

**STATE OF MICHIGAN
CIVIL SERVICE COMMISSION
COORDINATED COMPENSATION PANEL**



**COORDINATED COMPENSATION PROPOSAL
FOR
FISCAL YEAR 2015**

**Recommendations for Nonexclusively Represented Employees of the State of
Michigan Classified Service for the Fiscal Year Beginning October 1, 2014**

Table of Contents

Introduction	2
Economic Overview	3
Proposals and Party Positions.....	4
I. WAGES AND BENEFITS	4
<i>A. Wages.....</i>	<i>4</i>
<i>B. Health, Dental, and Vision Insurance</i>	<i>5</i>
II. MISCELLANEOUS	10
<i>A. Professional Development Fund Contributions</i>	<i>10</i>
<i>B. Annual Leave Program Adjustments.....</i>	<i>11</i>
<i>C. Meal Reimbursement; 4% Deduction; Attorneys' Fees; Verizon Discount</i>	<i>11</i>

Introduction

Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel. Rule 5-1.3 charges the panel as follows:

The coordinated compensation panel shall send a recommended coordinated compensation plan for all nonexclusively represented classified employees to the civil service commission. The panel shall consider negotiated collective bargaining agreements, any impasse panel recommendations, and any recommendations of the employer or employees.

Regulation 6.06 establishes a process for employee participation and guidelines for the panel in making its recommendations. Under the regulation, participants in the Coordinated Compensation Plan (CCP) process include the Office of the State Employer (OSE) and organizations granted limited-recognition rights under Rule 6-8.3. The following limited-recognition organizations (LROs) participated in this year's CCP.

- Association of State Employees in Management (ASEM)
- Michigan Association of Governmental Employees (MAGE)
- Michigan State Police Command Officers Association (MSPCOA)

Nonexclusively represented employees (NEREs) who are not members of LROs may also participate upon leave granted by the panel. No employees requested to participate this year.

The panel held a hearing on November 13, 2013. All parties were allowed to make presentations and respond to proposals of other parties. Having reviewed the arguments and submissions of the parties, the Board offers the following summary and recommendations to the Commission:

Economic Overview

Consistent with Regulation 6.06, which calls for the panel to consider “the current and forecasted financial condition of the State” in making its recommendations, the panel received evidence on fiscal year (FY) 2015 revenue forecasts and budget projections as part of the OSE’s presentation. The following is a brief summary of the information provided by the OSE:

Between the low point of the recession in July 2009 and August 2013, jobs in Michigan increased by 269,000, or 7%. Unemployment during this same period decreased from 14.2% to 9%. Despite the increase in employment, Michigan’s payroll employment remains more than 590,000 jobs below the pre-recession peak. Michigan’s unemployment rate before the recession was 7.1%. Michigan expects continued modest economic growth through 2015, with increases in total employment, personal income, motor vehicle production, and housing starts. Michigan’s unemployment rate is expected to decline, though not to pre-recession levels. Continued uncertainty about the federal government’s budget and monetary policy, stagnating world economic growth, and tensions in the Middle East pose risks to the economic forecast.

A wage survey conducted by the OSE in 2011 indicated that Michigan’s wage and benefits package compares favorably with those received by other public and private employees. The average vacancy posting receives over 90 applicants.

While the total number of state employees has declined 21% from FY 2002 through FY 2012, total payroll costs increased over 28% over that same period. Wages increased 24.1% and fringe benefit costs per employee more than doubled. Total annual compensation increased by 47% from FY 2000 through FY 2012. Total health insurance premium costs more than doubled from FY 2002 through FY 2014. In FY 2012, the state spent over \$556 million for State Health Plan (SHP) and health maintenance organizations (HMO) premiums, \$107 million for dental, vision, life, and disability coverage, and \$1.2 billion for Defined Benefit (DB) and Defined Contribution (DC) retirement plans. The OSE forecasts an increase of \$160 million in FY 2014 to maintain current health and retirement plans.

Proposals and Party Positions

I. Wages and Benefits

A. Wages

The OSE recommends a general wage increase of 2% for NEREs at the start of October 2014. The OSE estimates the proposed increase would cost \$32.8 million.

