

NORTH CAROLINA: PUBLIC SERVICES IN JEOPARDY

Prepared for the
State Employees Association of North Carolina, SEIU Local 2008
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EXECUTIVE SUMMARY

The people of North Carolina deserve the best. The state provides vital services to our communities through its workforce. These services were created to meet fundamental needs for our residents and visitors. Every community, business, resident and visitor relies upon the services state employees provide. The people of North Carolina rely on state employees to make sure criminals are kept off our streets; to keep watch over the vulnerable population of those mentally unable to care for themselves; to make sure nursing homes and hospitals are inspected. We need state employees to make sure that our highly-travelled roads provide safe passage to work, family or church. State employees perform the functions that no single individual, no individual town, no individual business can do on its own.

As the state's largest employer, North Carolina has a large mandate to fulfill: to provide the direct, quality services North Carolina residents expect, yet be a real employer. The range of services provided by the state require those in personnel positions to be in a constant state of hiring, firing, training and disciplining, yet meeting its mission to make good on its promise to deliver quality services for all.

And yet, the state is facing short- and long-term problems fulfilling its obligation to efficiently provide the highest quality public services. The state must recruit and retain experienced, qualified employees, whether they are workers in the field of mental health, corrections, or transportation. The broader community of employees in the field of higher education face similar challenges. But the state has difficulty recruiting and retaining many high-quality employees. Turnover for all state workers has been rising and a full third of all state employees leave in their first year of employment. North Carolina faces an aging workforce, an upcoming wave of retirements, and very high turnover among young workers. Perhaps most alarming, the state is losing many of its highest performing employees.

This level of turnover in state government is expensive, inefficient, and unwise. And most importantly, high turnover can have a devastating impact on the quality of services, which can lower the standard of living and quality of life for North Carolinians.

Turnover cost the state an estimated \$563 million dollars last year, and this problem has significant non-monetary costs as well; inadequate staffing has led to problems affecting public safety and the care of some of the most vulnerable of our state's residents.

North Carolina simply cannot afford to lose high quality staff or to spend state funds to train new employees only to lose them within a year or two. The state cannot afford for existing staff to spend so much time scrambling to fill positions that turn over repeatedly. North Carolinians cannot afford to pay for temporary and contract employees to fulfill essential state services. We cannot allow our state to serve as a training ground for more competitive employers.

North Carolina's compensation practices – including health insurance, retirement, and salary – make our state less able to recruit and retain experienced and qualified people. Family health insurance, one of the most important benefits for many workers, is especially weak. The state does not assist with family coverage at all, and many state employees are paying upwards of fifteen to twenty percent of their salaries on health insurance premiums for their families. This cost to employees obviously makes state employment less desirable and makes it more challenging for the state to recruit and retain staff.

Other aspects of compensation also make recruitment and retention challenging; salaries lag those in the private market and retirement benefits do not keep up with inflation or with the benefit packages of employees in other southern states.

The current economic downturn means that the state will need to provide more services for even more North Carolinians. We need quality public services now more than ever. And yet, noncompetitive salaries and inadequate health and retirement benefits all conspire to make it more difficult to attract and retain the experienced, quality employees North Carolina needs to provide the public services that help make our state a great place to live and raise our families.

Quick Facts about the State Employee Workforce in North Carolina

Turnover is rising and is too high, particularly among younger workers and new workers

- Voluntary turnover has increased 26 percent in the last five years.
- A full one-third of all state employees in their first year leave their jobs.
- Turnover among young workers is particularly high—30 percent—up almost 20 percent in the last five years.

Turnover is high among high-performing employees

- State government is losing an alarming number of its highest performers; three of the largest departments have double-digit turnover among those rated “outstanding” or “very good” by their supervisors.
- In the Department of Health and Human Services, for example, the turnover rate in 2007 was 25 percent among those whose performance was rated “very good” and 17 percent among those rated “outstanding.” Likewise, at the Department of Transportation, the 2007 turnover rate among those rated “outstanding” was 10 percent while the turnover rate among those rated “very good” was 18 percent.

Turnover costs the state too much

- The Office of State Personnel conservatively estimates that turnover cost the state \$563 million in FY 2008.
- Major problems in departments such as Health and Human Services and Community Corrections are connected to the state’s inability to consistently attract and retain high-quality employees for highly sensitive jobs.

North Carolina’s state employee workforce is aging

- In 1997, the average age of the state workforce was 39. Last year, the average age of the state workforce was 48.
- The average age is expected to continue to climb as baby boomers reach retirement age.
- Employees under 30 now make up only 11 percent of state employees (down from 14 percent in 2000). The state is not effectively attracting and retaining younger workers.

Retirements will increase in the coming decade

- Retirements have remained relatively constant in the last few years, but this will soon change. About 34 percent of all state workers will be eligible to retire between now and 2015. The state is facing a wave of retirements of experienced personnel in the coming years.

State health insurance benefits lag significantly behind other states as well as behind the private market

- The state of North Carolina offers among the weakest state employee health insurance benefits in the nation. In 2006 (the last year for which we have complete data), North Carolina ranked 40th among states in its contribution to individual health insurance. In that same year, North Carolina ranked 49th in its contribution to family health insurance coverage.
- The U.S. state government average monthly contribution to family coverage for health insurance is more than two and half times North Carolina’s contribution.
- The state’s family health benefits are weaker than that of North Carolina’s private industry.

The high cost of family coverage makes it unaffordable for many state employees

- The costs of insuring spouses and children remain completely unsubsidized by the state and the prices have climbed to exorbitant levels. The premium for family coverage is now \$489/month.
- The largest cohort of state employees pays more than 19 percent of salary for dependent health insurance, and the average state employee pays more than 15 percent of salary to buy healthcare for his or her dependents.
- Expensive family coverage destabilizes the State Health Plan (and costs the state money) as it drives younger, healthier families from the health insurance pool.

Retirement benefits are weak

- The largest portion of contributions to the state retirement fund comes straight from employee paychecks. In 2008, state employees paid 67.2 percent of all contributions to the fund.
- State contributions to the employee’s retirement fund (as a percentage of salaries) is lower than almost every other state retirement plan in the country.

Real earnings are falling for state employees

- Most state employees earn modest salaries; More than 21,000 state workers earned less than \$28,000 in 2007. Forty-five percent of state employees earned less than \$33,000 in 2007 and 60 percent of all state employees earned less than \$38,000 in 2007.
- State employees are facing a loss of real wages over the last 10 years as their wage increases have failed to keep pace with inflation.

