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December 8, 2020

The Honorable Luke E. Torian, Chairman, House Appropriations Committee  
The Honorable Janet D. Howell, Chairman, Senate Finance Committee  
The Honorable Keyanna Conner, Secretary of Administration

**Subject: Annual Compensation Comparison Report – 2020**

The attached report is pursuant to § 2.2-1202 of the Code of Virginia, Review of employee compensation; biennial report on employee recruitment and retention.

The Department of Human Resource Management (DHRM), with assistance from Deloitte Consulting LLP (“Deloitte”), has compared the compensation of classified Commonwealth employees to benchmark compensation data representing the public and private sectors and in response developed a methodology that can be used to determine (i) the amount of funding that should be appropriated for state employee salary increases each year and (ii) how to distribute that funding to address state agencies' most significant workforce challenges.

Due in part to unpredictable employee increases, it is estimated that average base salaries are 17% and 10% below market median for general industry and government data, respectively. Total compensation approximates the market median and is 7% below the market median for general industry and government data, respectively. Lack of consistent pay increases and perceived inequities in pay have continuously been cited as being a major driver of recruitment and retention challenges.

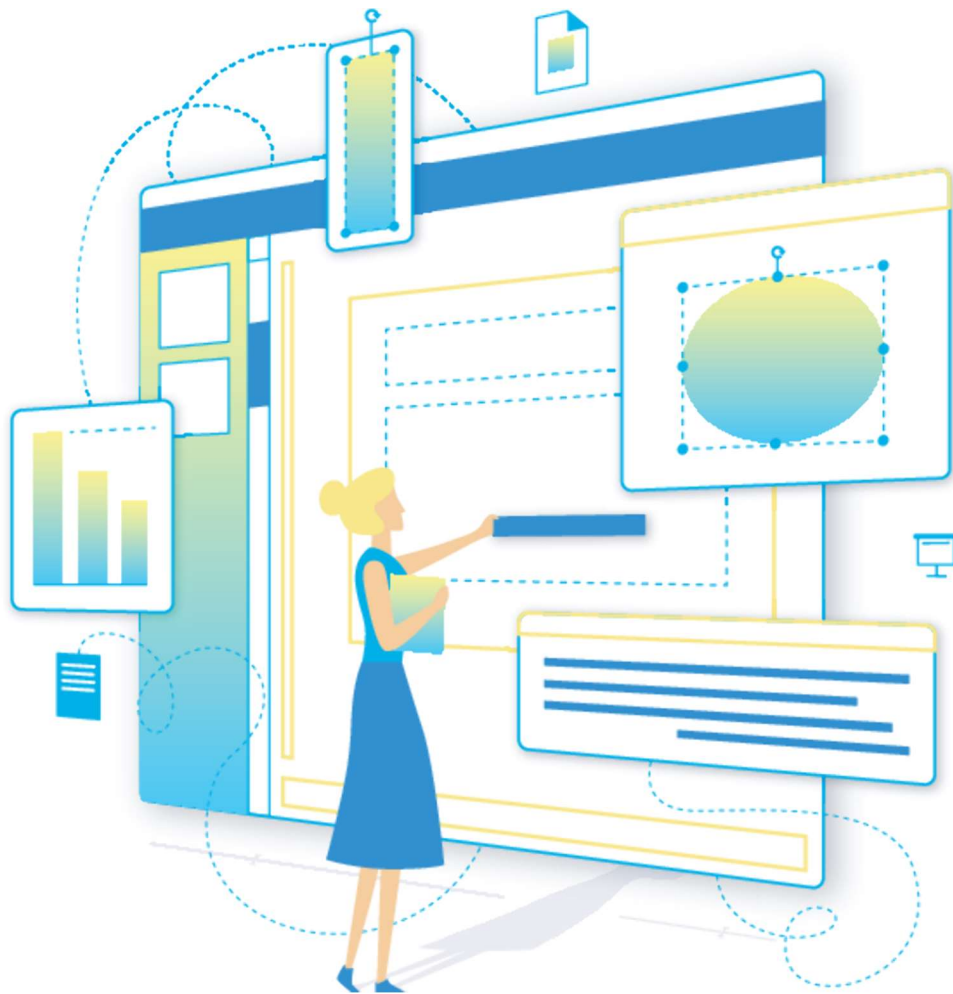
As noted as recommendations within this report in order to properly align the pay and benefits of the statewide workforce and support agencies in addressing recruitment and retention challenges, the Commonwealth of Virginia must commit to consistent pay increases that align with market data, promote pay for performance in the Commonwealth’s compensation program and offer decentralized agency mechanisms to address recruitment and retention challenges.

Please contact me if there are any questions.

Sincerely,

A handwritten signature in cursive script that reads "Emily S. Elliott".

Emily S. Elliott



## The Commonwealth of Virginia

2020 Annual Report Comparing Compensation between  
the Commonwealth's Classified Workforce and the Public  
and Private Sectors

October 1, 2020

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# Introduction

The 2019 Session of the General Assembly of the Commonwealth of Virginia (“the Commonwealth”) enacted amendments to the Code of Virginia with the intent to clarify the goals and process of managing the compensation of the Commonwealth’s classified workforce. The Governor and the General Assembly of the Commonwealth tasked the Department of Human Resource Management (“DHRM”) with developing and implementing an updated, collaborative and data-driven approach that provides ongoing reporting and recommendations for the efficient and effective management of compensation for the classified workforce.<sup>1</sup>

DHRM, with assistance from with Deloitte Consulting LLP (“Deloitte”), has compared the compensation of classified Commonwealth employees to benchmark compensation data representing the public and private sectors. Deloitte drafted this report to document the market study findings and answer these key questions:

- Which Commonwealth occupations are the most difficult to recruit and retain?
- How do base salaries and total compensation for a sample of classified Commonwealth roles compare to public and private sector salaries?
- What adjustments do Commonwealth leaders feel should be made to the Commonwealth’s currently compensation philosophy?
- What are the projected salary increases for the public and private sectors in 2020?

The outcome of this study was used to develop a methodology that can be used to determine (i) the amount of funding that should be appropriated for state employee salary increases each year and (ii) how to distribute that funding to address state agencies' most significant workforce challenges.

The market data for this year’s compensation study, which includes projections for base salary increases, was gathered from multiple published surveys. This year’s report also presents findings from a review of the Commonwealth’s compensation philosophy and recommendations for the Commonwealth’s base salary increase process.

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<sup>1</sup> See Appendix A for more details on the recently enacted amendments to the Code of Virginia regarding managing the compensation of the Commonwealth’s classified workforce.

# Report Findings

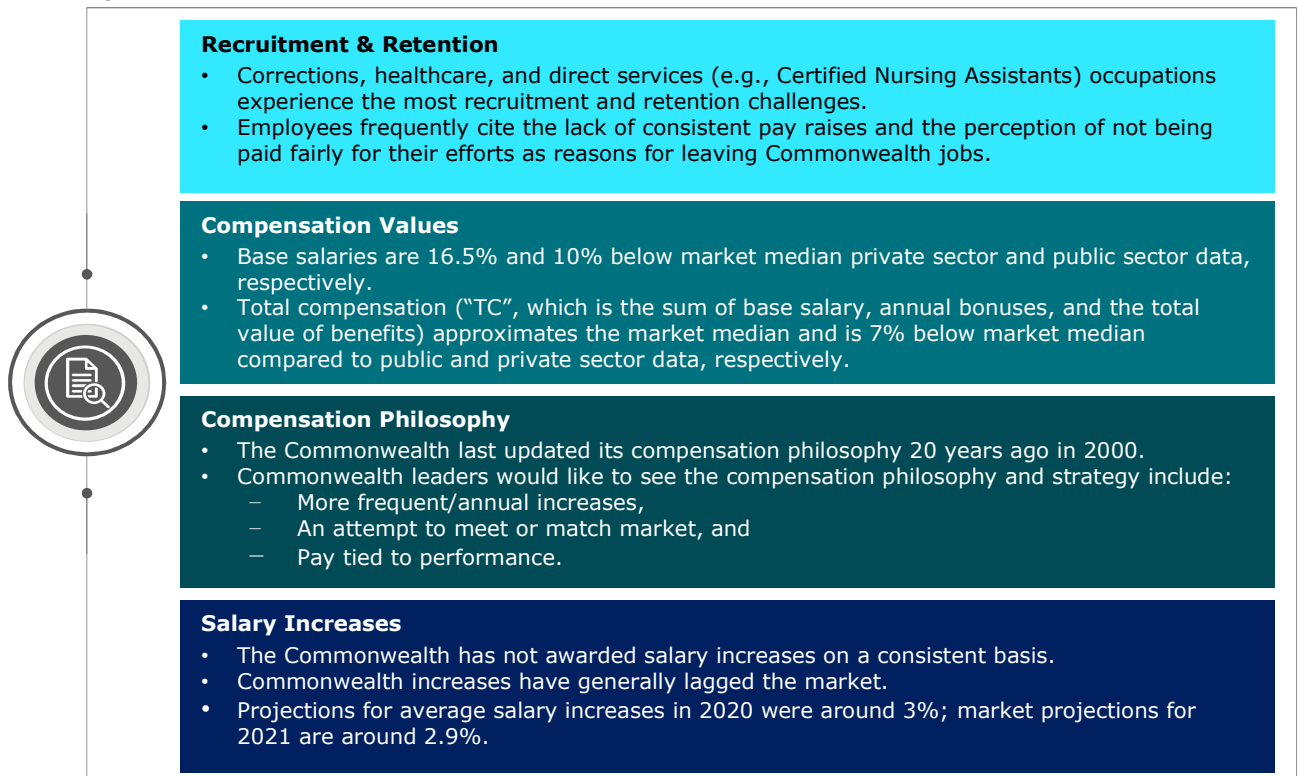
## Recruitment & Retention, Compensation Values, Compensation Philosophy Findings, and Salary Increases

Deloitte worked with the Commonwealth and, more specifically, DHRM to:

- Analyze recruitment and retention metrics and trends from 2017-2019 to objectively and quantifiably score occupations' recruitment and retention activity,
- Benchmark the compensation of 202 occupations (i.e., a position designation representing a combination of Commonwealth employee role title and Standard Occupational Classification ("SOC") description) covering 32,029 employees using market data illustrating organizations similar to and with which the Commonwealth competes for talent,
- Review the Commonwealth's current compensation philosophy and update it to meet the Commonwealth's current workforce needs and compensation strategy, and
- Develop an approach for distributing salary increase funds for Commonwealth classified employees using the results of the recruitment, retention, compensation benchmark and compensation philosophy analyses.

