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ILR 2000-C

President Lyle W. Hillyard, Co-chairman
Speaker Martin R. Stephens, Co-chairman
Members of the Audit Subcommittee
Utah State Capitol Bldg
Salt Lake City UT 84114

Subject: Compensation Practices

Dear Legislators:

As requested, we have reviewed compensation surveys, position supply and demand, recruitment and turnover and how these factors affect compensation practices for Utah's public education teachers as well as for state correctional and public safety officers. It is our belief that, although satisfaction with compensation is low, compensation issues are being addressed; and, overall, compensation appears adequate. In reviewing compensation methods, one must consider that compensation systems are as complex and diverse as the numerous organizations that develop them. Those conducting compensation analysis and surveys have differing interests depending on whom they represent. No consensus exists between employers and employees as to the best way to address compensation and no single best way to look at how compensation surveys should be conducted. It is our opinion that the state, as the ultimate provider of compensation funding, must consider the total compensation package (including benefits and pay) rather than consider a salary-only review.

Ideally, in setting total compensation, administrators should strive to achieve a balance between salaries and benefits that is mutually acceptable to the employer and the employees. A compensation package that places heavy emphasis on salary but neglects employee benefits will not work well for all employees. Likewise, compensation heavy with benefits but inadequate in salary will not be satisfactory for others.

In the case of public education compensation, those receiving the pay (teachers and other employees) recognize the more obvious parts of the compensation package but may overlook the cost of benefits. Employees want only the salary portion of compensation surveyed. People see their salary every pay period, and it is natural to compare paycheck to paycheck. Benefits, however, are not as visible as salary and it is often hard to recognize their value in the total compensation package. Benefits are real costs, however, and they would have to be paid by the employee if the employer didn't pay for them. Benefits are equally as important to the employer as salaries are to the employee.

Similarly, it appears that compensation for public safety and correctional officers is comparable to the larger municipal agencies when total salary and benefits are considered. When salary only is considered, state-employed law enforcement and correctional officers do not fare as well as their municipal counterparts, however. This salary-only perspective of employees may be a factor in the recent high turnover ratio among these positions.

Utah Teachers' Compensation Appears Appropriate

It is our opinion that total compensation must be considered in order to have a fair representation of what public education teachers receive in salary and benefits. Having taken this total compensation position, it appears that Utah teachers are fairly compensated and rank among the highest in total compensation of the surrounding mountain states. Salary is the largest and most visible component of compensation and the part that usually gets the most attention.

It is important to recognize that the legislative perspective regarding salaries and compensation is different from the teacher perspective. Because the Legislature provides the funding for salaries and benefits, they are concerned with the total costs of compensation. Although the state provides significant funding for compensation, it does not determine whether the funding is applied toward salary or benefits. Ultimately, it is each district administration that negotiates this issue with the teachers' representatives to arrive at a balance between salary and benefits acceptable to both the employees and the employer.

Public education, although funded largely by Uniform School Fund monies collected by the state, is somewhat independent from state control. The Legislature appropriates funds used for total compensation, but they do not allocate funds specifically to salaries or benefits. Districts are autonomous when it comes to determining salary schedules and benefit packages. In recent years, district negotiations have resulted in more funding to benefits rather than salary. In part, this shift in benefits occurred because insurance costs increased and more funding was needed to maintain the desired level of coverage. This compensation direction appears to have a profound effect on teacher perception of their own compensation.

Legislative Perspective Differs from That of Teachers

Legislators want to know all of the costs involved with compensation because they are providing the funds to pay for it. Generally, employees are concerned with what they see on their paycheck. Salary is what teachers are focused on because it is what goes in their pockets each pay period. Salary is the major component of compensation and, although quite variable, is also the easiest component to measure. A basic salary comparison for teachers would equalize variables such as job content, number of classroom days, and number of scheduled hours per day.

Benefit packages are considerably more difficult to compare because they are unique packages negotiated for distinct groups. The relative ease of salary comparisons and the difficulty in costing benefits has promulgated the use of salary-only comparisons. However, if legislators are to know the true costs of employment for school teachers, they must keep track of total compensation costs which include all benefits and pay. On the national level, because of difficulty collecting benefit information, salary-only comparisons are the norm. Benefit data, on the national level, is difficult to find and compare due to the many differences between insurance packages, retirement contribution rates and other provided benefits.

