OPA Comments on LADWP Total Compensation Study

- In a rate review, a customary rate review process includes a total compensation study to assess the reasonableness of the utility’s overall labor costs.

- OPA commissioned “Total Compensation” studies in 2015 and 2020 to assess LADWP’s labor costs in comparison to public and investor-owned utilities.
  - The reports were issued in 2016 and 2021, based on standard methodologies and data for 2014/2015 and 2019 data, respectively.

- OPA also looked at LADWP’s overall costs in “Total Functional Cost” benchmarking study completed in 2020.

- Slide citations refer to the OPA Oliver Wyman/Mercer Total Compensation report version of November 6, 2021.
What is a Typical Total Compensation Study?

- The purpose of a Total Compensation (TC) study is to assess reasonableness, it is not comprehensive.
  - It is not a “comp and class” study comprehensively reviewing class levels and career ladders.

- A good Total Compensation (TC) study covers classes that include 40% to 50% of the employees.
  - The LADWP TC analysis, based on 2019 data, included “a review of 202 Duties Description Records (DDRs) covering 113 common classifications for 5,444 LADWP employees representing 51.5% of all LADWP employees.” (Slide 12)

- Each selected class is compared to the US market for the given class, looking at the market median as well as the market 25th and 75th percentiles.
What’s the Bottom Line for LADWP?

“After including bonus/incentive pay in the market data, LADWP has position-weighted compensation that falls in the 2\textsuperscript{nd} quartile, just below median among peers.” (Slide 20)

- The utility industry market median is 8.8\% higher than LADWP cash compensation for all classes studied.
- An estimated 60\% of utilities and 30\% of POU’s offer bonus incentive plans. (Slides 20 and 57)
- This discussion only covers cash compensation including bonus/incentive pay. The OPA TC studies also included pension and benefits.
- Note that all values are 2019, adjusted to 1/1/2020, for Southern California cost of living.
What’s the Bottom Line for Key Management and Technical Employees?

- For the LADWP classes that have peer market compensation, including bonus/incentive pay, above $175k (38 classes, 392 employees), the industry peer median is 17.8% higher than the LADWP classes. (Slide 28)

- The 25 MEA positions evaluated had peer compensation 21.2% higher than LADWP. (Slide 57)

- The 15 IT classes (306 employees) had peer compensation 41.3% higher. (Slides 51-52)

- The 7 member LADWP executive team had peer compensation 65.3% higher. (Slide 22)
Summary of LADWP 2019 Total Compensation Compared to Utility Peers, Including Incentives

<table>
<thead>
<tr>
<th>Group</th>
<th>Classes</th>
<th>Employees</th>
<th>Peer Median Comp over LADWP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full group</td>
<td>113</td>
<td>5,444 (51.5% of all)</td>
<td>8.8%</td>
</tr>
<tr>
<td>(202 DDRs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market classes over $175k</td>
<td>38</td>
<td>393</td>
<td>17.8%</td>
</tr>
<tr>
<td>MEA classes studied</td>
<td>25</td>
<td></td>
<td>21.2%</td>
</tr>
<tr>
<td>IT classes studied</td>
<td>15</td>
<td>306</td>
<td>41.3%</td>
</tr>
<tr>
<td>LADWP Exec Team</td>
<td>3</td>
<td>7</td>
<td>65.3%</td>
</tr>
</tbody>
</table>
Management: Linkages between Current Total Compensation and 2020 Total Functional Cost

The update suggests LADWP lags the market in compensation for senior and middle management employees by a wide margin.

