ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: **Human Resources Committee**
Gordon Merklein, Chair
Stephen Dear
Michael Hughes
Dana Raborn
John Young
Alan Rimer (ex-officio)

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow

DATE: May 23, 2013

SUBJECT: **HUMAN RESOURCES (HR) COMMITTEE MEETING**
TUESDAY, MAY 28, 2013, 5:00 PM IN THE OWASA BOARDROOM

AGENDA

At their January 10, 2013 meeting, the OWASA Board of Directors adopted the Employee Classification and Compensation Study's recommended new pay structure and Pay Administrative Guidelines. The Board also directed:

"That the OWASA staff further evaluate (including feedback from employees) the following WCG recommendations:

- ***a. Phase out Service Pay (longevity) because it works counter to OWASA's performance/merit based compensation strategy. Elimination of this program may be accomplished by making a one-time salary adjustment to all current employees, based on their years of service.***
- ***b. Reduce retirement benefits for new hires.***
- ***c. Analyze the competiveness of our 457 retirement benefits.***

Staff shall review the above with the Human Resources Committee before making a final recommendation to the Board of Directors."

We have prepared options and our staff recommendations on the above.

Committee Action Requested:

Review and discuss options and seek Committee consensus on its recommendations to the Board of Directors for the June 13, 2013 Board meeting, if possible.

Summary of Staff Recommendations

a. ***Service Pay*** – Eliminate service pay for employees effective July 1, 2013 and provide all current employees with a one-time pay increase in current base salaries to keep employees wholly compensated for 10 years (Option 3b). There are two employees who have reached or are close to the top of their pay range and staff suggests extending their salary range by the percentage necessary for them to receive the full one-time pay increase based on their length of service.
b. ***Retirement Benefits for New Hires*** – Reduce retirement benefits for new hires to provide cost-share applicable to all employees hired after July 1, 2013 where the maximum benefit provided by OWASA would be 75% of health care premiums (pre-65) or Medicare supplement (post-65) (Option 1).
c. ***Deferred Compensation (457)*** – Increase the contribution and add a new tier for employees with 6 months to 3 years of service (Option 2).

We look forward to the Committee's discussion.

Stephanie S. Glasgow, MESH, PHR
Human Resources and Safety Manager

Attachments
c: Board of Directors
Robert Epting
John Greene
Stephen Winters
Mason Crum
Dan Przybyl

STAFF RECOMMENDATIONS ON THE REMAINING EMPLOYEE CLASSIFICATION AND COMPENSATION STUDY RECOMMENDATIONS
MAY 28, 2013

BACKGROUND

OWASA engaged The Waters Consulting Group (WCG) to conduct an Employee Classification and Compensation Study (Study) to ensure OWASA's compensation program achieves internal equity and external competitiveness in the market. The Study's Final Report was issued in January 2013.

At their January 10, 2013 meeting, the OWASA Board of Directors adopted the Study's recommended new pay structure and Pay Administrative Guidelines. The Board also directed:

"*That the OWASA staff further evaluate (including feedback from employees) the following WCG recommendations:*

- ***a. Phase out Service Pay (longevity) because it works counter to OWASA's performance/merit based compensation strategy. Elimination of this program may be accomplished by making a one-time salary adjustment to all current employees, based on their years of service.***
- ***b. Reduce retirement benefits for new hires.***
- ***c. Analyze the competiveness of our 457 retirement benefits.***

***Staff shall review the above with the Human Resources Committee before making a final recommendation to the Board of Directors.*"**

We have met with employees to explain the options being considered to address the above recommendations and we have received their feedback.

Based on our further review of WCG's recommendations, including feedback from our employees, we have prepared options and recommendations for consideration by the Board's Human Resource Committee. We previously informed the Board of our desire to seek final Board action on these recommendations no later than the June 27, 2013 Board meeting, if possible.

a. SERVICE PAY (LONGEVITY)

OWASA's current Service Pay program has been in place since June 2001 and provides employees with 10 or more years of service with an annual lump sum payment on their anniversary date of hire based on a percentage of their annual salary as follows:

Years of Service	Percentage of Annual Salary
10-14	1.50%
15-19	2.25%
20-24	3.25%
25+	5.00%

Comparison information about OWASA's current Service Pay benefit with other local agencies is provided as Attachment 1 (page 7).

Options to Phase Out Service Pay:

Points of consideration for all options:

- Service pay serves as an indiscriminate retention policy; retention is more effectively achieved by rewarding employees for performance.
- Options to modify the Service Pay benefit may be viewed by employees as contrary to our pledge that no one would have a reduction in compensation.

