

Metropolitan Government of Nashville and Davidson County

Comparative Analysis of Health and Welfare,
Retirement, and Leave Benefits

April 4, 2014



Deloitte.

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Executive Summary

The Metropolitan Government of Nashville and Davidson County (“Metro”) offers health and welfare, retirement, and leave benefits that are in total over 20% more valuable than the averages for their peers and the broader public sector market for general employees and over 10% more valuable for public safety employees. This differential is driven primarily by the pension and retiree medical benefits provided by employer contributions, which have significantly higher value than the benchmarked averages. Peer and public sector organizations typically require employee contributions for pension benefits and offer lower employer subsidies for retiree medical coverage.

It is important to understand that this analysis was based on the benefits being offered to new employees hired in 2014. Since some of the peer comparators and a portion of the broader public sector market have amended their plans over the past five years to reduce retirement benefits, this may partially explain the separation. This is especially true of retiree medical benefits where some employers have been making significant cuts over the past few years (nearly half of the peer group no longer offer retiree health benefits to new employees).

This comparative benefits study was performed in conjunction with a compensation study to understand the total rewards package being provided to Metro employees. The combined analyses should be considered when making decisions about potential changes to compensation and benefits.

Background

Metro requested a comparative analysis of benefit packages offered by a select peer group as well as the broader public sector and large private sector employer markets. This request evolved out of a discussion of Metro’s compensation strategy. Given the related nature of compensation and benefits, Metro requested that a comprehensive approach to the value that its employees receive be determined by analyzing its approaches to both compensation and benefits. As such, this benefits report is meant to serve as a companion piece to the compensation report and should be considered in conjunction with that document and its findings.

Metro offers its employees access to medical, dental, vision, life, long-term disability, short-term disability, accidental death and disability, defined benefit, defined contribution, retiree medical, vacation, holiday, and sick leave benefits.

Traditional defined benefit pensions are provided through the Metropolitan Government of Nashville and Davidson County Tennessee Pension Plan. The MetroMax 457 Deferred Compensation Plan (DCP) was established to provide Metro employees access to savings and tax benefits similar to the 401(k) plans provided by many private corporations.

There are three primary benefit categories in focus in this report: 1) Health and Welfare, 2) Retirement, and 3) Leave. The sub-components of these benefit categories are listed below:

- Retirement (General Government, Public Safety):
 - Metro Pension Plan (including disability components)

- Deferred Compensation Plan
- Retiree Medical Plan
- Medical, Dental and Vision provisions within the following Metro plan options:
 - Medical
 - BCBS PPO
 - CIGNA Choice Fund HRA
 - Dental
 - BCBS (Limited and Flexible)
 - Vision
 - UHC (Basic and Enhanced)
- Leave:
 - Vacation
 - Holiday
 - Sick Leave

Life and long-term disability benefits are not addressed in isolation in this report as these benefits are accounted for in the various analyses of retirement benefits. Additionally, short-term disability was not directly covered in this analysis as there were insufficient data available from survey participants to provide a meaningful comparison of this benefit.

Data Relied upon for this Comparison

This Comparison was prepared using the plan provisions, premiums, and enrollment data provided by Metro, as well as the respective plan provisions and premiums of a custom group of peers. When necessary, plan provisions and premiums for these peers were identified through publicly available information found in an open setting (e.g. municipal website). Changes to the data provided, data retrieved or Management Plan provisions would change the conclusions in this Comparison.

Measuring Employer Provided Benefit Value – Benefit Performance Index

Deloitte’s methodology used to benchmark the value of benefits is called the Benefit Performance Index ("BPI"). The BPI methodology assigns a value to each benefit plan to indicate its value relative to a comparator plan, or “market plan”. A value of 100 means that the Metro benefit plan is approximately equal in value to the value of the market plan it is being evaluated against. For comparison purposes, we have included employer provided benefit values only, based on employer funding/contributions.

To calculate the BPI for each Metro benefit in scope, the following tasks were completed:

- Data from thirteen peer cities and three peer counties were compiled based on the responses to a “Custom Benefits Survey” that Deloitte disseminated in January 2014, as well as publicly

available data, as noted above. Both a public sector and a private sector (large employers) “market plan” were compiled from available survey data. The market plan represents the most common benefit provisions among those surveyed. Appendix A lists the data sources employed to determine the market plan values.

- For eleven peers, there were sufficient data provided and/or publicly available to allow for the inclusion of these peers in the analysis of health and welfare benefits.
- For ten peers, there were sufficient data provided and/or publicly available to allow for the inclusion of these peers in the analysis of leave benefits.
- For all sixteen peers, there were sufficient data provided and/or publicly available to allow for the inclusion of these peers in the analysis of pension and retiree medical benefits.
- Benefit values were computed for Metro, peer, public sector market, and private sector market plans. The computed benefit values were reduced by mandatory employee contributions.
- Peer, public, and private sector values were multiplied by prevalence, defined as the percentage of employers offering the benefit. This reflects that not all employers offer the benefits covered under the Metro programs, and the absence of a particular benefit is factored in as zero.
- For comparison of Metro benefits to comparator groups, BPI was computed for each benefit as the ratio of employer value for the Metro benefits to the employer value for the comparator benefits.

Assumptions

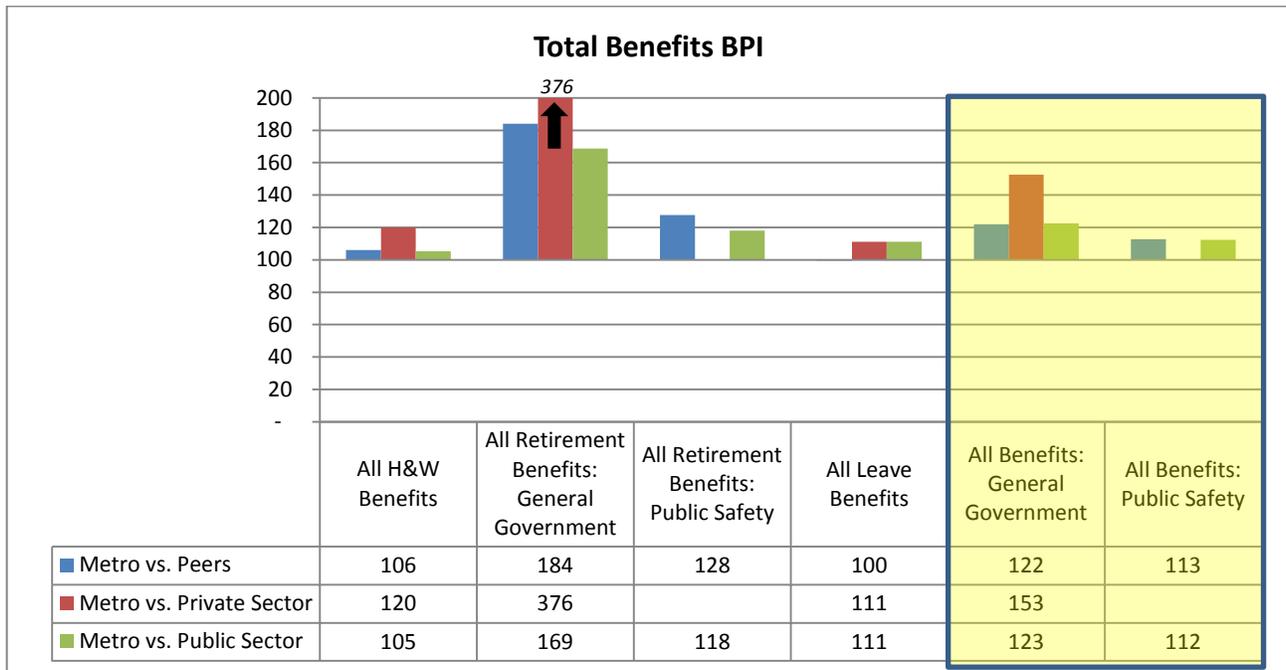
Throughout the course of this analysis, the following assumptions were made.

Assumption	Value	Purpose
Annual Salary Increases	Ages 20-34: 5.5%, Ages 35-49: 4.6% Ages 50-59: 3.7%, Ages 60+: 3.1%	Project retirement benefits; level retirement costs as a % of pay
Annual Interest Rate	7.50%	Discount retirement benefits; project earnings in DC plan
Inflation	3.00%	Project COLAs
Mortality Rates	110% of the RP2000 Employee Table	Annuity conversion
Other Decrements	None prior to retirement	Project retirement benefits
Average Employee (General Government)	Age 46 with 11 years of service; \$40k salary	Retirement and leave benefits
Average Employee (Public Safety)	Age 41 with 14 years of service; \$60k salary	Retirement and leave benefits
Retirement Age	Earliest unreduced retirement age	Retirement commencement
Cost of Living Adjustments	Based on inflation assumption; ad hoc and investment-based COLAs paid at full value	Consistency of COLAs across peer group
Medical Inflation	8% initial, grading into ultimate rate of 5% over six years	Project retiree medical benefits
Tier Weighting	Two-Tier (EE/EF): 40%/60% Three-Tier (EE/EE+1/EF): 40%/25%/35% Four-Tier (EE/ES/EC/EF): 40%/15%/15%/30%	Compare medical benefits across peer group with different coverage options
Effective Plan Provisions	Benefits effective for a new employee in 2014	Consistency of methodology

These assumptions were selected based on data and assumptions provided by Metro primarily from the actuarial valuation reports for the pension and retiree medical plans. For the assumptions not specifically available from those sources, we selected them based on our professional judgment and industry experience with public and private sector plans. We believe these assumptions to be reasonable for the purposes outlined in this report. Other assumptions are possible; however, if any assumptions are changed, the conclusions in this report may change.