State salaries are not competitive with the broader market

- North Carolina’s Office of State Personnel has found that average state salaries lag the broader market by more than 4 percent.
- More than half (59 percent) of the benchmark jobs the state sampled lag the market by more than 5 percent and 36 percent lag the market by at least 10 percent.
- Entry-level salaries are particularly uncompetitive.
- In many cases, state salaries also lag those of local governments competing for employees with similar skills.

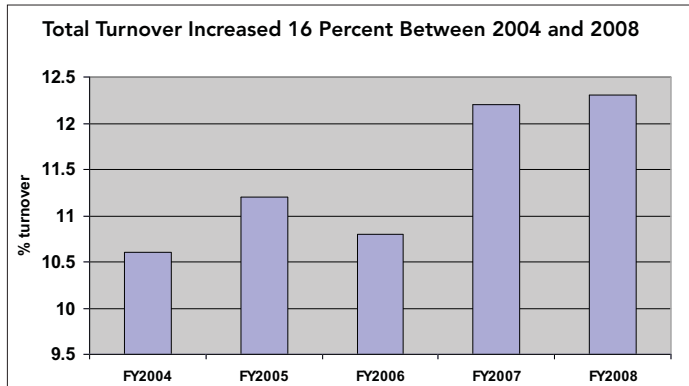


THE PROBLEM OF TURNOVER

Turnover is High and Climbing

Total turnover is a measure comprised of three components: retirements, involuntary turnover (firings or layoffs), and voluntary turnover. Involuntary turnover with the state has been relatively consistent over the past several years, hovering right around 1 percent. Retirements will rise sharply in the coming years, but in recent years have involved 2-3 percent of the workforce each year. The largest and by far most significant portion of turnover is voluntary turnover, which now stands at 8.6 percent. It has increased by 26 percent since FY 2002-03.¹

Voluntary turnover indicates that an employee has chosen to leave the job, typically to take a different job with another employer. Turnover rates vary widely by age, education level, and position level of the employee. Even with this variability, however, the state's total turnover rate of 12.3 percent is relatively high and rising.



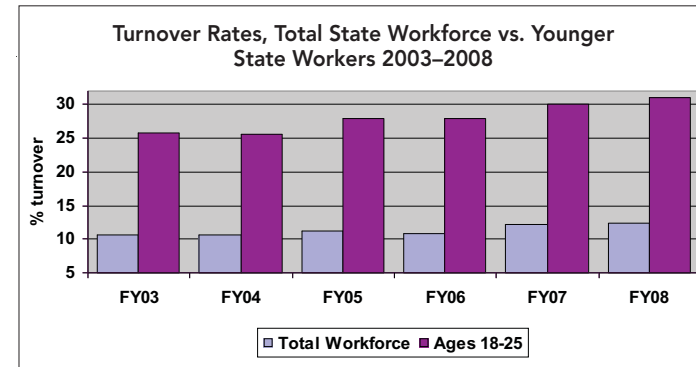
Source: North Carolina Office of State Personnel, 2009 Compensation and Benefits Report, December 2008, p. 17

Turnover among new hires and younger workers is alarmingly high

The most expensive turnover for the state is when good candidates leave after just a year or two; the first two years are typically those with the highest investment by the state in staff development and training.

The state is losing a very high number of these early-career employees. *One-third of all new state employees leave within their first year.*² North Carolina state employees in their second year of service have a turnover rate of 18 percent.³

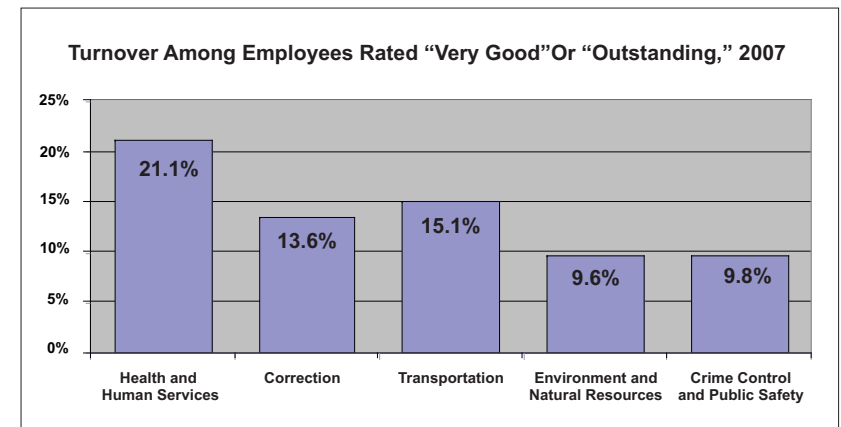
Turnover is also very high among younger workers. Turnover for younger workers generally tends to be above the median for older workers, but even given that consideration, the turnover rate for this group of state employees is alarmingly high. For fiscal year 2007, the turnover rate for 18-25 year olds reached over 30 percent. It was just over 25 percent in fiscal year 2002.



Source: North Carolina Office of State Personnel, State of North Carolina Compensation and Benefit Report, May 2008, p. 15

The state is losing many of its highest-performing employees

Turnover among lower-performing workers is higher than among those who perform well. This is as expected and as it should be, presuming that those who do not excel in their jobs search for more suitable positions elsewhere. However, the state also has been losing many very high performers. In the Department of Health and Human Services, for example, the turnover rate was 25 percent among those whose performance was rated "very good" and 17 percent among those rated "outstanding." Likewise, at the Department of Transportation, the 2007 turnover rate among those rated "outstanding" was 10 percent while the turnover rate among those rated "very good" was 18 percent. The state is losing far too many of its highest-performing employees.



Source: North Carolina Office of State Personnel, "Turnover by PMS Rating," North Carolina State Government Demographics, December 2007

COSTS AND CONSEQUENCES OF HIGH TURNOVER

Costs

High rates of turnover are expensive for the state. The state estimates that replacement of each position cost between 50 percent and 250 percent of the position's salary. The state conservatively estimates that turnover cost North Carolina about \$563 million last year alone.⁴

These costs are incurred in a variety of ways. The state must continually advertise and recruit for positions; managers spend valuable time reviewing resumes and training new employees, and department heads must find money to hire temporary employees to fill vacancies. High turnover also pulls down productivity and staff morale as employees scramble to cover more than one position.