Conclusions and recommendations from Total Functional Cost Study (2020)

- Historic GM turnover; siloed organization; not enough effort to build and strengthen middle and lower-level management.
- Unclear roles, responsibilities, & expectations of mid- and first line managers; diminished incentives to become and develop as a manager.
- Growing use of incentive reward structure among POU peers (~30% have some incentives).
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Additional information provided by Update of Total Compensation Study

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- **LADWP uses an internal-labor intensive model**: relative to peers, LADWP uses far more internal labor than non-labor resources for both capital and O&M. Significant additional hiring will be needed under LADWP’s labor-intensive business model to meet goals.
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Selected Slides from Total Comp Report
version of 11/6/2021

- Slides cited: 12, 20, 57, 28, 51-52, 22
- Additional support:
  - 46 – size
  - 53 – most important strategic issue
  - 12-13 – exec summary
  - 59 – procurement and environment
  - 77-79 – class by class results
  - JOLT report
  - Inflation 2019 to mid-2022
  - LADWP labor budgets, rate case budgets, and actuals
Executive summary: Key findings of Update of Total Compensation Study

• **Employee base salary compensation costs:** Comparisons were performed relative to both (1) base salary and (2) base salary plus bonus/incentive pay at IOUs and POUs:
  - Including bonus/incentive pay in the market data, LADWP has position-weighted compensation that falls in the 2nd quartile, just below median among peers. Many peer utilities offer bonus/incentive pay programs, while LADWP does not. LADWP’s results are similar to the 2016 Study.
  - The analysis included a review of 202 Duties Description Records (DDRs) covering 113 common classifications for 5,444 LADWP employees representing 51.5% of all LADWP employees. (Industry standards suggest a study covering between 40-50% of employees provides a very good overall representative sample for benchmarking purposes.)
  - Industry standard benchmarking surveys report annual salaries by job classification
  - Of the job classifications analyzed in this study, 86 out of 113 or roughly 76% fell within the 1st, 2nd, or 3rd quartiles for the period benchmarked (calendar 2019).

• **Compensation costs by pay band; salary plus bonus/incentive pay:**
  - For those market job classes less than $100,000, LADWP employees fall in the 4th quartile. LADWP’s cost position increased versus the market since the 2016 Study.
  - LADWP employees are positioned in the 1st quartile for job classes between $100,000 and $175,000. LADWP has become somewhat less competitive against the market in the middle band (see p. 21)
  - For those job classes greater than $175,000, LADWP is positioned in the 1st quartile of the market. LADWP has lost ground against the median among higher paid employees (see p. 22)

• **Retirement benefits costs:** Overall retirement benefits costs blended between Tier 1 and Tier 2 are within the 4th quartile relative to both panels of peer utilities. However, costs are much lower (lower 1st quartile) for employees that participate in Tier 2. Since 2016, LADWP’s blended retirement benefits costs have increased from the 2nd to 4th quartile in the IOU panel and 3rd to 4th in the POU panel.

• **Medical and other benefits costs:** LADWP’s costs fall within the 4th quartile when compared to both panels of peer utilities driven by higher active and retiree medical plan costs, due to a higher subsidy level than peers. LADWP’s positioning is similar to results in 2016.

• **Total compensation costs:** LADWP’s costs fall slightly above the 2nd quartile when compared to both panels of peer utilities.
Executive summary: Link to Functional Total Cost Study (2020)

- This Update of LADWP Total Compensation provides further insight and support of recommendations included in the Functional Total Cost Study conducted jointly by OPA and LADWP, which was released in 2020
- **ITS improvement:** The update suggests LADWP significantly lags the market in both compensation and potentially in skill development
  - LADWP’s salaries for IT-related positions lag the market; LADWP falls in the 1st quartile overall. For 15 IT positions evaluated, LADWP falls in the 1st quartile for 14 positions
  - Furthermore, the market data suggests that key IT positions have specialized skills and experience (e.g., testing). LADWP fills these specialized roles using jobs that describe more general IT skillsets
- **Staffing and overtime usage:** The update highlights further the hiring and under-staffing issues facing LADWP
  - Based on the employee Census information, overtime represents a growing portion of total compensation at LADWP
  - Overtime pay is concentrated in Power and Water operational functions resulting in ~10% of the company earning 38% of total overtime pay. The Functional Total Cost Study concluded that no apparent mechanism exists to translate high overtime use at LADWP into analysis and actions that increase staffing in those functions
- **LADWP management-related issues:** The update suggests LADWP lags the market in compensation for senior and middle management employees by a wide margin
  - LADWP’s seven-member executive team ranks in the 1st quartile after considering bonus/incentives offered by peers
  - For 25 MEA positions evaluated, LADWP also falls in the 1st quartile after considering bonus/incentives
- **Power Distribution improvement:** The update suggests multiple issues may need to be addressed
  - One of the critical positions in Power Distribution is Electric Mechanics. LADWP’s pay for this position is at median relative to peers; the ranking may not be high enough to attract the numbers of staff required to complete work
  - Overtime in key areas within Power Distribution has grown further from already high levels. For the Electric Mechanic classification, OT has grown from 20.7% of compensation in the 2016 Study to 28.5% in the latest Census. Moreover, for the broader functional category of Distribution Line Crews and Management, OT has grown from 27.7% to 37.3% of compensation. This continued high level and growth of OT most likely reflects understaffing.