Summary of Findings

The chart below summarizes BPI results for Metro General Government and Public Safety employees as compared to peer benefits, and public sector benefits. Comparison to private sector benefits is included for General Government employees only. Total Health and Welfare includes medical and dental benefits and does not distinguish between General Government and Public Safety employees. Retirement benefits include defined benefit, defined contribution, and retiree medical values. The Total Benefits BPI was calculated by weighting the BPIs on approximate percent-of-pay values for the average Metro employee.



From a health and welfare benefits perspective, Metro offers more value relative to its peers, the private sector, and the public sector, which is partly attributable to percentage that it contributes of the family tier, which is greater than family tier contributions of several of its peers and the private sector.

From a retirement perspective, Metro offers more overall value than that of its peers, the private sector and public sector. This is primarily due to the fact that Metro does not require employee contributions to the pension plan and provides a very rich retiree medical benefit. Additionally, several entities in the peer group and in the public sector market in general have recently redesigned their plans to reduce the level of pension and retiree medical benefits for new hires.

With regard to leave benefits, Metro offers similar value after eleven years of service to that of its peer, and it also exceeds that of the general market.

Taken together, Metro exceeds the total benefits values of its peers and the broader market with regard to both general government and public safety employees.

Percent-of-Pay Benefit Values

As discussed above, to facilitate comparison of total Metro benefits to peers, total public sector, and total private sector, BPI values were averaged, based on approximate percent-of-pay benefit values for an average Metro employee (General Government: age 46 with 11 years of service and annual earnings of \$40,000; Public Safety: age 41 with 14 years of service and annual earnings of \$60,000). These estimated values are shown in the summary table below. In these tables, as in the BPI analysis, only employer-provided benefits are included.

Note that any percent-of-pay values are illustrative only for the purpose of benchmarking employer-provided benefits. Actual employer funding costs may differ significantly.

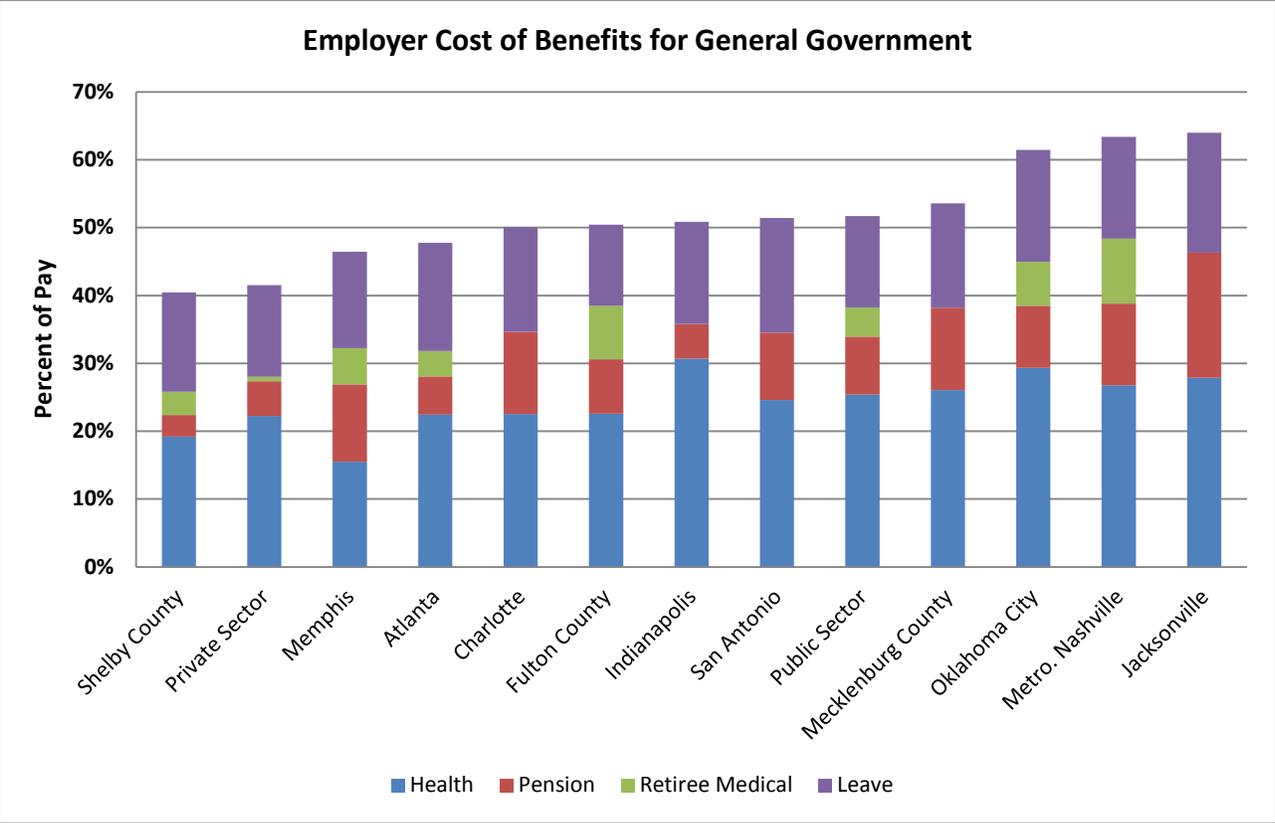
General Government

Employer Provided % of Pay Benefit Values (Age 46 with 11 Years of Service and \$40,000 Pay)				
	<u>Metro</u>	<u>Peers</u>	<u>Public Sector</u>	<u>Private Sector</u>
Pension Benefits (DB + DC)	12.1%	8.6%	8.5%	5.1%
Employee Health Benefits	26.7%	25.2%	25.4%	22.3%
Retiree Medical Benefits	9.6%	3.2%	4.3%	0.7%
Leave Benefits	<u>15.0%</u>	<u>15.1%</u>	<u>13.5%</u>	<u>13.5%</u>
Total	63.4%	52.1%	51.7%	41.6%

Public Safety

Employer Provided % of Pay Benefit Values (Age 41 with 14 Years of Service and \$60,000 Pay)			
	<u>Metro</u>	<u>Peers</u>	<u>Public Sector</u>
Pension Benefits (DB + DC)	16.2%	15.9%	16.0%
Employee Health Benefits	18.0%	16.8%	16.9%
Retiree Medical Benefits	9.6%	3.5%	5.1%
Leave Benefits	<u>15.0%</u>	<u>15.1%</u>	<u>13.5%</u>
Total	58.8%	51.3%	51.5%

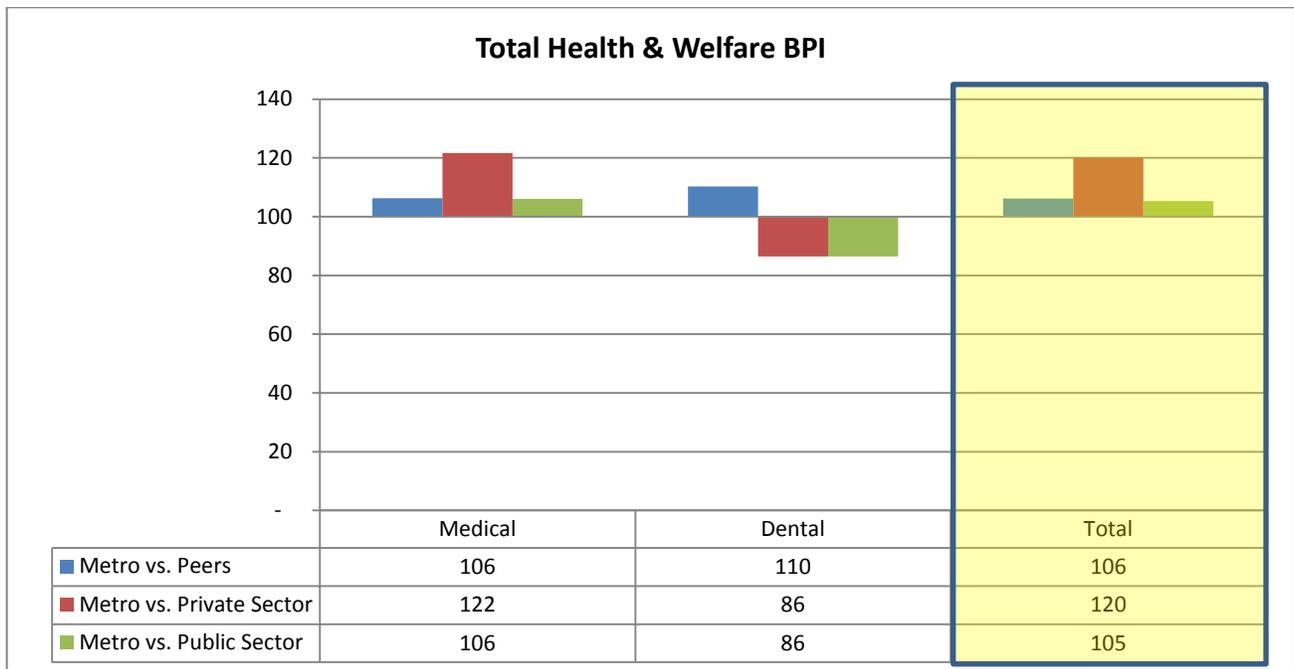
The chart below summarizes annual employer cost of benefits (health and welfare, pension, retiree medical, and leave) for Metro, peer, private sector, and public sector plans as a percent of pay. Tampa, Columbus, Kansas City (MO), Louisville, and Saint Louis did not provide sufficient data to be included in this analysis. Additionally, sufficient data for these entities was not publicly available for inclusion. Retirement benefits are based on the sample General Government employee age 46 with 11 years of service and annual earnings of \$40,000 assumed to retire at the earliest unreduced retirement age available under each plan.



