



COMMONWEALTH of VIRGINIA

Department of Human Resource Management

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Dear Governor Kaine and Members of the General Assembly:

Section 2.1-114.6 of the Code of Virginia requires the Director of Human Resource Management to conduct an annual review of salaries paid to employees of the Commonwealth. Surveys were conducted in each of the 25 years beginning in 1975 and ending in 1999. The eleven most recent surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

The 2000 Re-convened Session of the General Assembly approved Chapter 1073 (the Appropriation Act) on May 19, 2000. Chapter 1073 contains language in Section 4-7.02, Classified Compensation Plan, stating that:

Effective July 1, 2000, the compensation plan for classified employees in the executive branch shall be revised consistent with the recommendations contained in the report of the Commission on Reform of the Classified Compensation Plan. The Governor may phase in the reforms in such a manner as to provide for an orderly transition to the new system.

The report of the Commission on Reform of the Classified Compensation Plan included Recommendation 5, the development of a new salary survey methodology. The report stated that: "(t)he new pay structure, including the assignment of roles to pay bands, will be reviewed and validated using new salary surveys during 2000-2001."

The report also states that "(a)nnually, (DHRM) will provide the General Assembly and the Governor with data indicating projected market movement of the entire pay structure." This report has been prepared for your review and consideration in response to this statutory requirement.

Respectfully submitted,

Sara Redding Wilson

Enclosure

cc: The Honorable Viola O. Baskerville
Secretary of Administration

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INTRODUCTION

The 2000 Re-convened Session of the General Assembly approved Chapter 1073 (the Appropriation Act) on May 19, 2000. Chapter 1073 contains language in Section 4-7.02, Classified Compensation Plan stating that:

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The report of the Commission on Reform of the Classified Compensation Plan included Recommendation 5, the development of a new salary survey methodology. The report stated that: “(t)he new pay structure, including the assignment of roles to pay bands, will be reviewed and validated using new salary surveys during 2000-2001.” Recommendation 5 is included in its entirety on pages 7 and 8 of this report.

A web-based source of salary survey data is currently available for agencies to use in daily compensation management activities such as starting pay, promotional, or in-band adjustment decisions. This tool also supports the validation of role assignments to pay bands.

The report also states that “(a)nnually, (DHRM) will provide the General Assembly and the Governor with data indicating projected market movement of the entire pay structure.” This report has been prepared in response to this statutory requirement.

Prior to 2000, an annual survey was conducted in accordance with Section 2.1-114.6 of the Code of Virginia. It required the Director of Human Resource Management to conduct an annual review of salaries paid to employees of the Commonwealth. Such Surveys were conducted in each of the 25 years beginning in 1975 and ending in 1999. The eleven most recent surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

JLARC has recently completed a comprehensive, two-year study of the Commonwealth’s total compensation program, including salaries and benefits. This study includes an evaluation of the competitiveness of the Commonwealth’s programs, an analysis of trends, and recommendations for appropriate changes. The Department of Human Resource Management provided assistance to JLARC in the review as well as comments on the findings.

METHODOLOGY

An August 1999, Department of Human Resource Management (DHRM) survey found that, on average, salaries paid by the Commonwealth were 11.41% below comparable salaries paid by private firms in Virginia. Total compensation, including salaries and benefits, was found to be 3.84% below the total compensation of private firms in the state. The Commonwealth's range minimums were 12.2% below private firms' range minimums, while its range midpoints were 10.8% below and its range maximums were 9.8% below. The survey data was effective August 1, 1999.

Since 1999, DHRM has not conducted detailed surveys to update the 1999 findings. Instead, indicators of market movement, as reflected in performance increase budgets and structure adjustments, have been gathered. The theory underlying this approach is that an employer can maintain its competitive position by increasing its salaries the same percentage as other employers are increasing theirs. In other words, if other employers are increasing their employees' salaries by an average of, for example, three percent each year, the Commonwealth can maintain its position if it also grants a three percent average increases. Other employers often use this same methodology to maintain their competitiveness.

In prior years' reports, the cumulative effect of market movement indicators and state employee salary increases since 1999 were compared to project the Commonwealth's current market position. The recent JLARC study provides a new benchmark against which future salary changes may be measured.

