ORANGE WATER AND SEWER AUTHORITY

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

TO: **Human Resource Committee**
Barbara Foushee, Chair
Yinka Ayankoya
Jeff Danner
John Young
Robert Morgan, Ex-Officio

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow and Stephen Winters

DATE: November 10, 2017

SUBJECT: **Human Resource (HR) Committee Meeting**
Thursday, November 16, 2017, 5:30 pm, OWASA Boardroom

Agenda

1) **Alternative Compensation Strategies for Employee Performance Rating Period October 1, 2017 through September 30, 2018**
   Continue discussion on employee compensation for next rating period.
2) **Retiree Health Benefits for New Hires**
   Evaluate information and options for the health benefits provided to retirees.
3) **Deferred Compensation (457) Plan**
   Discuss information and options for the deferred compensation benefits.

Stephanie S. Glasgow, MESH, MPM, PHR, SHRM-CP
Director of Human Resources and Safety

Stephen Winters, CPA
Director of Finance and Customer Service

Item 1

Alternative Compensation Strategies for Employee Performance Rating Period October 1, 2017 through September 30, 2018

Purpose

To discuss compensation strategy options for the employee performance rating period October 1, 2017 through September 30, 2018.

Background

At its meeting on October 18, 2017, the Human Resources (HR) Committee discussed strategies for awarding annual increases to employees' pay based on performance. The HR Committee favored an option that provides a salary adjustment for three of four performance rating categories (currently two of four categories are eligible to receive annual salary adjustments). The HR Committee agreed to meet on November 16, 2017 to finalize a recommendation for discussion at the December 14, 2017 Board meeting.

Employee performance reviews are conducted in April and October of each year. The compensation strategy currently under consideration is expected to apply to the performance rating period which began on October 1, 2017.

For salary adjustments that went into effect the first pay period in November (performance rating period from October 1, 2016 through September 30, 2017), the Board applied the following strategy:

Performance Rating Category	Percentage of Employees in the Performance Rating Category	Cost of Labor Adjustment	Merit	Total Salary Increase
Exceptional	15%	1%	6%	7%
Successful	82%	1%	3%	4%
Needs Improvement	3%	0%	0%	0%
Unsuccessful	0%	0%	0%	0%
Approximate budget impact		$391,000		

Approximate budget impact includes payroll taxes and the required employer contribution to the Local Government Employees' Retirement System (LGERS). Payroll taxes and the LGERS contribution are based on a percentage of the employee's salary.

Alternative Compensation Strategies

Based on previous discussions by the Board of Directors and the HR Committee, annual salary increases should be sufficient for employees earning "Successful" performance ratings to move to the midpoint of their salary-range within seven to nine years of time-in-position. To achieve this goal, annual merit increases for "Successful" performance ratings should be no less than 2.9% points more than the annual cost of labor adjustment (COLA).

Options

Four options are provided for the HR Committee's consideration:

Option 1

- Only change to current practice is to provide COLA salary increase for employees rated as "Needs Improvement."

Option 2a

- Changes criteria for the four performance rating categories.
- Three of four rating categories provide a salary increase based on performance.
- Sets maximum percentages for three of four rating categories.

Option 2b

- Similar to Option 2a, but salary increases adjusted to be at least 2.9% greater than COLA for employees rated as "Meets Expectations" and above.

Option 3

- Changes criteria for the four performance rating categories.
- Establishes three of four rating categories to provide salary increases based on performance.
- Provides up to 25% of the high-performing employees with a salary increase greater than employees rated as "Meets Expectations".
- Lowers the maximum percentage of employees rated as "Exceptional" from 15% to 5%.
- Provides new "Exceeds Expectations" category which provides a maximum of up to 20% of employees to earn a higher salary increase than employees rated as "Meets Expectations."
- Provides salary increases of at least 2.9% above COLA for all employees except those rated as "Below Expectations."