Metro’s total employer costs are higher than almost all of its peers and exceed that of both the public and private sector markets. The retirement benefits are the largest driver of the differential.

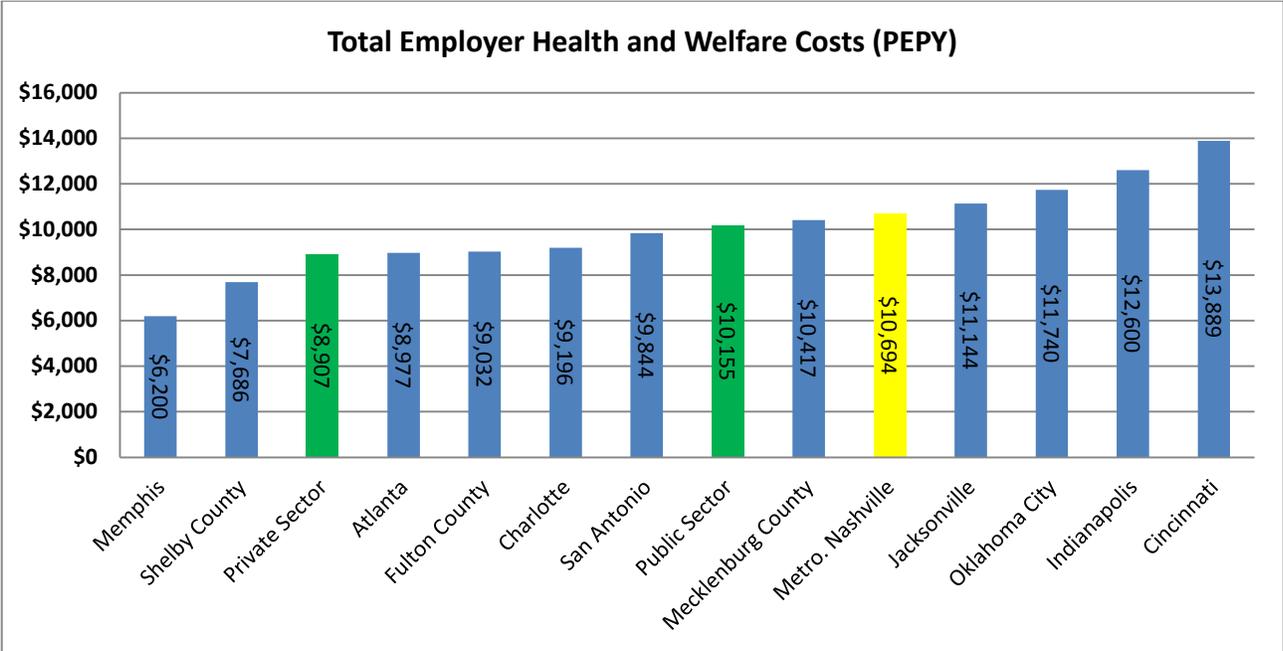
Detailed Analysis – Health and Welfare Benefits

For the purpose of the Health and Welfare Analysis detailed below, the following Metro benefits were analyzed: medical and dental (vision is not shown since Metro does not contribute towards this benefit). The Metro rates for each of these benefits were compared against: A) the most popular benefit plan from each peer city or county for each benefit, B) the average benefit plan from the private sector for each benefit, and C) the average benefit plan from the public sector for each benefit. For benefits where Metro currently offers two or more plans (e.g. BCBST and CIGNA for medical), the rates for these plans were blended based on Metro’s current enrollment. The relativity of the tiers (two, three, or four) was used in accordance with the breakdowns described in the Assumptions section of this report. Please note that although the market average for dental is specifically for large employers, it does not distinguish between public and private sectors.



As has been previously noted, Metro is offering more value relative to its peers, the private sector and the public sector from a total health perspective. Metro pays 75% of the premium for both single and family coverage. This is generally consistent with its peers that pay 81% and 73% of single and non-single premiums, respectively. The difference in value is therefore driven by plan design, which averages premiums that are 10%-15% higher than the peer group adjusted for differences in coverage options (i.e., single + 1, single + children, etc.)

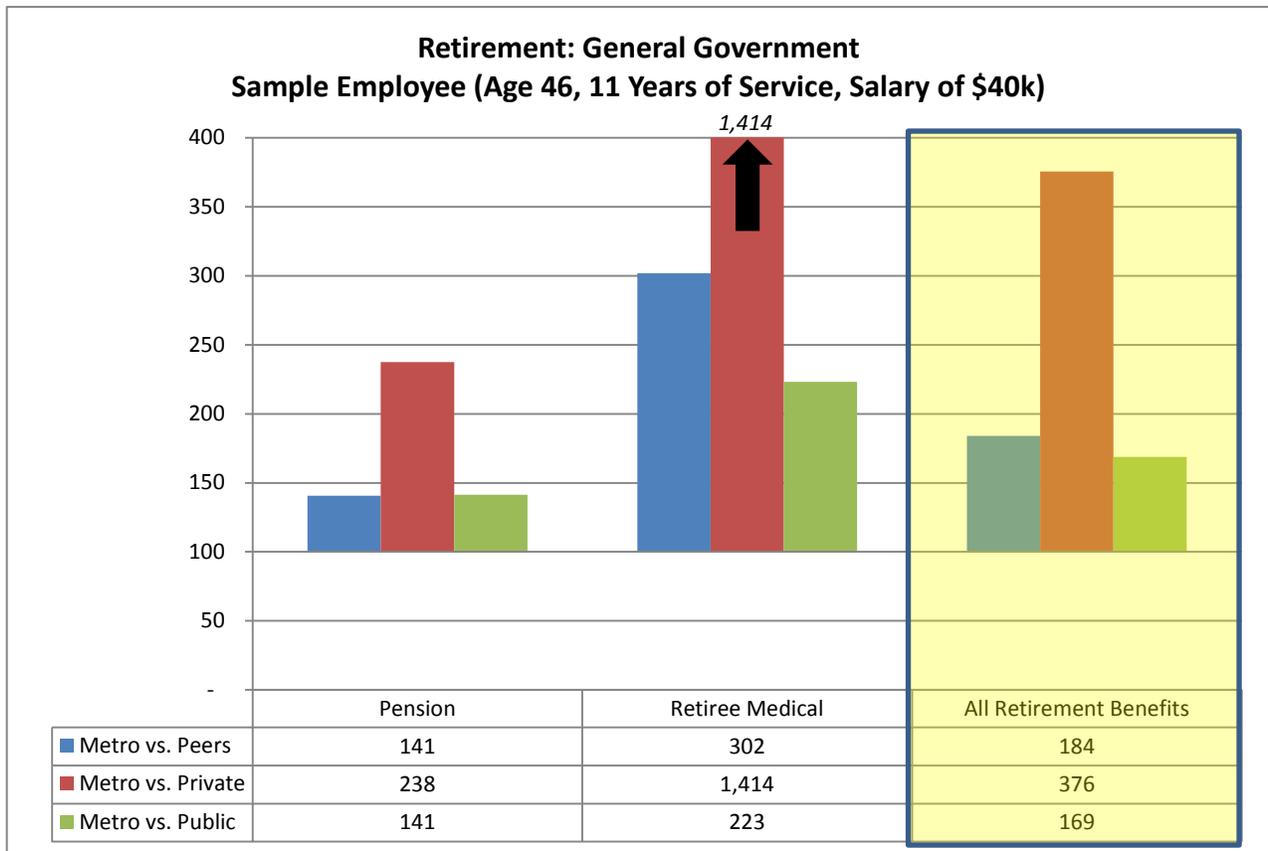
The chart below summarizes annual per employee per year (PEPY) health costs results for Metro, peer, private sector, and public sector plans. Tampa, Columbus, Kansas City (MO), Louisville, and Saint Louis did not provide sufficient data to be included in this analysis. Please note that the Memphis employer health costs are based on publicly available data and have not been confirmed. Total health includes medical, dental, and vision.