This year, the Department of Human Resource Management gathered projections of average 2008-2009 salary increases from a variety of sources. The primary sources were national compensation consulting firms, because they provide consistent, reliable results by surveying large numbers of employers each year. This year, surveys by the Institute of Management and Administration (IOMA), Mercer Human Resource Consulting, WorldAtWork, Business and Legal Reports (BLR), and the Economic Research Institute (ERI) were used to measure salary increase trends. Other sources were used to confirm these surveys, including the Employment Cost Index (ECI) published by the Bureau of Labor Statistics and the 2008 Salary and Benefits Survey published by the Southeastern States Salary Conference.

DHRM also compared the average salaries of Virginia state employees with salaries paid by other employers for comparable jobs. A suite of survey reports published by Watson Wyatt Worldwide was used for this comparison. Twenty-five occupations were selected for the comparison based on the expectation of finding data for them in the Watson Wyatt reports and on their being representative of the array of state occupations. These occupations include 4.4% of classified state employees and 20 (35.7%) of the state's 56 occupational career groups.

Due to the fast-moving market for health care occupations, Watson Wyatt data for 2008 was purchased for comparison of these jobs with Commonwealth salaries. Data for the Southeastern United States region was compared with average Virginia state salaries as of September 1, 2008. For other occupations, in order to reduce costs, DHRM aged 2007 data by the average 2008 market movement reported by the consulting firms, 3.89%. Therefore, caution should be exercised in basing decisions on data for individual jobs.

FINDINGS

There are two measures of salary increases that are used to maintain the relative compensation of the Commonwealth's employees with other private and public employers. The first is the average performance increase budget, which provides the actual average increase that employees in other organizations are expected to receive during the year. The second is the average adjustment that other employers will make to their salary ranges. Salary range adjustments are typically somewhat smaller than average performance increase budgets, so that employees' salaries will progress through their respective ranges.

AVERAGE PERFORMANCE INCREASE BUDGETS

The various sources of information indicated that average performance increases in 2009 would be as indicated below.

National Compensation Consulting Firms:

<u>Firm</u>	<u>Average Increase</u>	<u>Period</u>
IOMA	3.8%	Calendar Year 2009
Mercer Human Resource Consulting	3.7%	Calendar Year 2009
WorldAtWork	3.9%	Calendar Year 2009
BLR	3.7%	Calendar Year 2009
ERI	4.0%	Calendar Year 2009

Other Sources:

<u>Source</u>	<u>Average Increase</u>	<u>Period</u>
ECI	2.9%	Sept.2007–Sept. 2008
Southeastern States	2.28%	Fiscal Year 2008-2009

In 2007, the national compensation-consulting firms anticipated an average performance increase budget of 3.74% for calendar year 2008. This year, they report that increases in 2008 have actually averaged 3.89%, which is 0.15% more than last year's estimates.

This year, the national compensation-consulting firms anticipate average performance increase budgets of 3.82% for calendar year 2009. The average for the additional sources is 2.59%, while the combined average for all sources in calendar year 2009 is 3.47%.

The survey results indicate that a 3.89% average performance increase in fiscal year 2009 (the average market movement in calendar year 2008) would maintain the Commonwealth's 2007 competitive position through June 30, 2009, the end of the fiscal year. However, no increase was approved for state employees in fiscal year 2009 (calendar year 2008). Therefore, the Commonwealth's salaries will trail other employers' salaries by 3.89% more on June 30, 2009 than on the comparable date in 2008.

The 2008 survey findings indicate an additional 3.47% market movement in calendar year 2009. Therefore, based on the combined sources, if employees' salaries increase less than 7.49% (the cumulative effect of the 3.89% and 3.47% average increases) in fiscal year 2010, the resulting 2010 market deviation will exceed the deviation that was calculated in calendar year 2007 by that amount.

Since the national consulting firms conducted their market movement surveys, the national economy has continued to weaken. Thus, it may be reasonable to expect salary increases during 2009 to be somewhat lower than employers originally anticipated. In fact, those surveys conducted in June and July 2008, reported higher anticipated 2009 increases than the surveys that were conducted in October 2008.

