JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

November 2017

Total Compensation for State Employees

Committee Briefing

Study mandate

- JLARC to review state employee compensation, including:
  - Comparing the total value of compensation to that provided by other large employers
  - Researching how to improve recruitment, retention, and motivation
  - Identifying cost-effective strategies for agencies to employ an effective workforce

Commission resolution (2017)

Research activities

- Data collection and analysis
  - Employee compensation and demographic data
  - Employee turnover and vacant positions
- Surveys
  - Survey of a sample of non-faculty state employees
  - Survey of state agency human resources managers and directors
- Interviews with state employees, state agency leadership, staff in other states, and national compensation policy experts

Consultant contributions to JLARC study

- Mercer calculated the value of total compensation and compared Virginia's total compensation to that provided by other employers
- Mercer identified potential compensation practices that could be adopted by Virginia

In brief

Total compensation for state employees is, on average, comparable to other employers.

Some jobs have uncompetitive salaries that are significantly below what other employers pay.

Competitive starting salaries are key for recruiting new staff, and regular salary increases are linked with lower employee turnover.

In brief (continued)

Providing uniform salary increases for all employees does not use funding most effectively because funds are not targeted to where they are most needed.

Virginia’s budget process could better prioritize needed salary increases.

In this presentation

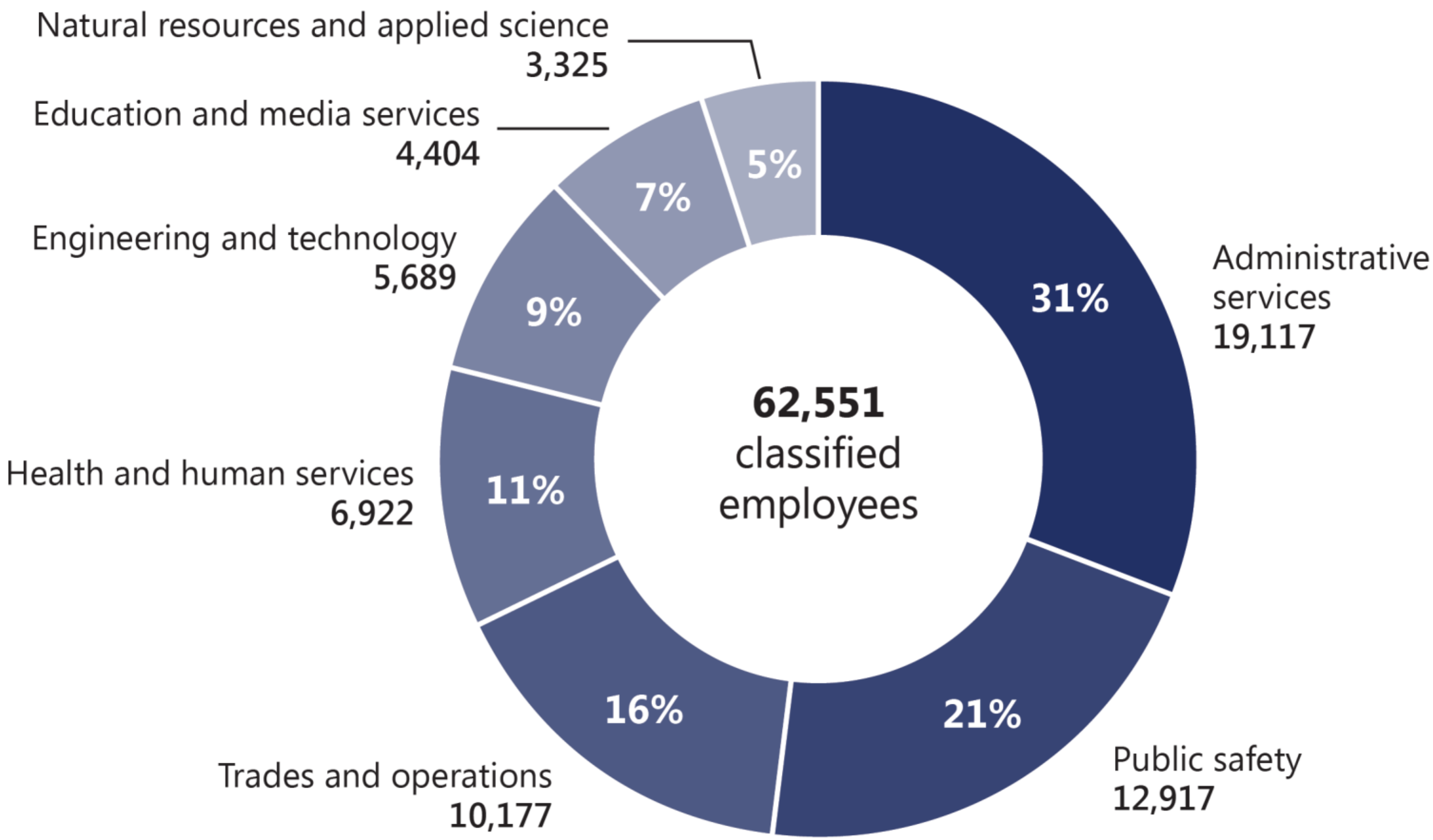
Overview of state employee compensation

Compensation compared to other employers

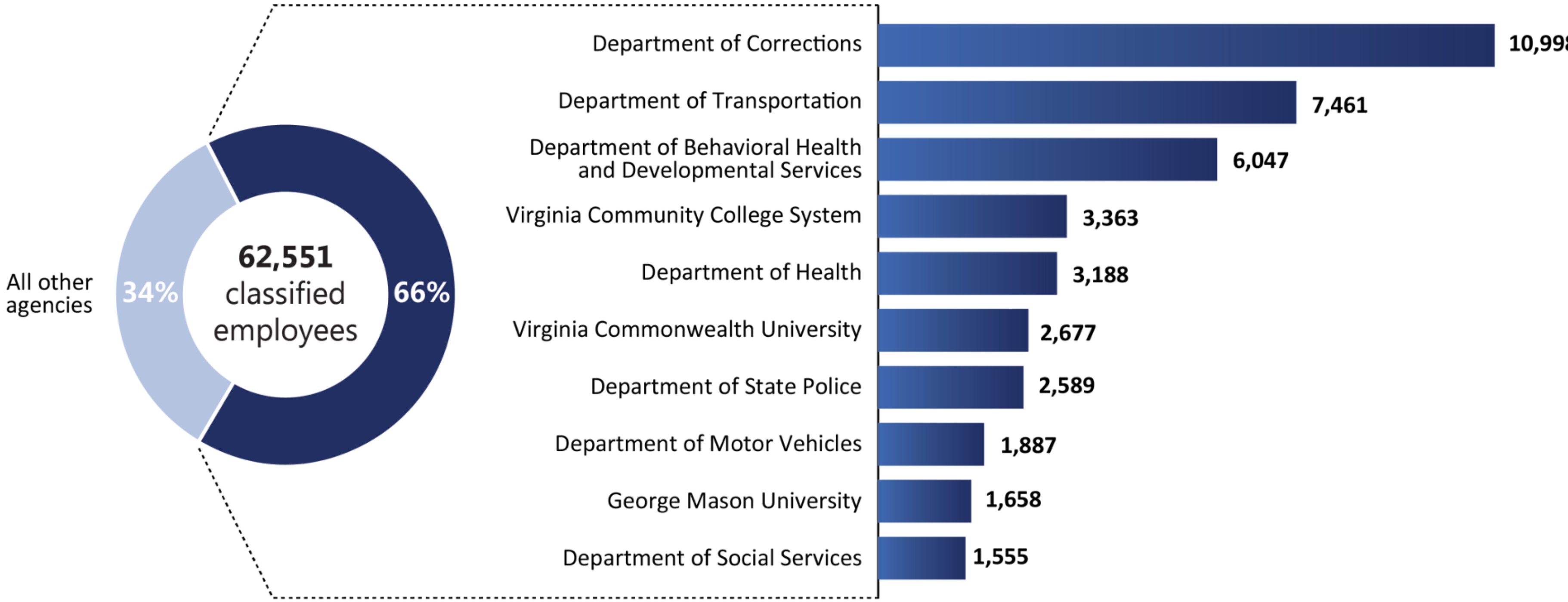
Compensation's impact on workforce challenges