Key findings from the study are shown in Figure 1:

Figure 1



# Project Methodology

Deloitte used the approach shown in Table 1 to help identify Commonwealth occupations with recruitment and retention challenges, understand pay program competitiveness, identify where changes to the compensation philosophy are needed, and develop salary increase fund distribution recommendations.

Table 1		Recruitment and retention analysis	Compensation study	Compensation Philosophy Review	Salary increase distribution guidelines
Inputs	<ul style="list-style-type: none"> <li>+ Score and rank four metrics serving as recruitment and retention indicators for the Commonwealth <sup>2</sup></li> <li>+ Categorize each metric score as high, medium, or low</li> <li>+ Create a total recruitment and retention score ("the R&amp;R score") for each occupation based on a sum of the four metric scores <sup>3</sup></li> </ul>	<p>Select jobs to benchmark using:</p> <ul style="list-style-type: none"> <li>+ The recruitment and retention scorecards</li> <li>+ The number of incumbents in each occupation; where possible, benchmark occupations covering a large number of employees</li> <li>+ Job levels; benchmark a diverse mix of management, professional, support, and technical staff</li> </ul>	<p>Understand the strengths of the current philosophy and confirm where it needs to be updated through:</p> <ul style="list-style-type: none"> <li>+ An online questionnaire to solicit feedback from agency leaders</li> <li>+ Interviews with key cabinet leaders in the current administration</li> <li>+ A review of compensation philosophies from other public sector entities and private sector companies</li> </ul>	<p>Use the following to develop salary increase guidelines:</p> <ul style="list-style-type: none"> <li>+ The recruitment and retention scorecards</li> <li>+ The benchmark study results</li> <li>+ Compensation philosophy gap analysis findings</li> <li>+ Employee performance <sup>4</sup></li> <li>+ Additional information from commonwealth stakeholders, as appropriate</li> </ul>	
	Outputs	Recruitment & retention scorecards	Benchmark Study Results	Compensation Philosophy Gap Analysis	Salary increase recommendations

<sup>2</sup> Select Commonwealth agencies use systems that are not integrated with the Commonwealth's primary recruitment, payroll, and personnel systems. As a result, select agencies lack and do not report the data analyzed for the recruitment and retention analysis. Some occupations in these agencies were therefore not included in the retention, recruitment and compensation analyses.

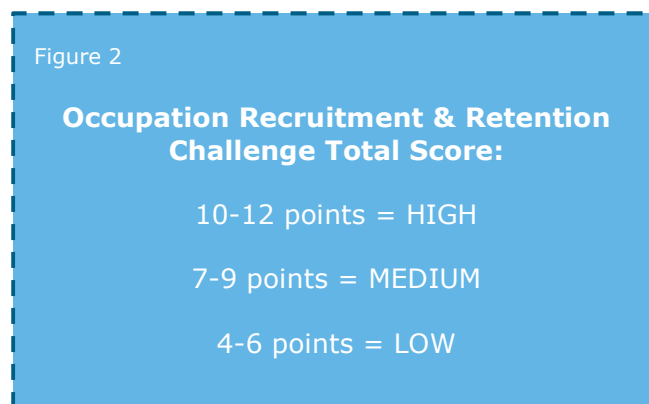
<sup>3</sup> A combination of Commonwealth employee role title and SOC description.

<sup>4</sup> Due to a lack of documented employee performance ratings, the proposed salary increase distribution guidelines were developed assuming the Commonwealth implements a 5-point performance rating scale and there is a normal distribution of performance ratings (i.e., 5% of employees receive the highest rating, 15% receive the second highest rating, 60% receive the third highest rating, 15% receive the fourth highest rating, and 5% receive the lowest rating).

# Recruitment and Retention Analysis

To identify occupations experiencing recruiting and retention challenges, Deloitte:

- Reviewed data in the Commonwealth's:
  - Personnel Management Information System ("PMIS"),
  - Recruitment Management System ("RMS"), and
  - Payroll system.<sup>5 6</sup>
- Focused on the following four metrics as key indicators of recruitment and retention activity and challenges:
  - Overtime spend as percentage of base compensation spend,
  - The number of employees receiving retention awards,
  - Average annual voluntary turnover rate, and
  - Total turnover rate.
- Developed the following scoring system for each metric based on an analysis of the results ranked by tercile:
  - A High score (3 points) indicates an occupation ranked in the top third of a metric analysis compared to other Commonwealth occupations.
  - A Medium score (2 points) indicates an occupation ranked in the middle third of a metric analysis compared to other Commonwealth occupations.
  - A Low score (1 point) indicates an occupation ranked in the lower third of a metric analysis compared to other Commonwealth occupations.
- Totaled the metric score points to create a total Recruitment and Retention ("R&R") score for each occupation.
- Categorized each occupation's R&R score as shown in Figure 2.



<sup>5</sup> All analyses focused on Commonwealth employee and occupation data from 1/1/2017 – 12/31/2019.

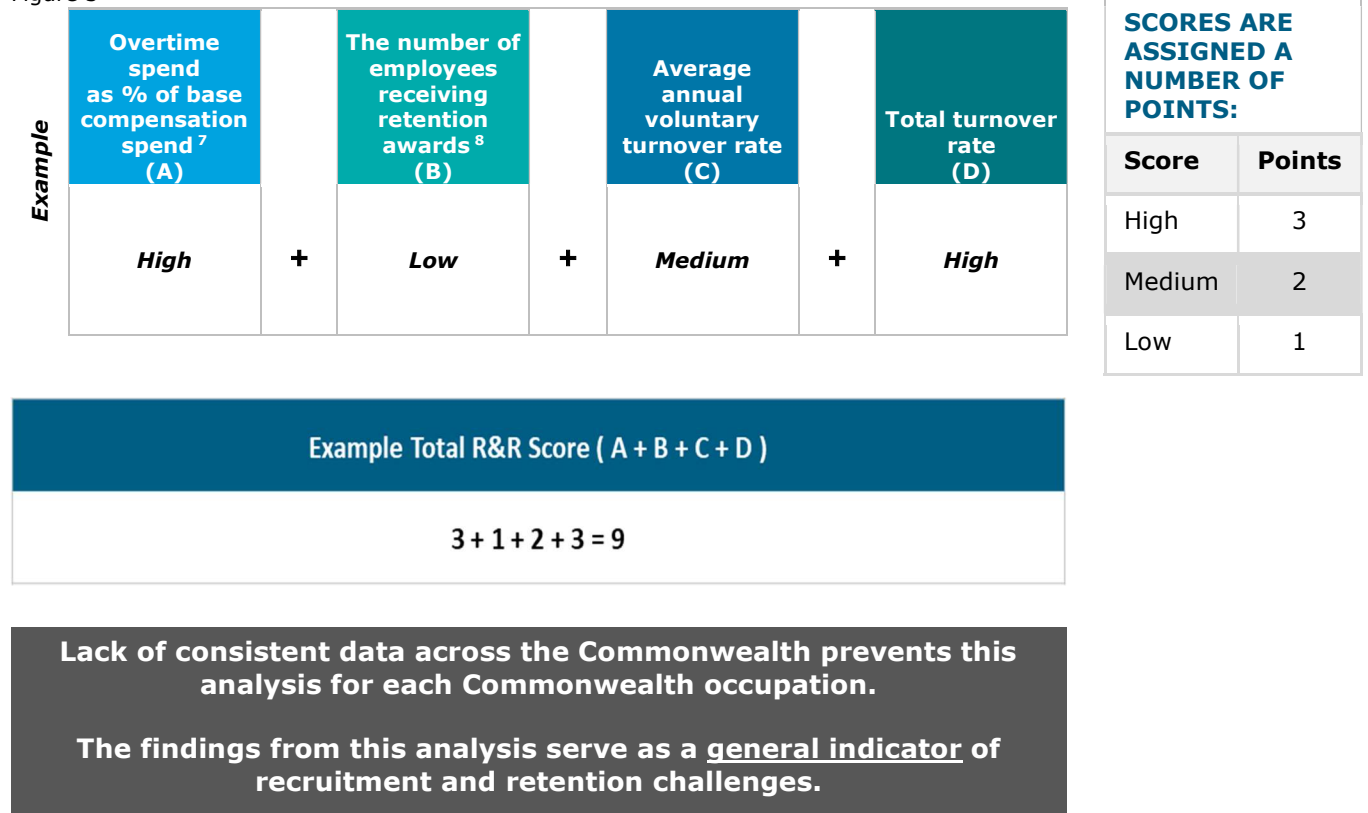
<sup>6</sup> Occupations with less than five current incumbents were excluded from the analysis; the analysis focused on 747 unique occupations. Including occupations with less than five employees skewed the overall results of the analysis. The scorecard can still be used to develop an R&R score for occupations with less than five employees.

