

Compensation and Benefits Team

Opportunity #1 Compensation Policy: Currently, Personnel Policy 330 applies only to non-represented employees (about 15% of City employees) and is the only adopted policy intended to guide the City’s compensation structure. There is not a comprehensive compensation policy that includes represented employees and can serve as a guide to City labor negotiators and the Human Resources Department.

Option #1: Adopt a comprehensive Compensation Policy that articulates a market-driven, total compensation philosophy.

There are no direct, identified cost savings provided for this opportunity.

Opportunity #2 Performance: Currently, the City’s policies and practices related to pay structure, step increases, longevity increases and leave accrual rates are primarily based upon years of service and seem designed to promote long-term retention of employees without any direct linkage to job performance.

Option #1: Eliminate or modify the City’s longevity pay structure to strengthen the connection between compensation and job performance. Implementation options include: eliminating longevity by merging into existing step structure, paying longevity in single lump-sum each year, and eliminating longevity for all new hires effective January 1, 2006.

Option # 2: Eliminate “automatic” step increases. Require supervisors to affirmatively act to approve any wage increases.

Option #3: Eliminate policy requiring a minimum 5% mandatory pay increase for promotions.

Option	Cost Savings Per Biennium					
	2005-06		2007-08		2009-10	
	<u>GF</u>	<u>Other</u>	<u>GF</u>	<u>Other</u>	<u>GF</u>	<u>Other</u>
1. Longevity pay	\$187,920 ¹	\$334,080	\$374,000 ¹	\$668,160	\$374,000 ¹	\$668,160
2. Step increases	\$36,000 ¹	\$64,000	\$72,000 ¹	\$128,000	\$72,000 ¹	\$128,000
3. 5% promotions	\$36,000 ¹	\$64,000	\$72,000 ¹	\$128,000	\$72,000 ¹	\$128,000

¹ Assumes the General Fund is 36% of compensation costs.

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Opportunity #3 Compensation Structure: One consequence of the City's large number of separate bargaining units and the many resulting labor agreements has been the creation of new job classifications and special pay categories to meet specific contract terms. The City currently has more than 800 pay ranges and single-incumbent positions identified in the Human Resources Performance Audit. According to the audit, this is more than twice the number identified in comparable organizations.

Option #1: Create a separate career path for employees with "specialized expertise" as an alternative to the supervisor/manager career path.

Option #2: Simplify the City's compensation structure by consolidating or standardizing payroll codes and special pay categories.

Option #3: Reduce Application of Rates and similar "extra" compensation for temporary assignments when the employee is no longer performing the more complex duties which justified the increased compensation.

There are no direct, identified General Fund cost savings provided for this opportunity. However, non-financial impacts noted include improved utilization of highly skilled technical and professional employees, increased market rate comparability with "benchmark" organizations and potential non-General Fund savings from reducing "extra" compensation when appropriate. These non-General Fund savings are estimated to be \$73,700 per year (or \$147,400 per biennium).

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Opportunity #4 Benefits Management: The City last audited the performance of its medical benefits provider in 1996. That audit covered the period 1993 through 1995 and recovered a little more than \$202,000 in overcharges. The City self-insures most of these costs and generally relies on the provider to screen out unallowable costs. There are internal and external audit opportunities for other employee benefits as well.

Option #1: Proactively manage the administration of health benefits by: creating a benefits administration section headed by a certified benefits manager; conducting annual audits of health care claims; encouraging employees to audit their claims history through the Regence website, and; conducting a full health care vendor audit at least once every three years.

Option #2: Eliminate ineligible recipients from the City's health care plan by requiring annual re-certification of eligible dependent and requiring employees to notify the City of any change in dependent status within 30 days.

Option #3: Cease paying OJI (on the job injury) supplemental payments beyond what is required by State law. Tacoma currently pays injured workers an additional supplemental payment beyond what is required in law, and in some cases can actually result in the worker having a higher net income for being off work.

Option #4: Include "domestic partner" as an eligible dependent for the City's health care plan.

Option #5: Allow business units greater flexibility in structuring a benefits plan that is competitive for employee recruitment in their market. The City's current "one-size-fits-all" approach may be overly generous for some business units and under the market for others.

Option #6: Improve communications about the City's benefits plan. Employees need to be educated on how to make cost-effective use of available benefits.

Option #7: Allow employees to take PTO in increments less than one hour. Current policy requires them to often take more time away from work than is needed to take care of personal needs.

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Opportunity #4 Benefits Management (continued)

Option #8: Donated sick leave policies should be revised to eliminate unintended costs and coordinate with long-term disability insurance.

Option #9: Incentives are needed to reduce long-term liability for accrued leave. The current accrued liability for paid time off exceeds \$20 million.

Option #10: The City should reduce the level of subsidy for bus passes from 100% to 50%. Additionally, the City should reduce the level of subsidy for the van-pool program from 100% of costs to 50% of costs.

Option #11: The City needs to hire a Certified Employees Benefits Manager to improve management and proactive planning for the City's \$28 million benefits program.