Real life consequences

High turnover rates in public services have other consequences. Many of the most egregious examples involve care for vulnerable populations and/or public safety. Often, these problems only become evident to the general public when the consequences are extremely serious:

- **Mental Health Facilities**

North Carolina's mental health facilities have been the source of a great deal of troubling news: cases of poor oversight, abuse, neglect, and financial mismanagement have riddled newspaper investigations and government reports for years. In the wake of various scandals involving violence and neglect at some facilities, DHHS commissioned a handful of working groups to look into the problems in the state mental health facilities. A May 2008 report from the Hospital and Management and Operations Work Group found that "the levels of staffing at each of the State Hospitals are grossly deficient and are a major factor contributing to dangerous conditions for patients and staff." They also found that "staffing is inadequate as far as number of staff, frequency of the use of contract nursing staff, mandatory overtime and its cost, staff turnover rates, and the number and length of time that direct care positions are vacant."⁵

- **Community Corrections**

In the wake of several high-profile homicides committed by parolees, investigators found that underpaid, overworked and often inexperienced probation officers "routinely" lose contact with parolees they are assigned to supervise. A federal audit found that long-term staffing shortages played a serious role in the problem. Supervisors in the department explicitly stated that low wages made it impossible to retain adequate staff to properly supervise parolees. The Wake and Durham offices reportedly have the greatest problems; statewide, probation officers were reportedly unable to contact more than one in eight parolees under supervision. Positions are vacant for long stretches—the News & Observer reported that 30 percent of all parole officer positions in Wake County were vacant in 2006. The low pay contributes to the problem, and the paper reported that almost 20 percent of the state's probation officers say they are working second jobs.⁶

“Many of our state’s employees have left for better paying jobs.”

“I work in a medium custody prison and have recently lost three officers who work with me in the kitchen. With no replacements in sight, the skeleton crew that’s left continues to be at risk for lack of security. God forbid that an officer would get sick. Many of our state’s employees have left for better paying jobs.”

—State Employee, Department of Correction

- **Division of Medical Assistance**

In response to a report by *The News & Observer*, the state auditor investigated oversight issues at DHHS. In 2008, it was discovered that DHHS had failed to monitor a major contractor which oversaw the approval of community support services for people with mental illnesses. Value Options Inc. was brought in to approve services and to certify that such expenses were reimbursable by Medicaid (a role which had previously been performed at the county level). Due to Value Options Inc.'s errors, the state inappropriately paid out more than \$400 million. An audit determined that excessive turnover at the Division of Medical Assistance played a role in the failure to oversee the contractor.⁷

- **Disability Determination Specialists**

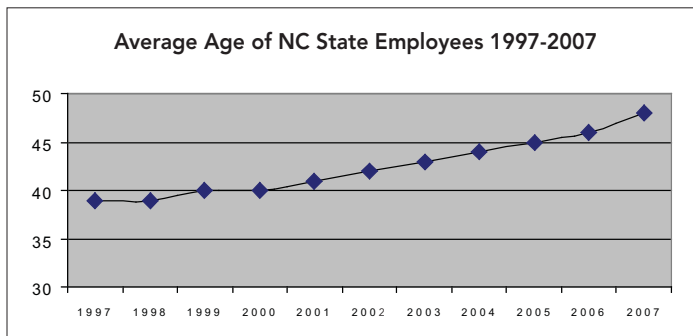
Disability Determination Specialists are state employees responsible for approving or denying disability claims made to the federal government's Social Security Administration program. An investigation by *The News & Observer* found that North Carolina's rate of denial of such benefits was much higher than many other states. The investigation found that the lower rate of approval for disability assistance was a direct result of high turnover and inadequate staffing. Staff said they were pressured to clear claims quickly, usually by denying them, even when medical evidence had failed to arrive (thus denying federal assistance to people with severe disabilities). The turnover rate among Disability Determination Specialists was reported to be more than double the national average for those positions.⁸ As of 2007, Disability Determination Specialists had turnover rate of 21 percent.⁹

Corrections and Health and Human Services are the two biggest departments in state government—they employ more than 36,000 workers between them. They lose a particularly high number of employees in the first two years (19 percent for Corrections and 18 percent for HHS).

DEMOGRAPHICS WILL AFFECT THE STATE'S ABILITY TO RETAIN EMPLOYEES

North Carolina's state government workforce is aging

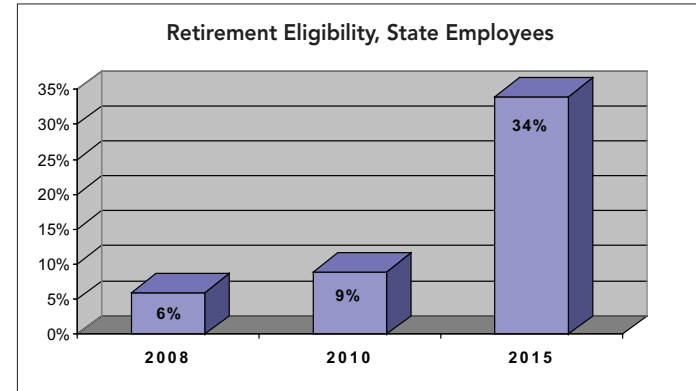
The average age of the state workforce has been increasing steadily over the last decade. In 1997, the average age was 39. By 2007, the average age of state employees had climbed to 48 years.¹⁰



Source: North Carolina Office of State Personnel, State of North Carolina Compensation and Benefit Report, May 2008, p. 16

Two major factors account for the aging of the state workforce. One is the demographic bubble of baby boomers—those born between 1946 and 1964. The second factor is the state's lack of competitiveness as an employer. As the state has failed to keep pace with other employers, the state has been unable to attract and retain a steady stream of younger workers.

The aging of the workforce is also a warning about the rapid increase in retirements to come. While the number of retirements has been flat (and even declined slightly) in recent years, the future looks dramatically different. Fifty-eight percent of state employees are baby boomers and more than a third of state employees are older than 50. More than 9 percent of the state's 90,000-plus workers will be eligible to retire in 2010. By 2015, one in three state employees will be eligible for retirement.¹¹ In some departments, these numbers are even more striking: In the Department of Labor, for example, 45 percent of the employees will be eligible to retire within the next seven years.¹²



Source: North Carolina State Government Demographics, December 2007, available at <http://www.performancesolutions.nc.gov/workforcePlanning/NCWorkforceDemographicsGraphsAndCharts/index.aspx#e>

The state's ability to consistently provide quality public services depends on its ability to continue to attract and retain high-quality workers. The state must continually bring in new employees as these older, experienced workers retire.

