

# FIA

# SOLUTIONS

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Shifting Demographics  
and Values Challenge  
Traditional Thinking in  
Setting Pay Levels

Today's worker wants  
something entirely  
different than does the  
baby boom worker

Incentive plans tied to  
objective measures should  
be examined

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## Reexamining Values

In the 1960s and 1970s, public employers were often considered to be employers of choice. Not only could individuals make a decent living, they were doing work that was generally looked upon as public service. Employment was also steady and there was the expectation that an individual could enjoy a long career with one employer.

In the late 1970s and early 1980s, many states began to experience taxpayer resistance to the cost of government and a variety of initiatives, such as Proposition 13 in California, was adopted that began to limit the scope of government including imposition of limitations on revenue growth. At the same time, employment opportunities in the private sector began to expand creating new competitors for public employers in terms of potential employees.

Demographics within the United States have also changed dramatically over the past 30 to 40 years. Members of the baby boom generation tended to look for steady employment opportunities with reasonable job security. Today, the focus has shifted to maximizing compensation with less interest in long-term employment. Younger workers also tend to be more supportive of individually based incentives than are older workers.

Changing demographics throughout our society have triggered the need to alter our traditional thinking about the way we classify and compensate employees. This can be either a positive or a negative, depending on where you sit.

As long-term employees begin to reach retirement age, agencies must now think about how to fill the positions becoming vacant, as well as new positions that may be needed, since the number of vacancies often exceeds the cadre of internal staff that may be working their

way up the internal career ladder. That means hiring from the outside, under-filling key positions until the employees have acquired the needed skills to step into higher level roles, investing more in training lower level staff, contracting out for needed services, or simply not filling vacated positions thus impacting the types and level of services provided by the organization.

This Newsletter will address the need to re-think how an agency can address its staffing needs in the future.

## The Starting Point – Assess Demographics

The first thing that an organization needs to do is review its internal workforce demographics. If the organization finds that it will experience substantial turnover due to retirement within the next few years, and if it is using a traditional compensation approach, that organization may need to re-evaluate its overall compensation philosophy and strategy. The organization should also review its recruiting efforts over the past two or three years for evidence of a trend towards fewer qualified applicants in certain occupational groups. While this is neither easy nor fun, it is absolutely necessary if the organization is to adapt to the rapidly changing labor market with its greater demand for individuals having unique or specialized skills (in both the public and the private sectors) than available candidates. At the same time, there will continue to be an abundance of applicants for other occupations historically viewed as comparable or equal based on the type and level of work performed within the organization. This seems to be the case with Police and Fire in most communities throughout the country. While the number of qualified applicants for Fire Fighter jobs continues to be sufficient to meet demand, the number of qualified applicants for Police

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Officer positions continues to decrease. The result is the need to re-think the way these two occupational groups are compensated to determine if current practices remain appropriate. Certainly, there will be internal resistance to change. However, we question whether business as usual will work over the longer term.

The priorities of younger workers are also substantially different than those of older workers who came to the public sector for a variety of reasons including job security, long-term employment, and a focus on seniority and experience.

This will put increasing pressure on the organization to compensate employees differently than they have in the past.

#### **Review Compensation Philosophy and Strategies**

Traditional compensation systems that limit compensation levels for individual jobs based on their relative internal value are not responsive to changing market conditions. Comparing the IT positions of 1999 to engineering, planning, nursing, construction management and inspection, and police of today, the mindset that a subordinate position should not be paid more than higher level jobs must be reconsidered. When many of the pay systems in place today were established, the higher level positions in an organization were often paid about 10 times more than the lowest level job in the organization. Today, in the public sector, we are seeing ratios approximating one to five rather than one to ten. This factor alone has created compression issues that cannot be ignored.

#### **Implications for Public Pay Programs**

In certain labor markets, the mindset prevails that top level public sector

positions should not be paid in excess of some arbitrary amount. In the past few years, we have seen the compensation level of certain city manager positions increase to earnings in excess of \$250,000 per year (base salary) and certain public university president salaries increase to figures in excess of \$500,000 per year. However, many organizations still resist adjusting compensation plans to reflect the market reality that to attract people with certain skills or people willing to accept certain levels of responsibility, an economic cost must be paid. While not an easy choice, it is one that must be addressed. This may mean that employees receive both base compensation and options for additional compensation tied to achievement of specific organizational objectives or needs. While practices such as this have been used extensively in the private sector for many years, they have rarely been used in the public sector.

#### **How We Can Assist Your Organization:**

We understand how various types of pay delivery systems work in public sector organizations and the strengths and weaknesses of the various approaches. While no single system is right for every agency, a comprehensive understanding of what works and does not work in varying situations is a fiscal necessity today.

For the past 25 years, we have been working with some of the largest and some of the smallest public and private sector organizations throughout the country to review and recommend classification, compensation, job evaluation and performance appraisal systems.

So, if you would like help assessing your compensation program, consider our offer. We can be reached at 800-383-0976. Press 12 for Jim or 20 for Bruce.

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