



# COMMONWEALTH of VIRGINIA

SARA REDDING WILSON  
DIRECTOR

## Department of Human Resource Management

101 N. 14<sup>TH</sup> STREET  
JAMES MONROE BUILDING, 12<sup>TH</sup> FLOOR  
RICHMOND, VIRGINIA 23219  
(804) 225-2131  
(TTY) 711

December 15, 2017

Dear Governor McAuliffe and Members of the General Assembly:

Section 2.2-1202 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. Subsequent surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

The 2000 reconvened 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,

A handwritten signature in cursive script that reads "Sara R. Wilson".

Sara Redding Wilson

Enclosure

cc: The Honorable Nancy Rodrigues  
Secretary of Administration

# Annual Report on the Discrepancies in Compensation between the Public and Private Sectors

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Submitted by the Department of Human Resource Management in  
accordance with Section 2.2-1202 of the Code of Virginia



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## Introduction & Methodology

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To report discrepancies between the compensation of classified employees in state government with those in private industry for 2017, the Department of Human Resource Management (DHRM) is reporting two key indicators of base salary competitiveness. These are both common, frequently used measures organizations use to determine the competitiveness of their base salaries.

- The first competitive indicator reported is the **average percentage of salary increases and pay structure adjustment** that private industry implemented during 2017 in comparison to Virginia state government. (*Note:* adjustments to pay structures are generally less than performance increase budgets because of employee movements, progression, and transitions.)
- The second competitive indicator is a **comparison matrix of the average base salary** of a sample of employees in twenty-five Virginia state government roles with salaries in private industry for roles at an equivalent level.

Data for this year’s report was gathered from publicly available 2017 reports and 2018 projections for base salary increases from national compensation benchmarking organizations. DHRM also indexed the average salaries of a sample of Virginia classified state employee roles with salaries paid by other employers for comparable roles at the national level using salary surveys compiled by Willis Watson Towers. The General Assembly’s Commission on Employee Retirement Security and Pension Reform recommended that DHRM subscribe to and utilize commercial salary survey information for salary comparisons, and funding was allocated by the General Assembly allowing DHRM to subscribe for the first time since 2011.

In November of 2017, the Joint Legislative Audit and Review Commission (JLARC) completed a comprehensive study of the Commonwealth’s total compensation program, including salaries and benefits. This recent study was referenced to validate the findings in this report.

## Key Indicator Findings

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### Average Salary Increases and Pay Structure Adjustments

As documented in Appendix A, national compensation consulting firms reported that, as projected in 2016, private industry employers have provided an average three percent performance, merit, or across the board salary increase and will make an average two percent adjustment to pay structures during 2017.

<i>Private Industry Average 2017 Salary Increases</i>	<i>Private Industry Average 2017 Pay Structure Adjustments</i>
<b>3.0%</b>	<b>2.0%</b>

In calendar 2017, Virginia classified state government employees received a base salary increase of three percent on July, 10th. Sworn officers of the State Police also received an additional base salary increase of \$6,793 on July 10<sup>th</sup>. Certain high turnover roles received an additional two percent increase on September 10th. The classified pay structures (pay bands) were also adjusted to accommodate the July increase as documented in Appendix B. These are the first base salary increases and pay structure adjustments implemented since August of 2015. The distribution of employees by pay band on 6/30/2017 is available in Appendix C.

A majority of private organizations **vary their salary increases based on employee performance**. The national Willis Watson Towers survey found that exempt employees who received the highest performance ratings in private industry were granted an average salary increase of 4.5% in 2017, about 73% larger than the 2.6% increase given to employees receiving an average rating. Companies gave salary increases of 1.0% or less to workers with below-average performance ratings. While Virginia classified employees were only eligible for the 2017 salary increases if they had a contributor or greater performance level, there has not been any recent differentiation of centrally appropriated salary increases based on individual performance levels at or above the contributor level.