# Recruitment and Retention Analysis (cont.)

## Recruitment and Retention Scores

Figure 3 shows how Commonwealth occupations were assigned an R&R score:

Figure 3



<sup>7</sup> Overtime data for 20 of the 160 agencies was unavailable; these agencies do not use the Commonwealth’s standard payroll system (CIPPS).

<sup>8</sup> Select Commonwealth agencies do not offer retention awards due to budget constraints. DHRM also informed Deloitte that some agencies do not record all instance of retention awards in the PMIS. 35 of 160 agencies did not report instances of retention awards from 1/1/2017 – 12/31/2019.



# Compensation Market Review

## Base Salary and Total Compensation Findings – Overall Variance to Market

Deloitte compared Commonwealth employee compensation to market data illustrating the 25th, median/50th, and 75th percentiles of public and private sector data.

Deloitte understands that select Commonwealth agencies have historically applied market-based differentials to national market data to recognize differences in the local cost of labor and recruiting difficulties for select occupations in certain locations. Deloitte did not apply differentials to the market data used for this analysis. <sup>9</sup>

Table 2 shows **base salaries** are:

- 16.5% below the private sector median
- 10% below the public sector median

Table 2 shows **total compensation** is:

- Aligned with the private sector median
- 7% below the public sector median

Table 2

Overall Variance to Market Median			
Private Sector Market Data		Public Sector Market Data	
Base Salaries	Total Compensation	Base Salaries	Total Compensation
-16.5%	+0.6%	-10.1%	-6.8%

The Commonwealth’s variance to market improves when the value of benefits is included. <sup>10</sup>

**See Appendix B for the market review methodology.**

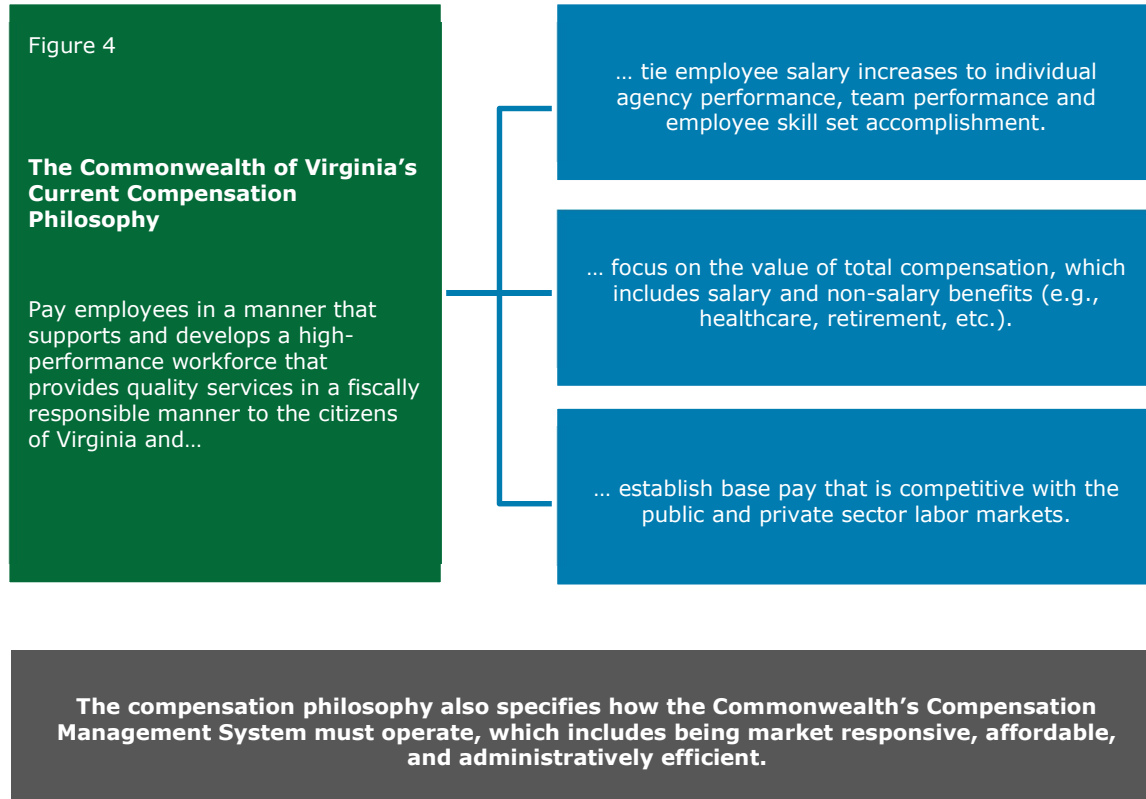
<sup>9</sup> See Appendix C for data illustrating the cost of labor compared to the national average in the ten most populated locations for employees of the Commonwealth which geographic differential data exists.

<sup>10</sup> Compared to the values of benefits as noted in the U.S. Bureau of Labor Statistics’ 2020 Median Employer Costs for Employee Compensation.

# Compensation Philosophy

## Background & Current State

Deloitte is working with DHRM to review the Commonwealth's 20-year-old compensation philosophy for state employees, shown in Figure 4, to identify where changes are needed and recommend updates.



# Compensation Philosophy (cont.)

## Key Purpose and Elements of a Compensation Philosophy

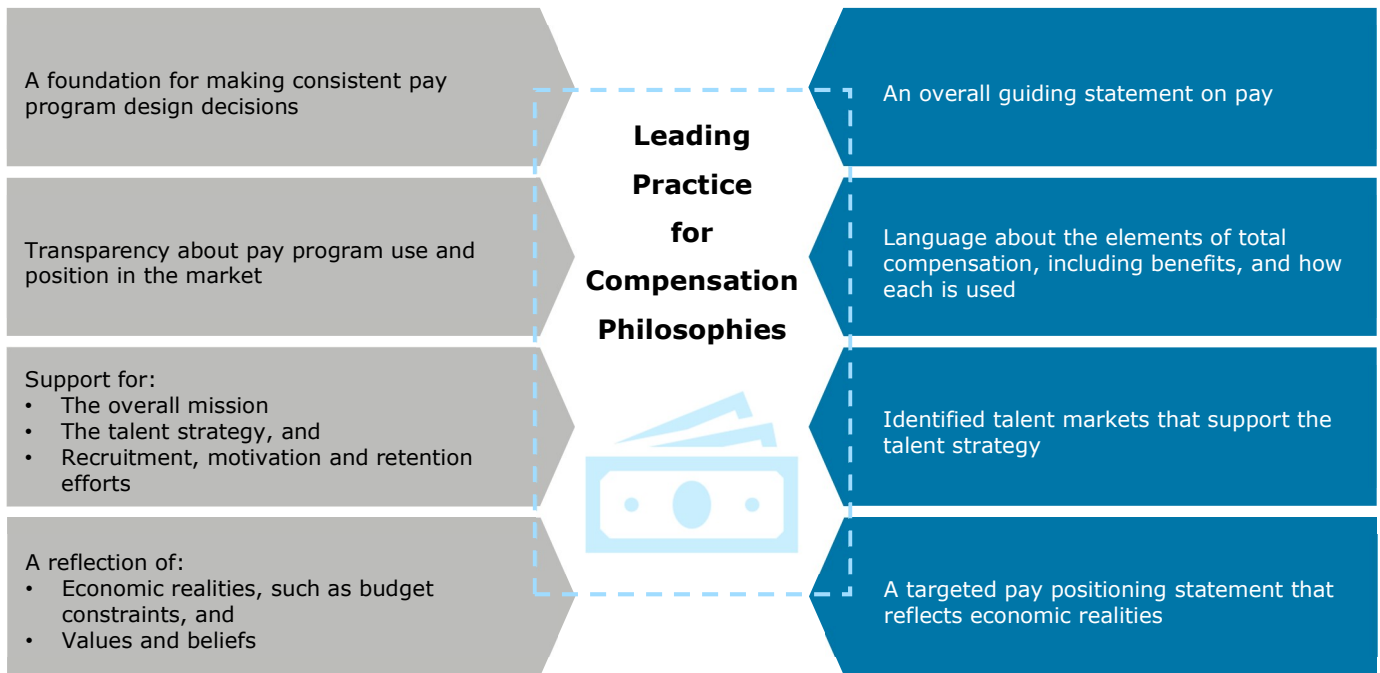
A compensation philosophy serves as a framework for administering an organization’s pay programs consistently and equitably.

