



COMMONWEALTH of VIRGINIA

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December 15, 2016

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 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,

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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METHODOLOGY

To determine market position, DHRM uses indicators of market movement, as reflected in performance increase budgets and structure adjustments, gathered from a variety of sources. 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 increase. Other employers often use this same methodology to maintain their competitiveness.

In October 2008, the Joint Legislative Audit and Review Commission (JLARC) completed a comprehensive study by of the Commonwealth's total compensation program, including salaries and benefits. This study provided the benchmark against which subsequent salary changes have been measured.

This year, the Department of Human Resource Management gathered projections of average 2015-2016 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 Empsight, Aon Hewitt, WorldAtWork, the Korn Ferry Hay Group, Willis Towers Watson, Compensation Resources, the Conference Board, and Culpepper and Associates 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 forecast from the Economic Research Institute, a Human Resource Association of the National Capital Area survey, and the 2016 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. Twenty-five occupations were selected for the comparison based on their being representative of the array of state occupations. These occupations include 7.67% of classified state employees and 20 (35.7%) of the state's 56 occupational career groups.

Again this year, no resources were available to purchase private salary survey data. Because previously purchased surveys are too old to age reliably, this year DHRM used an Occupational Employment Statistics (OES) survey provided by the Department of Labor's Bureau of Labor Statistics. This survey compares Virginia state salaries with salaries in the private sector based on federal Standard Occupational Classification codes. However, because the latest data available was as of May 2015, aging the data was still necessary. DHRM aged the state salary data by 3.86%, the average amount of the fiscal year 2016 salary adjustments (a 2% general salary increase, a compression adjustment, a special 2% or \$1,000 special increase for high-turnover roles, and a special compression appropriation for the Department of State Police) implemented August 10, 2015. The private industry salary data was aged by the average market movement in 2015 and 2016, 2.94% and 2.93% respectively.

The OES survey does not fully account for differences in the number of employees at the various levels of work or their specific duties within an occupation. 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 2017 would be as shown below.

<u>National Compensation Consulting Firms</u>		
<u>Firm</u>	<u>Average Increase</u>	<u>Period</u>
Empsight	3.20%	Calendar Year 2017
Aon Hewitt	3.00%	Calendar Year 2017
WorldAtWork	3.10%	Calendar Year 2017
Korn Ferry Hay Group	3.00%	Calendar Year 2017
Willis Towers Watson	3.00%	Calendar Year 2017
Compensation Resources	2.75%	Calendar Year 2017
Conference Board	3.00%	Calendar Year 2017
Culpepper and Associates	2.98%	Calendar Year 2017
Average	3.00%	

<u>Additional Firms</u>		
<u>Firm</u>	<u>Average Increase</u>	<u>Period</u>
ECI	2.30%	September 2015 - September 2016
Econ Res Inst	3.00%	Calendar Year 2017
NCASG	0.93%	Fiscal Year 2017
HRA NCA	3.25%	Calendar Year 2017
Average	2.37%	

In 2015, the national compensation-consulting firms anticipated an average performance increase budget of 2.98% for calendar year 2016. This year, they report that increases in 2016 have actually averaged 2.93%, which is 0.05% less than last year's estimates. This year, the

national compensation-consulting firms anticipate average performance increase budgets of 3.0% for calendar year 2017. The average for the additional sources is 2.37%, while the combined average for all sources in calendar year 2017 is 2.79%.

The 2015 survey findings reported that state employees' salaries would trail other employers' salaries by 23.38% if they did not increase in 2016. A 3% increase approved by the Governor and General Assembly for 2016 was canceled due to a downward adjustment in the revenue forecast. Therefore, state employees' salaries did not increase in 2016. The 2016 survey findings indicate an additional 2.79% market movement in calendar year 2017. Therefore, based on the combined sources, if employees' salaries do not increase in fiscal year 2017, the resulting 2017 market deviation will be 26.82%. This figure takes into account the 13.37% deviation found by JLARC in 2008, the cumulative market movement since that time, and the Virginia employee salary increases in 2011, 2013, and 2015.

AVERAGE STRUCTURE ADJUSTMENTS

This year, information on average structure adjustments was provided by the National Compensation Association of State Governments (NCASG), WorldAtWork, the Human Resource Association of the National Capital Area, Empsight, and Compensation Resources. These sources indicate that adjustments during 2016 averaged 1.82% (.16% less than the projected 1.98%), while employers expect 1.95% average adjustments in 2017.