Strategies for improving state investments in salaries

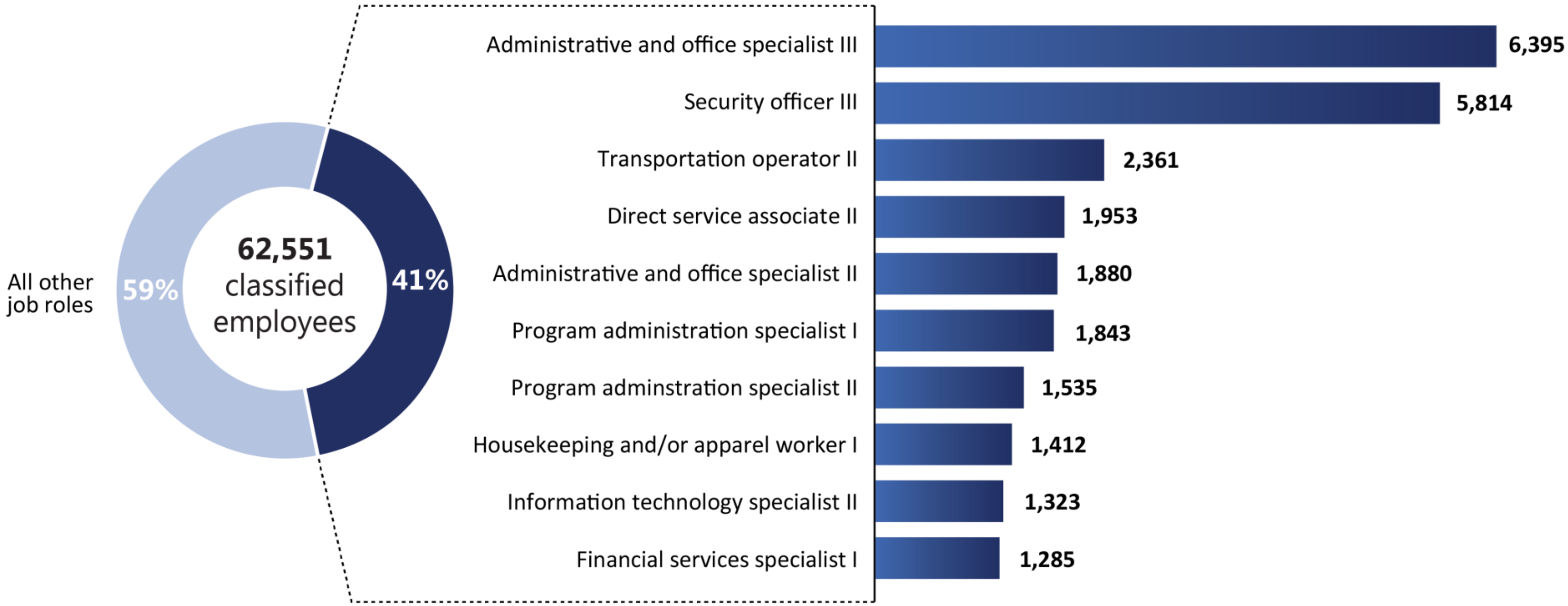
State workforce performs a wide array of functions
(FY17)



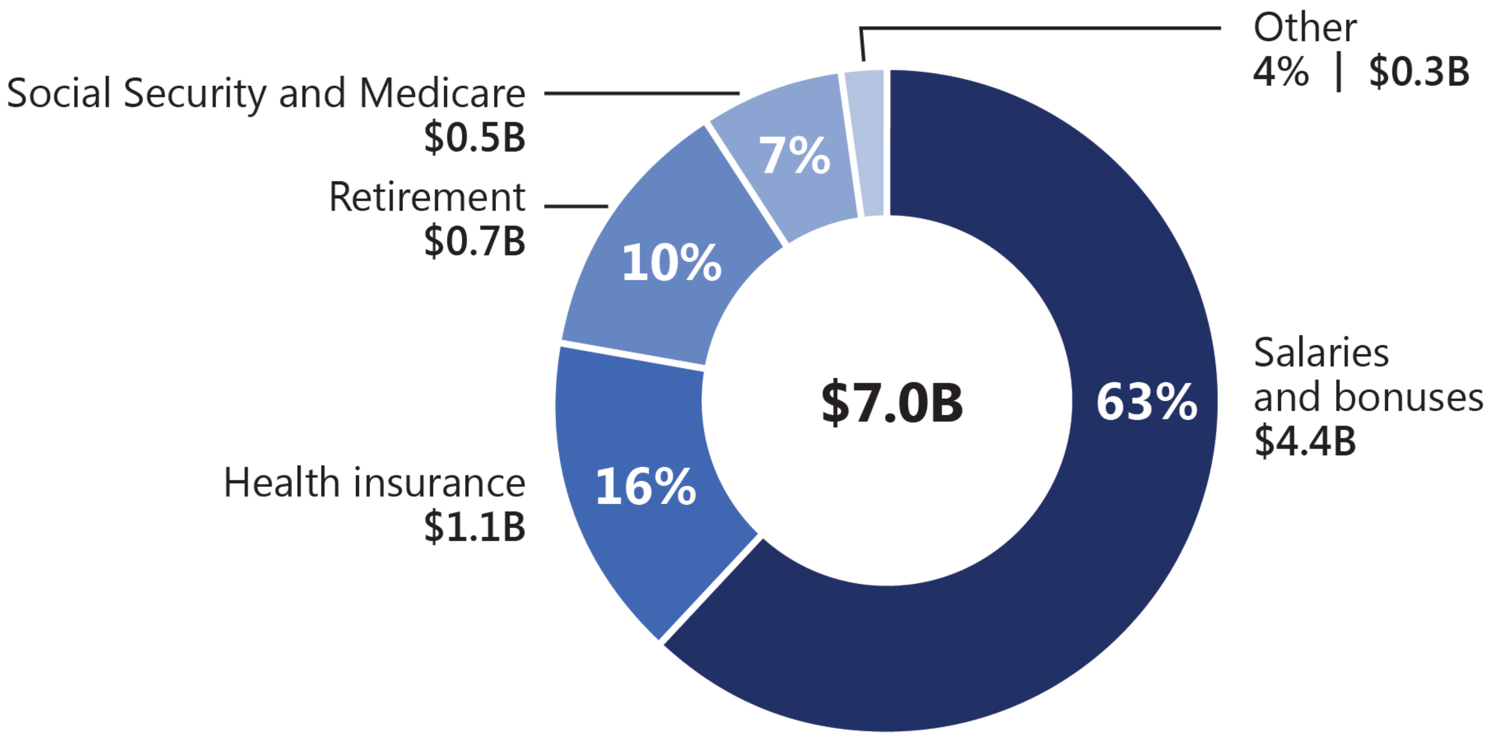
Majority of classified workforce employed with 10 largest agencies (FY17)