Figure 5 shows that a sound compensation philosophy...

...should provide:

...and contain:

Figure 5



Information on the next page shows how the Commonwealth’s compensation philosophy compares to leading market practice.

# Compensation Philosophy (cont.)

## The Commonwealth's Current Compensation Philosophy

Table 3 shows the Commonwealth's current compensation philosophy contains some components of leading market practice and lacks others. <sup>11</sup>

Table 3

Component	Current Commonwealth Compensation Philosophy Content	Analysis
<b>Guiding Statement on Pay</b>	<p>"The Commonwealth's compensation philosophy is to pay employees in a manner sufficient to support and develop a high-performance workforce that provides quality services in a fiscally responsible manner to the citizens of Virginia...</p> <p>The following goals have been identified to support and operationalize the Commonwealth's compensation philosophy.</p> <ul style="list-style-type: none"> <li>• To attract qualified employees.</li> <li>• To retain qualified employees.</li> <li>• To motivate employees by rewarding sustained performance.</li> <li>• To support management in the realization of organization objectives." </li></ul>	<p>The Commonwealth's current guiding statement on pay provides a strategy and framework for pay program decisions.</p>
<b>Benefits and Total Compensation Language</b>	<p>"The compensation philosophy was developed based on the following underlying principles: ...</p> <ul style="list-style-type: none"> <li>• To focus on the value of total compensation, which includes salary and non-salary benefits such as healthcare, retirement, life insurance; disability insurance, annual and sick leave." </li></ul>	<p>The philosophy addresses benefits at a high level while noting compensation encompass non-salary benefits in addition to regular wages.</p>
<b>Identified Talent Markets</b>	<p>"The compensation philosophy was developed based on the following underlying principles: ...</p> <ul style="list-style-type: none"> <li>• To establish base pay that is competitive with the labor market (public and private)." </li></ul>	<p>The Commonwealth's compensation philosophy does not address talent markets in depth, though language exists elsewhere in the Commonwealth's Human Resources Management Manual.</p>
<b>Targeted Pay Positioning Statement</b>	[none]	Not addressed.

<sup>11</sup> Source: Chapter 4 of the Commonwealth of Virginia Human Resources Management Manual

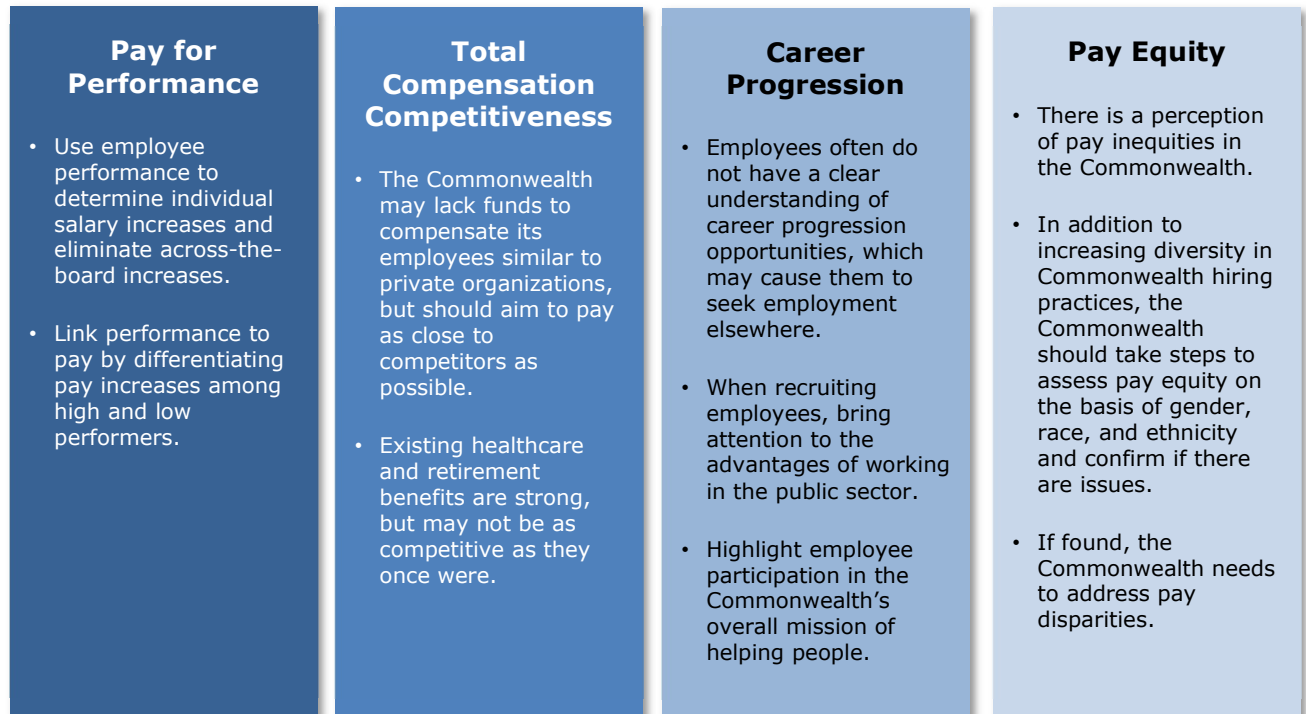
# Interview Feedback

## Key Observations

Deloitte interviewed 17 key cabinet leaders in the current administration to identify the strengths of the current compensation philosophy and confirm where it needs to be updated to address talent demands.

Figure 6 shows the thoughts and suggestions interviewees provided about pay for performance, the competitiveness of compensation, career progression, and the need to address pay equity.

Figure 6

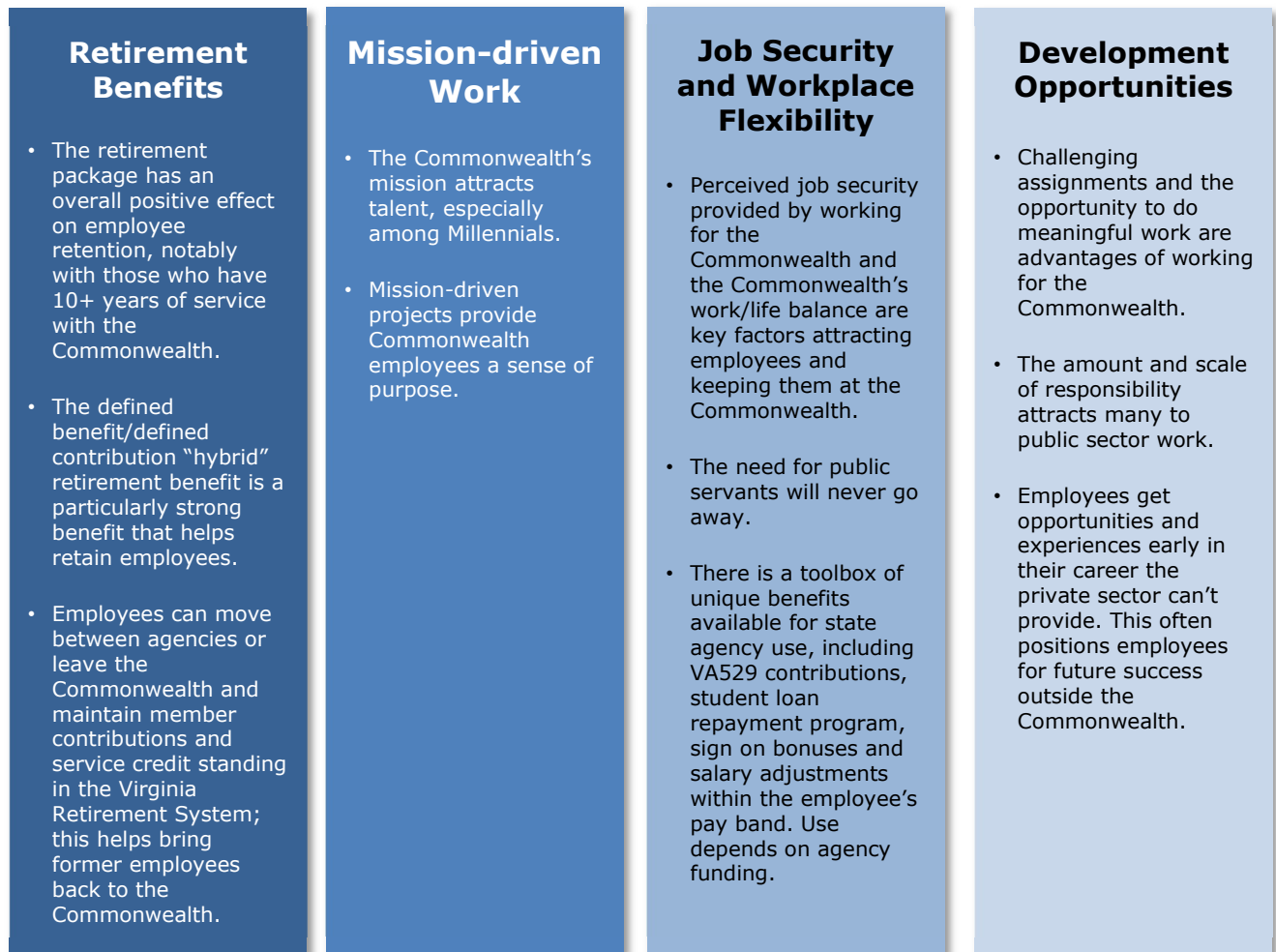


# Interview Feedback (cont.)

## What's Working

Figure 7 shows the interviewees feel retirement benefits, mission-driven work, perceived job security, workplace flexibility, and development opportunities are positive attributes of working for the Commonwealth.<sup>12</sup>