Option	Performance Rating Category	Maximum % per Category	COLA	Merit	Total Salary Adjustment	Budget Impact	Advantages/Disadvantages + Positive change – Negative change
1	Exceptional	15%	1%	6%	7%	$393,000[1]	+ Employees familiar since it is very similar to current practice + Provides COLA for employees rated as "Needs Improvement" + Provides employees rated "Successful" a salary increase of least 2.9% above COLA – Limits higher salary increases to the top 15% of high-performing employees – As with current practice, expect limited use of the two lowest performance categories
	Successful	NA	1%	3%	4%		
	Needs Improvement	NA	1%	0	1%		
	Unsuccessful	NA	0	0	0		
2a	Exceptional	15%	1%	6%	7%	$338,000[2]	+ Provides usage of top three performance categories with salary increases + Lowers cost of total salary increases – Lowers salary increase for 45% of employees which will increase the time for those employees to reach their midpoint – Will be difficult to manage what separates the employee rated as "Exceeds Expectations" from the employee rated as "Meets Expectation" – Significant percentage of employees are not expected to support this option
	Exceeds Expectations	40%	1%	3%	4%		
	Meets Expectations	45%	1%	1.5%	2.5%		
	Below Expectations	NA	0	0	0		
2b	Exceptional	15%	1%	5%	6%	$423,000	+ Provides usage of top three performance categories with salary increases + Provides employees in the top three performance categories with a salary increase of least 2.9% above COLA + More high performing employees will receive higher salary increase – Increases cost of total salary – Will be difficult to manage what separates the employee rated as "Exceeds Expectations" from the employee rated as "Meets Expectation"
	Exceeds Expectations	40%	1%	4%	5%		
	Meets Expectations	45%	1%	3%	4%		
	Below Expectations	NA	0	0	0		
3	Exceptional	5%	1%	6%	7%	$398,000[2]	+ Provides usage of top three performance categories with salary increases + Provides employees in the top three performance categories with a salary increase of least 2.9% above COLA + Increases percentage of high-performing employees from a maximum of 15% to 25% – Lowers maximum percentage of "Exceptional" employees from a maximum 15% to 5%
	Exceeds Expectations	20%	1%	4.5%	5.5%		
	Meets Expectations	NA	1%	3%	4%		
	Below Expectations	NA	0	0	0		

[1] Budget impact assumes performance ratings distribution of: Exceptional – 15%; Successful – 82%; Needs Improvement – 3%; Unsuccessful – 0
[2] Budget impact assumes no Below Expectations rating, but staff estimates there will be a few each year

Staff Recommendation

Staff recommends Option 3 for the following reasons.

- Provides usage of top three performance categories with salary increases
- Provides employees in the top three performance categories with a salary increase of least 2.9% above COLA
- Increases percentage of high-performing employees from a maximum of 15% to 25%

As noted, the disadvantage of Option 3 is it lowers the maximum percent of "Exceptional" employees from 15% to 5%.

Staff suggests the HR Committee consider providing flexibility to the maximum percentages in Option 3 which could be controlled by the Board setting the maximum dollar investment each year. We also believe it is important to consider a larger investment than what Option 3 provides for our highest performing employees, while making sure all employees who are "meeting expectations" are compensated fairly and within market.

Staff suggests the HR Committee discuss the desirability of seeking employee input on these options prior to the Board making a final decision.

Item 2

Retiree Health Benefits for New Hires

Purpose

Provide information for discussion to consider updates to the Retiree Health Benefits for New Hires.

Background

In 2014, based on the recommendations in a report issued by consultants who analyzed OWASA's compensation and benefit programs, the Board considered changes to our Retiree Health Benefits for New Hires. The Board ultimately decided to defer action.

Current Plan

The current retiree health insurance plan includes OWASA paying a percentage of the health insurance for pre-65-year-old retirees and provision of a Medicare Supplement for post-65-year-old 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-year-old retirees stay on OWASA's group health plan. The Fiscal Year 18 monthly premium is $1,097.46 per individual.

Post-65-year-old 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 $183.20 and $124.00 for Part D prescription coverage, bringing our average monthly cost per post-65-year-old retiree to $307.20.

Options Considered

In 2014, the Board considered a variety of options, including:

Option 1. **Cost-share applicable to employees hired after July 1, 2014.** The maximum benefit provided by OWASA would be 75% of health care premiums for pre-65-year-old retirees or Medicare supplement for post-65-year-old 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, 2014.** 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.

The following table shows Retiree Benefits for local entities.