This Update provides support for the five recommendations identified for initial focus and supported by the LADWP Executive Team and OPA, Recommendations were to focus improvement initiatives on (1) Management Value Proposition, (2) Management Alignment and Development, (3) Support of the ITS Program, (4) Key HR Processes, and (5) Power Distribution
Base salaries plus bonus/incentive pay: Overall findings
After including bonus/incentive pay in the market data, LADWP has position-weighted compensation that falls in the 2nd quartile, just below median among peers.

Position-weighted median annual employee base salary plus bonus/incentive pay
Calendar 2019, LADWP vs peer organizations, IOU and POU

113 Matched Job Classes from IOU and POU Surveys

Lowest
$84.5K
$129.8K
$196.7K
Highest
LADWP = $119.3K

Commentary
• LADWP’s pay structure does not have a bonus/incentive component while many utilities offer such programs.
• Industry surveys suggest that roughly 60% of all utilities offer bonus/incentive programs.
• Overall, LADWP’s position-weighted median is just below the median of the utility peers.
• The median bonus/incentive paid by peers is about $13,600, which includes both job classes that both pay and do not pay bonuses/incentives.
• Based on industry standards, LADWP’s cash compensation falls just below the median.

Source: LADWP; Mercer analysis of compensation for matched job classes from IOU and POU salary surveys
Base salaries plus bonus/incentive pay: By pay band
LADWP’s salaries rank lower relative to peers when bonus/incentives are included in the market data.

Pay by market salary plus bonus/incentive pay band
Calendar 2019

Lowest
$68.7K
$80.5K
$86.7K
Highest
Q1
Q2
Q3
Q4

$122.5K
$133.0K
$153.8K

$198.1K
$232.7K
$353.3K

Lowest

Highest

$100,000- $175,000

LADWP = $119.8K

41 LADWP Class Codes
3,567 LADWP benchmarked employees
62% of benchmarked employees

Lowest

Highest

$100,000- $175,000

LADWP = $119.8K

34 LADWP Class Codes
1,759 LADWP benchmarked employees
31% of benchmarked employees

Lowest

Highest

$100,000- $175,000

LADWP = $119.8K

38 LADWP Class Codes
392 LADWP benchmarked employees
7% of benchmarked employees

Commentary

• For those market job classes with salary plus bonus/incentive pay less than $100,000, LADWP employees are above the market 75th percentile.

• LADWP employees are positioned at the 25th percentile for job classes with salaries between $100,000 and $175,000 (the lowest end of the market).

• For those job classes greater than $175,000, LADWP is positioned at the 25th percentile of the market.

Source: LADWP; utility industry salary surveys from Mercer; Mercer analysis
1. 183 IT employees are in DDRs that were matched to more than 1 industry job description, as is industry standard, resulting in number of benchmarked employees totaling 5,718 vs the actual incumbents of 5,444 – this has no statistically significant impact.
Total cash compensation for GM and Direct Reports
LADWP’s seven-member executive team ranks below the 25th percentile after considering bonus/incentives offered by peers.

GM and Direct Reports compensation against IOU peers
7 executives, Calendar 2019

Commentary
- Base salaries for LADWP’s Executive Management job classes rank just above the 25th percentile - note the tight distribution between 1st and 3rd quartiles with only $14,000 separating the two.
- LADWP’s competitive position in terms of compensation declines (to 40% below the market median, on average) when incentives are considered (e.g., bonus incentives are often used by peers).
- The median bonus at peers was $195.2K or about 61% of base salary.