Figure 7



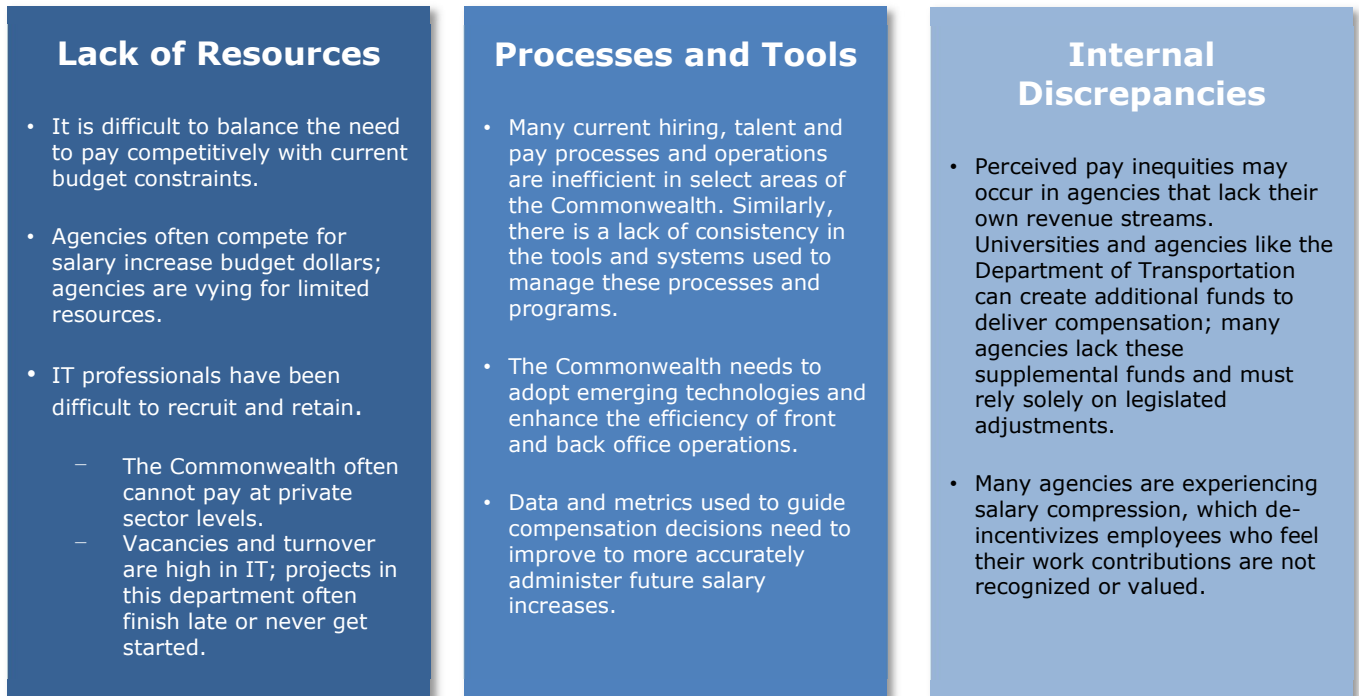
<sup>12</sup> Employees retain service credits in the retirement plan if they do not request a refund of their member contributions and interest.

# Interview Feedback (cont.)

## Opportunities for Enhancement

Figure 8 show the interviewees noted some aspects of the Commonwealth’s compensation programs and workforce strategy work well, but there are opportunities to enhance supporting processes, tools, and strategies.

Figure 8



# Online Questionnaire Results

## Key Takeaways

DHRM and Deloitte developed an online questionnaire to ask Commonwealth agency heads, HR directors, and each agency’s most senior budget or finance individuals about the strengths and weaknesses of Commonwealth compensation program, its compensation strategy, and the connection to employee recruiting and retention efforts.

The questionnaire was open from May 28 – June 12, 2020.

The questionnaire was completed by 185 employees representing 99 Commonwealth agencies.

Table 4 shows respondent answers to questions about key components of the compensation philosophy.

<b>Table 4</b>	<b>Current Total Rewards Program and Workforce Strategy</b>	<b>Market Positioning</b>	<b>Factors Driving Employee Pay</b>
<b>Observations</b>	<ul style="list-style-type: none"> <li>• 31% and 20% of respondents cited the benefits and retirement package and workforce flexibility, respectively, as strengths of the Commonwealth’s total rewards program and workforce strategy</li> <li>• A small number of respondents noted the following as strengths of the Commonwealth:               <ul style="list-style-type: none"> <li>- Training and development opportunities (9% of respondents)</li> <li>- Transparent career pathways (6%)</li> <li>- Workplace culture (6%)</li> <li>- The Commonwealth’s brand (5%)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 87% of respondents feel Commonwealth employee compensation generally lags the market</li> <li>• 81% noted the Commonwealth should generally aim to pay at market</li> <li>• 17% feel pay should lead the market <sup>1</sup></li> <li>• 2% feel pay for Commonwealth employees should lag the market</li> </ul>	<ul style="list-style-type: none"> <li>• 73% of total respondents indicated that performance should drive employee pay for all roles across the Commonwealth</li> <li>• 28% of total respondents highlighted that individual performance should be the number one factor driving employee pay</li> <li>• 25% feel market competitiveness should be the number one factor influencing pay</li> </ul>

<sup>1</sup> When asked for additional context on this response, several respondents cited leading the market for hard to hire or retain occupations in order to attract and retain top talent.

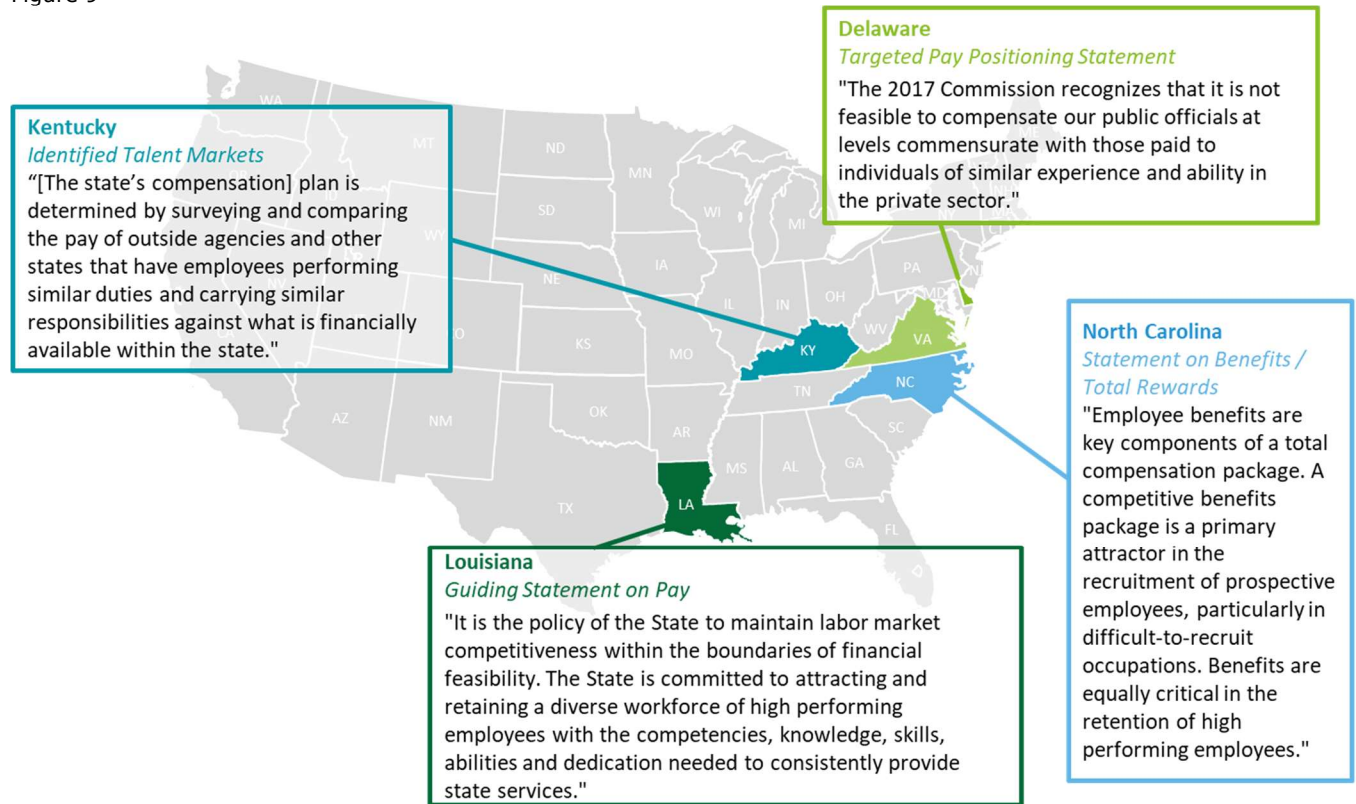


# Leading Market Practices

## State Government Examples

Figure 9 provides excerpts of language other jurisdictions use to describe their compensation philosophies.<sup>13 14 15 16 17</sup>

Figure 9



<sup>13</sup> See Appendix D for links to the full text of the state compensation philosophy examples.