In its written statement, MAGE requests a general wage raise of at least 3% for all NEREs, and no further subtractions from wages for other benefits. MAGE also requests other necessary adjustments to address wage compression issues, both generally and in relation to classifications with specific compression problems.

MAGE points out that the total compensation of state employees, and in particular those employees with college degrees, falls short of their private sector counterparts. Overall pay raises have not kept pace with inflation and the cost of living. Compensation has been further eroded by increases in pay deductions for health care benefits. The number of NEREs continues to decrease with a corresponding increase in workload, but no corresponding increase in compensation.

The pay compression problem begun in FY 2011 when exclusively represented employees received a 3% wage increase while NEREs received nothing persists. While the base-pay increase disparity was reconciled over the three succeeding years, the pay scales of many NERE managers and their mostly unionized subordinates remains close and was exacerbated last year when no lump-sum was received.

MAGE points to specific examples of pay compression or pay inversion caused by the lack of comparable treatment between NEREs and represented employees. Registered Nurse (RN) Managers make almost \$7,000 less per year than union-represented Registered Nurses. Psychiatrist Managers earn only \$912 more per year than the Psychiatrists that they supervise. Department of Natural Resources supervisors, who are NEREs, earn only \$535 more per year than their subordinates, unionized Park Rangers. Department of State Branch Managers, who are NEREs, earn \$462 less per year than the unionized employees they supervise. Pay inversion continues to worsen morale. Rank-and-file employees in the Department of Corrections are uninterested in supervisory positions in which they would receive less overtime, lose shift preference, and take on more responsibility for a minimal increase in base pay. The Department of Community Health has persistent problems recruiting and retaining RN Managers, and existing RN Managers are required to work excessive amounts of overtime. MAGE also notes that the Consumer Price Index increased

by 3.2% in 2011 and by 2.1% in 2012. Several economic indicators—vehicle production, housing starts, decreasing unemployment—bode well for continued state revenue generation. MAGE requests that both general pay compression and these specific examples be rectified.

In its written submission, ASEM seeks a 2% to 3% general wage increase for NEREs, plus a 1% lump sum payment. These increases are needed to completely rectify the pay inequities created in FY 2011.

MSPCOA highlights pay compression between State Police Lieutenant 14s, who are NEREs, and State Police Sergeants, who are exclusively represented. Due to sergeants working only a 7.5 hour workday compared to the lieutenants' 8-hour workday and the sergeants being eligible for overtime while the lieutenants are not, an initial yearly pay differential between the two classifications of \$4,784 disintegrates into a difference of only \$789 in final average compensation. MSPCOA requests a special wage adjustment of 5% for State Police Lieutenant 14s.

B. Health, Dental, and Vision Insurance

The OSE recommends replacing the traditional SHP and HMO plans currently offered to eligible employees hired before April 1, 2010 with the New State Health Plan (NSHP) and New HMO (NHMO) plans that currently apply to eligible employees hired on or after April 1, 2010. The OSE further proposes making the following changes to the NSHP, NHMO, and Dental Plan, effective October 12, 2014:

NSHP

- Copays for office and urgent care visits increased from \$20 to \$25 with copays for specialists increased to \$35 for the NSHP PPO;
- Employee coinsurance for out-of-network office visits with specialists increased from 20% to 30%;
- NSHP in-network deductible increased from \$400/\$800 to \$500/\$1000;
- Autism benefits added to the NSHP subject to deductibles and coinsurance (NHMOs already cover);
- In-network out-of-pocket (OOP) maximums to be increased from \$1500/\$3000 to \$2000/\$4000.

NHMOs

- Copays for office and urgent care visits increased from \$20 to \$25;
- NHMO deductibles of \$150/\$300 implemented;
- OOP maximums implemented at the same levels as the NSHP: \$2000/\$4000.

NSHP and NHMOs

- Employees in the NSHP and NHMOs who choose not to participate in the new proposed voluntary wellness awareness plan in FY 2015 will begin to incur a premium surcharge of \$10 per pay period in FY 2016 via payroll deduction.

State Dental

- Dental implants added as a covered benefit under prosthodontics.

Based on rates in effect in FY 2014, the OSE estimates the changes to the NSHP and NHMO would reduce the state's premium cost by \$65.7 million and employees' premium cost by \$18.6 million in FY 2015.