<u>Source</u>	<u>Average Adjustment</u>	<u>Period</u>
NCASG	1.06%	Fiscal Year 2017
WorldAtWork	2.10%	Calendar Year 2017
HRA NCA	2.60%	Calendar Year 2017
Empsight	2.11%	Calendar Year 2017
Compensation Resources	1.90%	Calendar Year 2017
Average	1.95%	

COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES

A May 2015 Occupational Employment Statistics (OES) survey by Standard Occupational Classification codes was used for comparison of Commonwealth salaries with salaries paid by private companies in Virginia. For the noted occupations, data for private Virginia employers' salaries was compared with average Virginia state salaries. DHRM aged the state salary data by 3.86%, the average amount of the fiscal year 2016 salary adjustments implemented August 10, 2015. The private industry salary data was aged by the overall average market movement in 2015 and 2016, 2.94% and 2.93% respectively.

The average salary deviation for the 25 occupations in the OES comparison was 22.29%. The comparison with the OES data indicated a slightly smaller deviation than the estimate based on the JLARC findings and subsequent market movement (23.38% at the end of 2016).

Detailed information on the comparison is found on page 8 of this report. It indicates differences in the deviations among the various occupations. Also, the individual deviations are influenced by factors such as the level of work, internal alignment of jobs, 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 2017, to maintain or improve the state's competitiveness:

- ✓ An adjustment of 2.79% would equal the expected market movement in calendar year 2016.
- ✓ Increasing state salaries by 11.1%, the total compensation deviation identified by JLARC in 2011, would reduce the Virginia total compensation deviation to the amount of 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, and 2017 market movement, adjusted for Virginia state employees' salary increases, (26.82%), assuming that other employers change total compensation at the same rate as they change salaries.
- ✓ A 23.38% increase would raise total compensation to equal the market at the end of calendar year 2016.
- ✓ Increasing state salaries by 13.37%, the salary deviation identified by JLARC in 2008, would reduce the Virginia salary deviation to the amount of 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, and 2017 market movement, adjusted for Virginia state employees' salary increases, (26.82%).
- ✓ A 26.82% increase would raise state salaries to equal the market in December 2016.

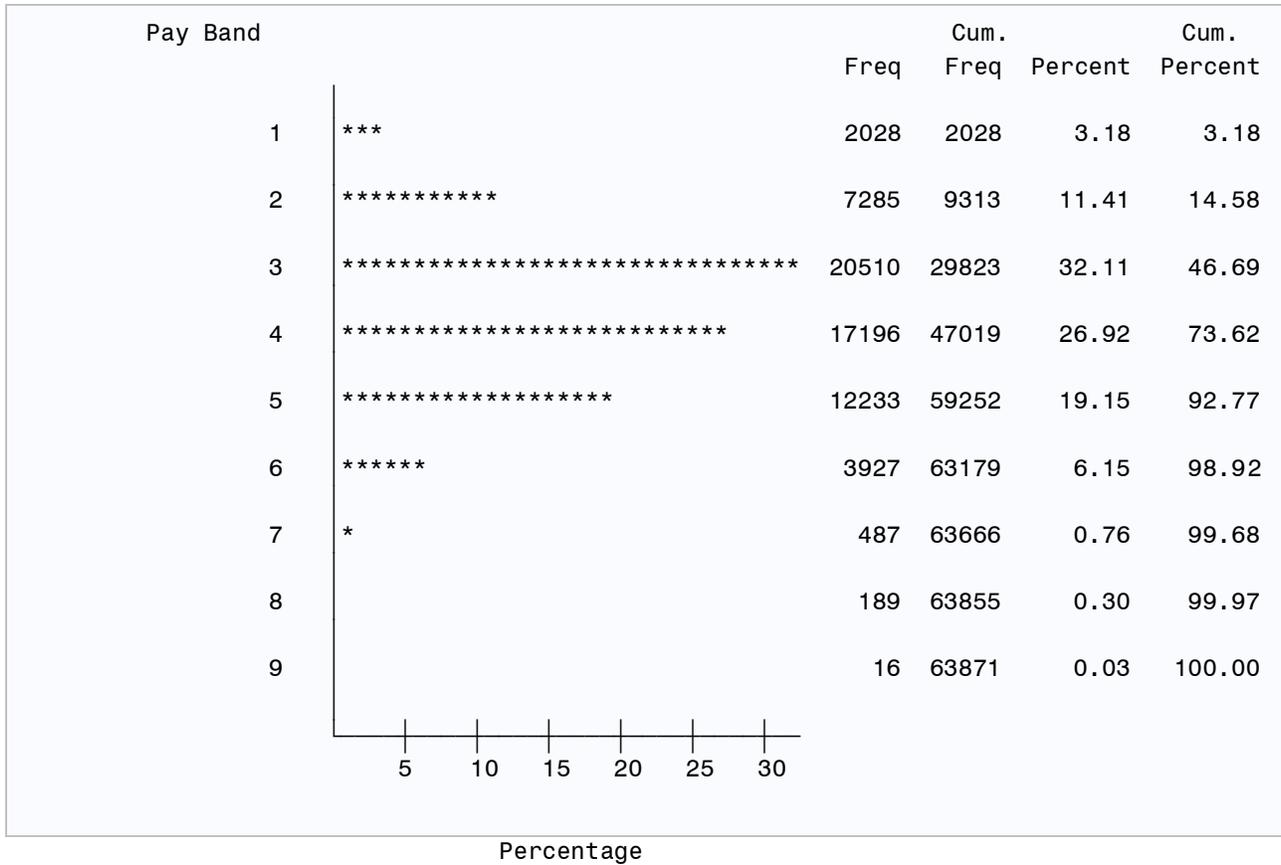
COMMONWEALTH PAY BANDS EFFECTIVE NOVEMBER 25, 2016