Note: GM and direct reports position-weighted median based on 7 incumbents in three job classes at LADWP (151, 9759 and 9998)
Source: LADWP, utility industry salary surveys from Mercer; Mercer analysis
>$175k pay band for base salaries plus bonus/incentive pay; comparison to 2016 study

The highest band of salaries remains low compared to peers (1st quartile). LADWP has lost ground against the median among higher paid employees.

Position-weighted median annual employee base salary plus bonus/incentive pay for >$175k band
2016 vs current study
LADWP vs peer organizations, IOU and POU

**2016 Study**
- Lowest: $181.7K
- Q1: $201.6K
- Q2: $291.0K
- Q3: $181.0K
- Highest: $181.0K

**Current Study**
- Lowest: $198.1K
- Q1: $232.7K
- Q2: $353.3K
- Q3: $197.6K
- Highest: $197.6K

**Commentary**
- LADWP median base salary plus bonus/incentive increased from $181.0K to $197.6K.
- Relative to peers, LADWP’s quartile position is unchanged from previous study.
- In 2016, LADWP was 10% below median while it is now 15% below median.

Source: LADWP; Mercer analysis of compensation for matched job classes from IOU and POU salary surveys

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Sum of compensation: **IOU-related**

Base salaries plus bonus/incentive pay, retirement benefits, and health & other benefits

Companies have focused on managing broadly across all forms of compensation. LADWP falls around the median when all forms of compensation analyzed in this study are used to arrive at a Total Compensation figure.

**Benchmarking results**
LADWP vs peer organizations

<table>
<thead>
<tr>
<th></th>
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<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tr>
<td>Lowest</td>
<td>$85K</td>
<td>$13K</td>
<td>$15K</td>
<td>$17K</td>
</tr>
<tr>
<td></td>
<td>$130K</td>
<td>$16K</td>
<td>$18K</td>
<td>$20K</td>
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<tr>
<td></td>
<td>$197K</td>
<td>$230K</td>
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</table>

LADWP: $119.3K

113 matched Job Classes using data from 4 compensation surveys having over 400 utility participants

Source: Joint Study of LADWP Total Compensation; Mercer analysis

Note: median retirement and health/other benefit costs added to compensation quartiles

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Sum of compensation: **POU-related**

Base salaries plus bonus/incentive pay, retirement benefits, and health & other benefits

LADWP falls around the median when all forms of compensation analyzed in this study are used to arrive at a Total Compensation figure.

**Benchmarking results**
LADWP vs peer organizations

- **Base salary plus bonus/incentive pay**
  - Lowest: Q1 - $85K, Q2 - $130K, Q3 - $197K
  - Highest: Q4 - $12K, Q2 - $15K, Q3 - $18K

- **Retirement benefits**
  - Lowest: Q1 - $12K, Q2 - $15K
  - Highest: Q4 - $18K

- **Health and other benefits**
  - Lowest: Q1 - $15K
  - Highest: Q4 - $22K

- **Total Compensation**
  - Lowest: $118K
  - Highest: $163K

113 matched Job Classes using data from 4 compensation surveys having over 400 utility participants

13 peer publicly-owned utilities

Source: Joint Study of LADWP Total Compensation; Mercer analysis

Note: median retirement and health/other benefit costs added to compensation quartiles
Employees and net Property, Plant and Equipment (PP&E)

Although not as large as the biggest electric IOUs in the country, **LADWP is significantly larger than many peer IOUs and most, if not all, POUs**

Employees, PP&E (net of depreciation) and customer count

2015, IOUs and POUs (bubble size represents customer count)

---

Large utility peers of LADWP have focused significantly on management related issues, technology staff, and staffing and overtime usage highlighted in the findings and conclusions in this study
Total cash compensation for IT Positions
LADWP’s IT team ranks roughly 30% below the median after considering bonus/incentives offered by IOU peers.