The OSE's insurance proposal is designed to maintain a high level of coverage while helping reduce the impact of future cost increases on both employees and the state. The current NSHP and NHMOs were negotiated with all unions for employees hired since April 2010 and provide benefits equivalent or superior to plans offered by other employers. The state's costs for the SHP and HMOs and NSHP and NHMOs are projected to increase by \$40 million in the current fiscal year. This is close to the cost of a 1% raise for all state employees.

According to the OSE, moving to a single plan design will create equity among all employees and provide for improved administrative efficiencies. For those employees currently enrolled in the SHP or HMOs, adoption of the proposal will result in an average annual employee premium reduction of \$500.

As projected by the department of technology, management and budget, based on current enrollment, claim trends, revenues, and expenses, the SHP would have a negative fund balance of over \$13 million at the end of FY 2015. Surplus funds are no longer available to supplement the SHP. Without a change, significant rate increases would be required to overcome the projected shortfall and to cover yearly cost increases.

The proposed changes above are necessary to lessen future rate increases. If all legacy SHP employees are moved to the NSHP without the proposed changes, at FY 2014 rates total premium revenue would be reduced by \$30 million. Moving all employees to the current NSHP design is projected to save around \$17.7 million in claims, leaving a gap of \$12.3 million. To avoid future rate increases necessary to close that gap, the proposed changes to the NSHP are projected to save \$25.8 million in claims in FY 2015 and \$27.2 million in FY 2016. The OSE provides similar rationale for the changes to the NHMOs.

The proposed insurance changes comply, or move the state's plans into compliance, with the Patient Protection and Affordable Care Act (PPACA). Moving employees into the

NSHP and NHMOs will help to keep costs below levels that would trigger PPACA's 40% Excise Tax in 2018.

The OSE points out that the health care plans offered by the state are more expensive than those offered by other employers, largely because the state's plans provide better coverage. The employee premium share of 20% for the NSHP is comparable to the rates for employee-only coverage found in other large employers. The premium share for state employees choosing full family coverage is significantly lower for state employees than the average of 30% for employees in other state and local governments. The proposed deductibles, coinsurance levels, and OOPMs for the NSHP and NHMOs are also below those of similar employers.

The OSE is also proposing adding autism coverage to the NSHP and instituting a voluntary wellness awareness plan for both the NSHP and NHMOs. Many employees have inquired about autism coverage, which the NHMOs already cover. The wellness plan is a voluntary program where employees are encouraged to participate in an annual health screening to identify risk factors and provide early treatment for chronic conditions to reduce health costs. The OSE proposes that those employees who do not participate in the program pay a \$10 premium surcharge each pay period.

ASEM requests that health insurance benefits for all NEREs remain the same.

Recommendation

A. Wages

The OSE offers a 2% general wage increase. MAGE requests at least a 3% general wage increase. ASEM requests a 2% to 3% general increase and a 1% lump sum.

In IP 2013-01, which was also issued today, the same members of this panel have recommended a 2% general wage increase for unionized classified employees and a 0.5% lump-sum award. IP 2013-01 explained the basis for that level of increase. The panel believes those same reasons, plus the need for equitable treatment of NEREs, justify a similar recommendation in the CCP process.

Accordingly, **the panel recommends** that a 2% base-pay increase and a 0.5% lump-sum award be provided to NEREs, effective October 2014.

B. Special Pay Increases

In addition to the general wage increases, LROs have submitted documentation of pay gaps or pay compression that they would like remedied. The first is an extensive listing

of classes where confidential NERE positions will have lower wages during the current fiscal year. The denial of raises for NEREs for FY 2011 created a 3% gap from equitable pay treatment between the exclusively represented and NERE workforces. The base-pay effects of the 3% gap from FY 2011 were eliminated through the general pay increases awarded to NEREs in FY 2013 and FY 2014, but there were some additional relative wages for the unionized workforce over the last four years. While there is no requirement that the pay increases track each other, the commission has historically endorsed equitable treatment between the two groups. As stated in last year's recommendation, awarding a 1% general wage increase in FY 2014 while exclusively represented employees did not receive a general wage increase, to the extent possible, addressed the remaining ongoing disparity between NEREs and exclusively represented employees. The panel considers the FY 2011 gap, and arguments for wage increases because of the wage increases in FY 2011, closed.