However, the state is thus far not effectively attracting and retaining younger workers. In 2007, employees younger than 30 comprised only 11 percent of state employees (down from 14 percent in 2000).¹³



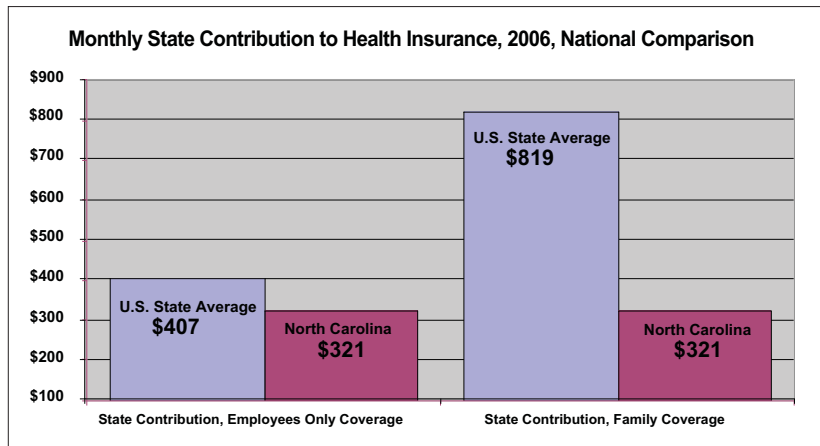
HOW THE STATE FAILS TO COMPETE: HEALTH BENEFITS

High quality benefits, especially health insurance benefits, provide an essential employer opportunity for attracting and retaining high quality employees. State employees in North Carolina, however, receive among the weakest health insurance benefits compared to other states.

North Carolina lags significantly behind the state average in providing coverage for its employees

In 2006, the last year for which complete data are available, the state of North Carolina ranked 40th among state governments in its contribution to individual health insurance. The state ranked 49th in its contribution to family health insurance coverage.

On average, other states contribute more than two and a half times the amount provided by North Carolina for family health benefits.



Source: Workplace Economics, Inc., 2006 State Employee Benefit Survey, 2006, 74-88; Richard Cauchi (National Conference of State Legislatures), "State Employee Health Benefits - Monthly Benefit Cost (Family Coverage)," 2006.

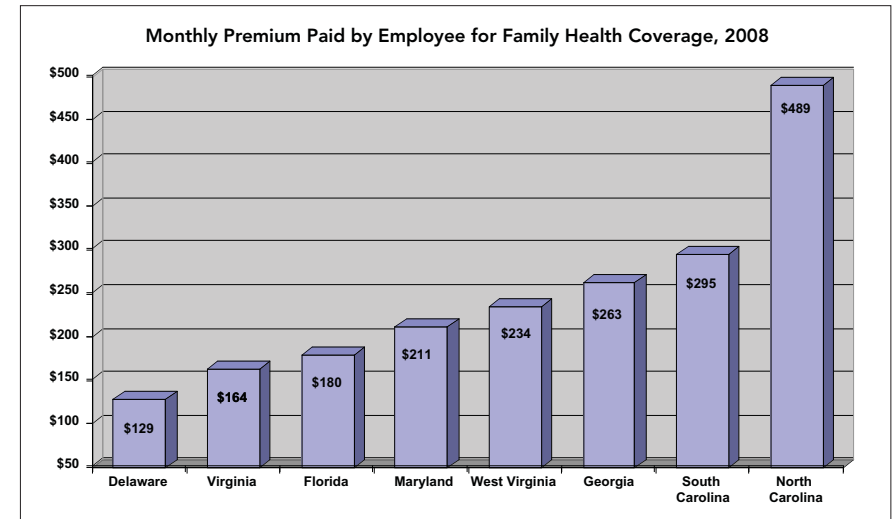
"...my pizza delivery job...offers the same Blue Cross that the state does..."

"Many of our state employees work two jobs just to make ends meet. I happen to be one of them. It was interesting for me to find out that my pizza delivery job, where I work part time, offers the same Blue Cross Blue Shield insurance that the state does, but at a small fraction of the cost."

—State employee, Department of Correction

North Carolina employees pay double (sometimes triple) for family coverage

North Carolina employee premiums are dramatically higher than those of other Southeastern states. In 2008, North Carolina state employees' costs for family coverage was more than twice that of most of the states in the South Atlantic Region. North Carolina state employees pay more than twice as much as state employees in Delaware, Virginia, Florida, Maryland, and West Virginia. North Carolina state employees pay about \$200 more every month to cover their families than employees in Georgia and South Carolina.



Sources: Data compiled from state health plans in selected states and from the "Benefits by State Report," compiled by the North Carolina State Health Plan for the Board of Trustees' meeting on November 18, 2008. States selected are all a part of the census "South Atlantic" region, of which North Carolina is a part. Maryland data is from 2009.

State employees' health benefits for families are below private industry standards

The costs for family coverage for state employees are dramatically higher than for state employees in other states. But the state also compares unfavorably against private employers in health benefit offerings.

The state pays the full premium for individual coverage. But the vast majority of state employees have families. When it comes to family coverage, the state's benefits are weaker than that of North Carolina's private industry. The most comparable group of employers are those with more than a thousand workers; these large North Carolina private employers that provide insurance to their employees cover, on average, 78 percent of the cost of family coverage. The state covers only about 42 percent of the cost of family coverage.

Percent of Premium Covered by Employer

North Carolina Private Industry and State Employees Health Plan Comparison

	State of NC Health Plan (2006)	Average of NC private sector employers (2006)	Average of NC private sector employers with 1000+ employees (2006)	Average of US private sector employers (2006)
Employer Contribution	42%	74%	78%	75%

Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2006 Medical Expenditure Panel Survey (MEPS) - Insurance Component, Table II.D.3 Available at: Medical Expenditure Panel Survey (MEPS), www.meps.ahrq.gov; Richard Cauchi (National Conference of State Legislatures), "State Employee Health Benefits - Monthly Benefit Cost (Family Coverage), 2006."