These surveys are comprehensive and costly to prepare, so more recent, confirming reports have not been produced. However, WorldAtWork recently conducted an impromptu survey to determine the extent of changing plans. That survey indicated that the anticipated increases for 2009 had dropped from 3.9% to 3.1%. Other anecdotal information indicates that increases may be about one percent lower than previously planned. For example, a Society for Human Resource Management (SHRM) survey found that 5% of employers reporting had reduced employees' salaries during the last 12 months.

If actual increases in 2009 are 1.0% lower than originally estimated by the compensation consulting firms, the combined average market movement will be approximately 2.75% during 2009, and the combined increases for 2008 and 2009 will be 6.75%.

The JLARC study found that, in early 2008, Commonwealth salaries were 88% of the median for employers in their survey. For total compensation, the corresponding figure was 96%. A 13.37% increase in Commonwealth salaries would be required to raise Commonwealth salaries to the JLARC median. Combining that figure with the most likely cumulative 2008 and 2009 market movement (6.75%) results in Commonwealth salaries being 21.0% behind the market by the end of 2009 if no adjustments to Commonwealth salaries are made. The total compensation deviation (salary plus benefits) found by JLARC was 4.17% (96% of the market median).

AVERAGE STRUCTURE ADJUSTMENTS

In an effort to reduce expenses, DHRM did not purchase a variety of detailed market movement surveys this year. Generally available survey summary data was used. Therefore, the only reliable data relating to structure adjustments was provided by WorldAtWork. Its annual survey found that adjustments during 2008 averaged 2.5%, while employers expect 2.7% average increases in 2009.

COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES

A comparison with Watson Wyatt survey data indicated a somewhat smaller deviation than the JLARC estimate. The average salary deviation for the 25 occupations in the comparison was 11.23%. Detailed information on the comparison is found on page 11 of this report. It indicates differences in the deviations among the various occupations.

Due to the fast-moving market for health care occupations, Watson Wyatt data for 2008 was purchased for comparison of these jobs with Commonwealth salaries. Data for the Southeastern United States region was compared with average Virginia state salaries as of September 1, 2008.

For other occupations, in order to reduce costs, DHRM aged 2007 data by the average 2008 market movement reported by the consulting firms, 3.89%, to derive the 2008 market averages. Also, the individual deviations are influenced by factors such as the internal alignment of jobs, the varying geographical markets for the various jobs, and the different mix of responding employers from year to year. Therefore, caution should be exercised in basing decisions on data for individual jobs.

CONCLUSIONS

There are several measures of competitiveness that can be used to formulate a strategy for adjusting state employees' salaries, beginning in fiscal year 2010 (November 25, 2009), to maintain or improve the state's competitiveness:

- ✓ An adjustment of 2.75% would equal the expected market movement in calendar year 2009.
- ✓ A 3.89% increase would raise state employee's salaries by an amount equal to market movement during 2008.
- ✓ Increasing state salaries by 4.17%, the total compensation deviation identified by JLARC, would reduce the Virginia total compensation deviation to the amount of 2008 and 2009 market movement, 6.75%, assuming that other employers change total compensation at the same rate as they change salaries.
- ✓ A 6.75% adjustment would be equivalent to the combined salary movement figures for 2008 and 2009, maintaining the salary deviation (-13.37%) identified by JLARC at the beginning of 2008.
- ✓ An 11.20% increase would raise total compensation to equal the market at the end of calendar year 2009.
- ✓ Increasing state salaries by 13.37%, the market deviation identified by JLARC, would reduce the Virginia salary deviation to the amount of 2008 and 2009 market movement (6.75%).
- ✓ A 21.0% increase would raise state salaries to equal the market in December 2009.

RECOMMENDATION 5: SURVEY METHODOLOGY REPORT OF THE COMMISSION ON REFORM OF THE CLASSIFIED COMPENSATION PLAN

The Commission recommends the establishment of a new salary survey methodology to ensure that classified salaries are competitive with appropriate public and private sector markets.