From a total PEPY employer cost perspective, Metro offers greater contributions than the majority of its peers and is higher than both the private sector and the public sector. As was noted earlier, although the percentage of premium paid by Metro is generally consistent with others in the peer group, the total premiums for the plans offered are 10%-15% higher than the comparator plans.

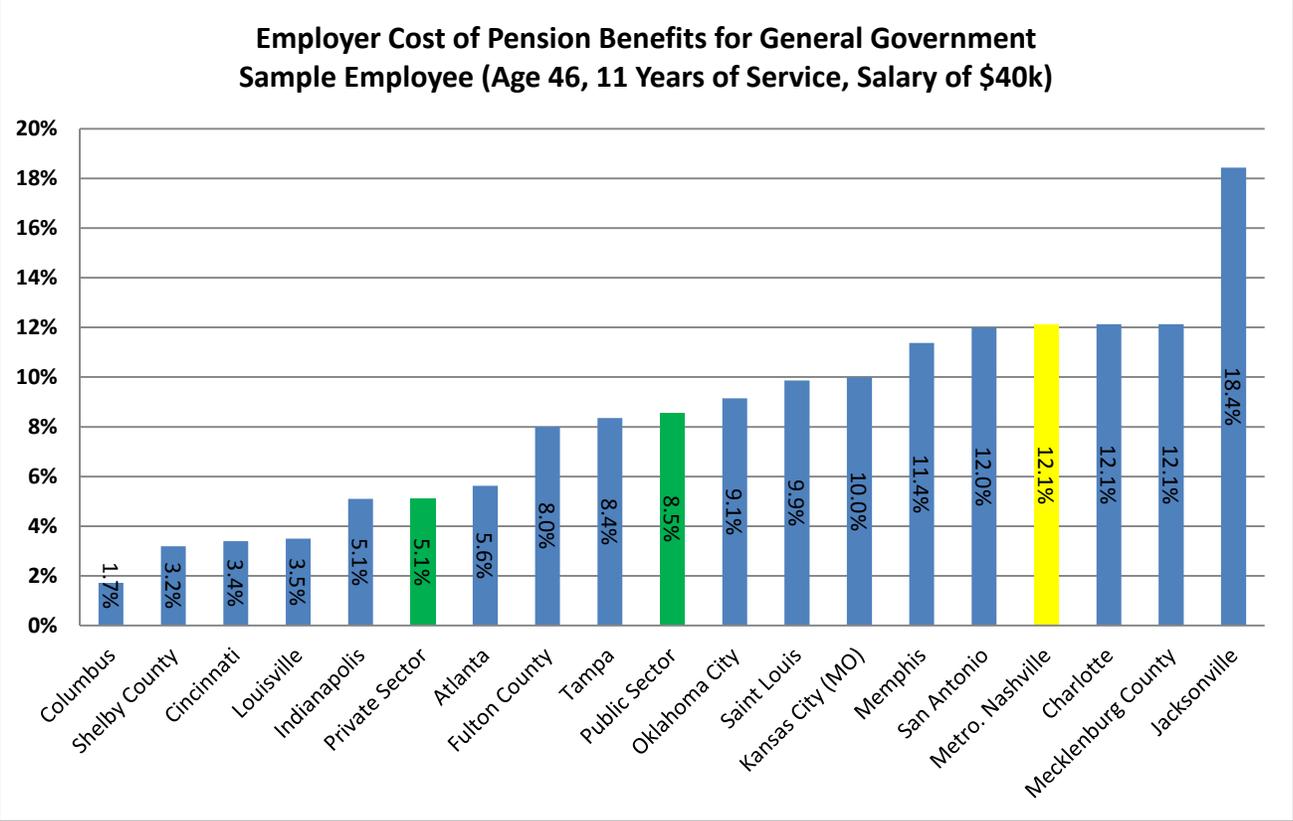
Detailed Analysis – Retirement: General Government

The retirement age of the sample employee for Metro, the public market, and each of the peer plans was based on the earliest assumed retirement age under the plan provisions in place for a new employee hired in 2014. The retirement age for the private market was assumed to be 65. The BPI was determined by comparing the annual cost as a percent of pay based on the employer contribution to any defined contribution plan plus the amount necessary to fully fund the defined benefit plan over the sample employee’s career based on 7.5% investment returns less any mandatory employee contributions to the defined benefit plan. The resulting comparison is therefore based on the maximum employer provided value, regardless of actual employee retirement elections. Please note that the public sector market data for retiree medical is based on a survey containing plan provisions from 2008, and therefore, does not recognize many of the changes made over the past five years to reduce benefits.



Metro provides more retirement benefit value than any of the three comparator groups. Many of the peers and public market entities have recently amended their plans for new employees driving down the average costs for those groups. Additionally, nearly all of the peers and public market plans require employee contributions to the defined benefit plan.

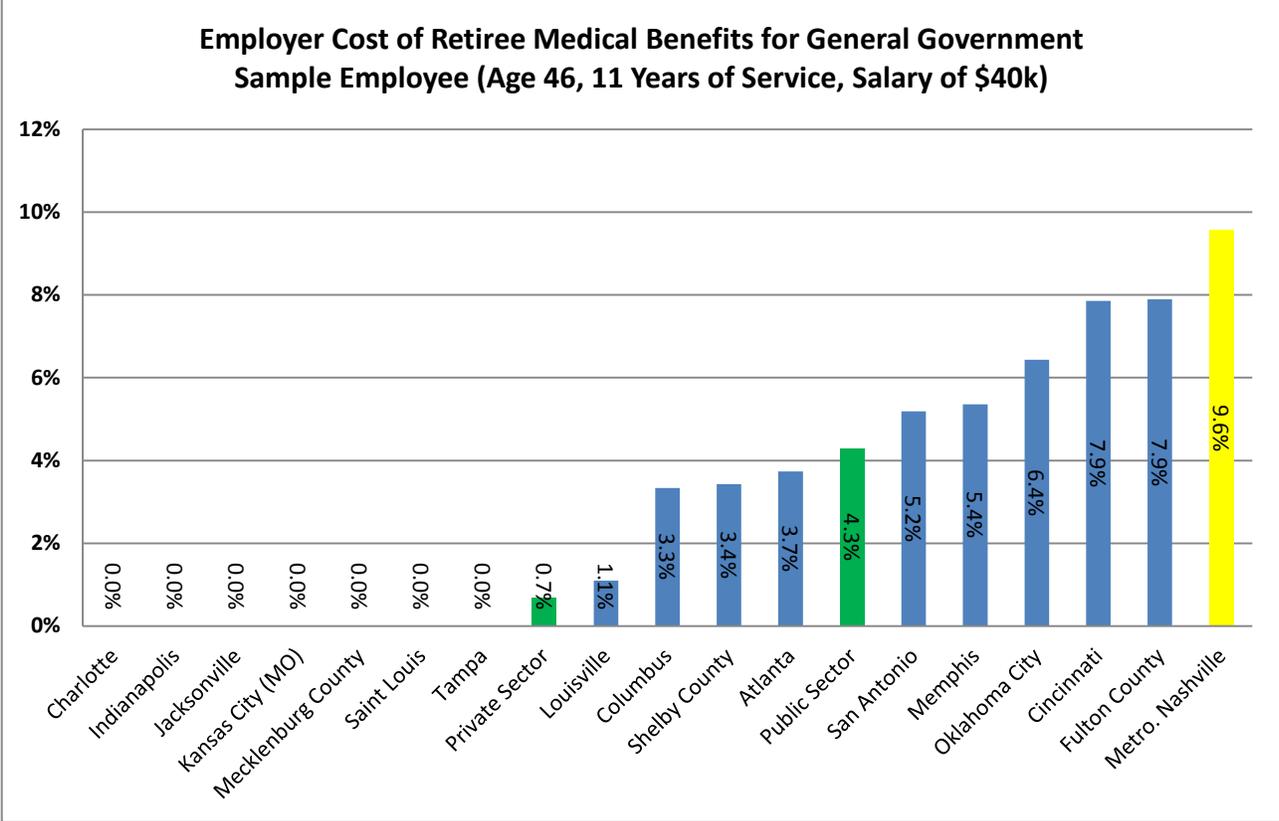
The chart below summarizes the employer cost of pension benefits at retirement for a sample employee for Metro, peer, private, and public sector plans. As noted above, the retirement age of the sample employee for Metro, the public market, and each of the peer plans was based on the earliest assumed retirement age under the plan provisions in place for a new employee hired in 2014. The retirement age for the private market was assumed to be 65. These values were derived from publicly available information, specifically, the first available of: the plan’s actuarial valuation report, the employer’s benefits website, the employer’s CAFR.



Metro is more generous than the private sector, public sector, and most of its peers when comparing the employer-provided portion of pension benefits. However, it is important to note that since Metro does not require employees to contribute to their pension benefits, the total retirement income for Metro employees is not as rich as many of the peers. After a full 30-year career, the amount that the average Metro employee would receive at retirement, including employee and employer provided portions, is approximately 24% lower than the average amount among the peer group.

Six employers in the peer groups have amended their pension plans within the past five years to reduce benefits provided to new employees.

