

## October 2022 Compensation Study Final Report

### Introduction

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The Indiana State Personnel Department (INSPD), as the State’s human resource organization, recognizes the many challenges facing State government and strives to provide solutions. As part of Governor Eric J. Holcomb’s NextLevel State Work initiative, the State identified three key areas that, if deliberately addressed, would improve the overall State of Indiana employee experience: competitive compensation, flexible work arrangements, and modern employee programming focused on engagement and well-being.

Indiana law directs INSPD, after consultation with the State Budget Agency (SBA), to prepare and recommend to the governor a pay plan for all employees holding positions for which compensation is not fixed by law. Additionally, “the pay plan must provide, for each class of positions, a minimum and maximum rate of pay as well as any intermediate rate of pay considered necessary or equitable.”<sup>1</sup>

When establishing pay rates and a combined pay plan, the law requires INSPD to consider the following factors:

1. The experience recruiting for positions in the state civil service;
2. The prevailing rates of pay for the service performed and comparable services in public and private employment;
3. The cost of living;
4. Benefits, other than the rate of pay, available to or received by employees; and
5. The State’s financial policies and fiscal condition.<sup>2</sup>

To address the competitive compensation element of Governor Holcomb’s NextLevel State Work initiative, INSPD, in partnership with SBA, Office of Management and Budget (OMB), and the Governor’s Office, began a compensation study in October 2021. This report explains the methodology undertaken throughout the compensation study, the results of the analysis, and the subsequent compensation changes designed to ensure that state employment remains competitive in Indiana’s rapidly changing job market.

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<sup>1</sup>State Civil Service System, Indiana State Code § 4-15-2.2-27 (2022).

<sup>2</sup>State Civil Service System, Indiana State Code § 4-15-2.2-27 (2022).

This study involved more than 800 job classifications established and maintained by INSPD through the civil service system. Other executive branch agencies with separate statutory authority regarding compensation, such as quasi-entities, were not included. Upon implementing the new pay plans for the first group of employees, INSPD will work with out-of-scope agencies to effectuate appropriate compensation adjustments.

## Compensation Study

### Background

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The work that State employees perform every day in the service of the people of Indiana is valued and appreciated. Despite the critical nature of State employees' work, Indiana has experienced increasing turnover rates, vacant positions, and time to fill vacant positions.

Historically, the government sector lags behind the market when it comes to employee pay. Before the pandemic, state governments had already seen job applications drop by 8% since 2013<sup>3</sup> and knew of looming retirement cliffs in the coming years. State and local government turnover rates were creeping up from previously steady rates between 15% and 16% since 2008 to a high of over 18% in 2021.<sup>4</sup> As COVID-19 disrupted all industries, state governments began to fall further behind as unprecedented trials further exacerbated the employment challenges. In surveys completed in January 2022, about 50% of state and local government employees across the country were considering leaving their jobs.<sup>5</sup> For state government, the most frequently cited reasons for this high amount of turnover were lower pay when compared to other available jobs, burnout from the pandemic that had continued with higher workloads since, and lack of opportunities or clarity on advancement.

Indiana was no exception. As an employer, the State has experienced high turnover while also struggling to attract talent at a rate sufficient to fill its critical roles. Specifically, INSPD's metrics demonstrate the following employment-related challenges within the executive branch of government:

- Employee turnover rate peaked at over 25% in 2021;
- Indiana's salary range minimums were on average 30% behind the prevailing market minimums for similar jobs;
- Regular, full time employee churn in 2021 was -2,079, meaning Indiana lost significantly more employees than it was able to hire;
- Average number of applications per job opening dropped from 12 applications per opening in 2019 to about 7 per opening in 2022;

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<sup>3</sup>(2020). *Time to Hire Report*. Neogov. <https://www.neogov.com/hubfs/NEOGOV-Time-to-Hire-Report.pdf?hsCtaTracking=1f426d35-bfef-4c33-9601-4f0b2215028c%7Cc13f1ec7-6e99-495c-b3d5-669a36bab0ba>

<sup>4</sup>(2022). *Job Openings and Labor Turnover Survey*. United States Bureau of Labor Statistics. <https://www.bls.gov/jlt/data.htm>. Retrieved using State and Local, Total Separations Rate.