The *Code of Virginia* does not define the specific competitive philosophy for the Commonwealth other than to state the goal noted below. Section 2.1-114.6 of the *Code of Virginia* states: “It is the goal of the Commonwealth that its employees be compensated at a rate comparable to the rate of compensation for employees in the private sector of the Commonwealth in similar occupations.”

The definition of competitive, while not stated, can be derived based upon past practice of the executive and legislative branches. Historically, the Commonwealth's salaries have been allowed to lag the market.

The goal of the new survey methodology will be to pay employees fairly and consistently for the jobs that they perform. The level of this compensation should be sufficient to attract, retain, and motivate the Commonwealth's workforce.

The new methodology should support the following purposes:

- Educate employees and managers on the value of each of the components of state's total compensation package;
- Provide agency management with relevant salary data to assess competitive pay rates or make salary decisions;
- Provide salary data for DPT to maintain the pay structure or re-align occupations within the pay structure;
- Provide information on emerging pay practices and trends to assure that the Commonwealth's pay plan is current and responsive to state and agency needs.

A new survey methodology is recommended that will annually collect data on salaries, other compensation strategies, and benefits from appropriate public and private sector markets. These measures comprise the components of a total compensation program. Total compensation includes salaries, retirement and life insurance, and other benefits such as healthcare, annual and sick leaves, premium pays, bonuses, and other practices. The comparison between the Commonwealth's total compensation package and prevailing practices in the labor market will be accomplished through a series of surveys and data analyses purchased and/or conducted by DPT. The surveys should include both public and private markets since many of the state's jobs do not have counterparts in the private sector.

The following criteria should be considered in the selection of surveys:

- the survey will provide adequate descriptions of work to match state roles;
- the survey will provide data necessary for survey analyses;
- the survey will adequately explain its methodologies in sample selection and data analyses;
- the survey will report the effective date for pay rates collected;
- the survey will include appropriate markets for the Commonwealth;
- the survey may be a published survey conducted by a third party;
- the survey will be available for DPT to examine, verify, and/or purchase; and
- the survey will provide substantial value in increasing the number of job matches for the Commonwealth and/or other labor markets appropriate for the Commonwealth.

When third-party surveys are selected, DPT will match market job titles to the new roles. DPT will provide available market comparisons for roles within career groups, and will provide as many matches as possible for each role. Because benchmark positions may not be available for every job within a role, it may be necessary to focus on those benchmark positions that are the best match to employees' respective positions. In some cases, several benchmark positions may be used to determine or approximate the value of employees' respective positions in the labor market.

DPT, on an annual basis, will publish the results of the survey process. The results will include such statistical data as hiring rates, market averages, and percentiles (where the salary for a specific position/working title would fall in comparison to the market data). The results will also include information on benefits comparability.

Managers will be trained on how to use these results in determining salary increases with the new pay practices. The results will be used as a reference to show what a similar job title would be paid in the market. Managers will need to consider other factors in determining an employee's salary such as agency need, budget availability, and internal alignment.

The new methodology will retain regional and local salary differentials. Agencies may continue to provide DPT with local salary information and data supporting their respective needs. DPT will review and approve local salary adjustments and differentials requests to move roles to different pay bands.

The new pay structure, including the assignment of roles to pay bands, will be reviewed and validated using new salary surveys during 2000-2001. Annually, DPT will provide the General Assembly and the Governor with data indicating projected market movement of the entire pay structure.

COMMONWEALTH PAY BANDS

EFFECTIVE NOVEMBER 25, 2008

STATE (SW) PAY BANDS Effective 11/25/2008		
Pay Band	RANGE	
	Minimum	Maximum
1	\$ 15,371	\$ 31,548
2	\$ 20,082	\$ 41,214
3	\$ 23,999	\$ 49,255
4	\$ 31,352	\$ 64,347
5	\$ 40,959	\$ 84,062
6	\$ 53,510	\$109,818
7	\$ 69,907	\$143,470
8	\$ 91,324	\$187,430
9	\$119,308	MARKET

NOVA (FP) PAY BANDS Effective 11/25/2008		
Pay Band	RANGE	
	Minimum	Maximum
1	\$ 15,371	\$ 41,012
2	\$ 20,082	\$ 53,579
3	\$ 23,999	\$ 64,032
4	\$ 31,352	\$ 83,651
5	\$ 40,959	\$109,280
6	\$ 53,510	\$142,764
7	\$ 69,907	\$172,165
8	\$ 91,324	\$224,916
9	\$119,308	MARKET

NOTE: Salary ranges effective November 25, 2008 are unchanged from November 25, 2007.