The chart below summarizes the employer cost of retiree medical benefits at retirement for a sample employee for Metro, peer, private, and public sector plans. As noted above, the retirement age of the sample employee for Metro, the public market, and each of the peer plans was based on the earliest assumed retirement age under the plan provisions in place for a new employee hired in 2014. The retirement age for the private market was assumed to be 65. These values were derived from publicly available information, specifically, the first available of: the plan’s actuarial valuation report, the employer’s benefits website, the employer’s CAFR. The value of the implicit subsidy for retirees that are not eligible for Medicare was not taken into consideration.



Metro’s retiree medical benefits are more generous than any of its peers, the private sector, and the public sector. The higher costs of Metro’s retiree medical plan are derived from a combination of the percentage of the premium covered by Metro, the design of the medical plans provided, and the earliest unreduced retirement age connected with the pension plan provisions. Several of the peer groups have changed their retiree medical benefits recently including Charlotte and Mecklenburg County who eliminated their retiree medical benefits for employees hired after 2010 (previously paid 100% of the premium).

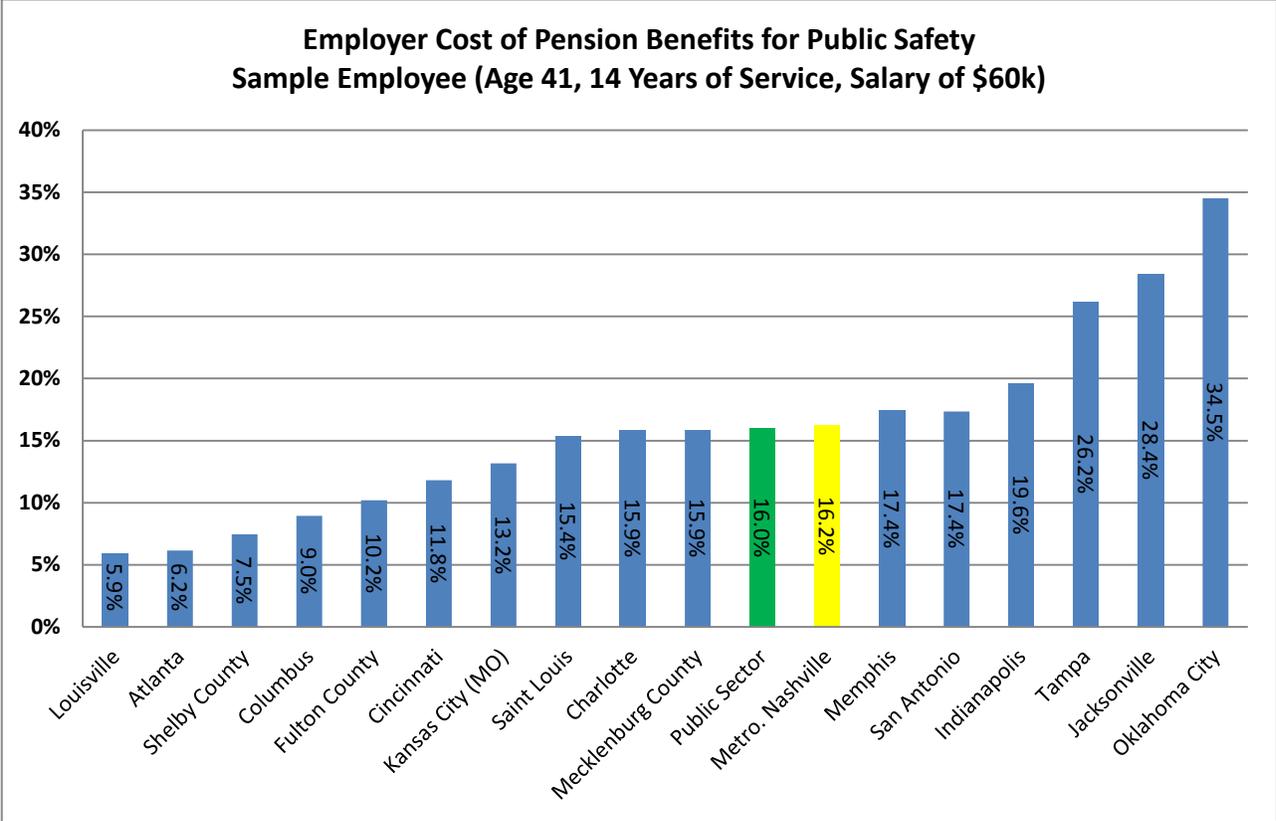
Detailed Analysis – Retirement: Public Safety

The retirement age of the sample employee for Metro, the public market, and each of the peer plans was based on the earliest assumed retirement age under the plan provisions in place for a new employee hired in 2014. The BPI was determined by comparing the per year cost as a percent of pay based on the employer contribution to any defined contribution plan plus the amount necessary to fully fund the defined benefit plan over the sample employee’s career based on 7.5% investment returns less any mandatory employee contributions to the defined benefit plan. The resulting comparison is therefore based on the maximum employer provided value, regardless of actual employee retirement elections. Please note that the public sector market data for retiree medical is based on a survey containing plan provisions from 2008, and therefore, does not recognize many of the changes made over the past five years to reduce benefits.



Metro provides more retirement benefit value than both its peers and the broader public sector market. Many of the peers and public market entities have recently amended their plans for new employees driving down the average costs for those groups. Additionally, nearly all of the peers and public market plans require employee contributions to the defined benefit plan.

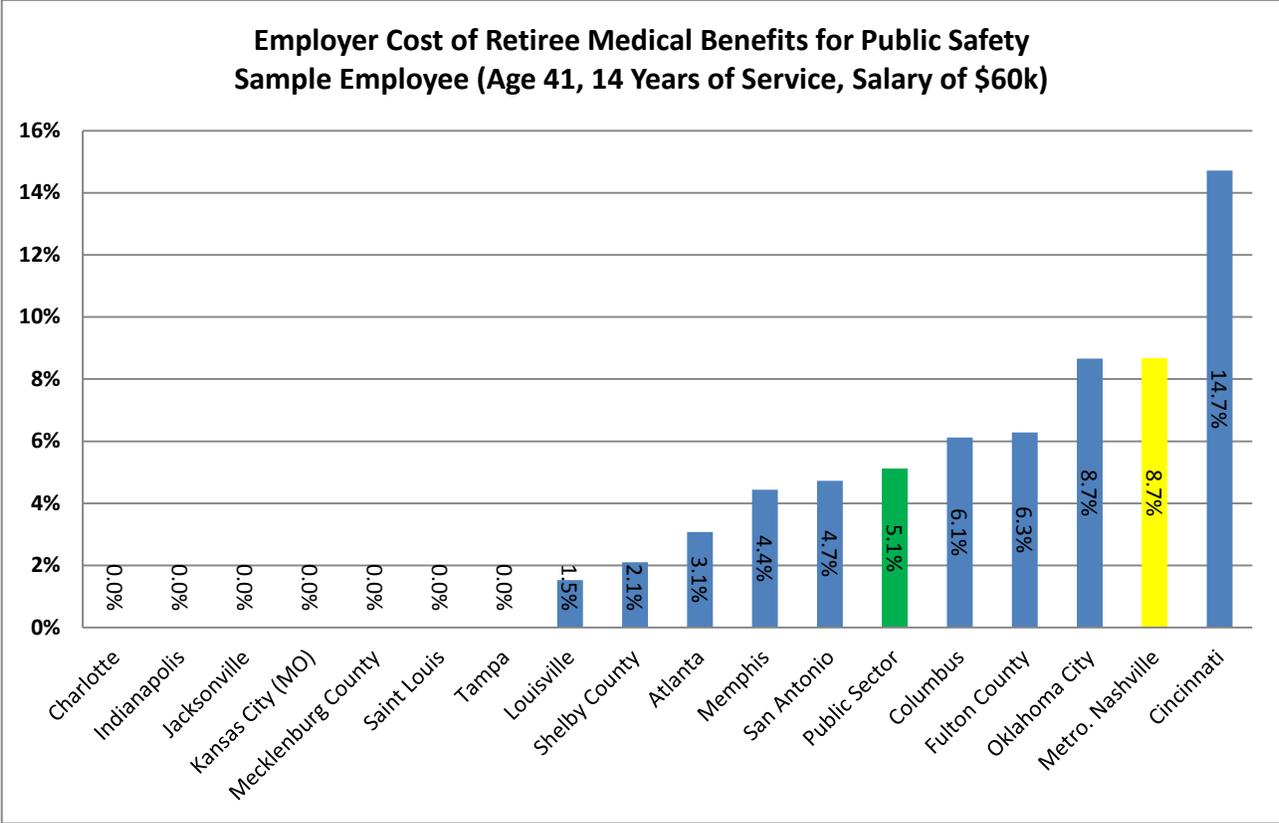
The chart below summarizes the employer cost of pension benefits at retirement for a sample employee for Metro, peer, private sector, and public sector plans. As noted above, the retirement age of the sample employee for Metro, the public market, and each of the peer plans was based on the earliest assumed retirement age under the plan provisions in place for a new employee hired in 2014. These values were derived from publicly available information, specifically, the first available of: the plan’s actuarial valuation report, the employer’s benefits website, the employer’s CAFR.