Option 1. Eliminate Service Pay for all employees effective July 1, 2013 and provide no compensation.

- Reduces costs for Fiscal Year (FY) 2014 by about $107,000.
- Eliminates all future liabilities for this benefit.
- Allows OWASA to consider moving these monies into new performance/merit based compensation strategies.
- Employees (especially with 10 or more years of OWASA service) greatly value this benefit.
- Employees do not support this option and would be very disappointed if Service Pay is eliminated without compensation.
- Employees who recently joined OWASA expected to receive Service Pay.

Option 2. Keep Service Pay as is for current employees and eliminate Service Pay for employees hired after July 1, 2013.

- Reduces future liabilities as employee turnover occurs.
- Maintaining the existing Service Pay benefit for current employees is counter to a performance/merit based compensation strategy.
- Employees greatly value the current benefit and many employees support this option.

Option 3. Eliminate Service Pay for employees effective July 1, 2013 and provide all current employees with a one-time pay increase in their current base salary.

Staff developed three alternatives under this option.

As used below, "wholly compensated" means that employees receiving a one-time pay increase will have the ability to earn the total pay they would have received under the existing service pay benefit if they remained in their current job another 5 or 10 or 15 years. In calculating the one-time salary increase, it was assumed that a 2.5% merit increase would be approved annually.

Option 3a – One-time pay increase keeps current employees wholly compensated for 5 years (see Attachment 2, page 8)

Option 3b – One-time pay increase keeps employees wholly compensated for 10 years (see Attachment 3, page 10)
Option 3c – One-time pay increase keeps employees wholly compensated for 15 years (see Attachment 4, page 12)

- Eliminates a compensation strategy which is not performance-based.
- Allows OWASA to consider establishing new compensation strategies that are focused on retaining employees based on performance rather than the passage of time.
- Reduces future liabilities as employee turnover occurs.
- Provides compensation for current employees for eliminating Service Pay benefit which they highly value. (Feedback from employees is that they favor Option 3c - being wholly compensated over 15 years).
- For those employees expressing an opinion, most seemed to favor Option 3c over Option 2.
- The one-time pay increase for existing employees based on their length of service will improve "compression" within the pay structure. (Pay compression can occur over time where newly hired employees may receive a starting salary very close to the salary of longer-term employees in the same pay grade.)

Staff Recommendation: Option 3b.

b. REDUCED RETIREMENT BENEFITS FOR NEW HIRES

The current retiree health insurance plan includes a percentage paid by OWASA toward health insurance for pre-65 retirees and provision of a Medicare Supplement for post-65 retirees. The calculation of years of service plus age to determine the percentage of premium paid by OWASA follows:

Years of Service	Age	Percentage of Premium (Pre-65) or Supplement (Post-65) Paid by OWASA
10 years	60	50%
15 years	60	75%
20 years	60	100%
30 years	Any age	100%

Pre-65 retirees stay on OWASA's group health plan. The FY 2014 monthly premium is $675.67 per individual.

Post-65 retirees receive a Medicare Supplement where costs vary based on the plan chosen by the retiree. These decisions are private with OWASA having no influence. The average cost for Medicare Supplement plans is $122.50 and $83.90 for Part D prescription coverage, bringing our average cost per post-65 retiree to $206.40.

A comparison of OWASA's current retiree health insurance benefit to other agencies is provided as Attachment 5 (pages 14 and 15).

Options to Reduce Retirement Benefits for New Hires:

Option 1. Cost-share applicable to all employees hired after July 1, 2013. The maximum benefit provided by OWASA would be 75% of health care premiums for pre-65 retirees or Medicare supplement for post-65 retirees as follows:

Years of Service	Age	Percentage of Premium (Pre-65) or Supplement (Post-65) Paid by OWASA
10 years	60	25%
15 years	60	50%
20 years	60	75%
30 years	Any age	75%

- Reduces future OWASA liability as employee turnover occurs.
- Brings this benefit to a similar level as other local agencies.

Option 2. Cost-share applicable to all employees hired after July 1, 2013. Employees retiring with 30 years or more of service with OWASA would receive 100% of their health insurance premiums or Medicare supplement paid by OWASA. Employees with 15 years of service and age 60 are eligible for 50% and then an additional 5% increase in OWASA contribution for each additional year of service.