Private Industry Average 2018 Salary Increase for <i>Above Average Performers</i>	Private Industry Average 2018 Salary Increase for <i>Average Performers</i>	Private Industry Average 2018 Salary Increase for <i>Below Average Performers</i>
<b>4.5%</b>	<b>2.6%</b>	<b>1.0% or less</b>

National compensation consulting firms are projecting that private employers are budgeting to again provide an average **three percent** performance salary increase during calendar 2018. Projections for pay structure adjustments in calendar 2018 are also again averaging **two percent**.

<i>Projected</i> Private Industry Average 2018 Salary Increases	<i>Projected</i> Private Industry Average 2018 Pay Structure Adjustments
<b>3.0%</b>	<b>2.0%</b>

## Comparison of Private Industry Salaries

Salary surveys from Willis Watson Towers were used for comparison indexing of Commonwealth salaries with salaries paid by national private industry in a sample of equivalent roles. Private industry in the surveys includes for-profit and non-profit organizations. The availability of commercial salary survey data allowed DHRM to update, expand, and better focus numerous roles in the comparison matrix to increase the equivalency and sample size in this year's comparison. In 2016, the comparison had a sample of 4,898 of 63,871 classified employees while this year's comparison includes 8,437 of 62,850 classified employees.

The weighted average salary deviation for the 25 occupations in the 2017 comparison indicates that on average the salaries of the twenty-five compared roles is **10.28% below** the salaries paid in private industry. The average salary deviation is **11.50% below** the salaries paid in private industry. The salary differences in the comparison roles range from 4.13% above market to 39.00% below market. The weighted average percentage for the entire comparison group of 10.28% below market is in alignment with the findings of the November 2017 JLARC total compensation study which reported that average salaries were approximately 9% below market. Details of the indexed comparison are available in Appendix D of this report.

<i>Private Industry to Virginia State Government Comparison: 2017 Weighted Average Salary Deviation</i>	<i>Private Industry to Virginia State Government Comparison: 2017 Average Salary Deviation</i>
<b>-10.28%</b>	<b>-11.50%</b>

## Conclusions

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- ✓ The legislatively appropriated salary increases provided during calendar 2017 to Virginia classified state employees were **equivalent to** (or exceeded for high turnover roles) the average salary increases provided in the private sector during 2017
- ✓ The legislatively appropriated salary increases provided during calendar 2017 to Virginia classified state employees were **below** the average salary increases provided in the private sector to above average performers during 2017
- ✓ Planners and stakeholders should **expect** an average three percent increase in private industry salaries for 2018 along with an average 2% adjustment to pay structures

- ✓ On average, state classified employee salaries in the twenty-five compared sample roles are **10.28%** **below** the salaries found in private industry
- ✓ Significant **variation** in average salary deviations by role were found in the comparison with twelve of the twenty-five roles salaries averaging more than 10% below their private industry equivalents



## Appendix A: Average Private Industry 2017 Salary Increases and Pay Structure Adjustments

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Table 1 – 2017 Reported Private Industry Salary Increases

National Compensation Firms - Reported 2017 Salary Increases		
<i>Firm</i>	<i>Average Increase</i>	<i>Period</i>
Mercer	2.9%	Calendar 2017
Aon Hewitt	3.0%	Calendar 2017
ERI Economic Research Institute	3.1%	Calendar 2017
The Conference Board	3.0%	Calendar 2017
Korn Ferry (Hay Group)	3.0%	Calendar 2017
Willis Towers Watson	3.0%	Calendar 2017
World at Work	3.0%	Calendar 2017
<b>Average</b>	<b>3.0%</b>	

Table 2 – 2017 Reported Pay Structure Increases

National Compensation Firms - Reported 2017 Pay Structure Increases		
<i>Firm</i>	<i>Average Increase</i>	<i>Period</i>
National Compensation Association of State Government (NCASG)	2.0%	Fiscal 2017
World at Work	2.0%	Calendar 2017
<b>Average</b>	<b>2.0%</b>	



## Appendix B: Commonwealth of Virginia – Pay Bands

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Effective: August 10, 2015

Virginia State-Wide (SW) PAY BANDS - August 10, 2015		
Band	Minimum	Maximum
1	\$15,992	\$38,820
2	\$20,894	\$49,370
3	\$24,969	\$58,146
4	\$32,619	\$74,617
5	\$42,614	\$96,134
6	\$55,672	\$124,244
7	\$72,731	\$160,972
8	\$95,013	\$208,950
9	\$124,128	MARKET