Health benefits are not affordable for a huge portion of state employees

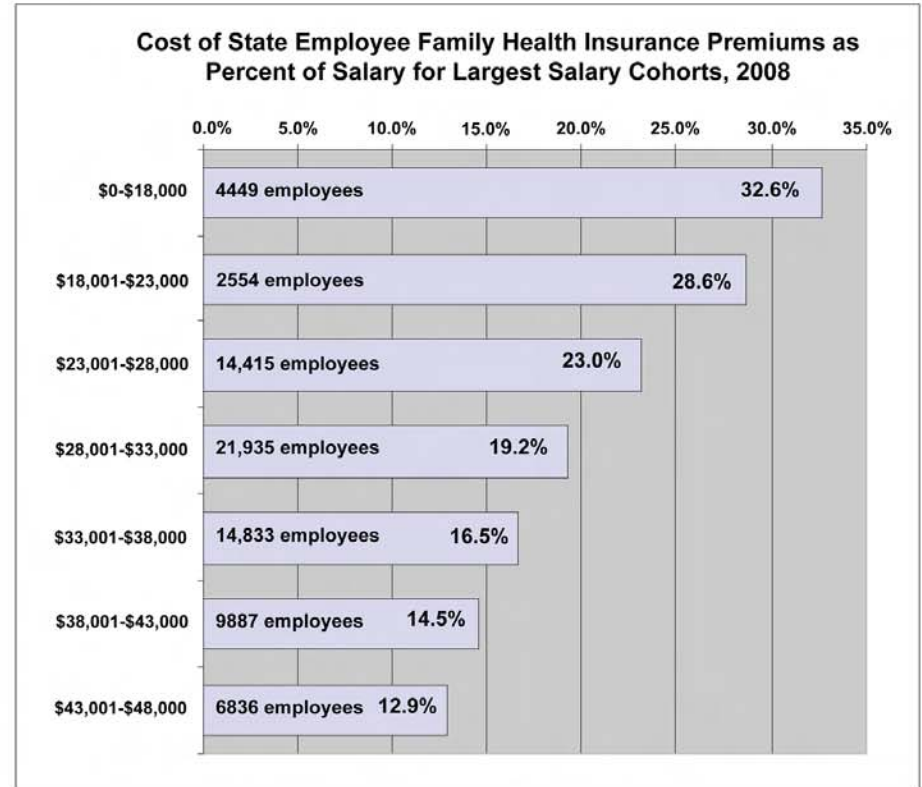
Affordability studies have shown that middle-income individuals and families pay an average of 6 percent of their income for health insurance premiums on the open market and 3 percent of their household income for health insurance premiums through a group insurance plan.¹⁴ Public opinion surveys have shown a strong "buy in" when respondents are given scenarios of the price of health insurance that is between 4 percent and 7 percent of salary.¹⁵

Most state employees who buy coverage for their families, however, pay a significantly higher portion of their income for health coverage. Note that the largest income cohort of state employees is the group that earns between \$28,000 and \$33,000 per year (see appendix for break out of state employees by salary). Those in that salary range are paying 19.2 percent of their gross pay for health insurance premiums. The average state employee in North Carolina pays more than 15 percent of his or her pay for family health insurance.

"I cannot afford to pay health insurance through the state on my wages."

"I live from check to check and struggle in between checks. I am a single parent... I cannot afford to pay health insurance through the state on my wages. Something would have to give like food, clothing, or shelter. ...After seven years, [my job barely] keeps me a breath above poverty and a health emergency away from multiple collection agencies and a possible eviction."

—State Employee, Division of Motor Vehicles



Source: Calculation by author. Percent of income for premiums based on cost of most common 80/20 PPO plan and midpoint of salary range in each cohort. For those in the 0-\$18,000 range, model assumes \$18,000 salary. Salary cohorts are from the North Carolina Office of State Personnel, "Employee Salary Profile as of 12/31/07," report run on 12/09/08.

High costs for family health benefits is inefficient and destabilizes the state insurance pool

The high cost of family insurance has several negative effects. First, it provides little incentive for many potential employees to work for the state—the family insurance actually costs about the same on the open market so for people with healthy dependents, the state has little to offer for their families. Second, it encourages younger, healthier (i.e. cheaper) employees to get their family insurance elsewhere. Third, it makes the existing state insurance pool less healthy and older overall, thereby increasing the costs in a negative and expensive spiral.

In North Carolina, the high cost of family health insurance makes state employment significantly less desirable for employees looking for good health benefits. In addition, it drives up the cost of the plan for those who do elect to purchase family health insurance. As costs rise, it becomes even less available and even less of a “benefit” for potential and current employees.

What is the “adverse selection death spiral”?

A solid, sustainable health insurance pool includes a broad array of people of various ages. Older people tend to be more expensive (less healthy) and younger people tend to be less expensive (more healthy). A sustainable pool would include a lot of people who are generally healthy and some people who are sick or otherwise requiring expensive medical care. Adverse selection in health plans is a process in which incentives (such as high costs) lead older/less healthy people to choose a particular healthcare option (because, despite the cost, they are more likely to need care) and lead younger or healthier people to reject that same option. The plan gets more expensive because mostly expensive people are selecting it. Because it gets so expensive, an increasing number of healthy people (who have less of a need for insurance) opt out. An adverse selection death spiral is when this happens long enough or with a pronounced enough adverse selection effect that the plan is no longer sustainable.

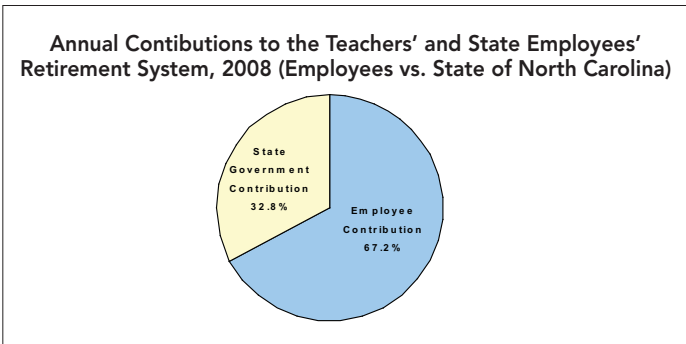
HOW THE STATE FAILS TO COMPETE: RETIREMENT BENEFITS

The North Carolina Teachers’ and State Employees’ Retirement System (TSERS) pension fund has been lauded in the press for its management and its status as a fully funded pension plan. On the question of competitiveness, however, retirement benefits are less attractive to many potential employees than they may seem.

Unfortunately, TSERS’ financial health does not actually translate into a high level of benefits for state employees. The TSERS benefits formula is not competitive with other states.