Legislators Need Total Cost Information. In order for legislators to have a fair picture of what public school teachers are paid, it is necessary to have the total cost information that contains both salary and benefit costs. Total compensation comparison is the expected norm for the state's Department of Human Resource Management (DHRM) when making comparisons outside the state's system. As an example, DHRM's analysis of Utah Department of Corrections officer compensation (UDOC) is a review of total compensation. In this analysis, DHRM is required to compare given positions with other large local law enforcement agencies. Both salary and benefit information is collected and analyzed. In this case, DHRM compares salaries only because benefits are the same. If benefits were to differ, DHRM would make the necessary adjustments to derive comparable total compensation values.

DHRM does, however, conduct routine compensation analysis of various benchmark positions for employees within the state system. When conducting an in-system analysis, DHRM collects salary-only information because the benefits are the same for all state employees, and the salary is the only variable.

A market economist with Utah's Department of Work Force Services (DWFS) agrees that benefit costs should be included in analyses because the costs are part of the total compensation. However, the inclusion of benefits makes the analysis more difficult because there is so much variance in coverage and cost between benefit packages. For example, the cost for insurance benefits varies significantly depending on family status and the level of coverage desired. Collecting benefit cost data on a statewide level becomes a tremendous task because of the number of incumbents, the many different school districts, and the many possible scenarios for benefits; but, the exclusion of benefit costs from the calculation is wrong and inaccurate. To get the true picture of compensation, many factors must be considered, including salaries, benefits and other economic factors.

Department of Education administrators in other states we contacted also believe it is important and difficult to compare total compensation because each school district, as in Utah, individually negotiates health insurance, retirement and other benefits. Not all health insurance will have the same premiums, coverage, deductibles, etc. They agree that from an accounting standpoint, it is important to see some compensation analysis that actually compares dollar costs of the benefits for their states. Most of the administrators we talked to believed it would be difficult to combine benefit costs with salary costs in one total compensation study. They said it would be more appropriate to do a separate analysis of each category.

Educators from the surrounding mountain states told us that benefits and salaries are also negotiated locally by each school district and the state administrators don't normally collect benefit data for analysis. They said it is very difficult to compare insurance benefit packages between school districts because there are so many variables to consider. This is one reason why national studies have not been conducted.

Benefit Data Is Limited at the National Level. Nationally published statistics on school teacher compensation are helpful in comparing Utah teacher's salaries with their counterparts in other states. However, these statistics, gathered by the American Federation of Teachers (AFT) and the National Center for Educational Statistics (NCES) are very limited in their review of benefits. One study compares retirement benefits and FICA contributions, but neither compared any insurance benefits. Perhaps a bigger problem with these studies is accepting their apparent assumption of similar number of actual school days and classroom hours taught.

In-state data appears more complete and more reliable. The Utah Superintendent of Public Instruction publishes an annual report that includes average salary and benefit data from all 40 school districts. This report is compiled from salary and benefit expenditures as reported by each district. The total expenditures are divided by the total number of teacher FTEs to come up with statewide and district averages. Included in these compensation figures are salaries, career ladder monies, FICA and retirement contributions paid by the employers, and other benefit costs paid by the employer such as health, dental and life insurance packages. This report, in effect, reports district and statewide total compensation for Utah's teachers.

The annual superintendent's report is helpful in salary and benefit comparisons between Utah's school districts. Such comparisons highlight the dramatic compensation differences just between Utah's 40 school districts. The document reports that in 1998, district-wide average salaries varied by as much as $5,800 and average benefit expenditures varied by approximately $9,400. As examples:

- In 1998, the average teacher in Park City district earned a salary of $34, 667 while the average teacher in Grand district only earned $28,780.

- In Juab district the average 1998 benefit cost was $6,987; for that same period, Emery district benefit cost averaged $16,364.

It is significant that average salaries and average benefit costs were respectively as much as 20 percent and 134 percent greater in some districts compared to others. This disparity between districts should be noted when using a statewide average to compare Utah with other states.