Effective: July 10, 2017

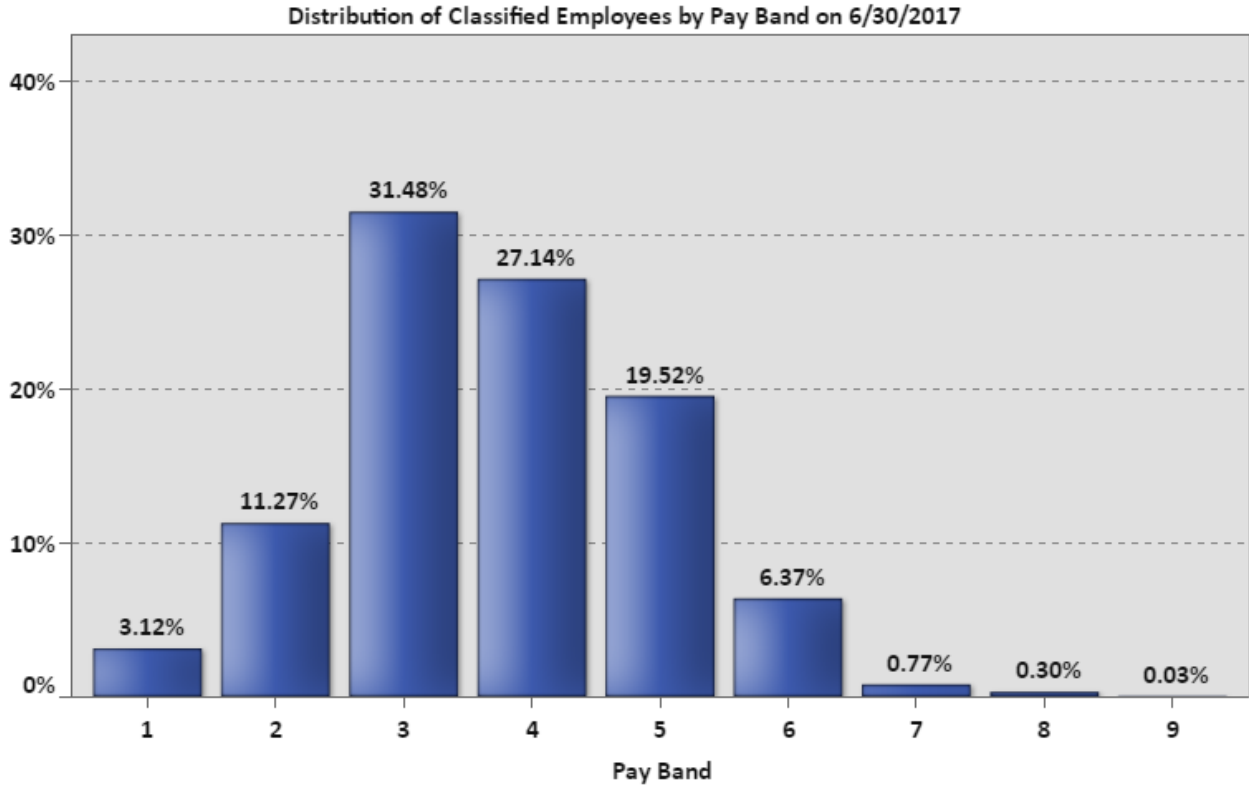
Virginia State-Wide (SW) PAY BANDS - July 10, 2017		
Band	Minimum	Maximum
1	\$16,472	\$46,778
2	\$21,521	\$57,644
3	\$25,718	\$66,683
4	\$33,598	\$83,649
5	\$43,892	\$105,811
6	\$57,342	\$134,764
7	\$74,913	\$172,594
8	\$97,863	\$222,012
9	\$127,852	MARKET

Northern Virginia (FP) PAY BANDS - August 10, 2015		
Band	Minimum	Maximum
1	\$15,992	\$50,466
2	\$20,894	\$64,181
3	\$24,969	\$75,590
4	\$32,619	\$97,002
5	\$42,614	\$124,974
6	\$55,672	\$161,517
7	\$72,731	\$193,167
8	\$95,013	\$250,740
9	\$124,128	MARKET