State employees contribute most of their own “benefit”

State employees are heartened that their retirement plan is relatively stable. But it is important to note that the largest share of the money contributed to the fund is money that comes straight out of employee paychecks. Indeed, in 2008, state employees paid 67.2 percent of all contributions to the fund.¹⁶



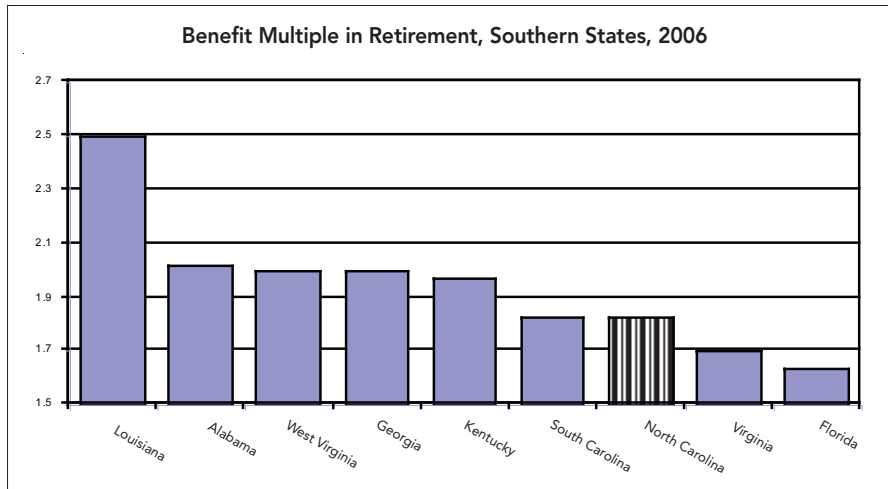
Thus, while the state employees’ pension fund has grown, the contributions of state employees themselves play a much greater role than the annual contribution from the state.

The contributions from state coffers is so low that it is among the lowest in the country. Of the 102 public employee retirement programs surveyed by the National Association of Retirement Administrators and the National Council on Teacher Retirement (as a part of the Public Fund Survey), North Carolina’s contribution rate appears to be **lower than any other state retirement system in their survey.**¹⁷

Benefits to retirees lag other states

North Carolina also lags behind many other states when it comes to the actual benefits retirees receive. Most employers who provide a defined benefit retirement plan (as does the state of North Carolina) base retirement benefits on each employee's years of service and on his or her average salary during the last several years of the employee's tenure. To arrive at the final benefit, each employer also uses a "multiple," a factor that makes up part of the calculation of benefits. The range of "multiples" in state governments is fairly narrow (usually between 1.8 and 2.5), but even a 10th of a point makes a big difference in the retirement benefits paid out to retirees. In short: the higher the multiplier, the higher the retirement benefits.

North Carolina's multiplier is in the low end, even compared to other Southern states such as Louisiana, Alabama, and Georgia.



Source: Workplace Economics, Inc., 2006 State Employee Benefit Survey, 2006

HOW THE STATE FAILS TO COMPETE: SALARIES

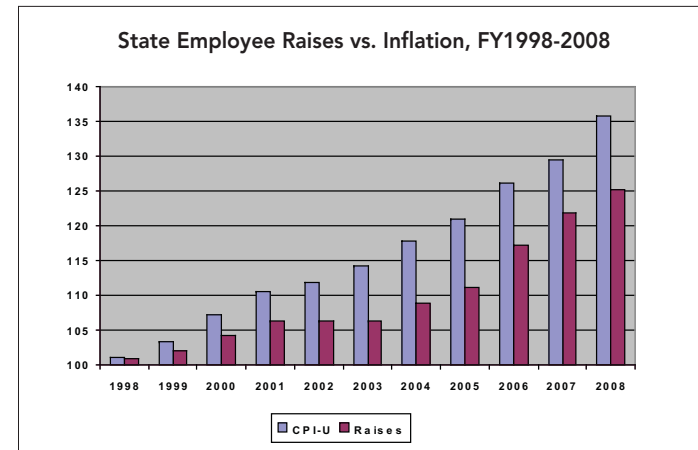
Most state employees make modest incomes

- More than 45 percent of all state employees earned less than \$33,000 in 2007.
- More than 60 percent earned less than \$38,000 in 2007.¹⁸

State salaries fail to keep pace with inflation

The North Carolina Office of State Personnel is clear: low salaries are a drag on the state's ability to recruit and retain workers. State salaries have long lagged behind similar positions in the private job market and raises approved by the Legislature have failed to keep up with both the private sector and the rate of inflation.

The graph below shows the increases in state salaries and inflation (Consumer Price Index) over the past 10 years. Inflation has outpaced earnings—thus, state employees have faced a decline in real take-home pay.



Source: North Carolina Office of State Personnel, State of North Carolina Compensation and Benefit Report, May 2008, p. 5. Bureau of Labor Statistics, CPI-U July-June. Calculations by author.

"It is the policy of the state to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce."

—State Personnel Act, G.S. 126

"Don't get me wrong, I love my job ... I'm just not making enough."

"I have been looking for other work with the city or federal government because they seem to make more money doing the same work as state workers."

State Employee, Department Health and Human Services

While the state's inability to be competitive with inflation is important, the most important measure of competitiveness comes from the state's ability to actually compete with other employers for quality employees.

State employee salaries are below the private market

In the Compensation and Benefits Report of December 2008, the Office of State Personnel concluded that state employee salaries lag the private market, on average, by 4.87 percent. The state also used a number of salary surveys to determine that out of the 61 benchmark positions they studied, 59 percent trailed the market by at least 5 percent and that 36 percent trailed the market by at least 10 percent.¹⁹ The state has concluded that "it is evident from the data that North Carolina is at a competitive market disadvantage when attracting qualified candidates and retaining skilled employees in many of the benchmark classes."²⁰

Selected Jobs in Which State Pay Lags Market by >5%

Selected from within the state's 61 benchmark classes

Class Titles	Labor Market Pay Gap
Rehabilitation Counselor I	-24.4%
Paralegal II	-22.2%
Electrician II	-21.3%
Nurse (RN) Supervisor I	-20.0%
Physical Therapist I	-19.3%
Information and Communication Spec II	-14.3%
Executive Assistant I	-13.8%
Environmental Engineer II	-12.9%
Speech and Language Pathologist I	-11.7%
Social Worker III (MSW)	-10.7%
Librarian II	-10.7%
Food Service Tech	-10.1%
Public Safety Officer	-9.4%
Social Worker II	-8.3%
Staff Nurse (RN)	-8.3%
Security Guard	-7.7%
Health Care Tech I	-7.6%
Networking Tech (banded)	-6.4%
Mechanic II	-6.1%
Personnel Officer III	-5.9%
Transportation Engineer I	-5.8%
Accounting Tech III	-5.4%
Practical Nurse II	-5.3%
Correctional Officer	-5.1%

Source: North Carolina Office of State Personnel, 2009 Compensation and Benefits Report, December, 2008, pp 31-33.