Forty percent of classified staff concentrated in 10 jobs (FY17)



State spending on compensation is primarily for salaries, health insurance, and retirement (FY17)



NOTE: Other category includes life insurance, short- and long-term disability coverage, retiree health insurance credit, and leave.

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State’s established purpose for compensation is to maintain a qualified workforce

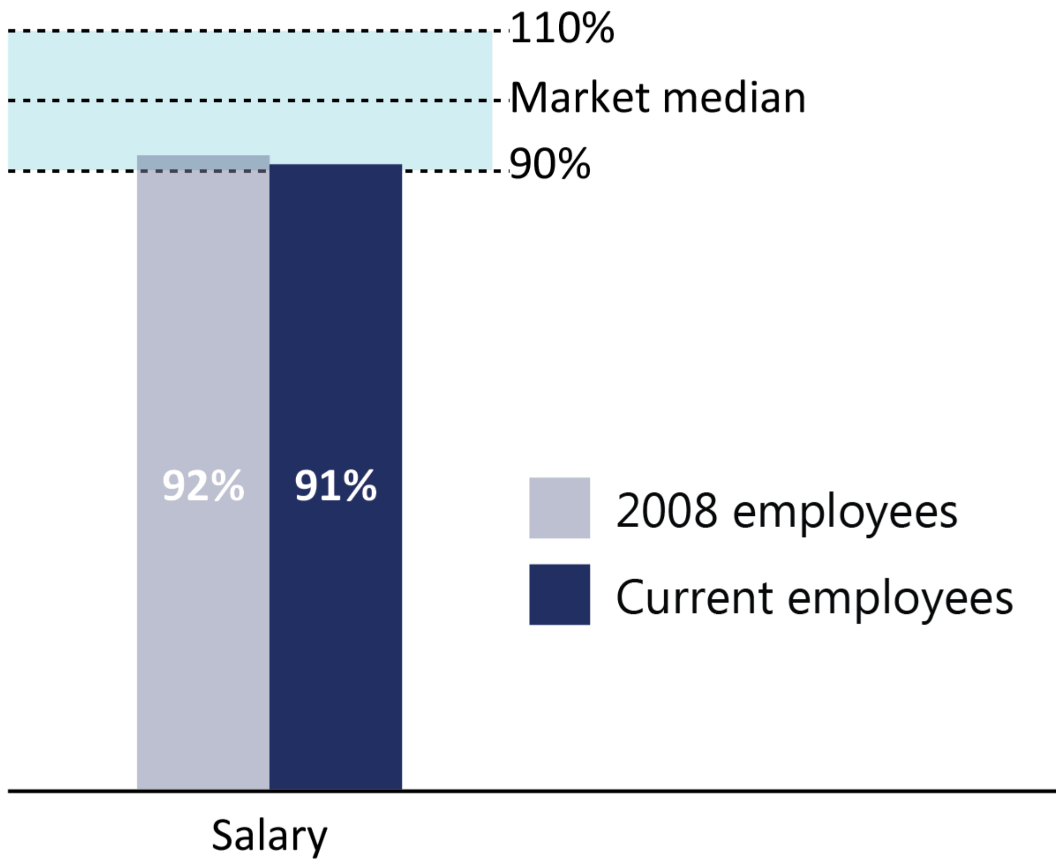
- Goal in statute is to provide compensation that is comparable with other employers in Virginia (2.2-1202)
- Compensation reform commission (2000) highlighted three goals of employee compensation
  - Recruit and retain qualified employees
  - Reward sustained high performance
  - Support supervisors in accomplishment of organizational objectives

NOTE: Compensation reform commission is the Commission on Reform of the Classified Compensation Plan, 2000.

Finding

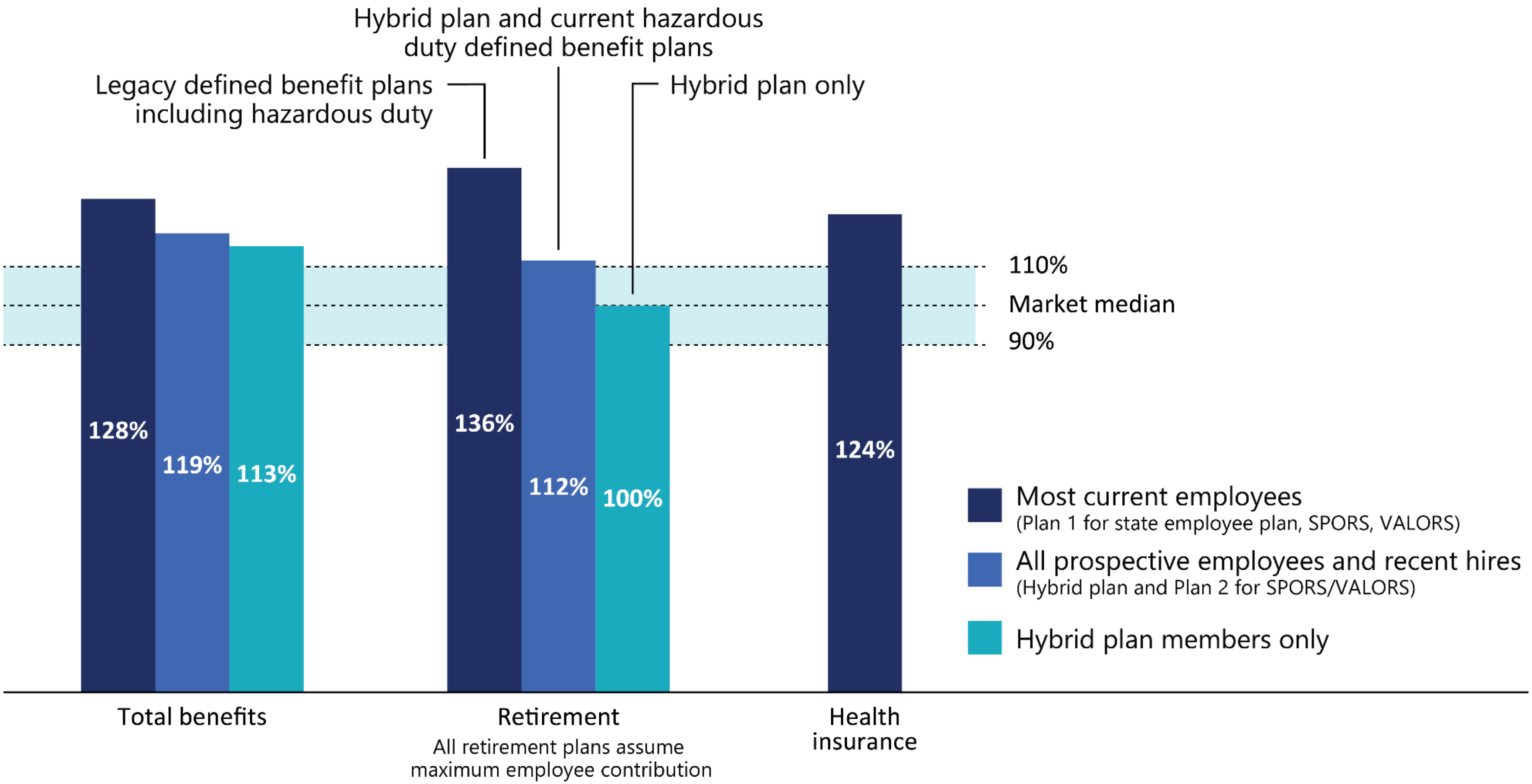
Virginia's total compensation is, on average, comparable to compensation provided by other employers.