DISTRIBUTION OF STATE EMPLOYEES
BY PAY BAND
OCTOBER 1, 2008

	<u>Freq</u>	<u>Cum. Freq</u>	<u>Percent</u>	<u>Cum. Percent</u>
1 ,****	2848	2848	3.83	3.83
2 ,*****	10885	13733	14.63	18.46
3 ,*****	25661	39394	34.49	52.95
4 ,*****	18330	57724	24.64	77.59
5 ,*****	12285	70009	16.51	94.10
6 ,****	3739	73748	5.03	99.13
7 ,*	429	74177	0.58	99.70
8 ,	204	74381	0.27	99.98
9 ,	16	74397	0.02	100.00

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5 10 15 20 25 30

Percentage

**COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA  
STATE EMPLOYEES' AVERAGE SALARIES  
SEPTEMBER 2008**

| Occupation                   | Private Industry<br>Average Salary | Average Virginia<br>Employee Salary | Deviation |
|------------------------------|------------------------------------|-------------------------------------|-----------|
| Truck Driver, Light          | 24310                              | 19669                               | -19.1%    |
| Cook                         | 27843                              | 24748                               | -11.1%    |
| Security Guard, Unarmed      | 28778                              | 25723                               | -10.6%    |
| Laboratory Aide              | 27400                              | 26004                               | -5.1%     |
| Mail Clerk                   | 27323                              | 26048                               | -4.7%     |
| Cashier                      | 24622                              | 29217                               | 18.7%     |
| Secretary                    | 35634                              | 29802                               | -16.4%    |
| Yard Laborer/Janitorial Supv | 39063                              | 32553                               | -16.7%    |
| Maintenance Electrician      | 46231                              | 37476                               | -18.9%    |
| Marketing Specialist         | 52568                              | 40597                               | -22.8%    |
| Medical lab Tech             | 39800                              | 41940                               | 5.4%      |
| Accountant                   | 50075                              | 43931                               | -12.3%    |
| Social Worker (MSW)          | 51400                              | 45148                               | -12.2%    |
| Employee Training Specialist | 54438                              | 45807                               | -15.9%    |
| Staff RN                     | 59700                              | 47460                               | -20.5%    |
| Attorney                     | 100254                             | 51914                               | -48.2%    |
| Chemist                      | 66282                              | 54161                               | -18.3%    |
| Internal Auditor             | 68360                              | 54470                               | -20.3%    |
| HR Admin Supv                | 79372                              | 58969                               | -25.7%    |
| Environmental Engineer       | 55893                              | 61105                               | 9.3%      |
| Architect                    | 57243                              | 64255                               | 12.2%     |
| Physical Therapist           | 67100                              | 70697                               | 5.4%      |
| Systems Analysis Supv        | 83839                              | 77851                               | -7.1%     |
| Data Base Administrator      | 90384                              | 81753                               | -9.5%     |
| Generic Engineer Supv        | 105137                             | 87968                               | -16.3%    |
| Average                      |                                    |                                     | -11.23%   |

**NOTES:**

- Occupations were selected to represent a cross-section of state jobs. Of 70,443 classified employees on September 1, 2008 (UVa is excluded), 3,109 (4.4%) were in these 25 occupations.
- Private industry data for health care occupations represents weighted average salaries for the Southeastern U.S., collected in spring 2008 and published by Watson Wyatt. Data for the other occupations was collected in spring 2007 and was aged by the average market movement reported by the national compensation consulting firms, 3.89%. Therefore, caution should be exercised in basing decisions on data for individual jobs.
- Virginia state employees' average salaries are those in effect September 1, 2008.
- A negative deviation is the percentage that the Virginia employees' average salary would need to be adjusted in order to equal the private industry average.