Utah Teachers Rank High for Total Compensation

Even though national data on benefits is hard to find, we did collect some benefit cost data from the surrounding mountain states. A comparison between the neighboring states shows Utah teachers rank among the highest for total compensation. When benefits are combined with salaries, the analysis shows Utah teachers' compensation ranks second highest of the eight mountain states, surpassed only by Colorado. It is important to note that mountain state compensation is significantly lower than the national average, but there are reasons for this difference. In Utah's case, taking into consideration the facts that the average Utah teacher has fewer years of teaching experience and less education than the average teacher in most other states and that Utah has a lower cost of living than most other states, some of the lower compensation is understandable.

Utah Teachers' Combined Salary and Benefits Are among the Best in the Mountain States. Based on the 1998 figures for average salary and benefits, Utah teachers rank 2nd highest in the mountain states for total compensation. This figure for total compensation includes salary and incentive pay as well as insurance, retirement and FICA contributions.

In Utah, the average salary for teachers is slightly higher than the average of the surrounding states, while the benefits are second only to Wyoming. Each state has attempted to maximize its limited funding for compensation by balancing the trade-offs between salary and benefits. Utah has a greater percentage of compensation dollars applied to benefits which contributes to Utah's lower salaries. Figure 1 shows that the 1998 combined average salary and benefits for Utah teachers was $46,945, significantly higher than the mountain states average of $43,466, but still well below our estimated national average of $49,734.

Figure 1. Total Salary and Benefits. Fiscal Year 98

State	Salary Total	Benefits Variable	Fixed	Total	Salary & Benefits
National	$39,347	$5,961	$4,426*	$10,387	$49,734
Mountain States	33,793	5,247	4,426	9,673	43,466
Colorado	37,240	7,169	4,426*	11,595	48,835
Utah	**34,302**	**7,083**	**5,560**	**12,643**	**46,945**
Wyoming	32,022	4,275	8,601	12,876	44,898
Idaho	33,708	6,489	4,178	10,667	44,375
Nevada	37,094	3,478	3,240	6,718	43,812
Arizona	34,994	3,797	3,237	7,034	42,028
New Mexico	30,309	4,956	3,168	8,124	38,433
Montana	30,677	4,648	3,000	7,648	38,325

** Average of mountain states used because data was not available. We used National data from the NCES and local data from the Utah State Office of Education (USOE) to compare salaries for teachers in Utah and the surrounding mountain states.*

There is a significant level of variance in compensation between states, and many of the states in the mountain region lag behind those states in the Northeast and on the West Coast which have the highest compensation levels.

Utah teachers fare much better than teachers in other states when comparing benefits. On average they received about $12,643 in benefits for fiscal year 1998. Nationally, teachers received an estimated $10,387 in benefits for the same year. Among the eight mountain states, the average cost of benefits for fiscal year 1998 was $9,673. Utah teachers ranked 2nd in the mountain states for benefits and are well above the national benefit average for the fiscal year.

Fixed Benefits are Higher than Average. Fixed benefits are based on a fixed dollar amount paid by the employer for the benefit of the employee. They include such things as health insurance, dental insurance, life insurance and other types of insurance that are paid in fixed amounts. The average amount of fixed benefits paid for Utah teachers is $5,560 which is more than 25 percent greater than the average amount of fixed benefits paid by employers in the other mountain states. This is the equivalent of $1,134 in fixed benefits paid by the employer that the teachers do not have to take out of their own pockets.

Variable Benefits are the Highest Paid in the Mountain States. Variable benefits are based on a percentage of salary and are paid by the employer in behalf of the employee. They vary in amount because they are based on variable salaries. Variable benefits include standard cost items such as retirement, FICA, and Medicare. Of these three benefits, Utah has the highest employer paid retirement contribution of any of the surrounding mountain states, amounting to a paid benefit of about $4,459, based on the average teacher salary.

The employer paid portion of the retirement package in the mountain states ranges from a low of 3.2 percent in Arizona to a high of 13 percent in Utah with the average contribution being about 8.8 percent. The national average retirement contribution is 9.3 percent of salary. In some states, employees may also contribute to their own retirement plan and in these cases, adjustments were made to the compensation analysis. The contribution rates for other variable benefits are pretty standard throughout the nation. For example, the rates for FICA and medicare are 6.2 percent and 1.45 percent respectively. These are the rates paid by employers in Utah and in most other states.

