Employee Compensation

Adapting to changing workforce trends and challenges

Like many public and private employers here and across the country, Washington state agencies face increased challenges to recruit and retain workers. These workforce challenges, in turn, can hamper the state's ability to provide vital services. In some cases, such as at our state psychiatric hospitals and correctional facilities, staffing shortages can jeopardize safety for those in the state's care as well as for state employees.

A number of factors drive the state's workforce challenges, but employee exit surveys that agencies conducted last year showed that compensation/pay was the reason most often cited for leaving state government. As the state's economy thrived and the cost of living increased in recent years, the competition for workers increased sharply. For many state jobs, pay scales have lagged when compared to what the private sector and other public employers offer.

While part of the turnover increase last year was due to market trends and factors related to the COVID-19 pandemic, it's clear that compensation has been a key factor behind agency recruitment and retention challenges even before the pandemic.

The governor's proposed 2023–25 budget includes funding for numerous collectively bargained provisions to help agencies strengthen the state's workforce. This includes funding general wage increases for most general government and community college employees, as well as larger targeted increases for certain hard-to-fill or high turnover positions.

Even in the early stages of the pandemic, the state began seeing higher levels of turnover. During the most recent state fiscal year (fiscal year 2022), more than one in five executive branch employees left state government — a 47% increase from the previous fiscal year. Meanwhile, the average tenure for all state employees has fallen to six years — a 33% decline from what it was in 2017.

Turnover is higher for lower-wage workers. In fiscal year 2022, the turnover rate for employees making less than $50,000 per year topped 45% — compared to less than 15% for employees who earned more than $50,000.

High turnover has been especially problematic for the state's 24/7 institutions, including psychiatric hospitals and developmental disabilities facilities, which care for many of the state's most vulnerable residents. At the Department of Social and Health Services, turnover last year was nearly 26% for employees working in those institutions, compared to 15% for the department's noninstitutional workforce.

DSHS recently reported a 50% nursing vacancy rate at Eastern State Hospital and nearly 30% at Western State Hospital. Institutions operated by the Department of Corrections and the Department of Children, Youth, and Families are facing similar nursing and staff shortages.

At DCYF last year, turnover was nearly 37% for employees at its juvenile rehabilitation facilities, compared to less than 17% for the rest of the agency's workforce.

Among other impacts, such staffing shortages can pose safety risks for individuals in the care of those agencies as well as employees. These shortages can also jeopardize federal funding, or increase overtime costs or the need to hire short-term staff at a significantly higher rate than hiring regular staff.

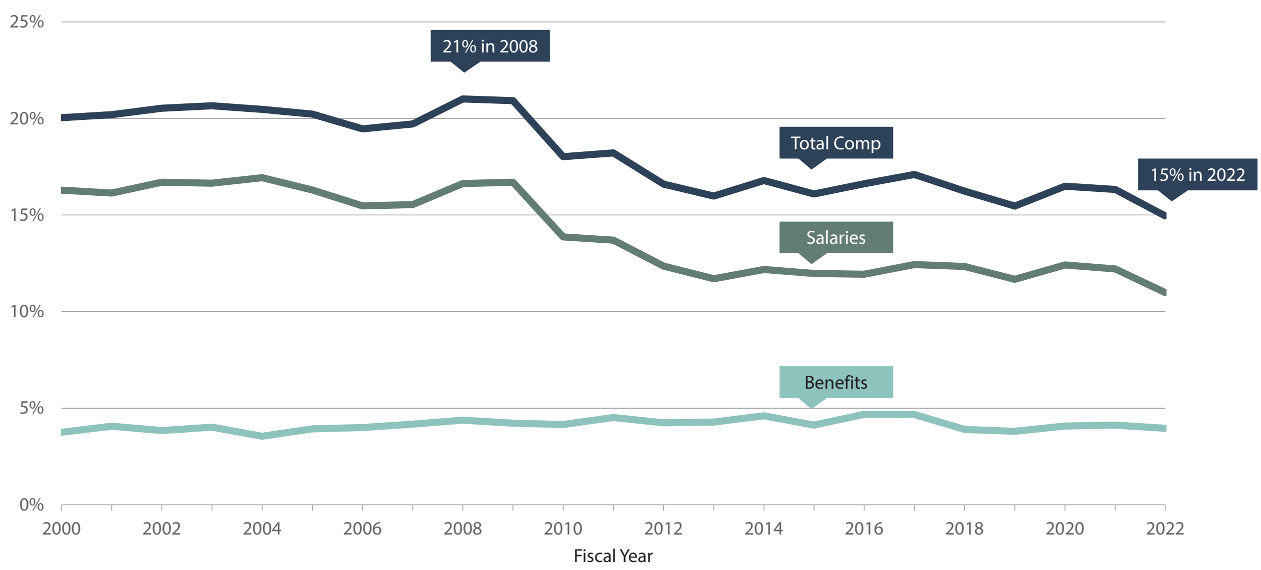
Washington's ferry system, which provides a vital marine highway for millions of people throughout Puget Sound, is facing severe staff shortages that are unprecedented in its 70-year history. The effects of an international shortage of mariners, the COVID-19 pandemic, and the aging demographics of the workforce have combined to reduce staffing below the levels the state needs to reliably operate the ferry system. This shortage has resulted in unplanned service reductions and a decrease in system reliability, which is especially impactful as ferry ridership increases from the early part of the pandemic.