State is least competitive with new graduates in competitive fields

While state salaries lag the private market at all levels, starting salaries are a particular problem. The state takes a measure each year of its ability to compete for new graduates in a number of sample jobs. The state lags considerably behind in each case.

NC Class Title	Starting Salary Nat'l average	NC Minimum Hiring rate	Entry Pay Gap
Accountant I, Trainee	\$46,070	\$39,698	-16.0%
Personnel Analyst I, Trainee	\$39,799	\$30,298	-31.3%
Operations & Systems Specialist	\$58,182	\$52,000	-11.9%
Staff Nurse	\$50,083	\$40,082	-30.0%
SBI Agent, Trainee	\$42,788	\$36,743	-16.5%
Social Worker I	\$31,840	\$27,309	-16.6%
Artist Illustrator I	\$35,378	\$28,423	-24.5%

Source: North Carolina Office of State Personnel, 2009 Compensation and Benefit Report, December 2008, p. 16

North Carolina lags behind salaries at other local governments

In many cases, the state is competing for employees with other government entities. These entities, typically county and city governments, have smaller revenue bases and smaller numbers of employees than the state does. However, in many cases, other public sector employers are more competitive employers than the state.

In a study of several benchmark positions which exist in both state and local government, we found the state was uncompetitive in many positions.

Cities

As shown in the table below, two of our benchmark samples (Maintenance Tech/Repairman and Accounting Tech 1) were very slightly higher than the cities average. However, three positions (custodian, secretary, and engineer technician) showed significant gaps between the state salaries and city government for the same (or equivalent) position.

North Carolina State Salaries in Comparisons with North Carolina Cities More Than 100,000 Population

Position title	Accounting Tech I	Engineer Tech	Custodial Worker*	Office Assistant I/ Administrative Secretary I	Maintenance Tech**
Cities Average	\$33,206	\$46,005	\$25,140	\$31,462	\$37,858
State Of NC Average Salary	\$33,657	\$34,427	\$23,258	\$28,414	\$39,110
State Wage Gap	1.04%	-25.17%	-7.3%	-9.69%	3.31%

Source: North Carolina League of Municipalities, North Carolina Municipal Salaries 2008. Southeastern States Salary Survey, 2008. Cities sampled include Cary, Charlotte, Durham, Fayetteville, Greensboro, Raleigh, Winston-Salem. Not all cities have all jobs. *The North Carolina Office of State Personnel uses the title "housekeeper" as a comparative for "custodial worker" for the Southeastern States Salary Survey so it used here as well. **State title is Maintenance Mechanic IV.

The Office of State Personnel did a similar comparison with different job categories that existed both at the state and at cities with populations of more than 25,000. They found a similar situation, with the state roughly even with cities in a couple cases and lagging behind in others. The OSP found that public safety officers were paid an average of 11.5 percent less than their counterparts, that housekeepers were paid 11.1 percent less, and that entry level transportation engineers were paid 5.8 percent less than their counterparts at city governments.²¹

Cities of particular concern are cities in which a high number of state employees reside. This is particularly relevant in Raleigh and neighboring communities where a high number (more than 25,000) state employees live. These local governments often are in direct competition for the same employees.

As the table below shows, the city of Raleigh is consistently paying higher salaries for equivalent positions than is the state. Data for the city of Cary are more mixed, but likewise indicate higher salaries in our sample.

Salaries: North Carolina vs. City of Raleigh

	Accounting Tech	Engineer Tech	Custodial Worker	Secretary	General Maintenance Repairman
NC	\$33,657	\$34,427	\$23,258	\$28,414	\$39,110
Raleigh	\$37,905	\$49,664	\$25,493	\$28,803	\$48,686
Wage Gap	-11.2%	-30.7%	-10.8%	-1.4%	-19.7%

Source: Southeastern States Salary Survey 2008. North Carolina League of Municipalities, North Carolina Municipal Salaries 2008.

Salaries: North Carolina vs. City of Cary

	Accounting Tech	Engineer Tech	General Maintenance Repairman
NC	\$33,657	\$34,427	\$39,110
Cary	\$38,043	\$47,395	\$37,086
State Wage Gap	-11.5%	-27.4%	5.5%

Source: North Carolina League of Municipalities, North Carolina Municipal Salaries 2008.

Counties

The state has mixed results in comparison to North Carolina county governments. While several of our benchmark jobs showed that the state paid somewhat (between 3 percent and 13 percent) higher, other positions were markedly behind the pay for the equivalent county position. In particular, corrections officers and corrections sergeants are significantly underpaid compared to their counterparts employed at the county governments.

Salaries: North Carolina vs. Largest County Governments

	Correctional Officer	Accounting Tech	Correctional Sergeant	Custodial Worker	Secretary	Social Worker (MSW)
North Carolina	\$29,866	\$33,657	\$34,429	\$23,253	\$28,414	\$43,481
County Averages	\$34,541	\$33,734	\$45,061	\$23,291	\$26,640	\$42,153
State Wage Gap	-14%	-0.02%	-24%	-0%	6%	3%

Source: Institute of Government at UNC, County Salaries in North Carolina 2008. Sampled Counties include Buncombe, Cumberland, Durham, Forsyth, Gaston, Guilford, Mecklenburg, and Wake. Southeastern States Salary Survey 2008.



CONCLUSION

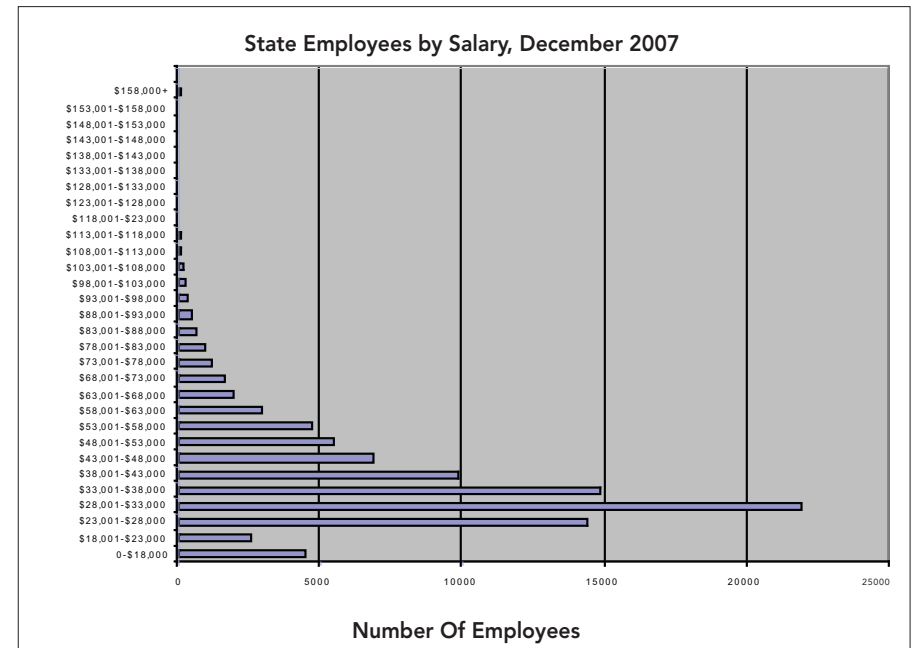
The problem of excessive turnover is a problem of quality. Excessive turnover costs the state hundreds of millions of dollars each year. It costs the state valuable expertise which must be learned repeatedly. It costs the time and attention of managers who must continually recruit staff again and again as good employees leave for better salaries and better benefits elsewhere.