<sup>5</sup>Lucia, B. (2022). *Survey: 52% of State, Local Public Workers Considering Leaving Jobs*. Route Fifty. <https://www.route-fifty.com/management/2022/01/survey-over-half-state-and-local-workers-considering-leaving-their-jobs/361233/>

- The average time to fill a vacancy increased from 45 days in 2019 to 52 days in 2021 and 55 days in 2022 year to date;
- The vacancy rate increased from 14% in 2019 to 21% in 2021 and then 24% in 2022;
- Indiana had more top performers resign from state employment in 2021 than in 2020 and 2019 combined;
- The one-year retention rate has dropped from 85% in Q2 2021 to 74% Q2 2022, meaning new hires are choosing not to stay employed with the State for longer than a year at a greater rate than in the past;
- A retirement cliff is imminent; 23% of the workforce will be eligible for retirement within the next 5 years; and
- The statewide employee engagement survey confirmed that compensation was the highest priority of employees.

High turnover rates and the inability to recruit qualified talent to fill our positions are costly for the State of Indiana. Studies estimate that the cost to hire and train a new employee is, on average, 50% to 60% of the position's annual salary.<sup>6</sup> These costs include time for other employees to perform exit interviews, make job postings, execute the interview process, onboard the new employee and provide training, as well as hard costs such as background checks and other materials. Additional soft costs should also be included, such as the time it takes for the new employee to become as efficient and productive as the individual who left. As turnover rises and government is required to make more new hires, costs sunk into the hiring and onboarding processes rise significantly. Further, costs increase even more if the State struggles to find qualified applicants as it belabors the hiring process. In short, the increased rate of turnover has had a negative financial impact on the State of Indiana.

Continually turning over trained and proficient employees and not having a sufficient number of staff negatively impacts the provision of critical statutory services the State provides. Recruiting, hiring, and training new employees can cause a slowdown in service delivery, and state government employees provide essential services to constituents. Many states report that these services are being delayed or the services being given are sometimes inadequate due to staffing challenges.<sup>7</sup>

As such, reviewing compensation has become a significant topic due to concerning trends that began before the COVID-19 pandemic but were accelerated by the events of 2020. Governor Holcomb implemented a \$1,300 salary increase, followed by a 2.5% salary increase for all State employees in January 2022; this salary adjustment resulted in an average increase of 5% for employees and was the first general salary increase in Indiana since 2008.

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<sup>6</sup>Allen, D. G., PhD (2008). *Retaining Talent: A Guide to Analyzing and Managing Employee Turnover*. Society for Human Resource Management. <https://www.shrm.org/hr-today/trends-and-forecasting/special-reports-and-expert-views/documents/retaining-talent.pdf>

<sup>7</sup>Bates, C. (2022). *'This job is impossible': High turnover, low morale plague Missouri child welfare agency*. Missouri Independent. <https://missouriindependent.com/2022/09/19/this-job-is-impossible-high-turnover-low-morale-plague-missouri-child-welfare-agency/>. Brooks Harper, K. (2022). *State agencies push for better worker pay as critical staffing crunch hits Texas government*. The Texas Tribune. <https://www.texastribune.org/2022/09/29/texas-state-employee-pay-raise/>. Pugel, D., & Thomas, P. (2022). *A Decade Without Raises and Weakened Benefits Have Created a State Workforce Crisis. Addressing it Adequately Should Be a Top Priority in the New Budget*. KY Policy. <https://kypolicy.org/kentucky-state-workforce-crisis-should-be-a-top-priority-in-2022-2024-budget/>.

Since then, the post-pandemic economy, a rapidly changing job market, and shifts in the cost of living have continued to exacerbate the existing compensation gaps. The State has committed to understanding these gaps and addressing State employee compensation through the 2022 compensation study.

## Objective and Scope

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The goal of the compensation study was to recommend new pay plans and a comprehensive compensation strategy that is supported by market data, customized to the State of Indiana's unique structure, and that would enable the State to be a competitive employer. The compensation study examined the salaries and jobs of civil service employees within Indiana's executive branch job classifications.

INSPD engaged eimagine Technology Group, Inc. and First Person Advisors (First Person), a subsidiary of NFP, to conduct the market-based compensation analysis and provide subject matter expertise. The team who worked on this study has extensive experience providing quality services, including benchmarking and market analysis, salary structure development and updates, pay equity audits, and strategy and communication. For this project, research and analysis were focused on producing the following outcomes and deliverables:

- 1. Evaluate the State of Indiana's compensation system.**
- 2. Perform market research and comparative salary analysis.**
- 3. Recommend a new pay plan and implementation strategy.**

The scope of this engagement encompassed most job classifications established and maintained by INSPD through the civil service system. Out-of-scope classifications include Teachers and Law Enforcement personnel and classifications used by Elected Officials and agencies with separate statutory authority regarding compensation. INSPD will now work with those out-of-scope agencies to effectuate appropriate compensation adjustments.