Years of Service	Age	Percentage of Premium (Pre-65) or Supplement (Post-65) Paid by OWASA
15 years	60	50%
16-25 years	60	5% additional contribution for each year of service after 15 years
30 years	Any age	100%

- Reduces future OWASA liability as employee turnover occurs.
- Brings this benefit to a similar level as other local agencies.

Staff Recommendation: Option 1.

c. 457 RETIREMENT BENEFITS (DEFERRED COMPENSATION)

In June 1986, OWASA began offering a Deferred Compensation Plan for employees. Since July 2001, OWASA has been contributing to a 457 Deferred Compensation Plan for all employees with four or more years of service as follows:

Years of Service	OWASA Contribution per Pay Period
4-9 years	$40
10-14 years	$60
15-19 years	$80
20 + years	$100

A comparison of OWASA's deferred compensation benefit to other local agencies is provided as Attachment 5 on page 16.

Options for OWASA Deferred Compensation Contribution:

Option 1: No change – Maintain the same OWASA contribution amounts as reflected in the table above.

- Contribution has not kept pace with or reflects increase in wages since 2001.
- Employees receive no contribution until they have completed 4 years of service.

Option 2: Increase the contribution and add new tier for employees with 6 months to 3 years of service - The existing contribution amounts have remained the same since 2001. This results in the OWASA contribution as a percentage of base pay decreasing over time as salaries increase through merit raises. To improve competitiveness, increase contribution rates as noted in the table below and add a new tier for employees with 6 months to 3 years of service.

Years of Service	OWASA Contribution per Pay Period
6 months-3 years	$40
4-9 years	$60
10-14 years	$80
15-19 years	$100
20+	$120

- Creates contribution for all employees who have completed 6 months of service.
- Improves competitiveness and reflects increases in wages since 2001.
- All employees with similar service time receive the same contribution regardless of salary.
- Increases cost to OWASA by $82,000.

Option 3: Provide a 4% contribution to all employees who have completed at least 6 months of service with a cap of $3,500 - As an alternative to a fixed amount based on years of service, OWASA could provide a contribution as a fixed percentage of an employee's base pay with a cap not to exceed $3,500.

- Provides contribution to all employees without regard to service time.
- Increases cost to OWASA by $75,000
- Higher salaried employees receive greater contribution.
- There are 73 employees who would see a reduction in this benefit and 57 would see an increase.

Staff Recommendation: Option 2.

Attachment 1 – Service Pay Comparison Information

Organization	Service Pay Program
OWASA	10-14 years of service 1.5% 15-19 years of service 2.25% 20-24 years of service 3.25% 25+ years of service 5%
Town of Carrboro	5-9 years of service $248 10-14 years of service $456 15-19 years of service $659 20-24 years of service $868
Town of Chapel Hill	5-9 years of service $500 10-14 years of service $650 15-19 years of service $800 20-24 years of service $1,000 25+ years of service $1,200
Orange County	10-14 years of service 1.5% 15-19 years of service 2.25% 20-24 years of service 3.25% 25+ years of service 4.5%
Town of Cary	Not offered
Town of Hillsborough	5-9 years of service 2.5% 10-19 years of service 3.75% 20+ years of service 5%
City of Durham	Not offered
City of Raleigh	**Employees hired after July 1, 2011** – not offered **Employees hired before July 1, 2011** – 9 years of service 1%; 10+ years of service 2%
Asheville-Buncombe Municipal Utility District	Not offered
Charlotte/Mecklenburg County	**Employees hired after July 1, 1983** – not offered
Greenville Utilities Commission	**Employees hired after July 1, 1993** – not offered

Attachment 2 – Service Pay Option 3a – One-time pay increase keeps current employees wholly compensated for 5 years

Estimated service pay costs for FY14 under the existing policy are $107,000. Buying out service pay in FY14 and keep employees salaries "whole" for 5 years would cost an additional $22,878. Below is a chart detailing the amounts to be paid for each year of service.

Years of Service	Percentage of Increase to Annual Salary
< 5 years	0
5 years	0.35%
6 years	0.65%
7 years	0.95%
8 years	1.23%
9 years	1.52%
10 years	1.67%
11 years	1.82%
12 years	1.97%
13 years	2.12%
14 years	2.27%
15 years	2.47%
16 years	2.67%
17 years	2.87%
18 years	3.07%
19 years	3.27%
20 years	3.62%
21 years	3.99%
22 years	4.34%
23 years	4.69%
> 24 years	5.00%

Attachment 2 continued:

Below is a chart showing the estimated costs of implementing Option 3a (annually and cumulatively). Assumes an annual merit increases of 2.5% and those current eligible employees remain at OWASA through retirement.