Northern Virginia (FP) PAY BANDS - July 10, 2017		
Band	Minimum	Maximum
1	\$16,472	\$58,773
2	\$21,521	\$72,899
3	\$25,718	\$84,651
4	\$33,598	\$106,705
5	\$43,892	\$135,516
6	\$57,342	\$173,156
7	\$74,913	\$205,755
8	\$97,863	\$265,055
9	\$127,852	MARKET

**NOTE:** The minimum for each pay band in the classified compensation salary structure was increased by three percent at the minimum and three percent plus \$6,793.00 at the maximum effective July 10, 2017, pursuant to Chapter 836 of the 2017 Acts of Assembly; Item 475, paragraph X.3

## Appendix C: Distribution of Classified Employees by Pay Band



Distribution of Classified Employees by Pay Band on 6/30/2017		
Band	Frequency	Percent
1	1,961	3.12%
2	7,093	11.27%
3	19,809	31.48%
4	17,074	27.14%
5	12,279	19.52%
6	4,010	6.37%
7	485	0.77%
8	190	0.30%
9	17	0.03%
<b>TOTAL</b>	<b>62,918</b>	<b>100.00%</b>

## Appendix D: Comparison of Private Industry & Virginia Classified State Employees' Average Salaries with Percent of Difference (September, 2017)

Occupation	Private Industry	State	Difference
1. Attorneys	\$114,600	\$69,907	-39.00%
2. Marketing & Public Relations Specialist	\$72,800	\$51,271	-29.57%
3. Light Delivery Vehicle Operations	\$38,400	\$28,365	-26.13%
4. Secretaries & Administrative Assistants	\$48,600	\$37,290	-23.27%
5. Accountants	\$69,000	\$54,925	-20.40%
6. Mail Services	\$36,700	\$29,925	-18.46%
7. Training & Development Specialists	\$71,500	\$58,646	-17.98%
8. Electricians, Skilled Trades	\$51,900	\$45,049	-13.20%
9. Civil Engineers	\$95,300	\$83,028	-12.88%
10. Food Preparation/Services	\$30,000	\$26,526	-11.58%
11. Chemists	\$66,900	\$59,461	-11.12%
12. Medical & Clinical Laboratory Technologists	\$61,700	\$54,876	-11.06%
13. Environmental Engineers	\$74,000	\$67,181	-9.21%
14. Human Resources, Managers	\$100,500	\$92,399	-8.06%
15. Office & Administrative Support	\$41,900	\$38,775	-7.46%
16. Engineering, Managers	\$116,400	\$108,846	-6.49%
17. Internal Auditors	\$73,900	\$69,291	-6.24%
18. Grounds Laborer/Janitorial Supervisor	\$32,800	\$30,760	-6.22%
19. Medical & Clinical Laboratory Technicians	\$46,600	\$44,975	-3.49%
20. Registered Nurses	\$67,400	\$65,350	-3.04%
21. Security Guards, Unarmed	\$33,600	\$32,605	-2.96%
22. Database Administrators	\$95,700	\$93,865	-1.92%
23. Computer & Information Systems, Managers	\$112,100	\$110,499	-1.43%
24. Healthcare Social Workers	\$49,500	\$49,254	-0.50%
25. Physical Therapists	\$86,500	\$90,073	+4.13%
<b>Average Difference:</b>			<b>-11.50%</b>
<b>Weighted Average Difference:</b>			<b>-10.28%</b>

**NOTES:**

- Occupations chosen represent a cross-section of comparable state jobs indexed to the Willis Watson Towers salary survey occupations. The sample 25 roles include 8,437 (13.4%) of 62,850 classified Virginia state employees – data is as of September 30, 2017.
- Private industry salaries include data from for-profit and non-profit organizations at the national level. Salaries for these occupations are as of February 2017 and were aged by the salary survey provider, Willis Towers Watson, to reflect projected market rates as of September, 2017.
- The weighted average difference shown above is weighted by count of employees in each occupation.