Salaries lag behind other employers, on average

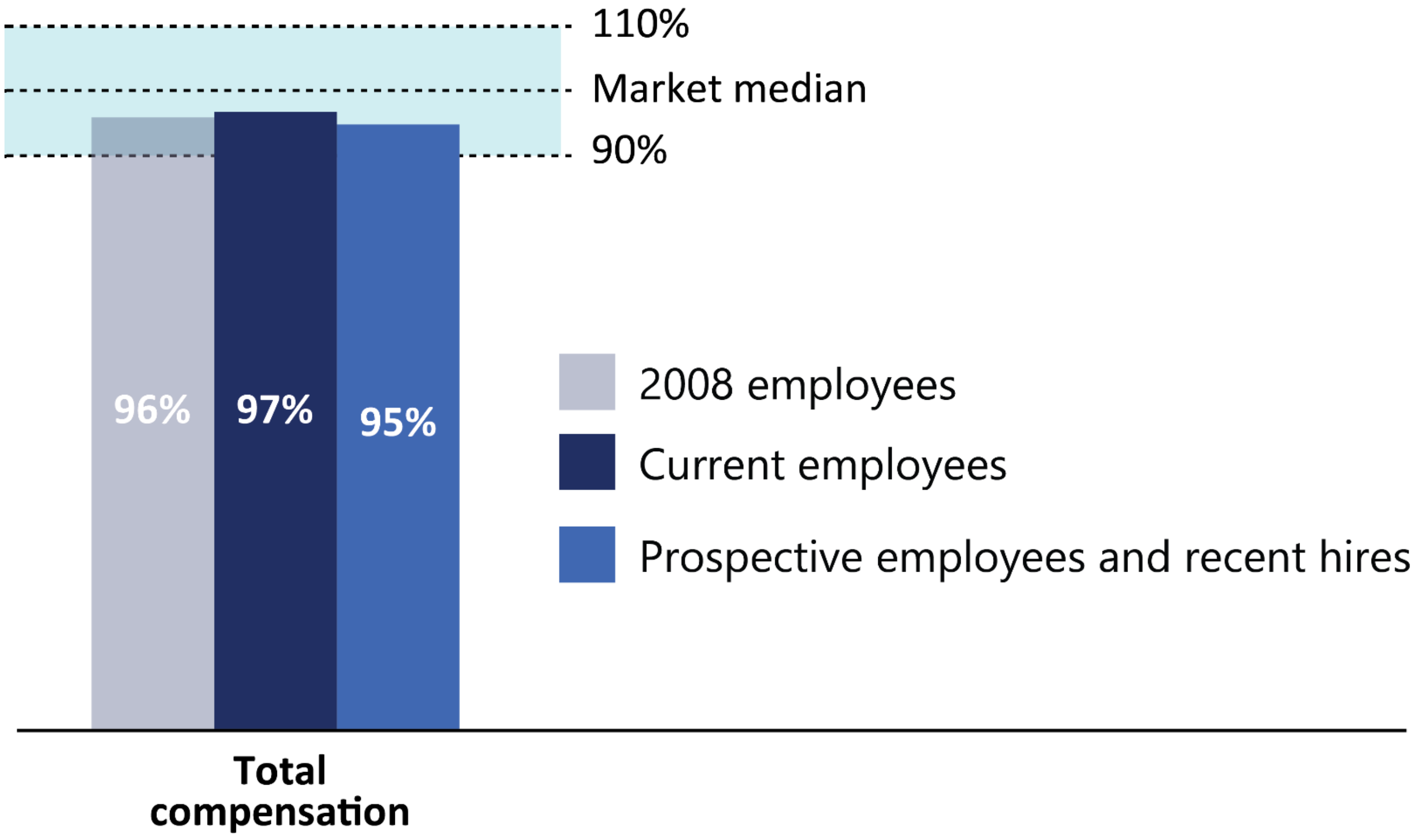


NOTE: Analysis of 67 job roles that include 31,559 classified employees

State benefits are more valuable than benefits provided by other employers



Combination of salary and benefits for Virginia employees is comparable to other employers