<table>
<tr><th>Entity</th><th>Retiree Benefits</th></tr>
<tr><td>Cape Fear Public Utility Authority</td><td>If hired prior to July 2008, eligible for individual health polices until age 65. If hired after July 2008, no retiree benefits available.</td></tr>
<tr><td>City of Durham</td><td>Employees who were hired prior to July 1, 2008 are eligible to participate in the medical benefits up to age 65. Those hired after July 1, 2008 contribute 2% each pay period to a Health Savings Retirement Account (HSRA) and a $35.00 contribution from the City with a vested schedule for employer contributions.
<table>
<tr><th>Hire Date</th><th>10 Years of Service</th><th>15 Years of Service</th><th>20+ Years of Service</th></tr>
<tr><td>Prior July 2008</td><td>Active Employee Cost + 50% of City Cost</td><td>Active Employee Cost + 25% of City Cost</td><td>Pays Active Employee Cost</td></tr>
<tr><td>After July 2008</td><td>50% Vested</td><td>75% Vested</td><td>100% Vested</td></tr>
</table></td></tr>
<tr><td>Greenville Utilities Commission</td><td>Pre-65 Benefits:
<table>
<tr><th>Years of Service</th><th>Base Plan Contribution Percentage Age 55 - 59</th><th>Base Plan Contribution Percentage Age 60 - 64</th></tr>
<tr><td>20 – 24 Years</td><td>50% for retiree</td><td>65% for retiree</td></tr>
<tr><td>25 Years or more</td><td>75% for retiree</td><td>95% for retiree</td></tr>
</table>
After age 65, employer pays for Medicare Supplemental Plan and Medicare Part-D at the same percentage.</td></tr>
</table>

<table>
<tr><td>Orange County</td><td>If hired on or before June 30, 2012 retirees must have worked 10 years as permanent employees for Orange County (exceptions for those age 65 at retirement or disability retirees). If hired after, retirees must have worked 20 years as permanent employees (exceptions for those age 65 at retirement or disability retirees). After age 65, Orange County pays for Medicare Supplemental Plan and Part D.</td></tr>
<tr><td>Town of Carrboro</td><td>If hired before July 1, 2007 then retiree may remain on the group health plan until age 65 and then participate in Medicare Supplement Plan based eligibility schedule. If hired after July 1, 2017 the same schedule applies but retiree receives a monetary stipend to defray cost of health insurance.

<table><tr><th>Years of Service</th><th>Percentage
Insurance Premium or Stipend Amount</th></tr><tr><td>10 – 14 Years</td><td>50%</td></tr><tr><td>15 – 19 Years</td><td>75%</td></tr><tr><td>20 or more Years</td><td>100%</td></tr></table></td></tr>
<tr><td>Town of Cary</td><td>Employees with 15 or more years of service, can qualify for a subsidy towards their health insurance or Medicare; 15 years of service receive 50% subsidy; 20 years of service receive 75% subsidy; 25 years of service receive 100% subsidy.</td></tr>
<tr><td>Town of Chapel Hill</td><td>For pre-65, hired prior to July 1, 2010 receive health insurance on a vested schedule based on their service, up to full insurance coverage. For post-65 retirees hired prior to July 1, 2010, a Medicare Supplement paid on the same vesting schedule for Pre-65 retirees. If hired after July 2010, a Health Savings Retirement Account (HSRA) that the employee contributes 1% of pay to and the Town puts in $35 each pay date. The employee contributions and Town contributions on a vesting schedule like above have to be used in medical expenses upon retirement.

5 years - 25% of either Town paid of premiums or of Town invested money in HSRA; 10 years - 50% of either Town paid of premiums or of Town invested money in HSRA; 15 years - 75% of either Town paid of premiums or of Town invested money in HSRA; 20 years and above - 100% of either Town paid of premiums or of Town invested money in HSRA.</td></tr>
<tr><td>Town of Hillsborough</td><td>The retiree may continue to receive health insurance coverage comparable to that being provided for regular employees without cost - for the life of the retiree or until such time as the retiree becomes eligible for Medicare.

<table><tr><th>Hire Date</th><th>Minimum
Age</th><th>Continuous service
with Town</th></tr><tr><td>Before Feb. 2009</td><td>55</td><td>20</td></tr><tr><td>After Feb. 2009</td><td>60</td><td>30</td></tr></table></td></tr>
</table>

Action Requested

Review and discuss options for modifying OWASA's Retiree Benefits for New Hires and provide guidance to staff.

Item 3

Deferred Compensation (457) Plan

Purpose

To discuss options for making our Deferred Compensation Plan more competitive in the marketplace and more meaningful to employees.