Metro is in the middle of its peer group and consistent with the broader public sector market when comparing the employer-provided portion of public safety pension benefits. However, it is important to note that since Metro does not require employees to contribute to their pension benefits, the total retirement income for Metro employees is near the bottom compared to its peers. After a full 30-year career, the amount that the average public safety Metro employee would receive at retirement, including employee and employer provided portions, is approximately 32% lower than the average amount among the peer group.

Six employers in the peer groups have amended their public safety pension plans within the past five years to reduce benefits provided to new employees.

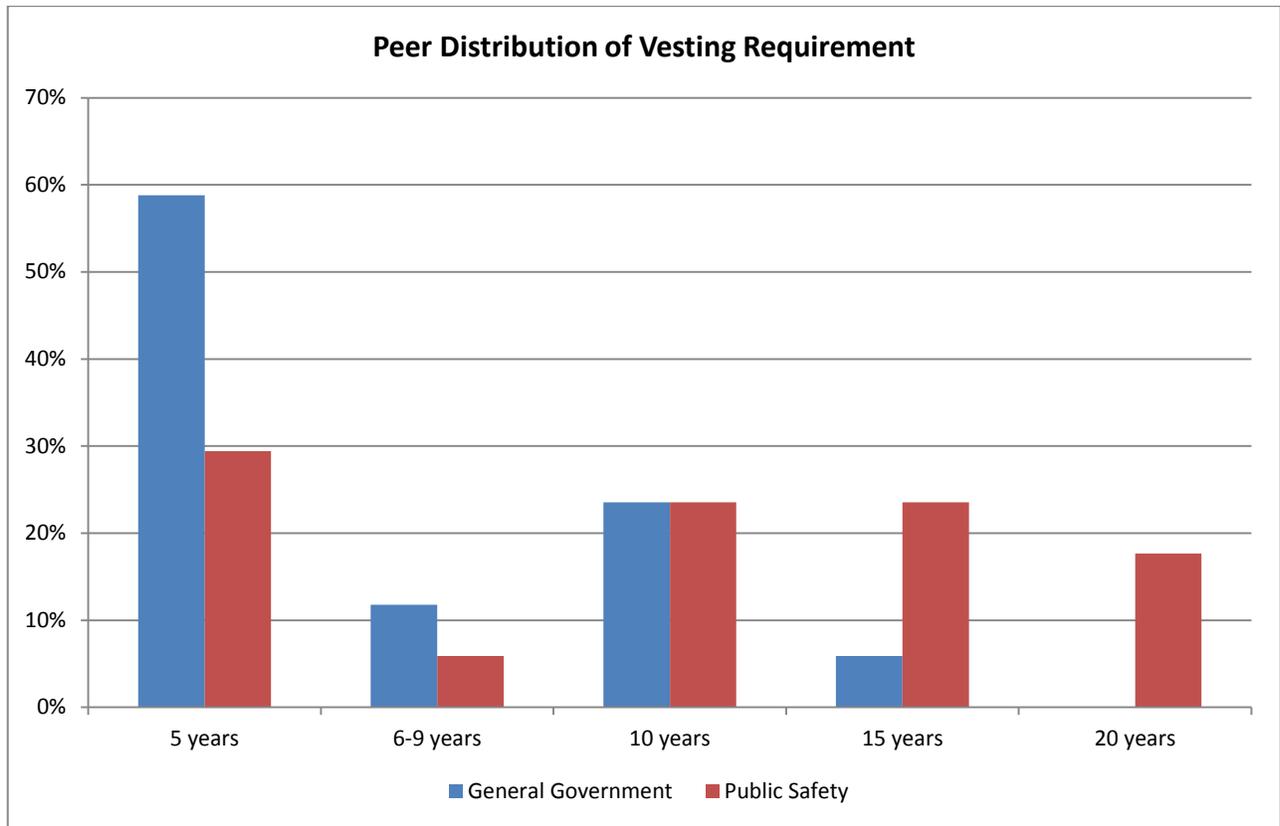
The chart below summarizes the employer cost of retiree medical benefits at retirement for a sample employee for Metro, peer, private sector, and public sector plans. As noted above, the retirement age of the sample employee for Metro, the public market, and each of the peer plans was based on the earliest assumed retirement age under the plan provisions in place for a new employee hired in 2014. These values were derived from publicly available information, specifically, the first available of: the plan’s actuarial valuation report, the employer’s benefits website, the employer’s CAFR. The value of the implicit subsidy for retirees that are not eligible for Medicare was not taken into consideration.



Metro’s retiree medical benefits are more generous than almost all of its peers and the broader public sector market. The higher costs of Metro’s retiree medical plan are derived from a combination of the percentage of the premium covered by Metro, the design of the medical plans provided, and the earliest unreduced retirement age connected with the pension plan provisions. Several of the peer groups have changed their retiree medical benefits recently including Charlotte and Mecklenburg County who eliminated their retiree medical benefits for employees hired after 2010 (previously paid 100% of the premium).

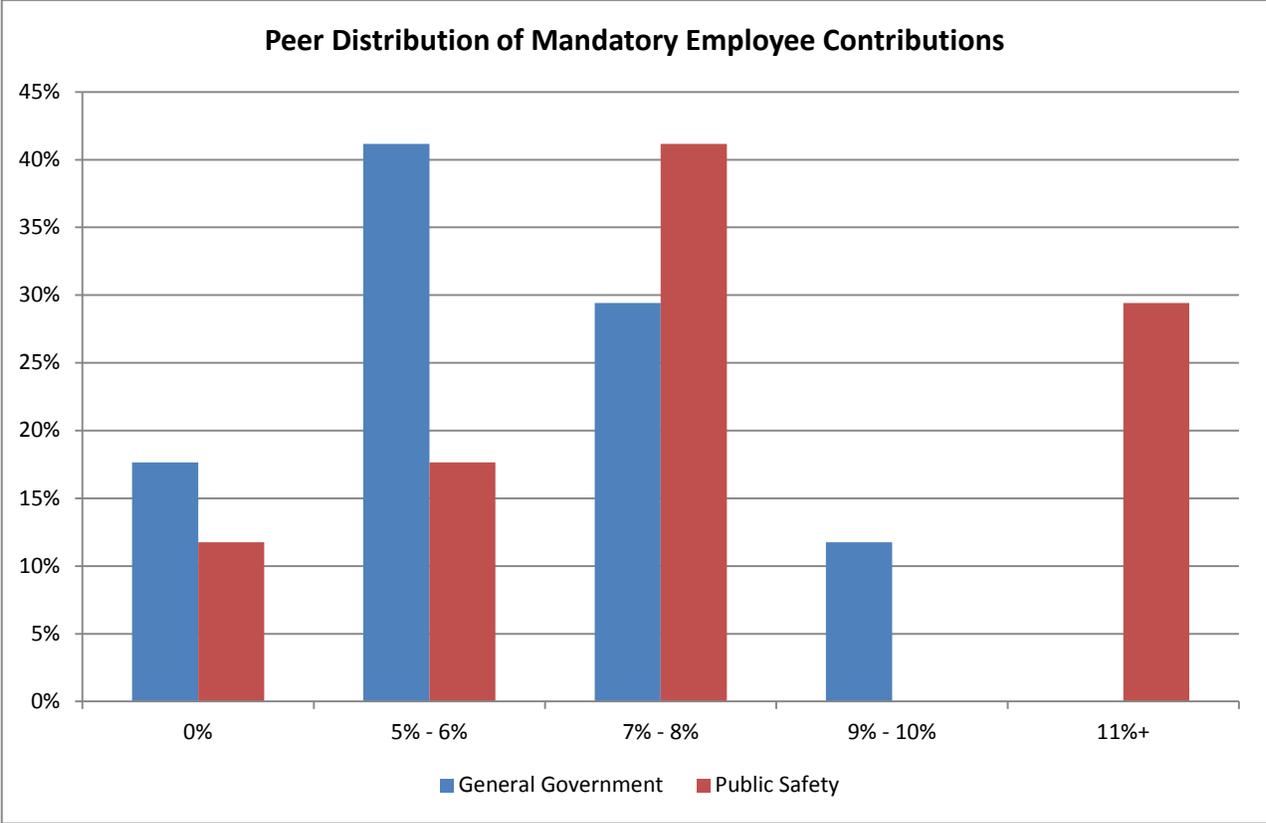
Detailed Analysis – Retirement Plan Provisions

The chart below summarizes the vesting requirements for general government and public safety employees for Metro and peer plans.