A Variety of Factors May Contribute to Lower Utah Salaries

Compensation is based on a number of factors that, in theory, identify value of employees and go beyond the basic information collected in many salary-only surveys. In general, compensation schedules are based on these measurable elements that for teachers may include,

- Number of years of teaching experience.
- Level of college training and highest degree attained.
- Local economy and cost of living.
- Teacher supply and demand considerations.
- District administrative decisions.

Utah Teachers Have less Teaching Experience. Compared to the national average or even the average of the surrounding states, teachers in Utah have less years of teaching experience. Based on statistics collected by the NCES for 1994, about 65 percent of the teachers in the US had more than 10 years of teaching experience, where in Utah only about 55 percent of the teachers had over 10 years of experience. The NCES did not have a more recent analysis of teacher experience than the 1994 study. However, a 1998 AFT study had a similar conclusion showing Utah teachers had two years less experience than the national average.

Years of teaching experience is a major factor in establishing teacher salary levels. Generally, the more years of experience the higher the salary. For example, in Utah the 1999-2000 average minimum salary for a teacher with a Bachelor's degree is $23,273. The average salary for the same teacher with 10 years experience is $32,007, or 37.5 percent greater. When an adjustment is made for years of teaching experience, compensation for Utah teachers approaches the level of compensation in Colorado. As shown in Figure 2, the total compensation adjustment to account for years of experience in Utah has a value of $1,528.

Figure 2. Compensation Adjusted for Teaching Experience.

State	Salary & Benefits	Experience Factor	Total Adjusted Compensation
National	$49,734	$ -0-	$49,734
Mountain States	43,466	983	44,449
Colorado	48,835	159	48,994
Utah	**46,945**	**1,528**	**48,473**
Idaho	44,375	1,474	45,849
Nevada	43,812	1,397	45,209
Wyoming	44,898	-256	44,642
Arizona	42,028	1,627	43,655
New Mexico	38,433	1,120	39,553
Montana	38,325	815	39,140

When this experience adjustment is made to the total compensation figures, Utah's average teacher adjusted compensation of $48,473 begins to approach the national average of $49,734.

Utah Teachers Fare Better if Other Factors are Considered. Utah teacher compensation schedules identify degree of education attained as an important factor in salary considerations. Compensation is also dependent on a local cost-of-living factor. Both of these factors may be used to adjust compensation.

Salaries for Utah teachers are lower because the majority of them have only a Bachelor's degree. According to 1994 NCES statistics, only 28 percent of the teachers in Utah had earned at least a Masters Degree. Nationally, 47 percent of teachers had earned at least a Masters Degree. Even in the surrounding mountain states, at 42 percent, this percentage is much higher than Utah's number.

This lower percentage of advanced degrees has a profound effect on teacher salaries. For the 1999-2000 school year, the average minimum salary for Utah teachers was,

- Bachelor's degree $ 23,273
- Master's degree 25,822
- Doctoral degree 27,616

If Utah's teachers had the same level of education as the national average, their average salaries would be at least $465 higher, based on Utah's current salary schedules. We believe some of this adjustment is already shown in the experience adjustment in Figure 2.

Additionally, the cost-of-living in Utah is lower than in many parts of the U.S., and it is lower than in most of the neighboring states. Consequently, salaries for teachers and most other professions are also lower. The cost-of-living factor for Utah was 96.4 percent in 1998 (the national average is by design 100 percent). The factor for the surrounding mountain states is 98.1 percent. In the surrounding states, only Montana and Idaho have lower cost-of-living factors at 95.5 percent and 95.9 percent respectively. Thus, it costs less to live in Utah because the dollar buys more goods and services than in other parts of the nation. Based on the fiscal year 1998 average salary for Utah teachers, it would take about $1,281 for the cost-of-living adjustment to bring the dollar value up to the national average. Figure 3 demonstrates the effect on teacher compensation when these adjustments are addressed.

Figure 3. Compensation Adjusted for Cost of Living.