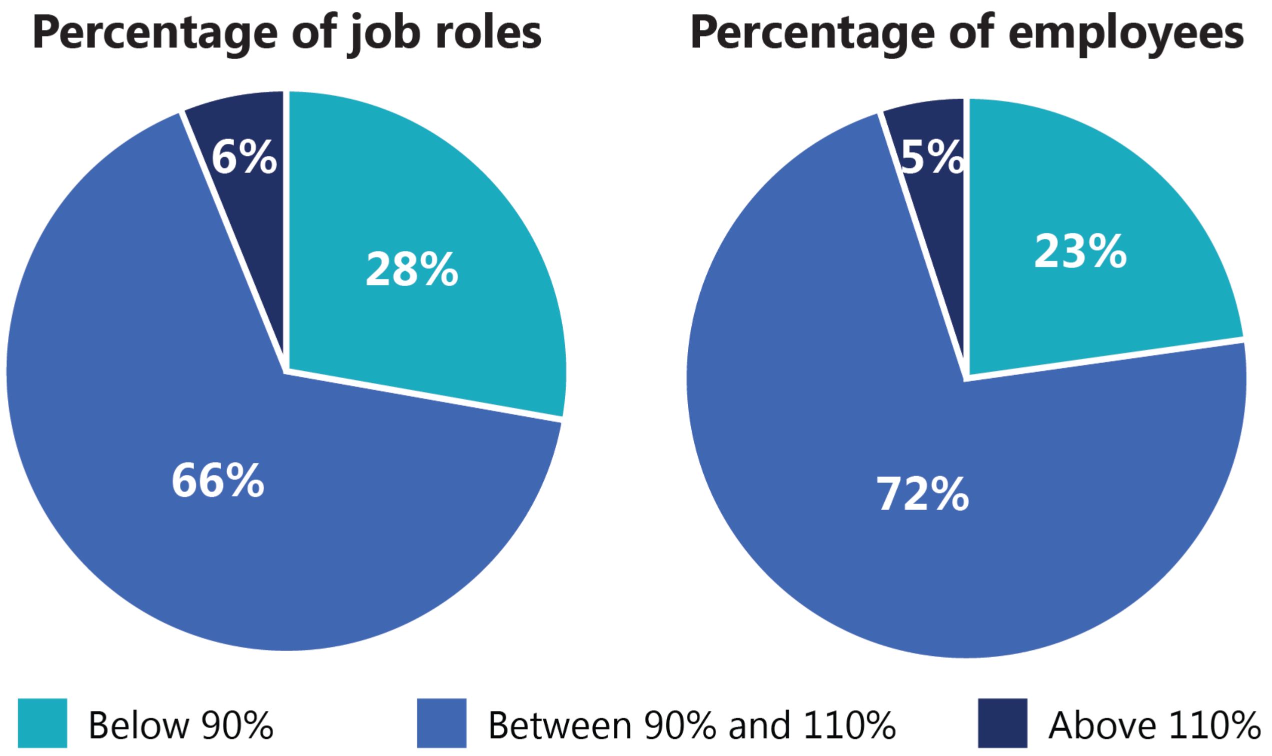


NOTE: Analysis of 67 job roles that include 31,559 classified employees

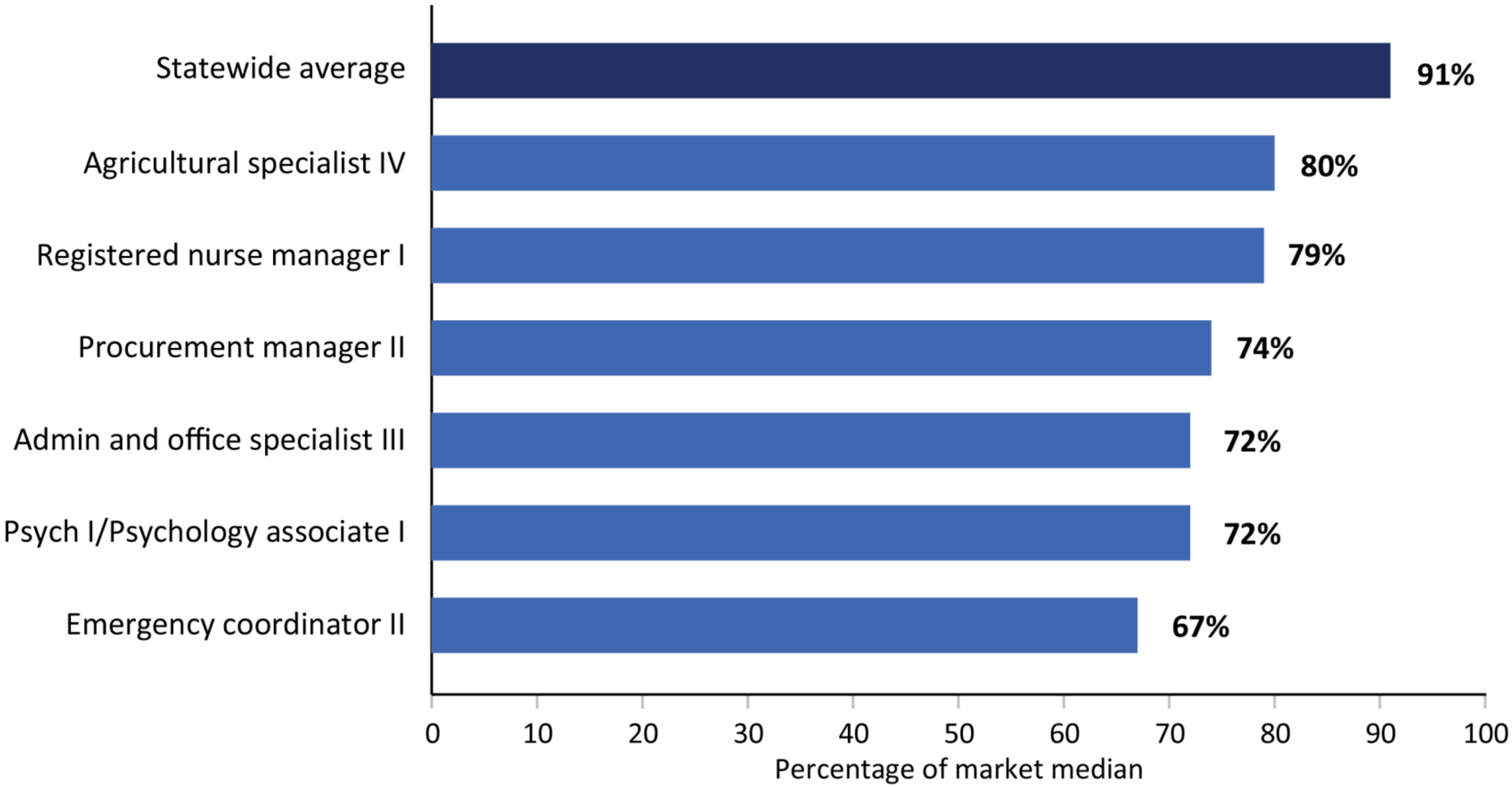
Finding

Compensation for most state jobs is comparable to other employers, but several jobs are undercompensated compared to market.

