



COMMONWEALTH of VIRGINIA

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Dear Governor McDonnell 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 of those 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 Lisa M. Hicks-Thomas
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 6 and 7 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 of those surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

JLARC completed a comprehensive, two-year study of the Commonwealth’s total compensation program, including salaries and benefits, in October 2008. This study included 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

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 2008 JLARC study provided a new benchmark against which subsequent salary changes have been measured.

This year, the Department of Human Resource Management gathered projections of average 2012-2013 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 Mercer Human Resource Consulting, WorldAtWork, the Hay Group, Towers Watson, Compensation Resources, Compdata Surveys, Aon Hewitt, Culpeper and Associates, Kenexa Compensation, and Empsight International, LLC 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, a Human Resource Association of the National Capital Area survey, and the 2012 Pay Structures and Practices Survey published by the National Compensation Association of State Governments (NCASG).

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 Towers Watson was used for this comparison. Twenty-five occupations were selected for the comparison based on the expectation of finding data for them in the Towers Watson reports and on their being representative of the array of state occupations. These occupations include 3.9% of classified state employees and 20 (35.7%) of the state's 56 occupational career groups.

This year, in order to reduce costs, DHRM used the previously purchased 2011 professional and administrative occupations survey, which Towers Watson aged for 2012. For these occupations, data for the United States was compared with average Virginia state salaries as of September 1, 2012. For other occupations, DHRM aged 2011 data by the overall average 2012 movement for the professional and administrative occupations, 2.07%, in order to derive the 2012 market averages. 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 2012 would be as shown below.

National Compensation Consulting Firms:

<u>Firm</u>	<u>Average Increase</u>	<u>Period</u>
Mercer Human Resource Consulting	2.90%	Calendar Year 2013
WorldAtWork	3.00%	Calendar Year 2013
The Hay Group	3.00%	Calendar Year 2013
Towers Watson	2.90%	Calendar Year 2013
Compensation Resources	2.28%	Calendar Year 2013
Compdata Surveys	2.80%	Calendar Year 2013
Aon Hewitt	3.00%	Calendar Year 2013
Culpepper and Associates	2.90%	Calendar Year 2013
Kenexa Compensation	3.00%	Calendar Year 2013
Empsight International, LLC	3.00%	Calendar Year 2013

Other Sources:

<u>Source</u>	<u>Average Increase</u>	<u>Period</u>
ECI	1.80%	Sept. 2011–Sept. 2012
NCASG	0.13%	Fiscal Year 2013
HR Association, National Capital Area	2.75%	Calendar Year 2013

In 2011, the national compensation-consulting firms anticipated an average performance increase budget of 2.74% for calendar year 2012. This year, they report that increases in 2012 have actually averaged 2.8%, which is 0.06% greater than last year's estimates. This year, the national compensation-consulting firms anticipate average performance increase budgets of 2.88% for calendar year 2013. The average for the additional sources is 1.56%, while the combined average for all sources in calendar year 2013 is 2.57%.

The 2011 survey findings reported that employees' salaries would trail other employers' salaries by 8.62% on June 30, 2012 if they did not increase by that amount in fiscal year 2012. This figure was 5.94% more than they had trailed on the comparable date in 2011, 2.31% more than in 2010, 4.51% more than in 2009, and 8.57% more than in 2008.

The 2012 survey findings indicate an additional 2.57% market movement in calendar year 2013. Therefore, based on the combined sources, if employees' salaries do not increase in fiscal year 2013, the resulting 2013 market deviation will be 11.41%.

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 cumulative 2008, 2009, 2010, 2011, 2012, and the projected 2013 market movement (2.57%) results in Commonwealth salaries being 26.3% behind the market by the end of calendar year 2013 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

This year, information on average structure adjustments was provided by the National Compensation Association of State Governments (NCASG), WorldAtWork, Mercer, the Human Resource Association of the National Capital Area, and Compdata Surveys. These sources indicate that adjustments during 2012 averaged 1.46% (.19% less than the projected 1.65%), while employers expect 2.0% average adjustments in 2013.

<u>Source</u>	<u>Average Adjustment</u>	<u>Period</u>
NCASG	0.69%	Fiscal Year 2013
WorldAtWork	1.90%	Calendar Year 2013
Mercer Human Resource Consulting	3.00%	Calendar Year 2013
HR Association, National Capital Area	2.55%	Calendar Year 2013
Compdata Surveys	1.90%	Calendar Year 2013

COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES

A comparison with Towers Watson survey data indicated a somewhat smaller deviation than the estimate based on the JLARC findings. The average salary deviation for the 25 occupations in the comparison was 19.49%. Detailed information on the comparison is found on page 10 of this report. It indicates differences in the deviations among the various occupations.