State	Salary + Benefits + Experience	Cost-of-Living	Total Adjusted Compensation
National	$49,734	$ -0-	$49,734
Mountain States	44,449	725	45,174
Utah	**48,473**	**1,281**	**49,754**
Colorado	48,994	- 802	48,192
Idaho	45,849	1,441	47,290
Nevada	45,209	224	45,433
Wyoming	44,642	620	45,262
Arizona	43,655	211	43,866
New Mexico	39,553	1,132	40,685
Montana	39,140	1,446	40,586

Teacher Supply and Demand Curves Have Not Changed Significantly. In general, neither the supply of nor the demand for teachers has changed significantly over the last decade. We reviewed the number of education graduates recommended for certification from Utah's higher education programs and found that the supply of new teachers has remained somewhat constant. In addition, the demand for teachers, with the exception of a few specialized areas, has also remained constant. Consequently, salaries in general have not been affected by supply and demand issues. In some specialty areas such as special education, advanced math, and computer sciences, the supply of qualified teachers has decreased, resulting in increased demand and possible salary increases.

Based on a survey of critical needs for teaching, for the past several years the areas of greatest need have been teachers for severely handicapped, audiology, speech pathology, physics, advanced math and computer science. There are teacher shortages for these specialized fields of teaching, and teachers of these disciplines may be able to command higher salaries. However, these areas are a small percentage of the total teacher population, and teacher shortages in these areas do not have a significant impact on the general supply and demand. With regard to teacher supply and demand based on changes in student population, there has not been any significant change. Based on fall enrollments from 1994 to 1998, the average annual increase in student population has been .3 percent while the number of teachers has increased by an annual average of 2.2 percent. However, USOE administrators tell us forecasts of future enrollments show dramatic increases for teacher demand in the next ten years.

Compensation for Corrections and DPS Officers Is Within an Acceptable Range

Total compensation for correctional officers at the Utah Department of Corrections (UDOC) and troopers at the Department of Public Safety (DPS) is on the low-end of the acceptable compensation range. This range, specified by statute, is determined by comparing state compensation rates with those of comparable municipal and county positions along the Wasatch front. Overall, salaries for Utah's correctional officers and state troopers are low compared to similar positions in local law enforcement agencies. When salaries are combined with benefits, the standing of the total compensation package improves and compares more favorably with the municipal counterparts; but, it is still lower than the average of the three largest municipal agencies.

Two possible byproducts often attributed to lower compensation are increased staff turnover and decreased number of possible new recruits. The UDOC has frequently stated that turnover and recruiting have been problematic but recently has noted a surge in turnover rates and increased difficulty in finding sufficient numbers of recruits. UDOC administrators attribute departmental staffing problems primarily to the fact that state salaries are lower than salaries for counterparts in local counties and municipalities.

Total Compensation Is Within Acceptable Limits But Still Lower than Average

When total compensation is considered, UDOC correctional officers and DPS troopers are paid within the limits set by the Department of Human Resource Management, as authorized by statute. Total compensation for these positions is roughly 4 to 8 percent lower than compensation rates for the next three largest agencies. The Legislature's automatic system to correct pay discrepancies does not begin to address pay scale corrections until compensation is demonstrated to be at least 11 percent below market.

Utah Code 67-19-12.3 requires that the state's Department of Human Resource Management (DHRM) complete a market comparability analysis of correctional officer compensation periodically. A market comparability analysis is a review of total compensation for a specific benchmark position. For this review, the average midpoint for total compensation is compared to the average of the next three largest comparable agencies in the state.

According to DHRM, a position cannot be eligible for a pay increase unless the comparison shows that the average total compensation of the comparable positions is at least 11 percent higher than the position being reviewed. A second condition is that employee turnover, for the position in question, must be at least 11 percent annually. When both conditions are met, DHRM can request a pay increase of one step. A two step increase can be requested if the disparity is 16.5 percent or greater in both compensation and turnover. This threshold of 11 percent (4 steps) was set by administrators at DHRM about 1994. Prior to this time the threshold was at 5.5 percent, or the equivalent of 2 steps. At the time, the market comparability analysis showed that salaries were dipping below the 5.5 percent threshold but benefits were more than 10 percent greater than the market average. To compensate for this disparity, DHRM changed the threshold to the current 11 percent level. Recent studies show statewide salaries alone are presently 12.9 percent below market and benefits are 4 percent above market.