Two thirds of jobs have total compensation within 10 percent of market median



For some jobs, state pays at least 20 percent less than other employers



Findings

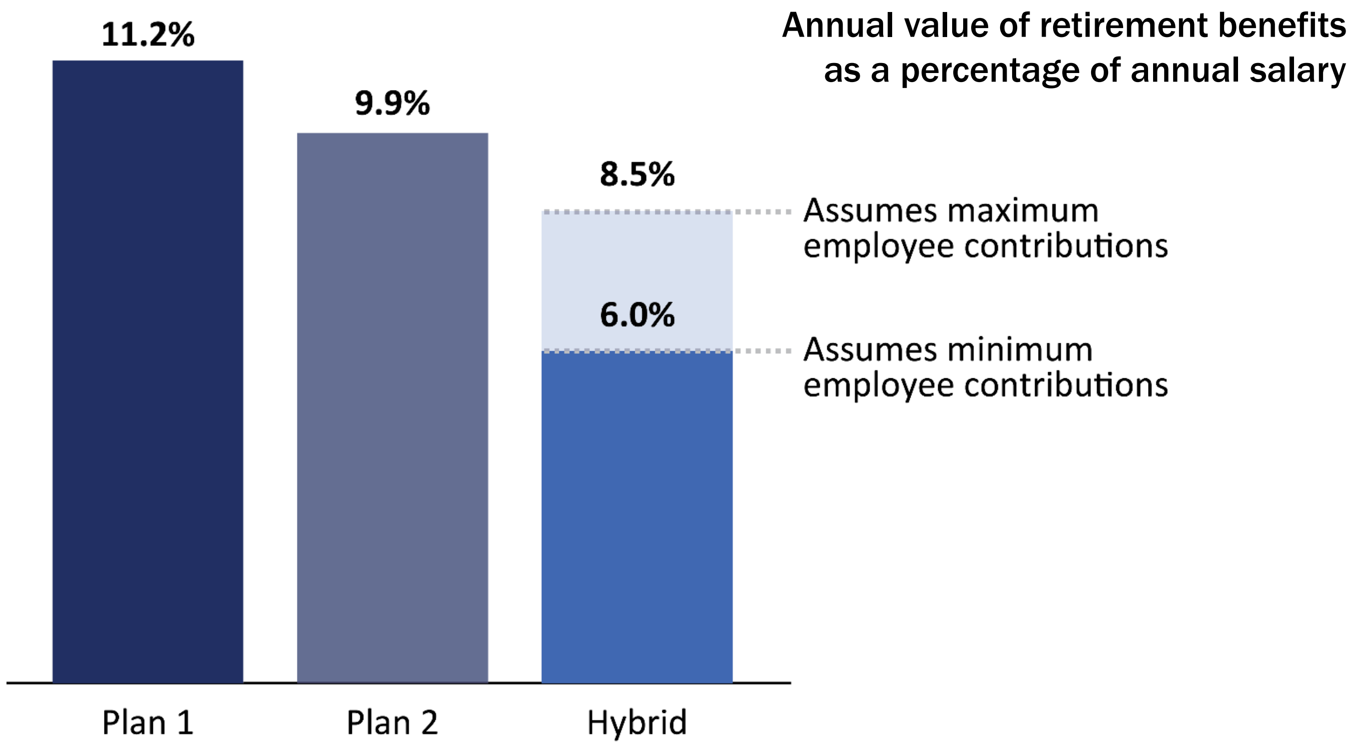
Implementation of new Hybrid retirement plan reduced value of state benefits.

Maintaining value of health insurance benefits is key to maintaining competitive compensation for new hires.

State implemented new retirement plan in 2014

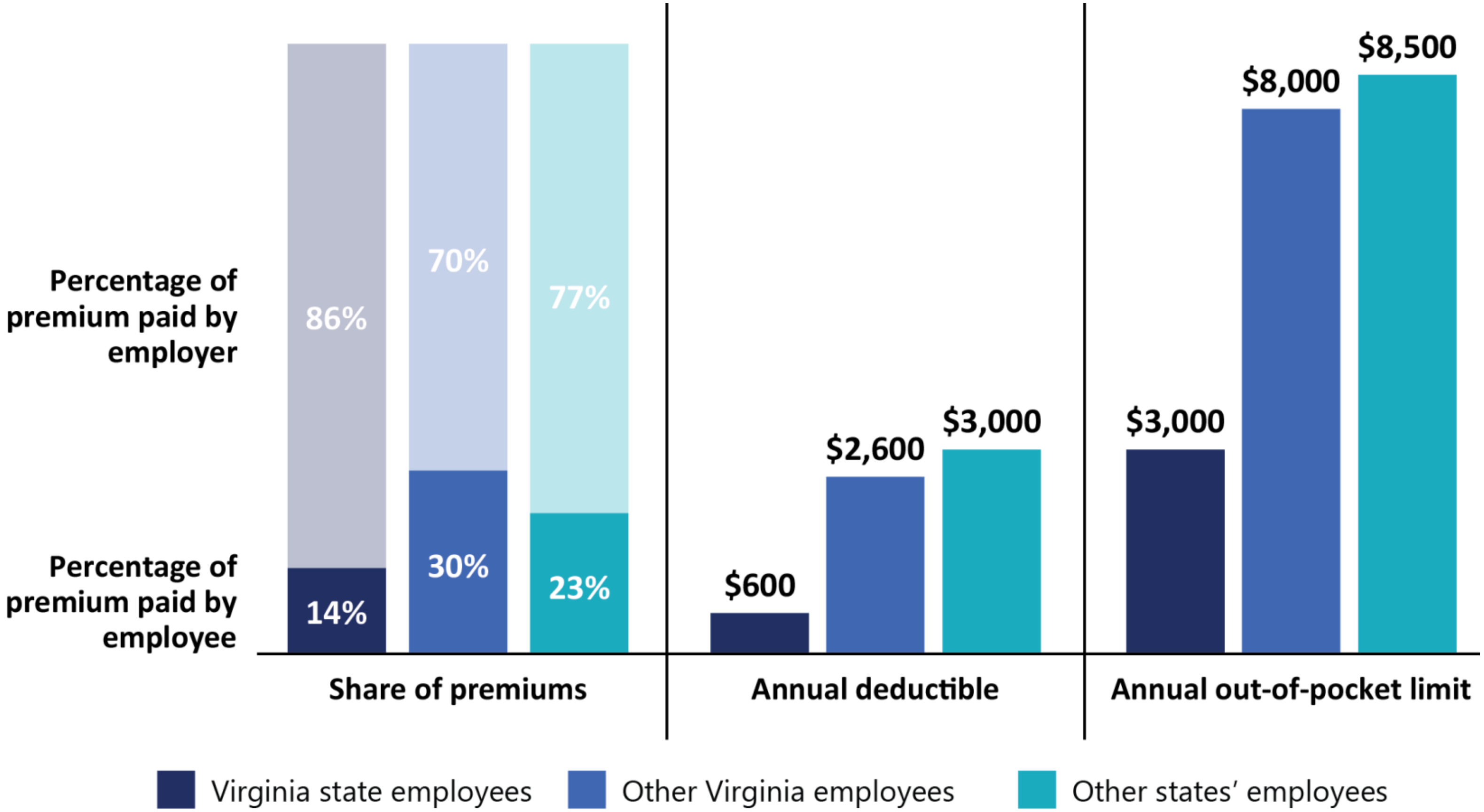
- Smaller defined benefit component and a savings component with agency match
- Maintains some guaranteed benefit for employees
- Hybrid retirement plan reduces state retirement liabilities and costs

Hybrid retirement plan is less valuable than legacy plans but in line with other employers



NOTE: Analysis assumes maximum employee contributions for Hybrid plan and the market. About 22 percent of employees in the Hybrid plan are currently maximizing their contributions. Value of plan drops to 6.0% if employees make the minimum contributions.

State employees pay lower premiums and out-of-pocket costs for health insurance



NOTE: Comparison is for COVA CARE Basic health plan with family coverage.

