems it necessary to change the pay grade of a job classification.

6. Student Loan Forgiveness Retention Program

Establish a Student Loan Forgiveness Retention Program. Without retention benefits, state government can lose an employee based on "one bad day." A student loan forgiveness program can benefit the Commonwealth in a number of ways. While promoting Kentucky trades and postsecondary education through colleges and universities it can also encourage career employment with state government.

RECOMMENDATION: The Personnel Cabinet proposes that it promulgate a regulation to establish a student loan forgiveness retention program. The estimated cost is $20 million from the General Fund.

7. Tier 3 Retirement Plan

As a result of changes to the retirement benefits for state employees, the current plan available for new employees (Tier 3) is no longer a recruitment or retention benefit and does not provide an advantage for state government when compared to the public and private sectors.

RECOMMENDATION: Reinstate the Tier 2 retirement system plan for employees who currently fall under KERS Hazardous and State Police Retirement System Tier 3 hybrid Cash Balance Plan, as recommended in the Governor's proposed budget bill. The less beneficial Tier 3 plan has contributed to the strain on the state's ability to recruit and retain qualified individuals, particularly for those public safety employees who fall under hazardous duty and the Kentucky State Police Retirement System.

8. Pension Spiking Legislation Review

In 2017, legislation was passed to set up a process for determinations to be made of "pension spiking." Under the legislation, KPPA is required to review the last 5 fiscal years of employment for Tier 1 and Tier 2 members retiring on or after January 1, 2018. Any increase in salary earned after July 1, 2017, in excess of 10% from the immediately preceding fiscal year, will be exempt from creditable compensation when calculating the member's retirement benefit if the fiscal year is to be used in the member's final compensation. KPPA will refund member contributions and interest attributable to the reduction in creditable compensation back to the employer. KPPA will allocate the employer contributions to the appropriate system to offset the unfunded pension liability. Under current law, a member's final compensation will be adjusted, unless it falls under one of these provisions:

A. Bona fide promotion or career advancement;
B. Lump sum payout for compensatory time at termination only;
C. Lump sum payout for alternate sick leave payments;
D. Increases in years where the member was on leave without pay in the prior fiscal year;
E. An increase due to overtime work and pay as the result of a state or federal grant, grant pass-through, or a similar program that requires overtime as a condition or necessity of the employer's receipt of the grant; or
F. An increase due to overtime work and pay required by a federal or state-declared emergency.

The above provisions do not account for annual cost-of-living increases. That being the case, it is possible that pension spiking determinations could result for retiring employees who receive their 8% increase on July 1, 2022 if they also receive some type of salary increase in the fiscal year, whether by salary adjustment for a new employee, block 50 compensation, discretionary salary increases, etc.

RECOMMENDATION: It is recommended that the General Assembly modify the pension spiking provisions to account for evidence-based salary adjustments, as recently done with the Kentucky State Police, to accommodate the annual cost-of-living increases/increments, and to avoid reduction of final retirement compensation after an employee has retired, which is often the case with pension spiking determinations.

9. Personnel Cabinet, Department for Human Resources Administration Staffing

The Department of Human Resources Administration (DHRA) within the Personnel Cabinet is vital to the overall success of the Commonwealth of Kentucky's state government functions, responsibilities, and goals. DHRA oversees the administration of the Commonwealth's employment application process, creates and issues employment registers, performs state payroll functions, maintains employee personnel actions and records, manages the classification and state compensation system, and maintains and administers the statewide Performance Management Program. DHRA consists of the Commissioner's Office, the Division of Employee Management (DEM), and the Division of Career Opportunities (DCO). For DHRA to provide appropriate and timely services across the Commonwealth, the department must be appropriately staffed to perform the tasks and duties that are required of it and the Personnel Cabinet by statute and regulation.

The DHRA Commissioner's Office oversees and provides management and guidance to the divisions within the department. This office provides oversight and management to the statewide performance management program and administers the MyPERFORMANCE evaluation system. Additionally, this office administers the DHRA training program, providing guidance and training for required Human Resources (HR) policies and procedures, the Kentucky Human Resources Information System (KHRIS), and the MyPURPOSE system training courses.

The Division of Employee Management (DEM) is responsible for a number of functions, to include the following: executing the state payroll for 44,000 individuals; processing personnel actions for several agencies (KRS Chapter 18A agencies , KRS Chapter 16 agencies, the Department of Education – Adult and Technical Education, the Legislative Research Commission (LRC), and the Administrative Office of the Courts (AOC)); maintaining employees' official personnel files; and maintaining the classification and compensation system. The division is also responsible for implementing lay-off plans, monitoring and assisting agencies in complying with the provisions of the Fair Labor Standards Act (FLSA), and for the review and implementation of Executive Branch reorganizations.