MAGE also offers evidence of pay compression in four specific classifications, but the panel is not convinced that any class requires a remedy.

- The first comparison is between the NERE Registered Nurse Manager 12 and the represented Registered Nurse 14. The RN 14, which is two levels above the RN Manager 12, is the most advanced level of the RN class and there is only one such employee, who works as a nurse practitioner. That position reports to a 15-level manager in a different class series earning several dollars an hour more than the RN 14 rate. The alleged compression issue does not exist.
- The second comparison is between the NERE Psychiatrist Manager 19 and the represented Psychiatrist 18. Classifications for doctors are unique in the classified service. These are positions making over \$170,000. There are currently only four active Psychiatrist Manager 19 positions in the state service. In some departments, Psychiatrist 18s report to 15 level managers earning \$80,000 less than they do. Given the high wages and special nature of these classes, simple comparisons are unhelpful.
- The third comparison is between the NERE Park and Recreation Supervisor 9 and the represented Park and Recreation Ranger 9. The Supervisor 9 serves at less complex facilities, while the Park Ranger 9 is an advanced level ranger who oversees lower-level rangers and other personnel. It is not inappropriate for classifications at the same level such as these to have comparable salaries. Structural considerations would normally preclude a 9-level supervisor from supervising a 9-level ranger, although there appears to be one such relationship in the classified service. While

the particulars of that reporting relationship are outside the scope of the CCP process, one possibly misclassified reporting relationship provides little basis for a pay increase.

- The fourth comparison is between the NERE Department of State Branch Supervisor 9 and the represented Department of State Aide 9. The Supervisor 9 is a trainee level, where employees serve for one year in a learning capacity. After one year of satisfactory service they are reclassified to the Supervisor 10, which has a maximum salary 11.5% higher than that of the Supervisor 9.

These four examples of alleged compression also rely on the one-time lump-sum discrepancy during FY 2014. In the coming year, represented employees will not receive a greater lump sum, so the asserted compression will be further alleviated.

In addition to comparisons with other workforces, the standards for the CCP established in Regulation 6.06 include consideration of “the continuity and stability of employment.” When seeking special pay adjustments, evidence of a strong program need, such as difficulty recruiting and retaining qualified candidates for supervisory positions should accompany a request.

The remaining pay dispute is the request for special pay adjustments by the MSPCOA. While the MSPCOA has presented evidence of narrowing of the final pay between the represented and non-represented portions of the uniformed service and evidence of small numbers of applicants for promotional opportunities, the panel is unsure that an award is required at this time.

First, the CCP process typically evaluates pay structure rather than take-home pay. There remains a 6.3% gap between the maximum pay rates of the Lieutenant 14 and Sergeant 12 classes. When the actual average pay rate of employees in those classes is compared, the differential grows to over 11%. The panel is sympathetic with the MSPCOA’s arguments that overtime, meal, and other policies result in a narrowing of that gap, but those managerial prerogatives are decisions entrusted to the appointing authority. Additionally, steps taken to decrease compression below the Lieutenant 14 class would increase compression above it in the organization. A broader focus beyond just these two classes should be part of any consideration of the requested special pay increases. While the panel does not take action on the request, it strongly encourages the OSE to meet with the MSPCOA and the appointing authority to listen to its concerns and explore the issues raised by MSPCOA.

Accordingly, **the panel recommends** denial of the requested special pay increases.

C. Health, Dental, and Vision Insurance

The OSE proposes moving all employees into the NSHP and NHMOs and making changes to those plan designs to lessen the need for future rate increases. MAGE does not address non-wage benefits except to request “no further subtractions from wages for other benefits.” ASEM requests maintaining current health plans for NERES.

With current premiums and coverage levels, state employee insurances will not be viable by the end of FY 2015. Some combination of plan-design change and higher premiums is necessary to continue offering affordable insurance coverage that is competitive with other large employers. The OSE’s proposal would decrease some coverage benefits, but would also decrease both the state’s and employees’ premium costs. The OSE made identical proposals for exclusively represented employees.

The OSE also proposes (1) adding coverage for implants to the State Dental Plan at 50% or 70% coverage levels, depending on the provider and (2) maintaining the current plan design for the State Vision Plan.