<sup>14</sup> Kentucky Personnel Pay website.

<sup>15</sup> Delaware Compensation Commission 2017 Final Report.

<sup>16</sup> Louisiana State Civil Service Compensation Administration Guide.

<sup>17</sup> State of North Carolina 2018 Compensation & Benefits Report.

# Salary Increase Guidelines

## Historical Background

Deloitte compared the Commonwealth’s salary increase history to historical salary increase market data over the past 25 years and found that Commonwealth salary increases have generally been outpaced by the market. <sup>18</sup>

Figure 10 shows the Commonwealth salary increases have been irregular. There have been eleven years of no general increases for employees of the Commonwealth since 2001.

Table 5 shows 2020 market projections for salary increase budgets were just above 3.0% for the public and private sectors. Data is not yet available on actual market practice for salary increases in 2020.

Initial 2021 salary increase market projections are 2.0% for the public sector and 2.9% for the private sector. <sup>19</sup>

Figure 10

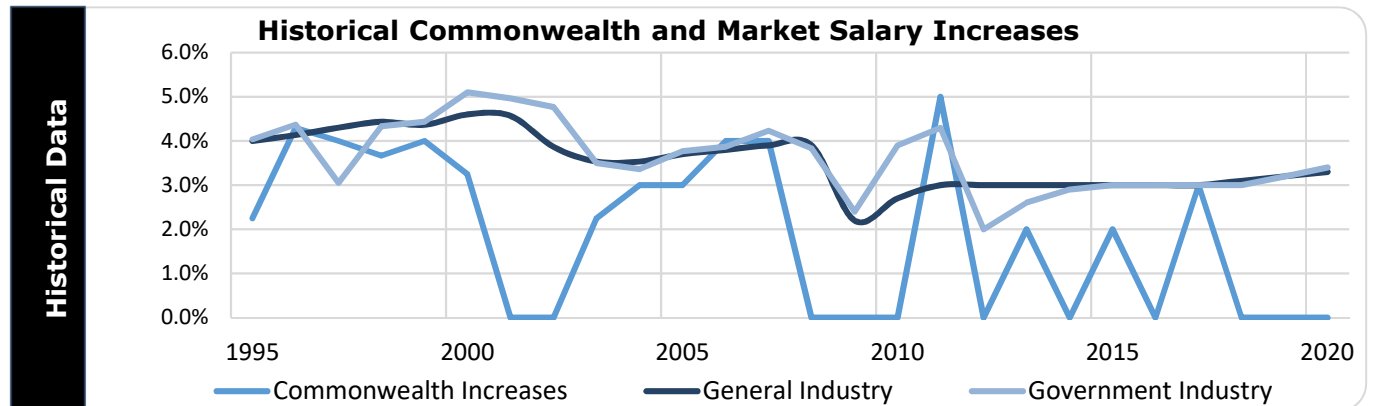


Table 5

2020 Projections	2020 Salary Increase Projection Ranges		
	Increase Type	Private Sector 20	Public Sector <sup>19</sup>
	General Increases/Cost of Labor Adjustment	0.9% - 2.0%	1.9% - 2.4%
Salary Increase Totals	3.0% - 3.3%	3.0%	

**See Appendix D for 2019-2020 salary increase market data details.**

<sup>18</sup> Source: Historical WorldatWork Salary Budget Surveys.

<sup>19</sup> Sources: WorldatWork’s 2020-2021 Salary Budget Survey and Emsight Policies, Practices, and Merit Survey Report (August 2020). PayFactors has not released the 2020-2021 Salary Budget Survey as of September 4, 2020.

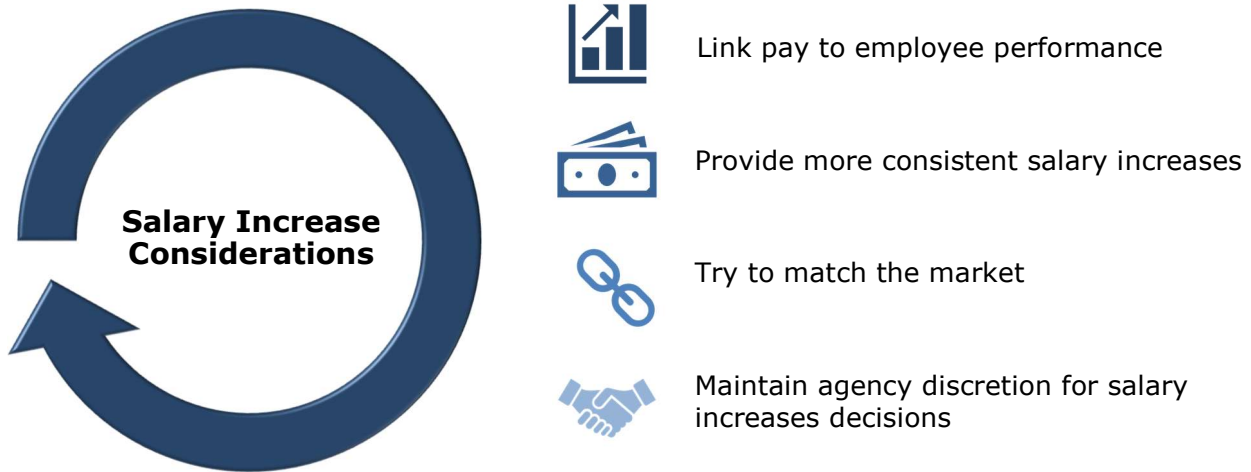
<sup>20</sup> Sources include WorldatWork’s 2019-2020 Salary Budget Survey, PayFactors 2019-2020 Salary Budget Survey, and Emsight Policies, Practices, and Merit Survey Report (August 2019).

# Salary Increase Guidelines (cont.)

## Key Leader Input

Key cabinet leaders in the current administration want to see the items show in Figure 11 considered for salary increases:

Figure 11



*"As public servants, we don't expect to get wealthy, but we do expect to be treated fairly."*

*"We don't have to be paid at private sector levels, but need to be near those levels to compete for top talent."*

**See Appendix F for considerations on including employee performance as a factor in salary increases.**

# Salary Increase Guidelines (cont.)

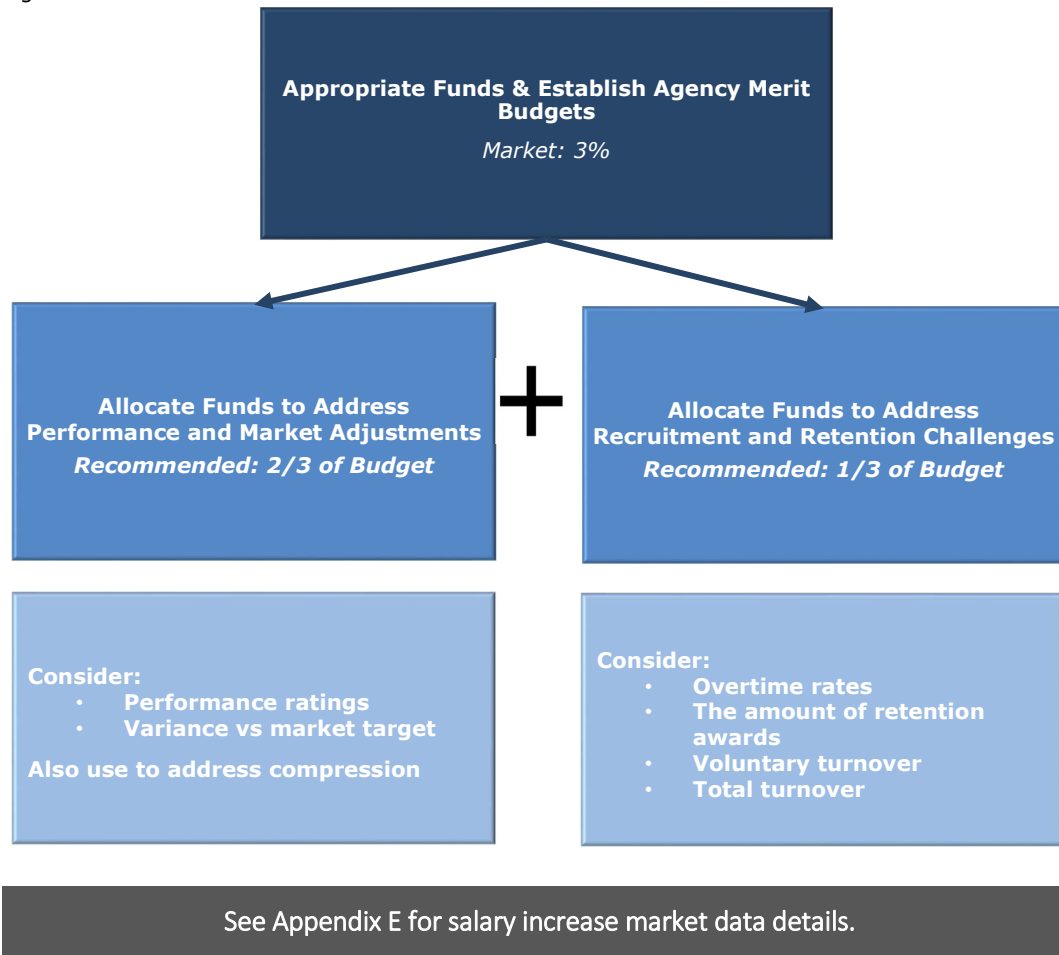
## Overall Recommendations

After a collaborative, iterative design process with DHRM, Deloitte recommends that the Commonwealth:

1. Appropriate funds each year for annual salary increases; use market data for merit budgets to determine the general Commonwealth merit budget.
2. Allocate budgets to each agency.
3. Instruct agencies to award increases based on performance, market position and recruitment and retention considerations.