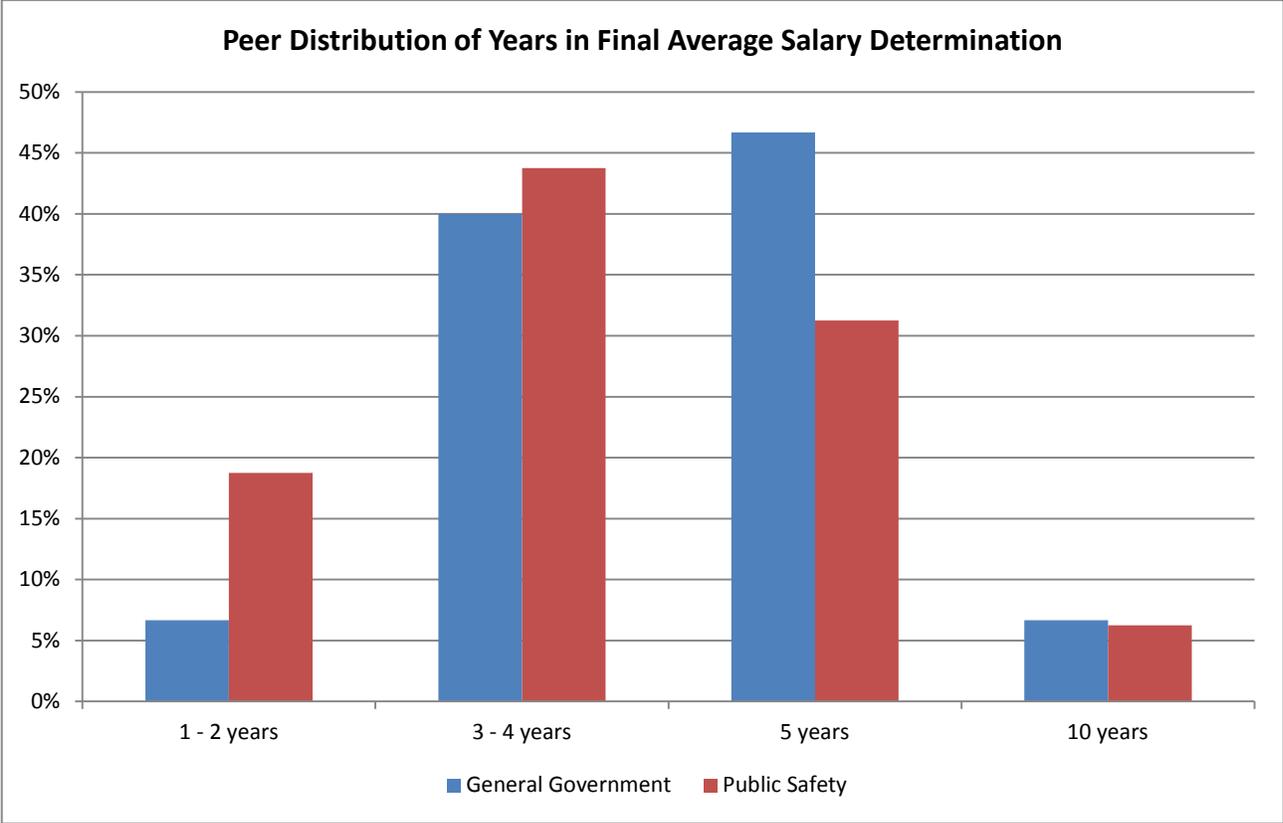
While five years is still the most common vesting period, some employers that have recently amended their plans to reduce benefits have also extended the vesting period to 10 years or longer. In the broader public sector market, 53% of plans had a five-year vesting schedule while 30% required 10 years.

The chart below summarizes the mandatory contributions for general government and public safety employees for Metro and peer plans.



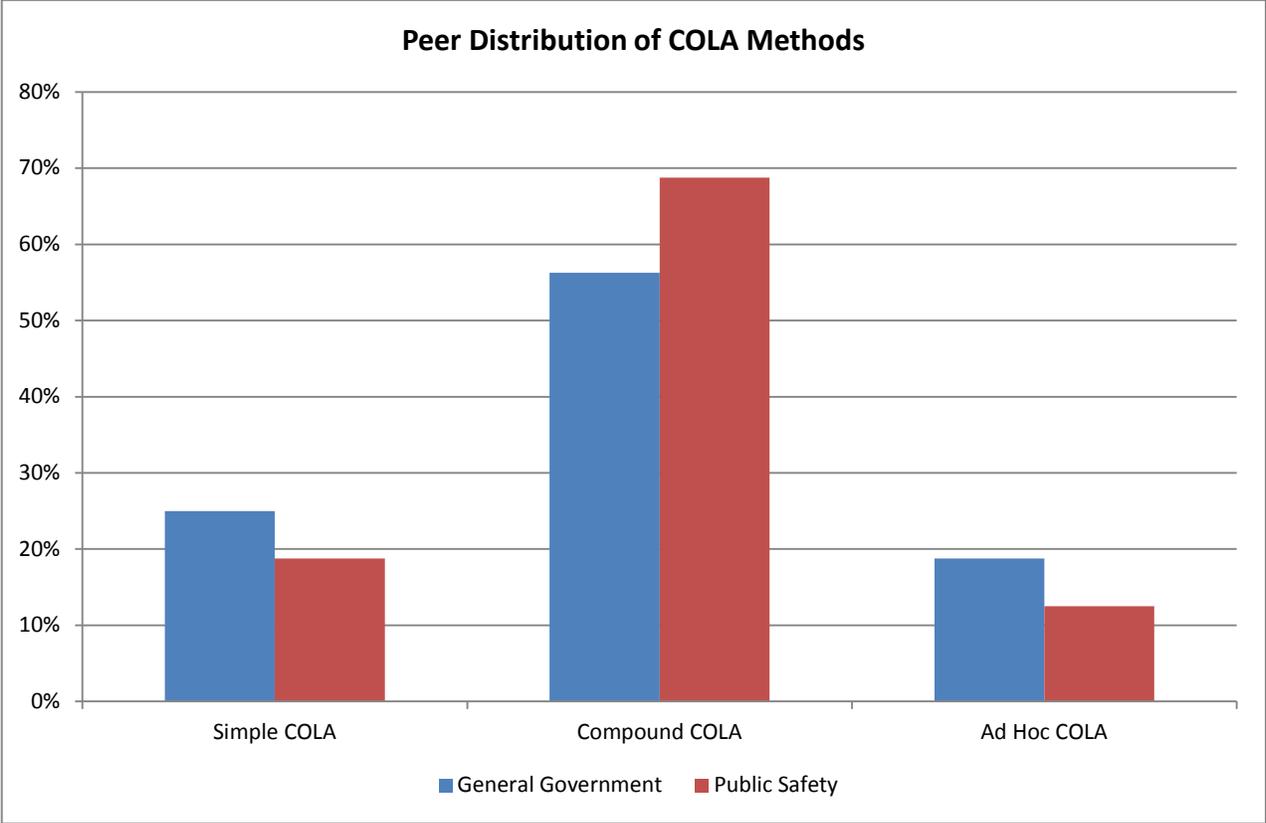
There are three employers including Metro that do not require employee contributions towards their retirement benefits. The other two employers provide pension benefits that are 20%-30% less valuable than Metro’s. The average public sector market contribution is 6.0% for general government employees (8% of plans are non-contributory) and 7.8% for public safety employees (5% of plans are non-contributory). In the private sector, while employee contributions generally do not exist in defined benefit plans and are not mandatory in defined contribution plans, features such as auto-enrollment and employer matching does encourage employee savings. The average employee contributions to 401k plans in the private sector are 5.6%.

The chart below summarizes years used in final average salary determination for general government and public safety employees for Metro and peer plans.



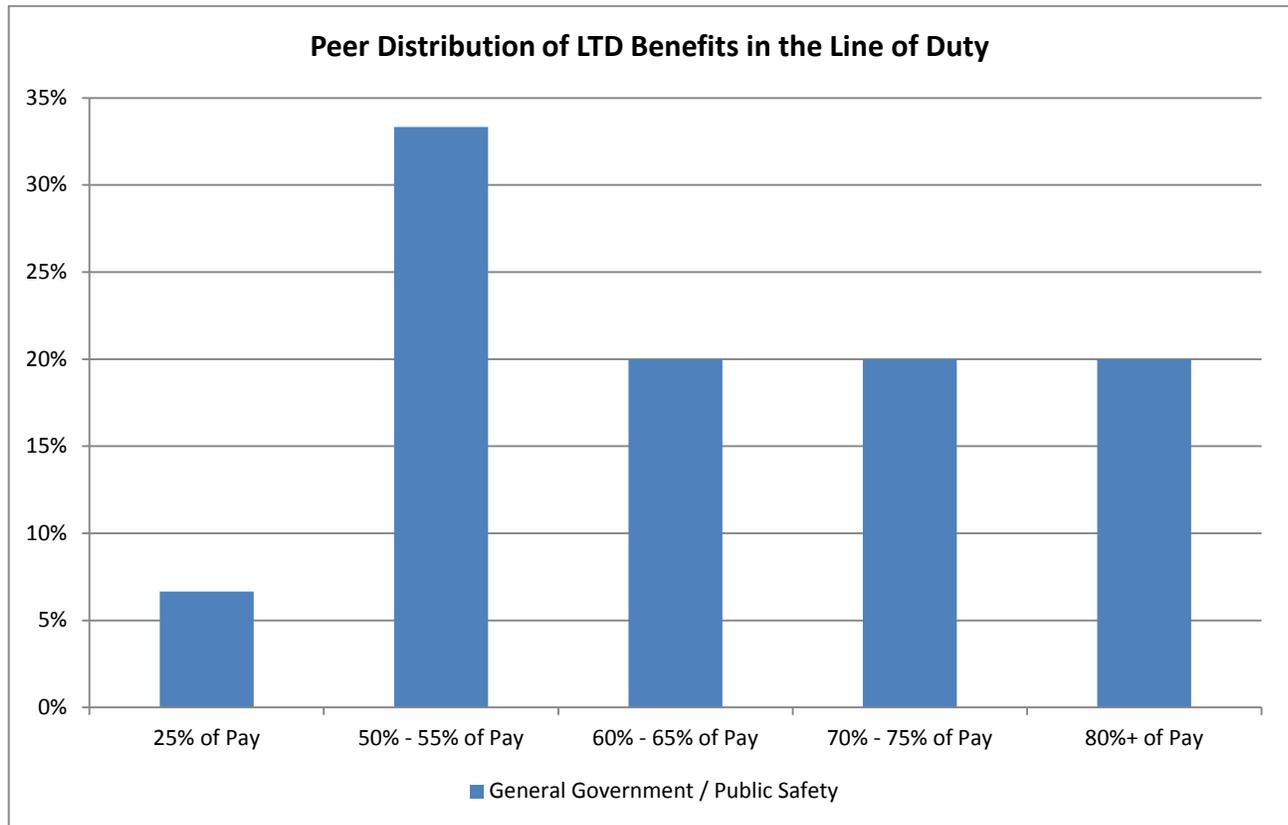
Some of the employers that recently amended their plans moved from three to five or ten years for the averaging period. In the broader public sector market, 33% of plans use a three-year averaging period and 45% of plans use a five-year averaging period.