Health insurance changes are possible but would reduce value of compensation

- Virginia could require employees to pay for more of their health insurance, similar to other employers
- Increasing employee cost sharing could save state an estimated $8-11M annually
- Decreased value of retirement benefit means that health insurance is key driver of state compensation competitiveness

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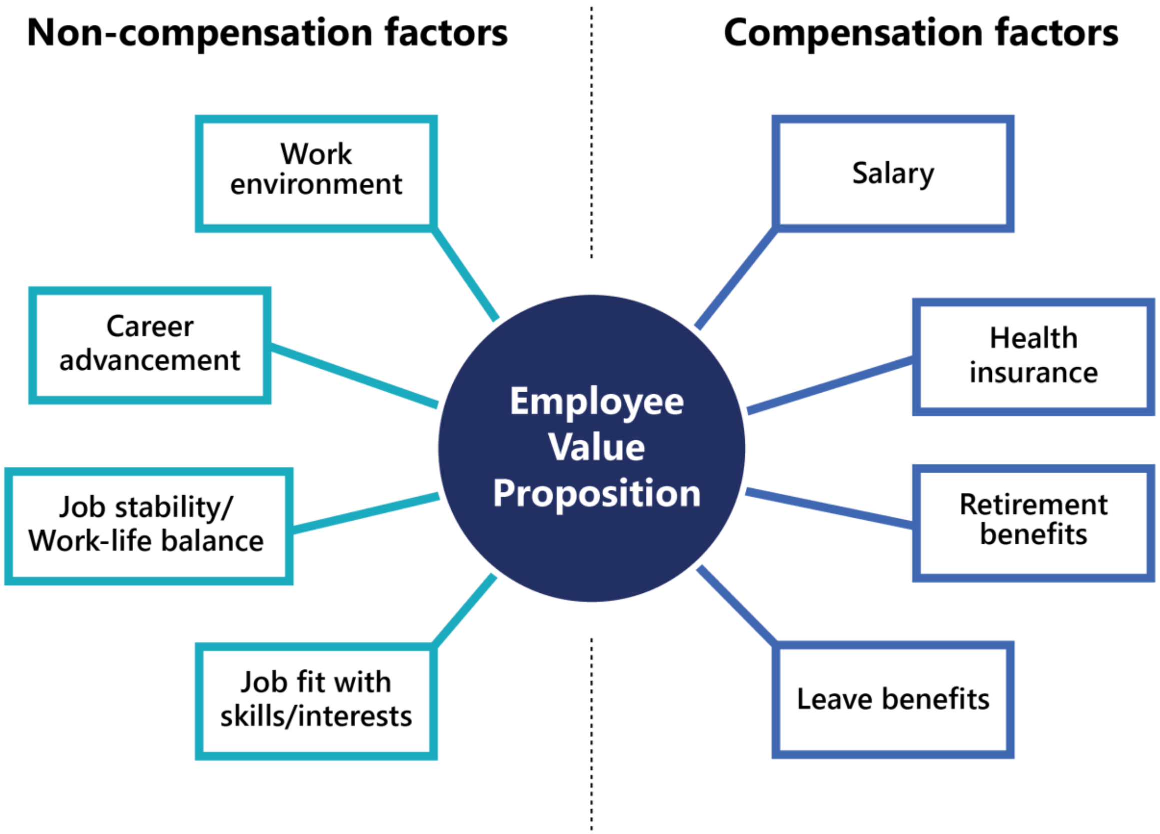
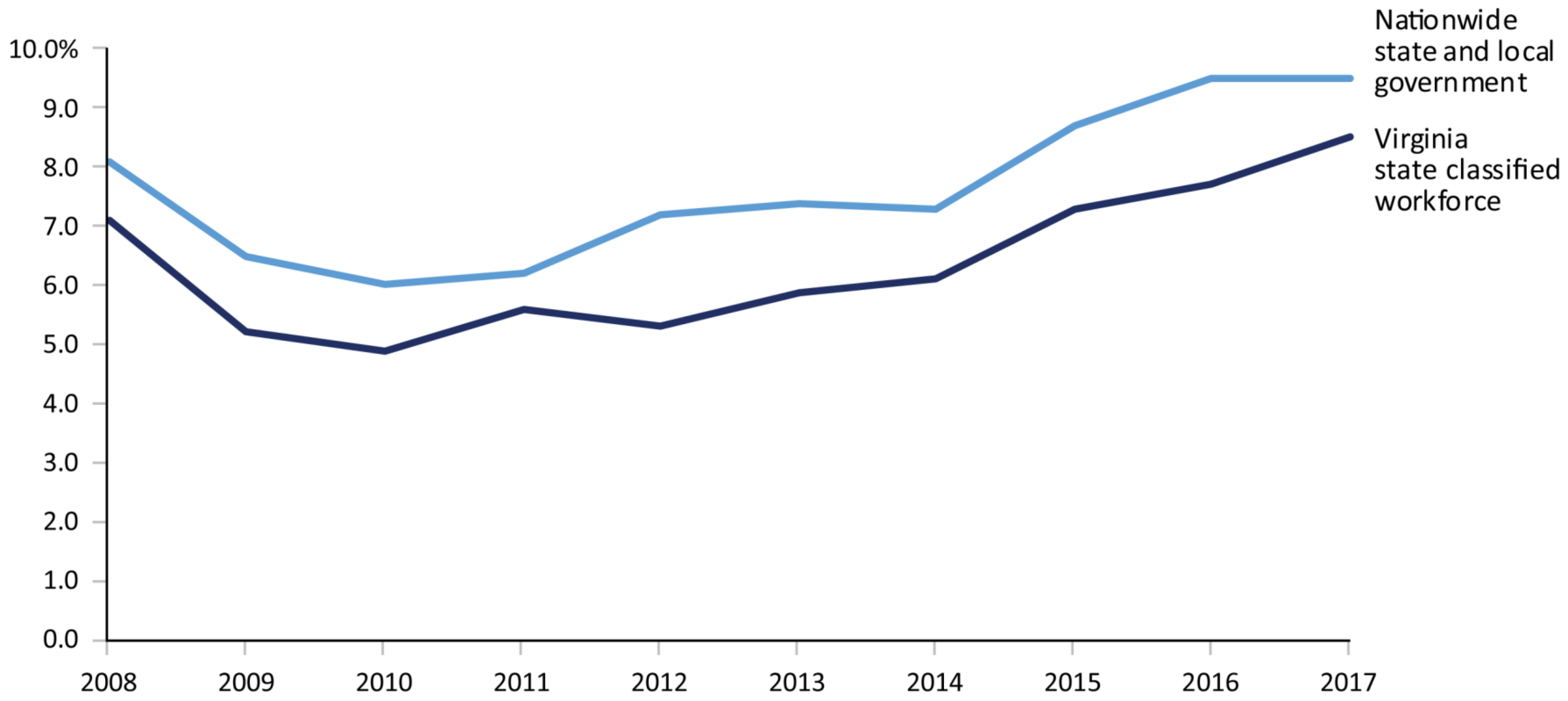
Compensation and non-compensation factors affect recruitment and retention



Turnover among state employees has been increasing, similar to trends in other states



NOTE: Figure includes only voluntary turnover, which is when employees leave for reasons other than retirement or death. Does not include employees who leave one state agency for another.