DEM consists of the following branches: Classification, Compensation and Organizational Management, Personnel Administration, and Payroll.

The Division of Career Opportunities (DCO) is responsible for operating a centralized applicant and employee certification program, operating the state register programs, including the administration of layoff plans and reemployment lists as required by KRS 18A.113 through KRS 18A.1132, KRS 18A.115, 18A.130 and 18A.135, and for coordinating outreach programs such as recruitment and administrative internship programs.

DCO consists of the following branches: HR Certification, Applicant, Veterans, & Recruitment Assistance, and Register.

RECOMMENDATION: There is a need for additional qualified staff in DHRA to administer and maintain various critical programs and functions across state government. Although DHRA services numerous agencies across the Commonwealth, currently the department is staffed with only 39 employees, while 10 years ago the employee count was 51. As stated above, the Job Review Project of 1,157 job specifications is coordinated and executed by the Personnel Cabinet's Department of Human Resources Administration, Classification, Compensation & Organizational Management Branch, staffed with only four (4) full-time personnel and one manager. In order for DHRA to succeed and to stay competitive within state government HR and in the private sector, the department will require 11 additional full-time positions. The estimated cost in fiscal year 2024 is $1.5 million. Additional staff will allow the department to be proactive, instead of reactive, in addressing tasks and duties. This will allow action processing within DHRA to be completed in real-time, rather than the continuation of retroactive processing. Quicker turn-around and processing of actions will allow for more efficiency and time saving for agencies in the Commonwealth. To meet this goal of improved efficiency, all consultant and manager positions within DHRA will need to be continuously compensated at the midpoint of their respective grade to maintain adequate staffing levels and continuous reliable production of work. Increased staffing, resulting in more efficient and timely work processes, will benefit state government agencies, employees, and clients throughout the Commonwealth.

The approximate cost of all major recommendations are outlined below:

Fiscal Year 2024

Initiative	General Fund	All Funds
Salary Increase (6%)	$81.5 million	$169 million
Job Review/Grade Changes	$37 million	$63 million
40-Hour Work Week Conversion	$61 million	$111 million
Student Loan Forgiveness Retention Program	$20 million	$20 million
Job Classification Review assistance by Korn Ferry	$500,000	$500,000
Totals:	**$200 million**	**$363.5 million**

RECOMMENDATIONS FOR FUTURE CONSIDERATION

The Personnel Cabinet offers the following recommendations for future consideration to continue its mission to improve Executive Branch state employee compensation.

1. Retention Incentive Pay Program

Establish a Retention Incentive Pay Program.

RECOMMENDATION: After the potential passage of this report's recommendation for compensation changes in fiscal year 2024, the Personnel Cabinet recommends for future consideration the establishment of a retention incentive pay program. An employee serving in the classified or unclassified service could be eligible for a Retention Incentive lump sum payment based on the following intervals:

Years of Service	Annual Longevity Payment
2	$200.00
5	$500.00
10	$1,000.00
15	$1,500.00

The Cabinet suggests that each agency be provided with funding appropriations for the same in the next Executive Branch Budget.

2. Annual Leave Buy Back Program

Establish an Annual Leave Buy Back Program.

RECOMMENDATION: Another future consideration to help with the retention of employees is an annual leave buyback program. This program would permit employees to cash in the value of annual leave in excess of the maximum amount that may be carried forward at year end.

CONCLUSION

Kentucky state government requires quality, skilled employees to provide the public services that are mandated by state and federal laws. Since the Great Recession, the number of permanent full-time state employees has consistently declined by more than 6,000 state employees from 2009 to 2022, a 19% reduction. Two major trends have caused that severe reduction: the slow economic recovery from the Great Recession requiring many budget cuts and austere budgets, and static compensation along with pension benefit reductions.

Recruitment and retention of employees are challenging most Kentucky state agencies to meet their human resource needs. Given the loss of the advantage over the private sector of public sector defined contribution pension benefits, a greater emphasis on monetary compensation is now the primary mechanism to recruit and retain employees. The Commonwealth's current tight labor market is also a headwind in meeting these challenges.

The Personnel Cabinet issues this Classification and Compensation Report to provide findings and recommendations to meet the dual challenges of recruitment and retention. The recommendations address recruitment by structuring the salary schedule to both increase the minimum salary, providing flexibility to hire at up to the midpoint salary, and ensuring that many job classifications are situated appropriately on the salary schedule. Employee turnover has spiked over 20% in the last five years, which has made retaining employees a challenge. A number of recommendations address retention through across-the-board salary increases, amendments to the current compensation regulations, creating a Student Loan Forgiveness retention program, and proposed changes to the Retirement systems.