## Salary Range Development

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The State of Indiana is confident that talented employees work best when they are valued by their employer. As such, the State of Indiana strives to provide a total rewards program (primarily comprising of salary and benefits) that ensures each employee is valued and equitably compensated while continuing to meet the State's operational and financial objectives.

The updated total compensation system reflects the application of a shared, consistent, and effective approach to employee compensation, even across the diverse agencies and areas of work throughout the state. This compensation system is the future framework by which INSPD will establish market-competitive and internally equitable salary ranges to attract and retain the exceptional talent needed to preserve the State's high-performing and impactful work environments.

The two primary factors to consider when determining the appropriate salary range for a particular job classification are 1) **External competitiveness** and 2) **Internal organizational structure**. It is important these two factors be considered jointly when establishing a range, to ensure it is reasonable, sustainable, and addresses operational objectives.

- **External competitiveness** refers to the pay relationships among organizations or, more specifically, the salary range set by the state for a job classification relative to its competitors. Establishing competitive salary ranges required industry and regionally-specific market data. Factors that impact the state’s external competitiveness include, but are not limited to:
  - Geographic location: When recruiting talent for Indiana, the agency or office location may play a significant part in a candidate’s decision to accept an offer.
  - Availability and competition: Supply and demand within the labor market affect the level at which we can compete. In some areas of the state or in certain job types, the availability of qualified, skilled employees in the workforce can be limited, which may limit Indiana when attempting to recruit.
  - Total rewards: When developing the compensation strategy and pay plan, INSPD looks to maintain market-competitive compensation based on the experience, competencies, and contributions of each employee, while also considering the richness and value of the State’s robust benefits offerings. More specifically, the State offers full-time employees and their families affordable health, dental, vision, life insurance options, competitive retirement plans, wellness programming, and generous paid leave policies.
- **Internal organizational structure** ensures employees in the same classification are compensated in a similar way enterprise-wide. This is achieved through consistent administration of INSPD’s classification system.
  - The State of Indiana utilizes a standardized classification system to assign roles to job classifications.
  - The classification system is intended to ensure the following:
    1. The executive branch, in the interest of equity, efficiency, and good government administration, operates under a coordinated job evaluation system for all positions to the greatest extent practical.
    2. The system is designed to utilize methods of job evaluation that are appropriate and practical for use in the executive branch, taking into consideration the various occupational categories of positions therein.
    3. Groups of positions with sufficiently similar duties, authority and responsibility, and for which the same qualifications and same salary schedule can equitably be applied, are grouped into the same job classification.
    4. Classifications within a series (e.g., Correctional Officer, Correctional Sergeant, Correctional Lieutenant, Correctional Captain, and Correctional Major) bear a proper relationship to one another.

## Research and Analysis

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Using compensation best practices and philosophy,<sup>8</sup> First Person Advisors benchmarked 200 key job classifications utilized in the State of Indiana. Salary benchmarking is a methodological process where State of Indiana jobs, and their assigned salary ranges, were compared to published salary data for similar jobs where the State competes for talent. Because job classifications and titles differ across organizations, best practice dictates that salaries are benchmarked by comparing internal job descriptions with similar external job descriptions to accurately analyze pay structures and compensation strategies. Including total compensation strategies in this comparison provides cost data associated with both salary and benefits such as medical insurance and retirement benefits.

The benchmarking results enabled INSPD to identify any misalignment within the State's compensation structure and strategy, ultimately allowing the State of Indiana to better position itself to compete for talent. The goal of this analysis was to empower INSPD with data to understand the current job market and what is needed to establish a competitive employee compensation system.

INSPD selected 200 key job classifications to be utilized during the benchmarking process. Compensation best practices recommend that internal jobs for comparison should be selected based on the jobs with the highest number of incumbent employees, those with the highest turnover rates, and jobs that face the most difficulty in hiring. In alignment with these recommendations, INSPD's selection process considered: 1) the number of employees employed within that job classification; 2) recruiting challenges experienced across agencies with those job classifications in their workforce; 3) turnover or perceived issues with competitiveness; and 4) availability of robust, reliable market data pertaining to these jobs. This project entailed the benchmarking of 200 job classifications out of 833 unique classifications in the State of Indiana. Nearly 50% of the impacted employee population is included in the 200 job classifications benchmarked.