Towers Watson data for 2012 was used for comparison of Commonwealth salaries with salaries paid by private companies for professional and administrative jobs. Data for the United States was compared with average Virginia state salaries as of September 1, 2012.

This year, in order to reduce costs, DHRM used the previously purchased 2011 professional and administrative occupations survey, which Towers Watson aged for 2012. For these occupations, data for the United States was compared with average Virginia state salaries as of September 1, 2012. For occupations not included in the Tower Watson subscription, DHRM aged 2011 data by the overall average 2012 movement for the professional and administrative occupations, 2.07%, in order to derive the 2012 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 2013, to maintain or improve the state's competitiveness:

- ✓ An adjustment of 2.57% would equal the expected market movement in calendar year 2013.
- ✓ 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, 2009, 2010, 2011, 2012, and 2013 market movement, 11.41%, assuming that other employers change total compensation at the same rate as they change salaries.
- ✓ An 11.41% adjustment would be equivalent to the combined salary movement figures for 2008, 2009, 2010, 2011, 2012, and 2013, maintaining the -13.37% salary deviation identified by JLARC at the beginning of 2008.
- ✓ A 16.05% increase would raise total compensation to equal the market at the end of calendar year 2012.
- ✓ Increasing state salaries by 13.37%, the market deviation identified by JLARC, would reduce the Virginia salary deviation to the amount of 2008, 2009, 2010, 2011, 2012, and 2013 market movement (11.41%).
- ✓ A 26.3% increase would raise state salaries to equal the market in December 2013.

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, 2012

STATE (SW) PAY BANDS Effective 11/25/2012		
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 11/25/2012		
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, 2012 are unchanged from November 25, 2007.

DISTRIBUTION OF STATE EMPLOYEES
BY PAY BAND
SEPTEMBER 1, 2012

		Freq	Cum. Freq	Percent	Cum. Percent
1	,****	2628	2628	3.84	3.84
2	,*****	9541	12169	13.93	17.77
3	,*****	22953	35122	33.52	51.29
4	,*****	17313	52435	25.28	76.57
5	,*****	11785	64220	17.21	93.78
6	,*****	3635	67855	5.31	99.09
7	,*	413	68268	0.60	99.69
8	,	194	68462	0.28	99.98
9	,	16	68478	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 2012**

Occupation	Private Industry Average Salary	Average Virginia Employee Salary	Deviation
Truck Driver, Light	28436	20,680	-37.51%
Cook	29883	24,959	-19.73%
Security Guard, Unarmed	28332	25,179	-12.52%
Laboratory Aide	28097	29,236	3.90%
Mail Clerk	32365	27,199	-19.00%
Cashier	31538	29,952	-5.30%
Secretary	38673	30,669	-26.10%
Yard Laborer/Janitorial Supv	44463	34,148	-30.21%
Maintenance Electrician	48392	39,207	-23.43%
Marketing Specialist	51379	43,196	-18.94%
Medical lab Tech	41640	44,420	6.26%
Accountant	52423	45,444	-15.36%
Social Worker (MSW)	54172	45,571	-18.88%
Employee Training Specialist	55243	45,623	-21.08%
Staff RN	62561	48,638	-28.63%
Internal Auditor	72891	49,604	-46.95%
Chemist	67936	55,628	-22.12%
Attorney	114140	59,486	-91.88%
HR Admin Supv	70417	62,014	-13.55%
Environmental Engineer	65661	63,188	-3.91%
Architect	82205	65,283	-25.92%
Physical Therapist	72466	79,571	8.93%
Systems Analysis Supv	85514	80,165	-6.67%
Data Base Administrator	92235	86,959	-6.07%
Generic Engineer Supv	107435	95,451	-12.56%
Average			-19.49%

NOTES:

- Occupations were selected to represent a cross-section of state jobs. Of 66,949 classified employees on September 1, 2012 (UVa is excluded), 2,609 (3.9%) were in these 25 occupations.
- Private industry data for professional and administrative occupations represents weighted average salaries for the U.S., collected and published in March 2011 and aged in August 2012 by Towers Watson. Data for the other occupations was collected in 2011 and was aged by the overall average 2012 movement for the professional and administrative occupations, 2.07%. Therefore, caution should be exercised in basing decisions on data for individual jobs.
- Virginia state employees' average salaries are those in effect September 1, 2012.
- 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.