Option #12: The City should improve benefits plan design by requiring some level of co-pays and by providing incentives for healthy lifestyle choices. The Compensation and Benefits Team recommends that the City design a plan in which it covers each employee fully but requires the employee to pay 5% (or approximately \$34.20 per month at current rates) for each dependent covered by the City health care plan. Employees should be allowed to use contributions from their Flexible Spending Plan to pay for dependent coverage.

Option	Cost Savings Per Biennium					
	2005-06		2007-08		2009-10	
	<u>GF</u>	<u>Other</u>	<u>GF</u>	<u>Other</u>	<u>GF</u>	<u>Other</u>
1. Benefit admin.	\$126,000 ¹	\$224,000	\$252,000 ¹	\$448,000	\$252,000 ¹	\$448,000
3. OJI supplement	\$106,208 ¹	\$108,814	\$212,416 ¹	\$377,628	\$212,416 ¹	\$377,628
10. Trans. subsidies	\$53,149	\$16,600	\$106,298	\$33,200	\$106,298	\$33,200
12. Co-pays etc.	\$365,666 ¹	\$650,074	\$731,332 ¹	\$1,300,148	\$731,332 ¹	\$1,300,148

¹ Assumes the General Fund is 36% of compensation costs.

Note: There are no direct, identified cost savings provided for Options #2, #4 through #9, and #11.

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Opportunity #5 Medical Benefits: The cost of medical benefits for the City of Tacoma has been rising at a double-digit rate, well above the rate of revenue growth. The City is now spending about \$28 million per year to provide health care benefits, and is paying 100% of the monthly costs for the benefits provided to active employees and their families. Most public employers in Washington require that the employee contribute a portion of the monthly benefit costs.

Option #1: When married couples are both City employees, one should have to pay the co-pay for office visits and prescription drugs.

Option #2: The City needs a strategy for controlling the rapidly rising costs of prescription drugs.

Option #3: The City should implement a policy to exclude users of tobacco products from employment.

Option #4: Explore medical benefits options for un-represented employees. Currently, medical benefits are negotiated by Joint Labor, which denies the un-represented employees any voice in the design of their medical benefits plan.

Option #5: Employ a physician or nurse practitioner at worksites, so that employees do not have to leave the worksite for basic medical screenings and some physicals.

Option #6: Re-examine the entire medical benefits design to develop a better benefits “model” to guide future labor negotiations. The City’s current design evolved piecemeal over time and does not anticipate current trends in medical benefits.

Option	Cost Savings Per Biennium					
	2005-06		2007-08		2009-10	
	<u>GF</u>	<u>Other</u>	<u>GF</u>	<u>Other</u>	<u>GF</u>	<u>Other</u>
1. Married co-pay	\$2,160 ¹	\$3,840	\$4,320 ¹	\$7,680	\$4,320 ¹	\$7,680
3. Tobacco users	\$16,265 ¹	\$28,915	\$32,530 ¹	\$57,830	\$65,060 ¹	\$115,660

¹ Assumes the General Fund is 36% of compensation costs.

Note: There are no direct, identified cost savings provided for Options #2, and #4 through #6.

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Opportunity #6 Post-Retirement Benefits: For employees other than commissioned police officers, firefighters and rail employees, the City provides retirement benefits through a plan administered by the Tacoma Employees Retirement System. This plan, as currently designed, provides competitive benefits for most employee groups but also has a relatively high employer contribution rate. The City could review its current retirement plan to ensure the plan design meets both employer and employee needs.

Option #1: The City needs more “tools” for adjusting workforce size. Possibilities include a variety of severance programs developed by private industry.

Option #2: The City needs “tools” for retaining employees beyond their retirement eligibility date. Possibilities include “phased” retirement, increased use of part-time employees, and utilization of various deferred compensation options.

Option #3: The City needs to review its overall retirement plan design for non-public safety employees.

Option #4: The City needs a plan to “smooth” the growing General Fund costs for the Police and Firefighters pensions systems. Annual contributions from the City will continue to grow until 2019, when they will be more than \$3 million more annually than they currently are. A funding plan should be created which helps amortize that liability over coming years.

Option #5: The City needs to explore options for providing health care availability to its retirees. Lower cost alternatives to the City’s current method may be available.

There are no direct, identified cost savings provided for this opportunity. Potential savings depend upon plan design choices and options.

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Savings Summary from Recommendations

Savings from Recommendations						
Opportunity	2005-2006		2007-2008		2009-2010	
	General Fund	Other	General Fund	Other	General Fund	Other
2. Performance	\$259,920	\$462,080	\$518,000	\$924,160	\$518,000	\$924,160
3. Comp structure	0	\$73,700	0	\$147,400	0	\$147,400
4. Benefits mgmt.	\$651,023	\$999,488	\$1,302,046	\$2,158,976	\$1,302,046	\$2,158,976
5. Medical benefits	<u>\$18,425</u>	<u>\$32,755</u>	<u>\$36,850</u>	<u>\$65,510</u>	<u>\$69,580</u>	<u>\$123,340</u>
Total Savings	\$929,368	\$1,568,023	\$1,856,896	\$3,296,046	\$1,889,626	\$3,353,876

Note: There are no direct, identified cost savings provided for Opportunities #1 and #6.