The chart below summarizes the cost of living adjustments (COLA) for general government and public safety employees for Metro and peer plans.



While nearly all of the plans' COLA provisions are tied to inflation with a maximum of 2%-4%, some plans require that the plan be above a certain funded status threshold and/or have sufficient investment earnings before paying the COLA. Additional provisions include no COLA for the first five years after retirement, no COLA before age 65, and a maximum cumulative COLA of 25%.

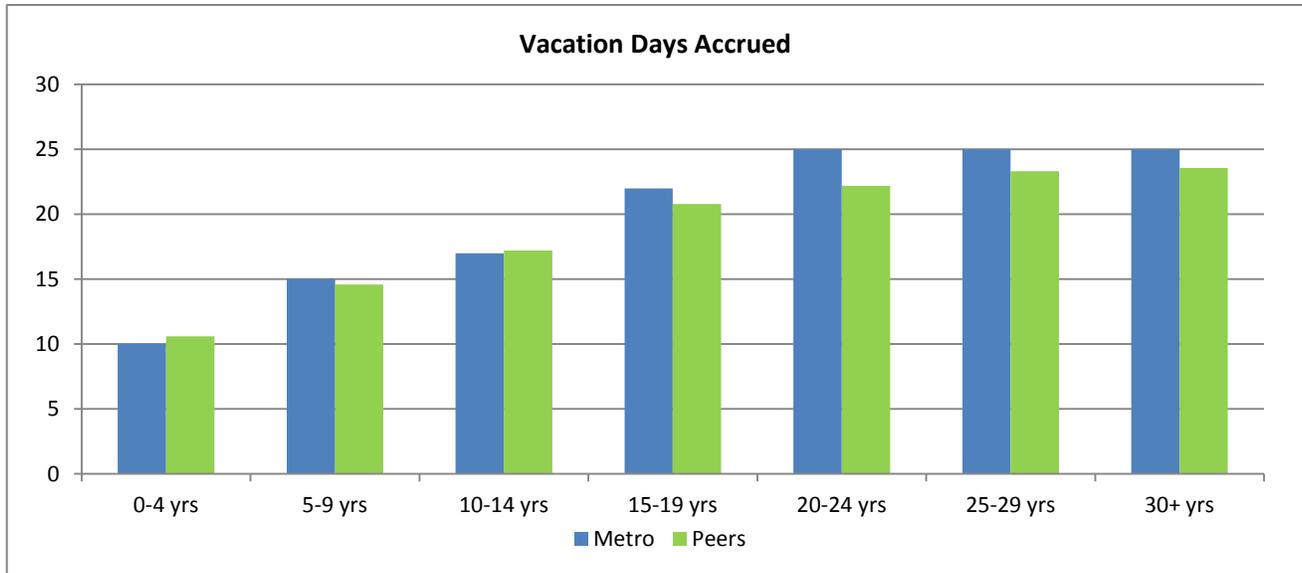
The chart below summarizes the long-term disability benefits for public safety employees injured in the line of duty for Metro and peer plans.



Some of these plans provide lesser benefits if the disability is not catastrophic. While not summarized above, the most common disability benefit for general government employees is accrued retirement benefits payable immediately without a reduction.

Detailed Analysis – Leave: All Employees

For the purpose of the leave analysis detailed below, the vacation, holiday, and sick leave provisions included within the Metro plans listed below were analyzed. Minimal public survey data was available, so the detailed analysis is only provided against the peer group. Publically available information from employee benefits websites was used for employers who did not respond to the survey. The total leave balance was determined for an employee with eleven years of service.



Vacation, Holiday and Sick Leave (11 Years of Service)				
Full-Time	Vacation Maximum Banked Days	Holiday Fixed Days per Year	Sick	
			Maximum Days per Year	Maximum Banked Days
Metro	51	10	12	120
Peers	39	10	12	Unlimited

Metro offers vacations that are equal to or greater than the amounts offered by its peers at almost every level of service years; however, for purposes of this analysis, which focused on an employee with 11 years of service, Metro’s leave policies are very similar to those of its peers. The “maximum banked sick days” policy is listed in the table above as unlimited because that is the most common provision among the peer group.

Appendices

Appendix A: Benchmark Data Sources

Appendix A: Benchmarking Data Sources

Private Sector Market Plan Basis – Methodology

Private Sector benchmarking data was compiled from the following surveys and studies, using large employer responses where available:

- 2012 Mercer National Survey of Employer-Sponsored Health Plans: Medical, Dental (common benefit provisions and employer/employee funding)

The Mercer National Survey of Employer-Sponsored Health Plans provides medical plan provisions broken down by industry or employer-size. Information provided in this analysis is based on non-government (private-sector) employers.

- 2010 Mercer Absence Management and Disability Survey: Leave Benefits (common benefit provisions)

The Mercer Absence Management and Disability Survey provides leave provisions broken down by industry or employer-size. Information provided in this analysis is based on large employers.

- March 2013 National Compensation Survey published by the U.S. Bureau of Labor Statistics: Health and Welfare, Retirement (prevalence)

The National Compensation Survey covers civilian workers across private industry and state and local government. As reported on their website, the NCS samples a portion of all occupations in a portion of all establishments in a portion of all local areas in the Nation. The statistics compiled from the survey, such as median weekly earnings, by occupation, in private industry establishments, are called estimates because they estimate the actual value for the entire population. For private sector, we utilized survey results for large employers (defined as 500+ employees).

A “private sector market plan” was created from average or most prevalent benefit provisions.

Public Sector Market Plan Basis - Methodology

Medical, dental, retirement, and leave benefits information was obtained from published surveys where available. The remainder of the needed information was taken from a survey of publicly available state benefit plan information. Long-term care data for Public Sector was not in the scope of this project.

A summary of the data sources for public sector employers follows.

- 2012 Mercer National Survey of Employer-Sponsored Health Plans: Medical, Dental (common benefit provisions and employer/employee funding)

The Mercer National Survey of Employer-Sponsored Health Plans provides medical

plan provisions broken down by industry or employer-size. Information provided in this analysis is based on local government employers

- 2013 Kaiser Family Foundation and Health Research & Educational Trust Employer Health Benefits Survey: Medical (common benefit provisions and employer/employee funding)

The KFF survey of Employer-Sponsored Health Plans provides medical plan provisions broken down by industry or employer-size. Information provided in this analysis is based on state / local government employers.

- 2010 Mercer Absence Management and Disability Survey: Leave Benefits (common benefit provisions)

The Mercer Absence Management and Disability Survey provides leave provisions broken down by industry or employer-size. Information provided in this analysis is based on large employers.

- 2013 Public Fund Survey: Defined Benefit Retirement Plans (common benefit provisions)

The Public Funds Survey provides benefit provisions, assumptions, valuation, and policy information for 126 of the largest public sector plans in the country. The membership and assets of systems included in the survey represent more than 85% of the nation's total public retirement system community.

- March 2013 National Compensation Survey published by the U.S. Bureau of Labor Statistics: Confirmation of large employer survey data: Health and Welfare, Retirement (prevalence)

The National Compensation Survey covers civilian workers across private industry and state and local government. As reported on their website, the NCS samples a portion of all occupations in a portion of all establishments in a portion of all local areas in the Nation. The statistics compiled from the survey, such as median weekly earnings, by occupation, in local government establishments, are called estimates because they estimate the actual value for the entire population. For public sector, we utilized survey results for local governments.

- From this data, a “public sector market plan” was created from most prevalent or average benefit provisions.