

Letter to Todd Arterburn about the lack of a recent audit of the compensation budget

Our compensation rate system CMS is based on the principle that if we pay at a median rate of 5% over the corresponding salary rate of similar jobs in our local area, we will be able to hire and retain qualified employees. We also prefer to hire experienced people not trainees who can do the work with fewer mistakes and take less time.

We used to contract with Gallagher to provide current data on our various job classification and to audit our salary budget. There are studies available to determine median values for numerous positions. These are based on the actual sampling of the salaries in our area. The samples are extrapolated by experts to determine what current median salaries should be. Any errors in these projects are corrected with the next sample of actual salaries so the data is self-correcting.

Many of our positions do not correspond to the actual positions so that a formula that combines duties and responsibilities of several job descriptions.

An audit of compensation would comprise of two things:

- An independent audit of the formulas to determine if the formulas used to calculate median salaries reasonably represent our specific job classifications. One confirmed this is not something that needs to be reviewed annually. \
- The overall compensation budget needs to be compared to the sum of all hours worked at the median salary of the position compared to the current budget. This value should be used as the base budget when projecting next year's budget. If the current budget is used, then estimates any errors in estimates increases are cumulative and we have no idea if we are overpaying or underpaying employees.

If we underpay employees, then we will lose them to higher pay positions and the cost of replacing employees costs more. These extra costs require a compensation adjustment budget be set to cover costs outside of our compensation budget. Dissatisfaction also lowers productivity, especially when new hires are earning more than veteran employees.

Overpaying them cost residents to pay more and increases MODs labor rates which increases the coupon. With other MOD expenses any money left over goes back to the Mutuals, but this does not apply to worker compensation.

The CMS system does not have a formal mechanism to adjust salaries based on factors such as performance and seniority. Overpaid employees receive the same raises as underpaid employees. This leads to losing valuable employees and a higher coupon.

As Todd Arterburn was not here when CMS was being developed and before Gallagher dropped its program of providing us compensation support, Carl Brown sent a letter to Todd and has not gotten a reply.

Todd,

The last audit of our salary budget was by Gallagher in 2016. Since then our budget has not reflected the cost of labor but has used CPI instead and any errors are cumulative since we base it on the previous budget.

The other problem we have is that we never completed the CMS system. When we corrected our overspending starting in 2011 all salaries were shifted equally and those that slid below the bottom of the band were adjusted to the band minimum. Since then those employees stayed at the bottom of the band because we had no mechanism to adjust them to the proper position within the band.

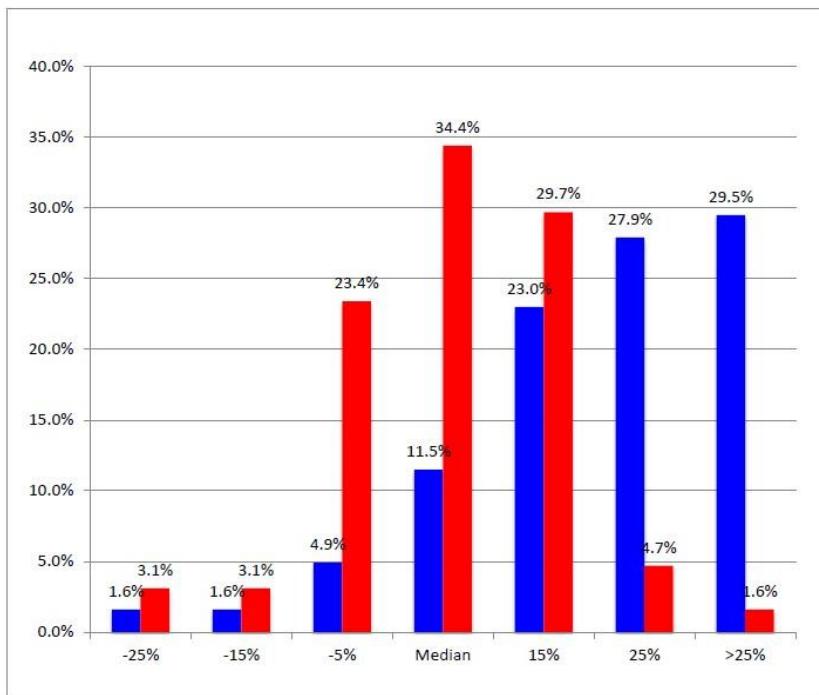
In 2018 I was on the GRF Compensation Committee and because of my IT consulting experience I was given a sanitized file of employee salaries to work out a solution. I developed a system to not only adjust salaries within the band but also set a selfcorrecting budget that accurately reflect our specific cost of labor compared to actual comparable salaries.

I developed a web-based modeling application to see what the effects of what-if adjustments would be.

We have held off on implementing any changes because we no longer have Gallagher to set realistic salary bands for many of our employees as often those do not fit the standard job classifications. I was told that it would take at least three years to establish the algorithms for all our employees once we purchased the tools to set them. In the meantime, efforts to fix CMS and salary budgets have been forgotten.

We don't want to lose good people or get into the problems we had in 2011.

This was 2011 vs 2016.



Carl Brown

Rossmoor Life Council