As a part of the 2022-2024 biennial budget, the General Assembly appropriated $200 million from the General Fund in fiscal year 2024 as a reserve amount for future fiscal year 2024 salary and compensation actions by the 2023 Regular Session. This follows the eight percent across-the-board salary increase for state employees in fiscal year 2023, with a number of higher amounts for targeted areas, like the Kentucky State Police, social service and family support workers, and public defenders. While the recommendations in this report are constructed to be ongoing, sustainable actions, some of the specificity in the recommendations are aimed at utilizing the $200 million reserve amount to finance the General Fund portion of the report for fiscal year 2024.

As we are all working towards a better and brighter future, the Administration stands ready to work with the General Assembly to ensure the existing compensation issues are addressed in order to make Kentucky State Government an employer of choice.

GLOSSARY OF TERMS

Adjustment for Continuing Excellence (ACE): A salary adjustment of up to 10% of the midpoint salary.

Base Pay: The compensation to which an employee is entitled under the salary schedules adopted pursuant to the provisions of KRS Chapter 18A.030 and 18A.110. Base salary or wages shall be adjusted as provided under the provisions of KRS Chapters 18A.355 and 48.130.

Compensation: The salary/wages received by an employee in return for work performed for the employer.

Compression: Salary compression occurs when there is little difference in pay between employees, regardless of differences in their respective knowledge, skills, experience or seniority.

Demotion: A change in the rank of an employee from a position in one class to a position in another class having a lower minimum salary range and less discretion or responsibility.

Employee Recognition Awards (ERA): A lump sum payment of up to 10% of the midpoint salary.

Health Insurance Contribution (HIC): The portion of the member's contribution that is directed to the health insurance fund.

Job Classification Specification: The standard developed by the Personnel Cabinet that states the job title, title code, selection method, information, salary information, characteristics of the job, minimum requirements, examples of duties and responsibilities, date established, and last revision.

Job Evaluation: The systematic process for ranking jobs logically and fairly by comparing job against job or against a pre-determined scale to assess the relative importance of jobs to an organization.

Korn Ferry: A consulting firm in the job evaluation and total compensation industry.

Merit System: Also called the "Classified Service," the merit system is codified in Chapter 18A of the Kentucky Revised Statutes and emphasizes making personnel decisions based on an individual's qualifications and performance. It also protects state employees against arbitrary actions and discriminatory practices.

Pay Grade: The grade assigned to a job classification based on the salary schedule.

Pension Spiking: Any increase in creditable compensation earned after July 1, 2017, in excess of 10% from the immediately preceding fiscal year.

Point Factoring: Point factor-based job evaluation is a quantitative form of job evaluation that uses defined factors and levels within them. Job requirements are compared to the definitions of the factor levels, with corresponding points assigned to the job based on the relevant level.

Position Premium: An additional amount, outside of the base pay, that may be applied to a position.

Promotion: A change of rank of an employee from a position in one class to a position in another class having a higher minimum salary or carrying a greater scope of discretion or responsibility.

Reclassification: The change in the classification of a position that occurs when a material and permanent change in the duties or responsibilities of that position has been assigned in writing by the appointing authority.

Requisition (Reqs): Any official list of eligibles for a particular class, and except as provided in KRS Chapter 18A, placed in rank order according to the examination scores maintained for use in making original appointments or promotions to positions in the classified service.

Salary Schedule: Outlines the pay grades and associated compensation for job classifications.

Status Employee: An employee within the classified service that has acquired tenure with all rights and privileges granted by the provisions of KRS Chapter 18A after satisfactory completion of the initial probationary period.

Total Compensation: A combination of direct compensation (wages/overtime/premiums), indirect compensation (retirement/insurance/leave/holidays/etc.) and other intangible benefits (programs and other work benefits).

Transfer: A movement of any employee from one position to another of the same grade having the same salary ranges, the same level of responsibility within the classified service, and the same salary received immediately prior to transfer.

APPENDIX

1) Executive Branch Employee Counts
2) Annual Increment and Across the Board Increase History
3) Benefit Tier Comparison
4) Evolution of Benefits
5) Salary Schedule, Adjusted
6) Federal Register – Annual Update of the HHS Poverty Guidelines / Vol. 87, No. 14, Pages 3315 and 3316
7) Salary Schedule, Effective September 16, 2022
8) Salary Schedule, 6% Increase - Recommendation #2
9) Job Review Project
10) Locality Premium Report

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