INSPD provided First Person with job descriptions for each of the 200 benchmark job classifications. INSPD and First Person also discussed the details of the job descriptions, the responsibilities of each job classification, and other organizational information relevant to the evaluation. Then, First Person analyzed data from multiple salary survey sources to provide a comprehensive overview of the market. The First Person team utilized as many robust, relevant survey sources as available through its own subscriptions, INSPD, and those publicly available. It is important to note that there is no one authoritative data source for benchmarking. Salary survey data differs based on many factors, including the focus of the dataset, filtering and grouping options available in the data, who is participating in the survey, and the effective date of the data. First Person thoughtfully identified the ten survey sources to be used.

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<sup>8</sup>A contemporary approach to compensation is World at Work, the leading global nonprofit, 501(c)(3) organization for professionals who are engaged in the critically important practice of Total Rewards. World at Work also certifies compensation professionals through the Certified Compensation Professional (CCP) program. The First Person consultants with whom INSPD collaborated are Certified Compensation Professionals.



First Person utilized the following survey sources to provide benchmark salary data:

- CompAnalyst Market Database
- Compdata Surveys
- Economic Research Institute (ERI) Salary Assessor
- AIM (Accelerate Indiana Municipalities) 2021 Salary, Wage, & Fringe Benefits Survey
- AASHTO (American Association of State Highway & Transportation Officials) 2020 Salary Survey
- ACEC (American Council of Engineering Companies) 2020 Salary, Benefits, & Business Practices Survey
- Association of Indiana Counties 2021 Factbook
- National Compensation Association of State Governments 2021 Pay Structures & Practices Survey
- O\*NET Online (US Department of Labor)
- PayScale Benchmark

Most survey sources offer filtering and grouping options for comparison data. First Person could limit comparison to industries and organizations that are the most like the State of Indiana. When possible, survey data that most closely met the following criteria were included:

- Industry: All Industries; All Not-for-Profit; Government/Public Administration
- Geography: Indianapolis & Indiana Statewide
- Revenue: \$18B
- Operating Budget: \$20B
- Employee Size: 30,500 FTEs

Using the above survey sources, First Person benchmarked the 200 identified job classifications based on duties, responsibility, authority, qualifications, and required experience. To ensure the most accurate numbers possible, all data was aged to a common effective date of July 1, 2022. Not every job classification could be matched to all survey sources. The average number of survey sources matched per job classification was five.

After all job classifications were compared, First Person weighted the surveys and data cuts and matched them to each job description. From there, First Person created benchmark reports for each job classification utilizing the data from published survey sources; each report included 25th, 50th, and 75th percentile data for both base and total cash compensation (TCC, which is base plus any short-term/annual cash incentives). First Person partnered closely with compensation experts and the leadership team at INSPD to review the quality and accuracy of the benchmarking outcomes and make revisions as needed based on feedback and additional insights into the positions.

## New Pay Plan - Salary Structure Development

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To help improve the salary gap between the State and the market, as well as improve hiring, retention, and services, INSPD began redeveloping the salary structure. With full data and reports in hand, INSPD built new salary ranges that generally utilized the 50th percentile of the market as the target midpoint for these new ranges. The 50th percentile is the median of what other employers are paying for the role in the market.

Considering the complexity and scope of roles within the State's classification system, three pay plans were created: 1) information technology (IT) job classifications, 2) healthcare job classifications, and 3) general pay plan (all other job classifications that are within the scope of this project).

The pay plans utilize salary grades to identify the appropriate salary range for the State's job classifications, spanning from grade 20 to grade 56. The salary range minimums, midpoints, and maximums increase as the grade increases, as does the spread of the salary ranges.

INSPD assigned benchmarked job classifications to the salary grade that aligned with market and organizational information. Then, considering market data and the following factors, INSPD assigned the non-benchmarked classifications to their appropriate grades:

- Organizational usage of the job classification;
- Skill level relative to entire classification series structure;
- Association and relativity to the benchmarked jobs;
- Career pathing/promotional ladder associated with the classification; and
- Historical successes or challenges with recruiting and retention.

For example, the State of Indiana has five levels of accountants, each level with its own specific job classification. First Person did not benchmark each accountant job classification, but the single benchmarked accountant job classification informed the compensation strategy and structure for the others. With the highest accountant job classification (Accountant 1) being benchmarked, the remaining accountant classifications in the series were organized below the benchmarked Accountant 1 classification in the plan using benchmark salary, informed by current pay structure, skill levels, and how these job classifications are used at each agency. Similar methods combining benchmark data and agency context were used to assign all jobs that were not part of First Person's analysis during the salary structure development phase of this project.