Figure 12 shows how this process would work at a high level.

Figure 12

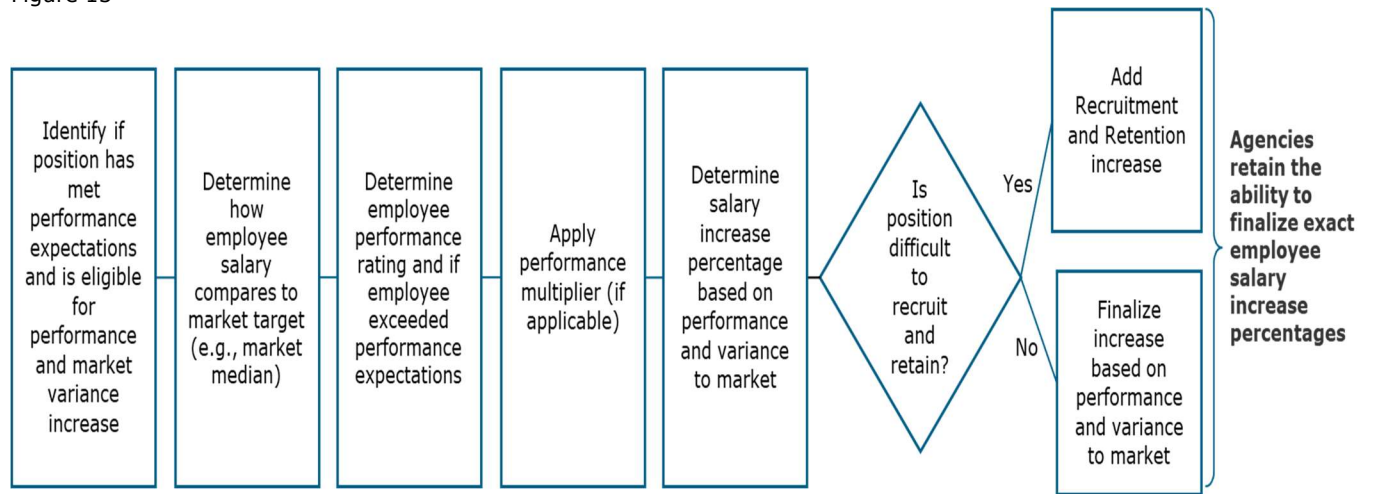


# Salary Increase Guidelines (cont.)

## Agency Recommendations

Individual Commonwealth agencies have the ability to make salary increase decisions on an individual employee basis. Under the proposed recommendations shown in Figure 13, agencies will need to review employee performance, compare employee pay to market, and consider unique recruitment and retention needs to award salary increases.

Figure 13



### Illustrative Example

Table 6 shows how the salary increase guidelines would work. In this scenario:

1. The employee is compensated below the market median base salary and at least met all performance expectations.
2. The employee received the second highest performance rating.
3. The employee’s occupation has experienced recruitment and retention challenges.

**1**

Employee Salary versus Market Median Merit Range	
Above	1.0% - 1.95%
<b>Below</b>	<b>2%</b>

**2**

Performance Multiplier <sup>3</sup>	
Performance Rating	Multiplier
Highest Rating	1.15x
<b>2<sup>nd</sup> Highest Rating</b>	<b>1.05x</b>
3 <sup>rd</sup> Highest Rating	1.00x
4 <sup>th</sup> Highest Rating	0.95x
Lowest Rating	0.85x

**3**

Recruitment and Retention Challenge Merit Addition	
No	0%
<b>Yes</b>	<b>1%</b>

Proposed Salary Increase: = (2% x 1.05) + 1% = 3.1%

## Next Steps

Using the data analysis, feedback from the key leader interviews, the observations from the online questionnaire, and the market practice research, DHRM will be confirming the following:

- Recruitment and retention challenge indicators for agency salary increase decisions;
- The Commonwealth's market target for employee compensation, which is currently a mix of the public and private sectors, in line with pending updates to the Commonwealth's compensation philosophy;
- Proposed updates to the compensation philosophy for adoption; and
- Salary increase guidelines for future salary increase decisions and activities that also consider the results of the Pay Equity Study (to be completed in October 2020).

## Appendix A: Recently Enacted Amendments

The 2019 Session of the General Assembly of Virginia recently enacted amendments to the Code of Virginia clarifying the goals and process of managing the compensation of the Commonwealth's classified workforce.<sup>21</sup>

*Be it enacted by the General Assembly of Virginia:*

*1. That § 2.2-1202 of the Code of Virginia is amended and reenacted as follows:*

*§ 2.2-1202. Review of employee compensation; biennial report on employee recruitment and retention.*

*A. It is a goal of the Commonwealth to compensate its employees at a rate comparable to the rate of compensation for employees in the private sector of the Commonwealth in similar occupations, and consistently recruit and retain the most suitably qualified employees. To achieve this goal, the Director of the Department (of Human Resource Management) shall annually review (i) recruitment and retention trends, (ii) the functions performed by each classified job role, (iii) the number of employees and distribution of classified job roles across state agencies, and (iv) how the salaries for each classified job role compare to salaries paid by other employers in the Commonwealth and, as appropriate, to comparable salaries at a regional or national level.*

*B. The Director of the Department shall, on or before September 1 of each odd-numbered year, submit a report on (i) the classified job roles that should receive higher salary increases based on identified recruitment and retention challenges, (ii) the appropriate amount by which the salary of such classified job roles should be increased, and (iii) cost estimates for funding any salary increases to the Governor and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance.*

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<sup>21</sup> Source: 2019 Session of the General Assembly of Virginia: Chapter 424. (2019, March 18). Virginia's Legislative Information System. <https://lis.virginia.gov/cgi-bin/legp604.exe?191+ful+CHAP0424&191+ful+CHAP0424>

## Appendix A: Recently Enacted Amendments (cont.)

Updates to the Appropriation Act also now require DHRM to administer and perform the following activities on an ongoing basis<sup>22</sup> :

### **Item 81**

*M.1. The Department of Human Resource Management shall convene a workgroup (the "compensation workgroup") to develop a methodology that can be used to determine (i) the amount of funding that should be appropriated for state employee salary increases each year and (ii) how to distribute that funding to address state agencies' most significant workforce challenges.*

*2. The methodology should be data-driven and include (i) recruitment and retention trends for each job role in the state workforce, (ii) how salaries and total compensation for each job role compare to similar jobs at other employers, (iii) the extent to which recruitment and retention challenges can be addressed by salary increases, and (iv) the impact of recruitment and retention challenges in each job role on state agency operations.*

*3. In developing the methodology, the workgroup shall incorporate data from the Personnel Management Information System, the Department of Human Resource Management's employee exit survey, and data from Occupationally Based Data Services.*

*4. The workgroup shall include representatives from the Department of Human Resource Management, the Department of Planning and Budget, House Appropriations Committee staff, Senate Finance Committee staff, and human resources staff from multiple state agencies.*

*5. The methodology developed by the workgroup shall be used to develop the biennial report required by House Bill 2055 of the 2019 General Assembly Session.<sup>23</sup> Notwithstanding the provisions of House Bill 2055, the first biennial report using this methodology shall be due by December 1, 2019*

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<sup>22</sup> Source: 2019 Session of the General Assembly of Virginia: Budget Bill HB1700 (Chapter 854). (n.d.). Virginia's Legislative Information System. <https://budget.lis.virginia.gov/item/2019/1/HB1700/Chapter/1/81/>

<sup>23</sup> Source: 2019 Session of the General Assembly of Virginia: Chapter 424. (2019, March 18). Virginia's Legislative Information System. <https://lis.virginia.gov/cgi-bin/legp604.exe?191+ful+CHAP0424&191+ful+CHAP0424>



## Appendix B: Market Review Methodology

- Deloitte confirmed market matches for 202 occupations using published compensation surveys and publicly available information on the Commonwealth of Virginia's website that documents the following:
  - Job content,
  - Overall level of responsibility,
  - Supervisory responsibilities,
  - Educational requirements, and
  - Years of experience.
- The Commonwealth's employee headcount and salary data are effective as of December 31, 2019,
- The survey data were aged from the effective date of each to July 1, 2020, at an annual rate of 3.4% for the public sector and 3.3% for the private sector <sup>24</sup>,
- There were 15 occupations (e.g., law enforcement and correctional officers) that are only found in government organizations that were compared to public sector data only,
- With the exclusion of the U.S. Bureau of Labor Statistics ("BLS") data, the market data reflect similarly sized organizations based on the total FY20 annual operating budget of the Commonwealth <sup>25</sup>,
- The market value of benefits was derived from the U.S. BLS' 2020 Median Employer Costs for Employee Compensation. The median total employer cost of benefits data were added to the market TCC data to calculate market TC values for each benchmark occupation
- Deloitte calculated estimated Total Compensation values for Commonwealth employees as follows:
  - Deloitte used publicly available Commonwealth of Virginia Employer Fringe Benefits Rates for the following employer contributions to: <sup>26</sup>
    - The Virginia Retirement System
    - Social Security
    - Medicare
    - Group life insurance
    - Health insurance
    - Retiree health insurance
    - Virginia Sickness and Disability Program ("VSDP") and long-term disability insurance
    - The defined contribution plan
    - Deferred compensation match payments

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<sup>24</sup> Source: WorldatWork 2019-2020 Salary Budget Survey.