The recruitment and retention problem in state government is not an issue where the interests of state employees diverge from the rest of the state's residents. We all want state government to do its job well. We all want the state to be efficient and careful with our tax dollars. We all want quality public services.

We believe the way to improve efficiency and quality in public services is to have compensation policies that reflect North Carolina's determination to attract and retain capable, qualified people for state employment. The need is especially great given the aging of the state's workforce and the upcoming retirement of the baby boomers.

If North Carolina is serious about quality public services, state government needs to implement a compensation system that is designed to get us there. Such solutions would include benefits that take into account the need for state employees to provide health insurance for their dependents at a reasonable rate. They would include a more attractive retirement package for state employees, and they would include salary levels that more closely match those of the private market.

APPENDIX



Source: North Carolina Office of State Personnel, "Employee Salary Profile as of 12/31/07". Report run on 12/09/08.

Changes in North Carolina since 2000

Increase in North Carolina's population, 2000 to 2008 ²²	16%
Increase in North Carolina public college enrollment, 2000-2007 ²³	28%
Increase in persons served in state psychiatric hospitals, 2000-2007 ²⁴	10%
Increase in state prison population, 2000-2007 ²⁵	22%
Increase in acreage of North Carolina state parks ²⁶	21%
Increase in the number of licensed drivers, 2000-2006 ²⁷	11%

ENDNOTES

- ¹ NC Office of State Personnel, *2009 Compensation and Benefits Report*, December 2008, p. 17.
- ² NC Office of State Personnel, "Summary of Separation by Aggregate Service 1/01/07 to 12/31/07," North Carolina OSP-created report, generated 11/26/08.
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- ⁴ NC Office of State Personnel, *2009 Compensation and Benefits Report*, December 2008, p. 17.
- ⁵ Mike Pedneau, State Hospital Management and Operations Work Group, "Report of the Hospital Management and Operations Work Group," May 14, 2008, p. 4.
- ⁶ Thomas H. Williams and Cathy Waller-Borovac for the National Institute of Corrections, *NIC Technical Assistance Report No. 08C1025 DRAFT*, July 1, 2008; "Probationers Kill, State Dawdles: Since the Start of 2000, 580 offenders have killed while on probation. Probation officers, hamstrung by vacancies and sloppy bureaucracy, can't locate nearly 14,000 criminals," *The News & Observer*, December 7, 2008.
- ⁷ Office of the State Auditor Performance Audit, DHHS Division of Medical Assistance – Oversight of the Mental Health Services Utilization Review Contract, July 2008.
- ⁸ "Wiped out by the Wait," *The News & Observer*, June 1, 2005, p.A1.
- ⁹ Office of State Personnel, "Turnover Rate Analysis by Class Code for Period from 1/01/01 to 12/31/07." Includes Disability Determination Specialist I (21%), II (18%), III (11%), and Trainees (55%).
- ¹⁰ NC Office of State Personnel, *State of North Carolina Compensation and Benefit Report*, May 2008, p. 16.
- ¹¹ NC Office of State Personnel, "Workforce Planning," See www.performancesolutions.nc.gov/workforceplanning/index.aspx
- ¹² NC Office of State Personnel, "Retirement Eligibility—Department of Labor," NC State Government Demographics, December 2007. <http://www.performancesolutions.nc.gov/workforcePlanning/NCWorkforceDemographicsGraphsAndCharts/index.aspx#re>
- ¹³ North Carolina Office of State Personnel, "Employee Age Profile by Selected Years as of 12/31/07," report run on 12/09/08.
- ¹⁴ Cover Missouri, *Defining Affordable Healthcare for Missouri*, Fall 2008. See table 3: "Health Costs as a percent of Income, above 300% FPL," p. 8. Report is based on national data from the Medical Expenditure Panel Survey. See also Holahan et al., Setting a standard of affordability for Health Insurance in Massachusetts, 2006.
- ¹⁵ Cover Missouri, *Defining Affordable Healthcare for Missouri*, fall 2008, pp. 11-12.
- ¹⁶ North Carolina Department of the State Treasurer, *The State Treasurer's Annual Report to the People of North Carolina*, Fiscal Year 2007-2008, p. 12.
- ¹⁷ Public Fund Survey, "Contribution Rates." Data is from fiscal year 2007. Available at www.publicfundsurvey.org
- ¹⁸ Office of State Personnel, "Employee Salary Profile." Report run on 12/09/08. Data from 12/31/07.
- ¹⁹ Office of State Personnel, *2009 Compensation and Benefits Report*, December, 2008, p. 12.
- ²⁰ *Ibid.*, p. 10
- ²¹ NC Office of State Personnel, *2009 Compensation and Benefits Report*, December 2008, p. 14
- ²² State of North Carolina, *Comprehensive Annual Financial Report (CAFR)*, Fiscal Year Ended June 30, 2008, p. 286.
- ²³ University of North Carolina, *Statistical Abstract of Higher Education in North Carolina*, 2007-2008, p. 46.
- ²⁴ North Carolina State Data Center, LINC report, "Persons Served in State Psychiatric Hospitals," 2000 and 2007.
- ²⁵ North Carolina Department of Corrections, *Annual Statistical Report*, 2006-2007, p. 14.
- ²⁶ North Carolina State Parks, "Size of the NC State Parks," p. 4. www.ncparks.gov/About/docs/protection_acreage.pdf; North Carolina State Parks, North Carolina State Parks System Land Acquisition 1983 to 2007, http://www.ncparks.gov/About/docs/protection_activity.pdf
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