Following the development of the initial pay plans, INSPD discussed the outcomes with each in-scope agency. Through this process, additional revisions were made to ensure the new pay plans appropriately maintained organizational structure within and across agencies.



## Job Classification review

Discussions with agency leadership also surfaced inconsistencies with how the State and its agencies utilize certain job classifications. These discussions allowed INSPD, in partnership with the agencies, to identify employees who should be reassigned to a classification that more appropriately reflects their job duties and responsibilities.

### Executive Leadership

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The largest discrepancies existed among how agencies utilized job classifications in leadership roles. This was a product of the State's classification system implementing executive broad band classifications in 1999. When implemented, roles that functioned primarily as a leader within an agency were assigned this broad band designation that had an extremely large salary range of \$47,476 to \$172,796.

Within the last few years, INSPD has been working with agencies to eliminate all broad band classifications and assign the roles to the appropriate job classification in the State's classification system. However, these roles all utilized the same broad salary range; therefore, assignment of an employee to one of these classifications had no consequence to compensation or organization structure. As a result, agencies and INSPD did not use leadership classifications consistently.

To ensure our leadership roles were properly assigned to the appropriate job classification, INSPD engaged appointing authorities to evaluate leadership positions and assign classifications based on a standard set of definitions.

Following discussion and review of those issues, INSPD appropriately reclassified employees whose prior classification did not currently reflect their role prior to the implementation of new pay plans.<sup>9</sup>

### Attorneys

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The historical classification structure for attorney classifications also needed to be revised to more accurately reflect the market and job duties. Although the structure for Child Services Attorneys will not change, employees in a general attorney classification were assigned to one of the following classifications:

- **General Counsel:** Chief or top legal officer responsible for supporting the mission of the agency by setting strategic vision and objectives for the legal team.
- **Deputy General Counsel:** An attorney who is responsible for supporting a General Counsel.
- **Attorney Senior Manager:** A senior attorney *with at least 5+ years of practicing experience that must oversee the legal work of at least 2 other attorneys.*

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<sup>9</sup>At the time of this report, approximately 0.5% of in-scope positions are still under review. INSPD anticipates concluding the review to determine appropriate job classification by January 2023.

- Attorney Senior: An attorney *with 5+ years of practicing experience* that is responsible for carrying out the agency’s legal objectives as directed.
- Attorney Associate: An attorney *with 0 – 5 years of practicing experience*.

## Implementing New Pay Plans

Having identified new salary ranges for the State’s classifications, INSPD next worked with First Person to determine the most appropriate method and timing to move employees into these new ranges.

INSPD’s updated compensation structure implementation, including salary grades, salary ranges, and movement of individual employees’ salaries, will begin in October 2022. The implementation strategy will move employees to at least the new salary grade minimum, and then distribute employees in their updated ranges. To best preserve internal organizational structure among employees in the same classification, most employees will be placed in their new salary range at the same place as they were in their prior salary range, a strategy called “place in range.”

The “place in range” methodology was applied in most situations to move employees into their new salary ranges. In some cases, the new salary range of a classification with a historically wide range was adjusted to a more appropriate, market-driven range spread. As a result, moving an employee to their “place in range” within the new salary range may have resulted in either disproportionate adjustments for an employee or limitations on an employee’s future earning capacity within those classifications. As a result, an employee’s individual increase might have been capped. However, all employees will receive at least a 5% pay increase representing a general salary adjustment for the cost-of-living increases experienced in 2022.

## Policies

INSPD has adhered to administrative rules and multiple compensation-related policies, including but not limited to:

- 31 Ind. Admin. Code § 5-5, et. seq.
- Salary - Promotion
- Salary - Lateral Transfer
- Salary - Demotion
- Nurse Hiring
- Performance Management & Salary for Teachers

These policies and rules will not be substantively revised at this time. However, INSPD will be reviewing these compensation-related policies in 2023, along with its administrative rules, to ensure they appropriately and responsibly complement the revised pay plans.

## Future Reviews

Following full implementation, INSPD will continue to monitor key performance indicators such as turnover, time to hire, retention of high performers, applications per job requisition, and more, to measure the impact of these compensation changes. These indicators will help describe the operational, financial, and efficacy impacts driven by these changes, and will be useful in considering any subsequent compensation and related policy changes. INSPD will also review its market data periodically to ensure Indiana remains competitive. Evaluating and updating compensation to be in alignment with the market is vital in combatting the challenges faced by State government.