STATE (SW) PAY BANDS Effective 11/25/16		
RANGE		
Pay 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

NOVA (FP) PAY BANDS Effective 11/25/16		
RANGE		
Pay 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

NOTE: Salary ranges effective November 25, 2016 were adjusted August 10, 2015, as authorized by Chapter 665, 2015 Acts of Assembly.

DISTRIBUTION OF STATE EMPLOYEES BY PAY BAND SEPTEMBER 1, 2016



COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES (AGED FOR SEPTEMBER 2016)

Occupation	Private Industry	State	Deviation
Light Truck or Delivery Services Drivers	29,954	24,002	-24.80%
Cooks, Institution and Cafeteria	27,676	25,207	-9.79%
Security Guards	35,601	29,289	-21.55%
Medical and Clinical Laboratory Technicia	52,766	41,949	-25.79%
Mail Clerks and Mail Machine Operators, E	28,735	28,665	-0.24%
Cashiers	25,843	26,526	2.58%
Secretaries and Administrative Assistants	37,583	37,919	0.89%
Yard Laborer/Janitorial Supv	33,270	30,831	-7.91%
Electricians	50,721	46,965	-8.00%
Market Research Analysts and Marketing Sp	86,609	55,482	-56.10%
Medical and Clinical Laboratory Technolog	62,631	58,774	-6.56%
Accountants	85,856	61,277	-40.11%
Healthcare Social Workers	48,083	52,013	7.56%
Training and Development Specialists	76,034	57,341	-32.60%
Registered Nurses	69,168	65,016	-6.39%
Internal Auditors	85,856	61,277	-40.11%
Chemists	90,434	67,862	-33.26%
Lawyers	150,818	80,450	-87.47%
Human Resources Managers	137,828	109,281	-26.12%
Environmental Engineers	100,955	68,340	-47.72%
Architects, Except Landscape and Naval	89,141	89,465	0.36%
Physical Therapists	90,645	92,674	2.19%
Computer and Information Systems Managers	105,734	81,084	-30.40%
Database Administrators	98,624	84,033	-17.36%
Architectural and Engineering Managers	165,143	111,109	-48.63%
Average			-22.29%

NOTES:

- Occupations were selected to represent a cross-section of state jobs. Of 63,871 classified employees on September 1, 2016, 4,898 (7.67%) occupied positions with federal Standard Occupational Classification codes corresponding to these 25 occupations.
- Data for these occupations is as of May 2015 and was aged by the overall average market movement in 2015 (2.94%) and 2016 (2.93%). Caution should be exercised in basing decisions on data for individual jobs.
- Virginia state employees' average salaries reported by the Bureau of Labor Statistics were aged by 3.86%, the average amount of the fiscal year 2016 salary adjustments implemented August 10, 2015.
- A negative deviation is the percentage that the Virginia employees' average salaries would need to be adjusted in order to equal the private industry average.

HISTORICAL REFERENCES

BACKGROUND

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.” Recommendation 5 is included in its entirety on pages 10 and 11 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, promotion, 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. Subsequent 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.

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

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.