<sup>25</sup> The U.S. BLS data represent a collection of federal, state, and local government organizations of all sizes; the BLS is not scoped based on operating budget.

<sup>26</sup> Source: FY 2021 Start-Up Budget Instructions published by the Virginia Department of Planning and Budget.

- Deloitte converted the value of benefits as a percentage of salary to an annual dollar value.
- Deloitte averaged the employer cost of "Family" coverage among the Commonwealth's five health insurance plans to derive an average medical benefit value for each Commonwealth employee. Not all employees select the Family option, but this option represents the maximum benefit the Commonwealth offers its employees for medical benefits.<sup>27</sup>
- Deloitte aggregated the dollar value of all benefits to derive a total value of benefits.
- Deloitte added the total value of benefits to each employee's salary.

**All market data used in the analysis were gathered before the pandemic of 2020. The exact impact that COVID-19 and the resulting economic impact will have on market data reported in 2020 published surveys is not yet known.**

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<sup>27</sup> The five plans include COVA Care, COVA High Deductible, HealthAware, Kaiser Permanente, and Optima Health Vantage.

## **Appendix B: Market Review Methodology (cont).**

### **Salary Surveys Used**

- Economic Research Institute (ERI) 2020 Salary Assessor
- Empsight International
  - 2018 "The Works" Survey
  - 2019 "The Works" Survey
- Mercer
  - 2017 All Modules excluding Manufacturing Report
  - 2017 Healthcare Individual Contributors Report
  - 2017 Physician Practices/Clinics Report
  - 2018 Finance, Accounting, and Legal Report
  - 2018 Information Technology Report
- Payfactors (data effective as of 6/1/2020)
- Sullivan, Cotter & Associates 2019 Manager and Executive Compensation in Hospitals and Health Systems
- U.S. Bureau of Labor Statistics 2019 Survey
- Willis Towers Watson
  - 2017 Accounting & Finance Compensation Survey
  - 2017 Financial Services Middle Management, Professional and Support Compensation Survey
  - 2017 Health Care Clinical and Professional Survey
  - 2017 Human Resources Compensation Survey
  - 2017 Marketing & Communication Compensation Survey

## Appendix C: Geographic Differential Analysis

Deloitte compiled cost of labor data for the ten most populated locations for employees of the Commonwealth for which geographic differential data exists to understand how the cost of labor varies across the Commonwealth. Table 7 contains the market data findings.<sup>28 29</sup>

Deloitte generally recommends that geographical differentials be applied to national market data for occupations below the executive level when the cost of labor in a city is greater than 10% above or below the U.S. national average.

Table 7

### Salary Comparison Levels vs US Average

Cities in Virginia	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000
Charlottesville	96.8	96.4	96.8	97.4	97.7	98.0
Chesapeake	90.4	91.7	93.6	95.5	96.8	97.7
Chesterfield	93.5	95.5	97.0	97.9	98.4	98.8
Christiansburg	95.5	98.1	99.7	100.8	101.3	101.7
Fairfax	106.6	113.2	116.1	116.3	115.4	114.1
Harrisonburg	92.2	92.3	93.4	94.9	95.8	96.4
Norfolk	94.5	96.5	98.0	99.0	99.4	99.7
Richmond	96.9	98.8	100.3	101.4	101.8	102.1
Roanoke	91.0	91.3	92.6	94.1	95.1	95.9
Staunton	92.0	93.0	94.3	95.7	96.5	97.2
Average	94.9	96.7	98.2	99.3	99.8	100.2
<b>Overall Average</b>	<b>98.2</b>					

<sup>28</sup> Source: Economic Research Institute (ERI) 2020 Geographic Assessor.

<sup>29</sup> Nottoway, Wise, and Dinwiddie did not have geographic differential data available within the ERI 2020 Geographic Assessor

## Appendix D: Sources for Market Practice Research

Organization	Source
State of Delaware	<a href="https://dhr.delaware.gov/personnel/class/docs/comp/dcc-report-2017.pdf">https://dhr.delaware.gov/personnel/class/docs/comp/dcc-report-2017.pdf</a>
State of Kentucky	<a href="https://personnel.ky.gov/pages/pay.aspx">https://personnel.ky.gov/pages/pay.aspx</a>
State of Louisiana	<a href="https://www.civilservice.louisiana.gov/files/HRHandbook/Updates/2018-0001%20CAG.pdf">https://www.civilservice.louisiana.gov/files/HRHandbook/Updates/2018-0001%20CAG.pdf</a>
State of North Carolina	<a href="https://files.nc.gov/ncoshr/documents/2018-Compensation-Benefits-Annual-Report-20190118.pdf">https://files.nc.gov/ncoshr/documents/2018-Compensation-Benefits-Annual-Report-20190118.pdf</a>

## Appendix E: Salary Increase Market Data

Deloitte provided DHRM with current market practice information on annual salary increases and salary structure adjustment practices in the public sector and in the private sector to assist with the development of salary increase budgets.

Deloitte reviewed three sources of market data containing calendar year 2020 salary increase projections. The data represent the public sector (Table 8) and the private sector (Table 9) are specific to salary structure adjustments, cost of living adjustments ("COLA"), special competitive adjustments, merit increases, and total increases.<sup>30</sup>

Table 8

<b>Public Sector Industry</b>	<b>Survey Source</b>		
	<b>WorldatWork<sup>31</sup></b>	<b>PayFactors<sup>32</sup></b>	<b>Empsight<sup>33 34</sup></b>
<b>Increase Type</b>			
<b>Salary Structure Adjustments</b>	2.0%	1.6%	N.R.
<b>General Increases/COLA</b>	2.4%	1.9%	N.R.
<b>Merit Increases</b>	3.0%	2.6%	N.R.
<b>Total Increases<sup>35</sup></b>	3.0%	3.0%	N.R.

Table 9

<b>Private Sector</b>	<b>Survey Source</b>		
	<b>WorldatWork<sup>27</sup></b>	<b>PayFactors<sup>28</sup></b>	<b>Empsight<sup>29 30</sup></b>
<b>Increase Type</b>			
<b>Salary Structure Adjustments</b>	2.2%	2.0%	2.0%
<b>General Increases/COLA</b>	2.0%	0.9%	N.R.
<b>Special Competitive Adjustment<sup>36</sup></b>	N.R.	N.R.	0.75%
<b>Merit Increases</b>	3.0%	2.9%	3.0%
<b>Total Increases<sup>35</sup></b>	3.3%	3.2%	3.0%

<sup>30</sup> The data have not been scoped based on number of organization employees or organization annual budget/revenue.

<sup>31</sup> Market Data Source: WorldatWork's 2019-2020 Salary Budget Survey. WorldatWork includes Public Administration data. All data reflect medians.

<sup>32</sup> Market Data Source: PayFactors 2019-2020 Salary Budget Survey. All data reflect medians and exempt employees. The survey reports data based on employee-type level (i.e. Exempt, Non-exempt); it does not present data on an overall basis.

<sup>33</sup> Market Data Source: Empsight Policies, Practices, and Merit Survey Report (August 2019). All data reflect medians.

<sup>34</sup> Many of the participants in Empsight's survey are Fortune 500 companies; 80% have annual revenues greater than \$3 billion.

<sup>35</sup> Total Increases: The sum of increases granted over the course of the year.

<sup>36</sup> Special Competitive Adjustment was not explicitly defined in Empsight's Policies, Practices, and Merit Survey Report.

# Appendix F: Employee Performance as a Factor in Salary Increases <sup>37</sup>

## Leading Market Practice Information

Figure 14 shows a majority of organizations use individual performance to determine salary increases.

Figure 14

90%

The percentage of organizations in 2019 using individual performance to drive base salary adjustments

### Advantages

- Helps organizations and motivates employees to accomplish goals by incentivizing and reinforcing desired levels of performance and behaviors
- Removes bias and subjectivity from pay decisions
- Provides a foundation for pay program actions
- Helps employees feel they are treated more equitably when rewards match contributions
- Helps attract high performers that can see the connection between performance and rewards

### Disadvantages

- Requires a strong, well-understood and consistently used performance management rating system
- Small merit budgets allow for little variation in salary increases for top performers compared to “meets expectation” performers
- Merit budgets can be more difficult to manage compared to an across-the-board/cost of living increase that provides all employees the same percentage increase

<sup>37</sup> Source: “Merit Increase Budgets Expected to Hold Steady” by Brett Christie. Published by WorldatWork in August 2019.



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