In IP 2013-01, the same members of this panel recommended a middle course between the OSE’s proposal and the status quo. All employees would be offered enrollment in the current NSHP and NHMOs, subject to a few minor plan-design changes. These would be an increase in the out-of-pocket maximum from \$1,500/\$3,000 to \$2,000/\$4,000, including autism coverage in the NSHP, and a \$125/\$250 deductible and a \$2,000/\$4,000 out-of-pocket maximum for the NHMOs. The recommendation would also end the differential treatment between employees based on hire date.

The panel recommends that all NEREs be transitioned into the NSHP and NHMOs, with the modifications listed above, effective October 2014. **The panel also recommends** adopting the proposals of the OSE for the State Dental Plan and State Vision Plan.

II. Miscellaneous

A. Professional Development Fund Contribution

The OSE recommends continuing the NERE Professional Development Fund and providing additional funding of \$200,000 in FY 2015. The Managerial, Confidential and Supervisory Fund and the Business and Administrative Unit Fund were merged into a single fund earlier this year.

Recommendation

The Panel recommends adopting the OSE's proposal regarding the Professional Development Fund.

B. Annual Leave Program Adjustments

ASEM requests increasing the number of accrued annual leave (AL) hours payable to employees upon retirement from 316 to 326 to allow employees more flexibility to use AL. ASEM also asks to increase the number of AL hours used in calculating retirement benefits from 240 to 250.

Recommendation

Similar requests to modify these caps have been rejected by the commission in the past. The Panel is unaware of the precise fiscal implications of increasing the annual leave cap and ASEM has not presented evidence that such an increase is needed. Accordingly, **the Panel recommends** denying ASEM's request to increase the caps.

C. Meal Reimbursement; 4% Deduction; Attorneys' Fees; Verizon Discount

ASEM requests rescinding the policy of taxing meal reimbursements when there is no associated overnight stay. When an employee is reimbursed for necessary meal expenses when traveling without an overnight stay, that meal is taxed three times: on the employee's wages to pay for the meal, sales tax when the meal is purchased, and when the meal cost is reimbursed. The IRS publication relied on by the state in taxing such reimbursements relates to deductions for those taxpayers who itemize deductions and has no direct application to meal reimbursements.

ASEM requests that the Verizon discount available to state employees be extended to state retirees.

ASEM requests that its attorney fees be reimbursed without a lawsuit if MAGE successfully recovers attorney fees in its litigation over the FY 2011 consensus agreement.

ASEM also requests rescission of the legislatively enacted 4% deduction from employees who chose to remain in the DB plan and refunding those employees moneys deducted. The Michigan Court of Appeals has found the deduction unconstitutional. If the decision is upheld, ASEM requests that the state allow former DB employees who involuntarily selected the DC plan to return to the DB plan.

Recommendation

ASEM makes several requests beyond the panel's power to recommend. Meal reimbursements are taxed according to standardized travel regulations, the Internal Revenue Code, and IRS regulations. The changes to the DB plan are legislative amendments to the State Employees Retirement Act; the panel has no power to rescind a legislative act. Questions regarding the validity of those actions will be determined in the courts. ASEM's request for reimbursement of attorney fees stemming from litigation is similarly beyond the panel's power to recommend in that it is not a form of compensation. The CCP process similarly addresses active employees, so it cannot authorize retiree discount benefits.

Accordingly, **the Panel recommends** denying ASEM's requests regarding taxation of meal reimbursements, the 4% DB deduction, attorney fees, and the Verizon discount.

The panel notes that due to the simultaneous scheduling of the collective bargaining and CCP processes, LROs had little time to evaluate the OSE's position or engage in timely meet-and-confer discussions. The panel understands the OSE's concerns with not sharing its positions on wage and benefit issues until declared in the impasse-panel process. The impasse panel's traditional leniency in granting extensions to the unions and employer and their developed reliance on that leniency has led to an unacceptable situation this year. The panel recommends that the State Personnel Director consider these realities when adopting the next impasse schedule. Given the evident delays this year in the parties beginning to collectively bargain, the panel believes that the director should also consider establishing deadlines for starting negotiations and the passing of initial proposals. Any schedule should also allow a window after final impasse submissions to allow meetings between the LROs and the OSE before final submissions are due for the CCP process.