DHRM's study of UDOC correctional officers identifies that, for the benchmarked position, total compensation is 3.7 percent below the current market rate. Thus a midrange correctional officer earns approximately $1,800 per year less than an equivalent position in Utah's larger counties. The compensation discrepancy is greater for entry-level positions. For calender year 2000, UDOC entry level correctional officers received $2,940 monthly total compensation. For the same period, entry-level county positions received $3,400; about 15 percent more in total compensation. DHRM reviewed midrange correctional officers in the following agencies and listed their associated compensation as follows:

- Department of Corrections $3,864
- Salt Lake County $4,040
- Davis County $4,354
- Utah County $3,582

The comparative analysis of total compensation for DPS troopers shows that their monthly weighted average midpoint of salaries and benefits is currently $4,074. The weighted average monthly total compensation for the legislated market agencies is $4,380. For this accepted benchmark position, DPS troopers are compensated about 7 percent below the market average. The agencies reviewed and their associated compensation is as follows:

- Department of Public Safety $4,074
- Salt Lake City $4,593
- Salt Lake County $4,215
- West Valley City $4,235

Both correctional officers and state troopers receive compensation within the parameters set by the Legislature. The study conducted by DHRM appears to follow legislative guidelines and appears to be correct. In fact, DHRM's practice is to conduct the survey on an annual basis. We believe that frequent studies are called for, given the rapid increases in the incarceration rate and changes in inmate placement over the last decade.

State Salaries Are Lower than Local Salaries

Although the total compensation is within the legislatively acceptable range, correctional officers do receive less salary, on average, than their counterparts in the largest municipal agencies of the state. This is especially true for entry-level officer positions. For the current calender year, the average monthly salary for beginning correctional officers is $1,909. In the three largest municipal agencies, salaries for similar positions start at $2,295. As a result, state correctional officers' pay is 16.8 percent lower than the market average.

It appears that this salary discrepancy does improve as years of service increase. The midpoint salary for UDOC correctional officers is $2,509, while the midpoint salary for officers in larger counties increases to $2,706. UDOC officers at the salary range midpoint are 7.3 percent below the market average. UDOC believes the problem with comparing salaries at the range midpoint is that correctional officers do not stay with the department long enough to reach the salary range midpoint. Most of their correctional officers stay less than three years and remain at the lower end of the salary scale until they leave.

DPS state troopers also receive less salary than law enforcement officers in the three largest comparable local agencies. Analysis shows that the average market midpoint salary is about $3,061 per month. The average midpoint salary for Utah's troopers is $2,642, or about 13.7 percent below market.

It is clear that, as with teacher compensation, state-paid benefits are greater than those of competing agencies. In both cases, correctional officers and state troopers, salaries are further behind than total compensation. Again, the question arises as to whether total compensation or salary-only should be considered. The Legislature made the decision to evaluate and compare total compensation regardless of the impact on employment levels.

Turnover and Recruitment Are Possible Effects of Low Compensation

In a national study conducted by the National Institute of Corrections (NIC) where correctional employees were surveyed, pay and benefits were mentioned more than anything else as a factor in employee satisfaction. Employees felt that pay was a measure of self-worth, and low pay represented a lack of respect for their profession. Pay and benefits were routinely compared with what is available to law enforcement officers of federal and municipal institutions. Although turnover was often mentioned as one of the effects of low salaries in the study, it was not commonly cited as the primary reason for leaving correctional employment. The factors mentioned as contributing to turnover were benefits and availability of other jobs.

Turnover for correctional officers during fiscal year 1999 was 14.8 percent. Of the 548 correctional officers employed by the department at the beginning of the year, 81 left the department by the end of the year. UDOC employee exit documents identify that about 58 percent (68 of the 81) of these employees left for work in other industries, work in other law enforcement/correction agencies, or non-disclosed work in other states. The remaining 42 percent left due to termination or retirement.

Historically, turnover among corrections personnel was perceived to result from unavoidable staff burn-out, low pay, and a general unsuitability for the profession. Other factors that contributed to the turnover rate were early retirement opportunities, an increasing number of facilities resulting in transfers, and an increasing and changing inmate population.

UDOC finding new recruits, regardless of compensation level, does not appear to have been a major problem over the last year. UDOC records show that for fiscal year 1999, the department started with 25 vacant correctional officer positions and ended the year with only 9 unfilled positions. While these numbers indicate that recruitment may not be a significant problem, the fact that 131 trained staff left the department does indicate a retention problem. The DHRM study, however, does not address the retention issue.

We hope this letter adequately responds to your concerns in these areas. If you have any other questions or need additional information, please contact us.

Sincerely,

Wayne L. Welsh
Auditor General

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