IT compensation against IOU peers
15 IT jobs, Calendar 2019

Base salary

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<tr>
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<td>$140.3K</td>
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<td>$171.9K</td>
<td>$200.3K</td>
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<tr>
<td>Q3</td>
<td>$200.3K</td>
<td>$254.1K</td>
</tr>
<tr>
<td>Q4</td>
<td>$254.1K</td>
<td>$206.3K</td>
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LADWP = $146.0K

Base plus bonus/incentive pay

<table>
<thead>
<tr>
<th>Quarter</th>
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<tbody>
<tr>
<td>Q1</td>
<td>$159.4K</td>
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<td>$206.3K</td>
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<tr>
<td>Q3</td>
<td>$254.1K</td>
<td>$206.3K</td>
</tr>
<tr>
<td>Q4</td>
<td>$206.3K</td>
<td>$159.4K</td>
</tr>
</tbody>
</table>

LADWP = $146.0K

Commentary

- Base salaries for LADWP’s IT job classes rank near the 1st / 2nd quartile border.

- LADWP’s competitive position declines (to 29% below the market median) as incentives are considered (e.g., bonus incentives are often used by peers).

Note: IT position-weighted median based on 15 positions covering 306 employees at LADWP; CIO peer set from salary survey unlike memo provided to OPA in January 2021 which was using 15 top IOUs

Source: LADWP, utility industry salary surveys from Mercer; Mercer analysis
IT: base salaries plus bonus/incentive pay for key IT positions
All but one matched job – an entry level role – for LADWP positions are in the 1st quartile relative to peers

- **IT Lead: Chief Information Officer (CIO)**
  - LADWP Salary: $276k
  - Peer range: $396k - $556k
- **Info Systems Manager**
  - LADWP Salary: $186k
  - Peer range: $212k - $291k
- **Lead Manager PMO**
  - LADWP Salary: $163k
  - Peer range: $203k - $261k
- **Chief Info Security Officer (CISO)**
  - LADWP Salary: $201k
  - Peer range: $317k - $425k
- **Sr. Systems Analyst**
  - LADWP Salary: $121k
  - Peer range: $124k - $152k
- **Systems Analyst**
  - LADWP Salary: $93k
  - Peer range: $115k - $141k
- **DataBase Architect**
  - LADWP Salary: $146k
  - Peer range: $185k - $238k
- **Program/Project Manager**
  - LADWP Salary: $157k
  - Peer range: $172k - $218k
- **Cyber Security**
  - LADWP Salary: $144k
  - Peer range: $153k - $193k
- **Adv Data Analytics Staff**
  - LADWP Salary: $186k
  - Peer range: $252k - $335k
- **Applications Programmer**
  - LADWP Salary: $94k
  - Peer range: $81k - $101k
- **Programmer Analyst**
  - LADWP Salary: $118k
  - Peer range: $132k - $168k
- **Database Architect**
  - LADWP Salary: $146k
  - Peer range: $185k - $238k
- **Systems Programmer**
  - LADWP Salary: $142k
  - Peer range: $177k - $239k
- **IT Systems Tester / QA**
  - LADWP Salary: $157k
  - Peer range: $204k - $261k
- **Bus. Process Consultant**
  - LADWP Salary: $145k
  - Peer range: $233k - $305k

The market has determined that these IT positions have specialized skills and experience. LADWP fills these specialized roles using jobs that describe more general IT skillsets.
Staffing and overtime: Linkages between Total Compensation and Total Functional Cost

The update highlights further the hiring and staffing issues facing LADWP

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The Update of Total Compensation supports moving ahead with the recommendations included in the Total Functional Cost Study and supported by LADWP’s management team and its Board.
Operations Support: Linkages between Current Total Compensation and 2020 Total Functional Cost

The Update suggests skill and cost issues that LADWP may have to address to evolve these support organizations.

Conclusions and recommendations from Total Functional Cost Study (2020)

- Operations Support functions (e.g., Facilities, Fleet, Purchasing, Safety, Security, and Environmental) are driven by the needs of the Power and Water Systems. Nearly all provide service at a relatively high total cost relative to utility peers.
- **Operations Support Functions**: Improve internal customer service and cost effectiveness (Recommendation B.5)
  - Immediate focus on effectiveness of Purchasing and Materials Management (long cycle time; high cost).
  - Secondary focus on Fleet, Facilities, and Security due to service improvement potential and high cost.
  - Investigate opportunities in Environment and Safety (cost, compliance and reportables).