Besides disrupting services and posing potential risks, turnover is costly for the state. Recruiting and training new talent is time-consuming and expensive — and the increases in workload on existing staff can exacerbate turnover.

Washington is not alone in stepping up efforts to tackle these workforce challenges. Other state and local governments, for example, are increasingly offering large recruitment and

Compensation as a percent of General Fund-State budget has fallen since 2009

Monthly change, seasonally adjusted



Source: Office of Financial Management, November 2022 retention bonuses for certain types of positions or using other compensation strategies across the workforce to stabilize and strengthen their workforces.

2023-25 collective bargaining summary

State agencies have been using a variety of strategies that make it easier to attract or retain people in hard-to-fill positions. Washington State Ferries, for example, is changing the way new employees are assigned to routes so there are better options for working closer to home. Some agencies are creating marketing campaigns, reaching out to prospective candidates in new ways, and creating easier application processes. In addition, the Office of Financial Management has created a work group of state agency human resources staff to develop strategies for improving recruitment and retention.

Meanwhile, addressing state agency workforce challenges and bolstering their ability to deliver vital services were central themes when the state negotiated new two-year agreements with 32 unions. These unions represented nearly 62,000 state employees and about 6,500 publicly funded nonstate employee groups. The new agreements are funded in the governor's proposed budget and now go to the Legislature for approval.

Under the new agreements, most state employees would receive a 4% general wage increase on July 1, 2023 and a 3% increase on July 1, 2024. Some of the elements included in the agreements, based on individual bargaining with labor unions, include "recognition and retention" lump sum payments and $1,000 incentive payments for fully vaccinated employees who receive COVID-19 booster vaccines.

To help address pent-up demand due to the lack of targeted increases during the current two-year budget cycle, the new agreements call for a variety of targeted increases for state positions. These proposals were primarily focused on documented recruitment and retention issues.

Meanwhile, the agreements include additional increases designed to address recruitment and retention challenges. These include premium pay for nurses, for employees assigned to facilities that provide direct care to residents or patients, and for those working less-desirable shifts.

New agreements — reached through interest arbitration — with unions representing some state prison workers call for larger overall general wage increases and other targeted increases.

State ferry workers would also see larger general wage increases under the new agreements. Most crew members would receive 5% increases in each of the next two fiscal years, with additional targeted increases for certain hard-to-fill jobs. The agreements also include provisions to help deck employees advance in their careers, which will help ensure future staffing needs are met.

Health care benefits for state employees are bargained with a coalition of most of the unions. The governor's budget funds new health care agreements that maintain current cost sharing arrangements where the state pays 85% of state employee health insurance premium costs and employees pay 15%.

The state also reached new labor agreements with unions representing more than 6,500 publicly-funded, nonstate employee groups. The new agreements include rate increases for adult family home providers and family child care providers, as well as compensation increases for language access providers who support state Medicaid and social service clients.

The estimated Near General Fund-State cost of the compensation increases for employees (represented and nonrepresented) and nonstate employees is about $1.3 billion during the 2023-25 biennium.