Background

In 2014, based on the recommendations in a report issued by consultants who analyzed OWASA's compensation and benefit programs, the Board considered changes in our Deferred Compensation Plan. The Board ultimately decided to defer action.

At the time, the Human Resources Committee established the following goals for improving the Plan:

- No reduction in the amount of benefit currently provided to employees.
- Expand the benefit to include employees with six-months to less than four years of service.
- Improve the competitiveness of OWASA's Plan (benefit not to be less than 4% of wages).
- Implement an employer matching contribution whereby OWASA will match an employee's voluntary contribution.

Current Plan

OWASA currently makes biweekly contributions to eligible employees' Deferred Compensation Plan accounts. The contributions begin after an employee has reached four years of service. The amount of the contribution increases as employees reach certain anniversary milestones, as shown below. The amounts of the contributions have not been changed since going into effect in 2001. As a result, the value of this important employee benefit has declined. The annual inflation rate between 2001 and 2017 was 2% making the $40 contribution now worth under $29 today.

	Employee Tenure				
	6-months to <4 years	**4-9 years**	**10-14 years**	**15-19 years**	**20+ years**
OWASA Biweekly Contribution	None	$40	$60	$80	$100
OWASA Annual Contribution	None	$1,040	$1,560	$2,080	$2,600
Examples of Benefit Percentage at Certain Salary Levels					
$34,000	0	3.1%	4.6%	6.1%	7.6%

$70,000	0	1.5%	2.2%	3%	3.7%
$100,000	0	1%	1.6%	2.1%	2.6%

Options Considered

In 2014, the Board considered a variety of options, including:

Option 1	Maintain current plan elements but add an employer contribution of $20 per pay-period for employees with six-months to less than four years of service, and an employer matching contribution of up to 2.5%.
Option 2	Increase each employee's salary by the amount of their current Plan contribution and convert the Plan to a percentage-based matching plan.
Option 3	Convert the Plan to a percentage-based matching program with no provision to maintain each employee's current benefit level.
Option 4	Convert the Plan to a percentage-based employer contribution with no requirement for an employee matching contribution.

The Board also considered variations of the above options.

The table below summarizes some of the key elements and observations of the four options.

Key Elements/Observations	Option 1	Option 2	Option 3	Option 4
Current biweekly benefit maintained	Yes	Yes, but done so through salary increases	No but includes a percentage-based employer contribution (2%) not dependent on employee match	Only 50% of current benefit and done so through salary increases
Benefit provided to employees with 6-mos to < 4-years of service	Yes	Yes	Yes	Yes
Employer matching contribution	Yes	Yes	Yes (up to 3% in addition to above	Yes (up to 5%)
Accomplishes goals	Yes	3 of 4	3 of 4	3 of 4
Eliminates deflationary aspect of current benefit	No	Yes	Yes	Yes
Market competitive	Yes and No (benefit less than 4% for certain employee groups)	Yes and No (benefit less than 4% for certain employee groups)	Yes (benefit is up to 5%)	Yes (benefit is up to 5%)
Requires employee match	Biweekly fixed amount – no Additional 2.5% - yes	Yes	2% - no Additional 3% - yes	Yes

Local Entity Comparison

The table below list benchmark data for other local entities.

Organization	Deferred Compensation
Town of Chapel Hill	401K - employer 5% contribution as of hire
Town of Hillsborough	401K - employer 5% contribution as of hire
Town of Carrboro	401K - employer 3% contribution as of hire
Greenville Utilities Commission	401K - Flat Amount ($40) contribution per pay period ($1040 annually) to 401K effective at hire
Cape Fear Public Utility Authority	401K and 457 offered, employer 2% contribution, plus another 2% match if the employee contributes 2% or greater begins first of the month following 30-days.

Town of Cary	NC 401k plan and a 457/401a plan offered. Employer will contribute 5% to the employee's choice of 401k or 401a eligible at hire.
City of Durham	We offer both a 457 and 401(k). Employees may contribute upon hire. There is a 6% match on the 401(k) and a 5% match on the 457.
Orange County	County will contribute to either 457 or 401K for a total of $715 per year ($27.50 per pay). If an employee contributes, the County matches up to $63 for 24 payrolls for $1512/year maximum.

Action Requested

Review and discuss options for modifying OWASA's Deferred Compensation Plan and provide guidance to staff.