Additional information provided by Update of Total Compensation

- Some lower paid positions at LADWP are much higher paid than peers driving higher total functional costs.
  - In Facilities, pay for custodians and their supervisors is 4th quartile.
  - In Fleet Services, pay for regular and heavy equipment mechanics is 4th quartile.
  - In Purchasing and Materials Management, pay for storekeepers and warehouse workers is in the 4th quartile.
- Some more strategic positions at LADWP, where other utilities have invested to strengthen capabilities, lag the market.
  - In Purchasing, pay for buyers is in the 1st quartile.
  - In Environmental, compensation for matched jobs (primarily specialists) are all in the 1st quartile.
- Security positions at LADWP are paid at the median. The high cost of the function appears to be driven by higher staffing levels and OT cost. OT cost increased from 28% to 47% of total cash compensation in the Census used for this update.
- Paying higher than market for lower paid classifications promotes a flatter pay structure at LADWP (see p. 17).

In the future, LADWP will most likely need to transition Operations Support functions from “service providers” to “service managers” to balance service levels and cost. Most utilities periodically address performance and cost issues with operations and shared services.
<table>
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<th>Function</th>
<th>Class Code</th>
<th>ID</th>
<th>LAD Base Salary</th>
<th>Initial Base Salary</th>
<th>1% &gt; 75th %ile</th>
<th>2% &gt; 75th %ile</th>
<th>3% &gt; 75th %ile</th>
<th>6% &gt; 75th %ile</th>
<th>10% &gt; 75th %ile</th>
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Market benchmarks: Sorted by quartile and difference from 3rd quartile (1 of 3)
## Market benchmarks: Sorted by quartile and difference from 3rd quartile (2 of 3)

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<th>Position</th>
<th>Class Employees LAD WP</th>
<th>Market Base Salary DWP Base vs. Mkt Base</th>
<th>Market Target TAC</th>
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# Market benchmarks: Sorted by quartile and difference from 3rd quartile (3 of 3)

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<tr>
<th>Position</th>
<th>Code</th>
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<th>Code</th>
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## High-level retirement plan prevalence information

<table>
<thead>
<tr>
<th>Plan Structure</th>
<th>Percentage of IOUs Providing Plan Structure</th>
<th>Percentage of POUs Providing Plan Structure</th>
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<tbody>
<tr>
<td>Defined Benefit (DB) Only</td>
<td>0%</td>
<td>62%</td>
</tr>
<tr>
<td>Defined Contribution (DC) Only</td>
<td>62%</td>
<td>0%</td>
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<tr>
<td>DB and DC</td>
<td>38%</td>
<td>38%</td>
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</table>

<table>
<thead>
<tr>
<th>Plan Formula</th>
<th>Percentage of IOUs Providing Plan Formula</th>
<th>Percentage of POUs Providing Plan Formula</th>
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</thead>
<tbody>
<tr>
<td>Final Average Pay Formula (DB)</td>
<td>15%</td>
<td>85%</td>
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<tr>
<td>Cash Balance Formula (DB)</td>
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<td>15%</td>
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<tr>
<td>Employer-paid DC Contributions</td>
<td>100%</td>
<td>38%</td>
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</tbody>
</table>

Note: Comparisons were made against separate, agreed upon by stakeholders, panels of 13 investor-owned utilities (IOUs) and 13 publicly-owned utilities (POUs).
Hires and Separations Monthly (SA) from Job Openings and Labor Turnover Survey (JOLTS), Source: BLS

There were 13.406 million Layoffs, discharges and other in March 2020

http://www.calculatedriskblog.com/
Figure 1: Salary & Wages, Health, Retirement
Nominal Budgets, Rates, Actual

- Nominal Labor Budget - Total DWP
- Rate Case Labor Budgets
- Actual