Year	(Cost) Savings Between Keeping Service Pay and Buying it Out	Cumulative (Cost) Savings
1 (FY2014)	($22,878)	($22,878)
2	($13,361)	($36,239)
3	($4,595)	($40,834)
4	$9,828	($31,006)
5	$27,337	($3,669)
6	$33,799	$30,130
7	$42,490	$72,620
8	$54,106	$126,726
9	$67,383	$194,109
10	$79,938	$274,047
11	$89,122	$363,169
12	$97,336	$460,505
13	$106,961	$567,466
14	$124,976	$692,442
15	$138,928	$831,370

Attachment 3 – Service Pay Option 3b – One-time pay increase keeps employees wholly compensated for 10 years

Estimated service pay costs for FY14 under the existing policy are $107,000. Buying out service pay in FY14 and keep employees salaries "whole" for 10 years would cost an additional $54,860. Below is a chart detailing the amounts to be paid for each year of service.

Years of Service	Percentage of Increase to Annual Salary
< 1 year	0.18%
1 year	0.34%
2 years	0.50%
3 years	0.66%
4 years	0.81%
5 years	1.10%
6 years	1.27%
7 years	1.49%
8 years	1.70%
9 years	1.91%
10 years	2.10%
11 years	2.28%
12 years	2.45%
13 years	2.63%
14 years	2.79%
15 years	3.09%
16 years	3.38%
17 years	3.66%
18 years	3.93%
19 years	4.19%
20 years	4.37%
21 years	4.53%
22 years	4.70%
23 years	4.86%
>24 years	5.00%

Attachment 3 continued:

Below is a chart showing the estimated costs of implementing Option 3b (annually and cumulatively). Assumes an annual merit increases of 2.5% and those current eligible employees remain at OWASA through retirement.

Year	(Cost) Savings Between Keeping Service Pay and Buying it Out	Cumulative (Cost) Savings
1 (FY2014)	($54,860)	($54,860)
2	($46,089)	($100,949)
3	($38,300)	($139,249)
4	($24,948)	($164,197)
5	($8,124)	($172,321)
6	($1,432)	($173,753)
7	$13,598	($160,155)
8	$32,295	($127,860)
9	$50,073	($77,787)
10	$71,416	($6,371)
11	$75,929	$69,558
12	$94,878	$164,436
13	$109,591	$274,027
14	$131,099	$405,126
15	$152,841	$557,967

Attachment 4 – Service Pay Option 3c – One-time pay increase keeps employees wholly compensated for 15 years

Estimated service pay costs for FY14 under the existing policy are $107,000. Buying out service pay in FY14 and keep employees salaries "whole" for 15 years would cost an additional $84,056. Below is a chart detailing the amounts to be paid for each year of service.

Years of Service	Percentage of Increase to Annual Salary
< 1 year	0.73%
1 year	0.89%
2 years	1.05%
3 years	1.21%
4 years	1.36%
5 years	1.57%
6 years	1.79%
7 years	2.00%
8 years	2.21%
9 years	2.41%
10 years	2.66%
11 years	2.91%
12 years	3.15%
13 years	3.39%
14 years	3.62%
15 years	3.80%
16 years	3.98%
17 years	4.16%
18 years	4.33%
19 years	4.49%
20 years	4.60%
21 years	4.70%
22 years	4.81%
23 years	4.91%
>24 years	5.00%

Attachment 4 continued:

Below is a chart showing the estimated costs of implementing Option 3c (annually and cumulatively). Assumes an annual merit increases of 2.5% and those current eligible employees remain at OWASA through retirement.

Year	(Cost) Savings Between Keeping Service Pay and Buying it Out	Cumulative (Cost) Savings
1 (FY2014)	($84,056)	($84,056)
2	($76,068)	($160,124)
3	($68,870)	($228,994)
4	($56,053)	($285,047)
5	($40,191)	($325,238)
6	($34,559)	($359,797)
7	($21,304)	($381,101)
8	($6,072)	($387,173)
9	$12,249	($374,924)
10	$31,832	($343,092)
11	$40,299	($302,793)
12	$50,841	($251,952)
13	$62,251	($189,701)
14	$82,854	($106,847)
15	$100,508	($6,339)