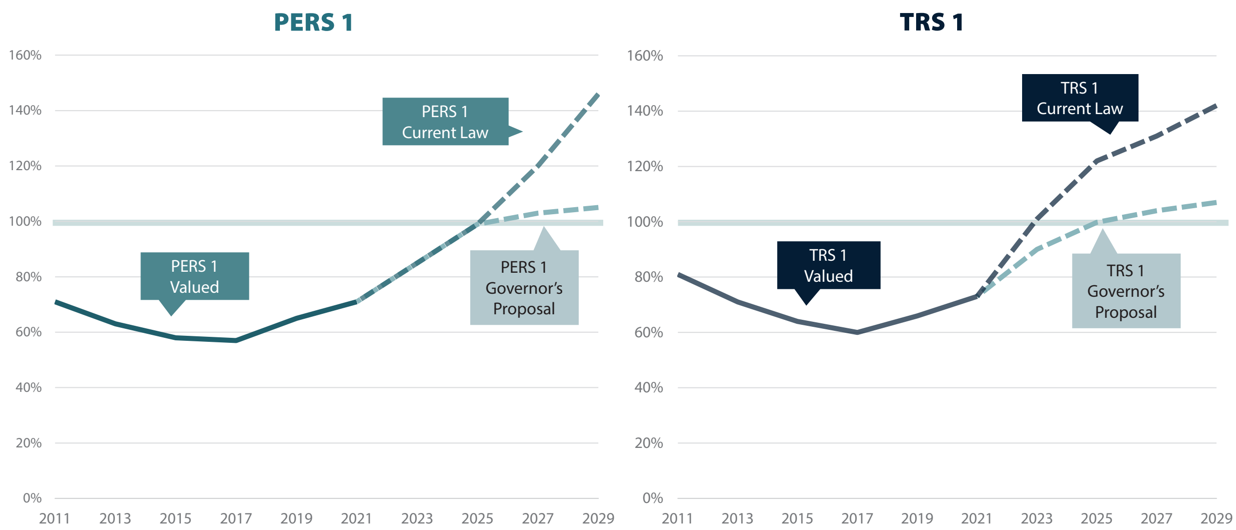
K-12 employee health care

The governor's budget also funds a new health care agreement that covers approximately 147,000 K-12 employees across the state. Similar to the state employee health care agreement, the parties agreed to maintain the 85%/15% employer/employee split on premium costs.

Budget generates pension savings and keeps plans fully funded

PERS 1/TRS 1 projected to reach 100% funding under governor's budget

Funded ratio for PERS 1 and TRS 1, valued and projected by biennium



Note: Projections are based on known investment returns through June 30, 2022. Actual results will vary from these projections.

Source for projections: Estimate provided by the Office of the State Actuary at OFM's request
Source for historical data: fiscal.wa.gov/actuarydata.aspx

Washington's PERS 1 (Public Employees' Retirement System Plan 1) and TRS 1 (Teachers' Retirement System Plan 1) have been underfunded for the past two decades. Now, however, both plans are projected to reach and then exceed full funding, thanks to increased employer (state) contributions and payments into those pensions over several biennia and larger-than-assumed investment returns in recent years.

PERS 1 and TRS 1 are the state's oldest pension plans and have been closed to new entrants since 1977. Washington has consistently been a national leader in overall pension funding. And reaching full funding for PERS 1 and TRS 1 has been a long-standing goal of the state pension system.

Thanks to the increased contributions by the state and extraordinary investment returns – nearly 29% in fiscal year 2021 — both plans are now projected to be overfunded in the near future, reaching 140% funding by the end of the decade.

The governor's 2023-25 budget includes a strategy to keep both plans on a path to reach full funding over the next four years. It does that by funding the current 5.75% "unfunded accrued actuarial liability" (UAAL) rate for TRS 1 for the first year of the biennium and the current 3.5% UAAL rate for PERS 1 for both years of the biennium. By doing that, both plans are projected to reach 99% funding status by the end of the biennium and surpass 100% funding by the end of fiscal year 2026, according to estimates provided by the Office of the State Actuary at OFM's request.

The governor supports legislation to phase out the unfunded liability rates for PERS 1 and TRS 1. These actions will generate significant savings for the state — $1.4 billion over four years — while keeping the plans fully funded and making no reduction in benefits. In fact, the governor's budget funds a 3% 'ad-hoc' COLA for TRS 1 and PERS 1 retirees.