Attachment 5 – Retiree Health Insurance Comparison Information

Organization	Pre-65 Benefits	Post-65 Benefits	Dependent Coverage
OWASA	10 yrs at age 60 = 50% 15 yrs at age 60 = 75% 20 yrs at age 60 = 100% 30 yrs at any age =100%	Yes, Medicare Supplement and Part D	No
Town of Carrboro	**Employees hired prior to July 1, 2007** 10 yrs 50% 15 yrs 75% 20 yrs 100% **Employees hired after July 1, 2007** will receive a stipend to defray health insurance cost.	Yes, Supplement Plan – NEBCO and Part D	Yes – paid by retiree
Town of Chapel Hill	**Employees hired prior to July 1, 2010** 5 yrs 25% 10 yrs 50% 15 yrs 75% 20 yrs 100% **Employees hired after July 1, 2010** must contribute to a Retirement Health Savings Plan. Employee contributes 1% of pay and employer contributes $35 per pay period.	**Retiree hired prior to July 1, 2010** may elect either Medicare Supplement and Part-D or remain on group plan	Yes – paid by retiree
Orange County	**Employees hired before July 1, 2012** 5 yrs 50% 10 yrs 100% **Employees hired after July 1, 2012** must have 20 yrs to receive 100%	Yes, Medicare Supplement Plan F and Part D	**Retirees hired before July 2, 2008** eligible for dependent coverage at the same rate as an active employee
Town of Cary	25 yrs 100% Employees with 15 years are eligible for 50% and then a 5% increase in contribution for each additional year of service	Yes, Medicare Supplement and Part D	Data unavailable
Town of Hillsborough	**Employees hired before February 9, 2009** 20 yrs at age 55 100% **Employees hired after February 9, 2009** 30 yrs at age 60 100%	No	Yes – paid by retiree

Attachment 5 continued:

Organization	Pre-65 Benefits	Post-65 Benefits	Dependent Coverage
City of Durham	**Employees hired before July 1, 2008:** 10 yrs 50% 15 yrs 75% 20 yrs 100% **Employees hired after July 1, 2008:** Mandatory participation in a Retirement Health Savings Account	**Employees hired before July 1, 2008** Medicare Supplement Plan and Part D	Data unavailable
City of Raleigh	25 yrs 100% Employees with 15 years are eligible for 50% and then a 5% increase for each additional year	Yes - $100 contributed to a Medicare supplement plan, no Part-D	Data unavailable
Ashville-Buncombe Municipal Utility District	**Employees hired before July 1, 2012** 5-9 yrs 50% 10-14 yrs 55% 15-19 yrs 65% 20-24 yrs 80% 25+ yrs 100% **Employees hired after July 1, 2012** are not eligible for Retiree Benefits	Yes –retiree pays 100% of the premium cost and it is secondary to Medicare	Yes – paid by retiree
Greenville Utilities Commission	**Employees hired before July 1, 2011** 20+ yrs 95% **Employees hired after July 1, 2011** 20-24 yrs (age 55-59) 50% 25+ yrs (age 55-59) 75% 20-24 yrs (60-64) 65% 25+ yrs (60-64) 95%	Yes-Medicare Supplement and Part-D	Yes – paid by retiree

Attachment 6 – Comparison 457 Deferred Compensation Information

Organization	Employer Contribution to Deferred Compensation Plan(s)
OWASA	457 Plan Offered 4-9 years of service - $40 per pay period 10-14 years of service - $60 per pay period 15-19 years of service - $80 per pay period 20+ years of service - $100 per pay period
Town of Carrboro	401(k) Plan Offered Employer contributes 3% for non-LEO staff
Town of Chapel Hill	401(k) and 457 Plans Offered Employer contributes 5% to 401K Plan
Orange County	401(k) and 457 Plans Offered Employer contributes $27.50 semi-monthly with an annual maximum of $715 to one plan – employee choice
Town of Cary	401(k) and 401(a) Plans Offered Employer contributes 5% to either 401(k) or 401(a) – employee choice
Town of Hillsborough	401(k) Plan Offered Employer contributes 5%
City of Durham	401(k) and 457 Plans Offered Employer contributes 4.5% to 401(k) Plan
City of Raleigh	401(k) and 457 Plans Offered Employer makes a 200% matching contribution on the first 1% of employee contribution to 457
Asheville-Buncombe Municipal Utility District	401(k) and 457 Plans Offered Employer contributes 5% to 401(k) Plan
Charlotte/Mecklenburg County	401(k) and 457 Plans Offered Employer contributes 3% to 401(k) Plan
Greenville Utilities Commission	401K and 457 Plans Offered Employer contributes $1,040 annually to 401(k) for full-time and designated part-time employees