Findings

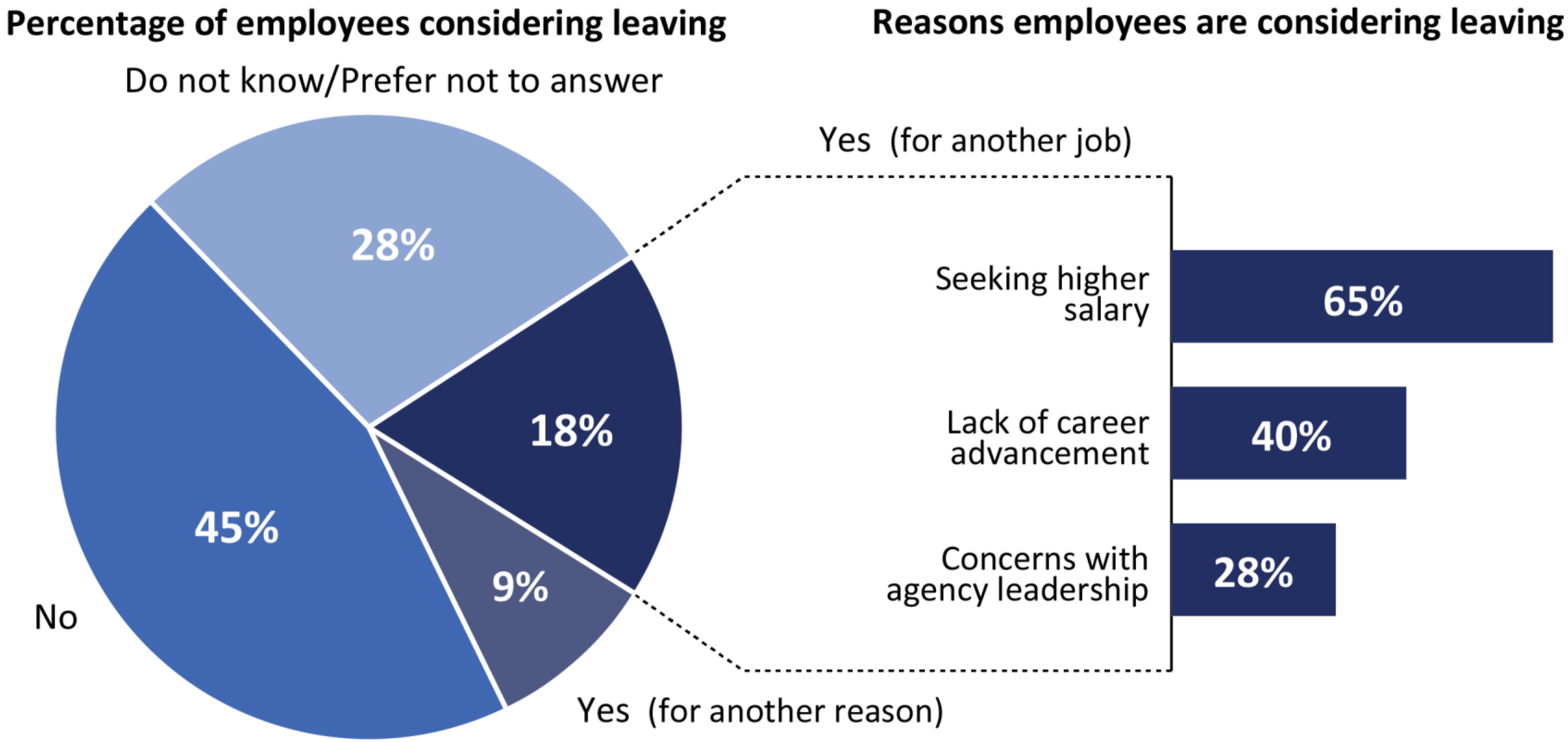
Low starting salaries negatively affect agencies' abilities to recruit the most qualified candidates.

A lack of consistent salary growth and career advancement opportunities contributes to retention challenges.

Uncompetitive starting salaries are a primary reason for recruitment challenges

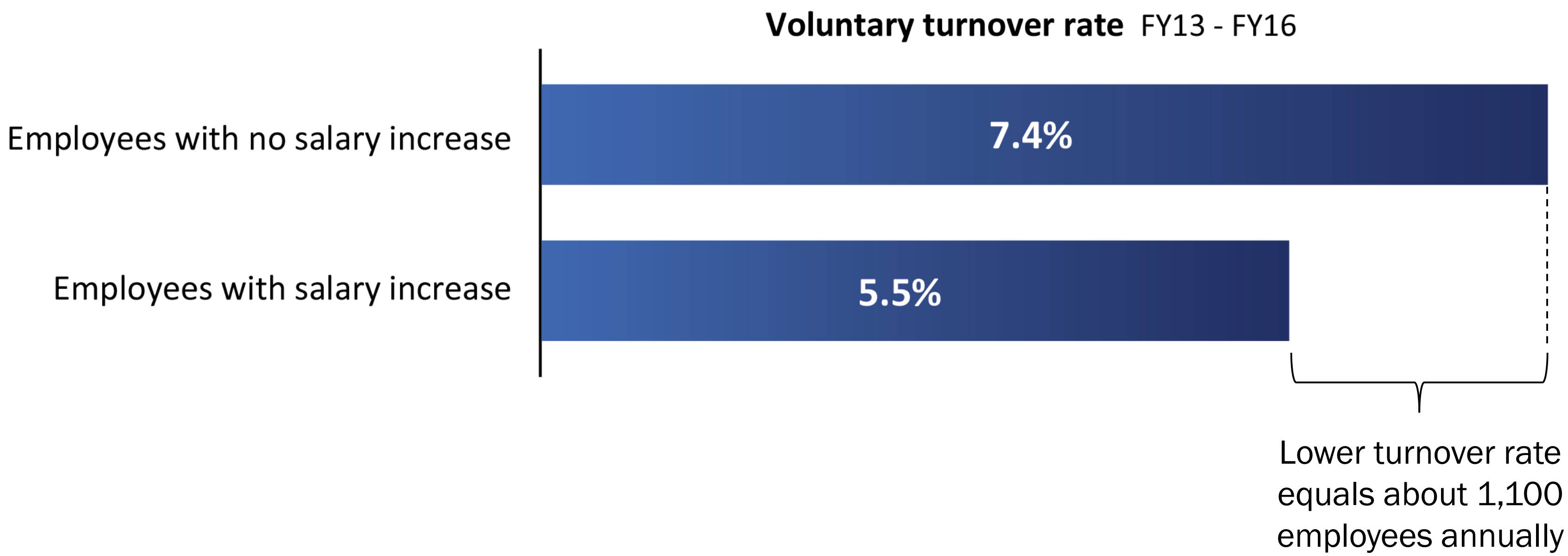
- 75% of agencies report some recruitment challenges
  - Majority struggle to find even minimally qualified candidates for certain positions
- Low starting salaries are the number one reason cited for recruitment challenges
- New hires tend to be younger and place a higher value on salaries

Salary is the main reason employees intend to leave the state workforce



NOTE: Employees could select up to three reasons why they were considering leaving their job.

Analysis shows lower turnover for employees who received salary increase in prior year



NOTE: JLARC regression analysis controlled for other factors associated with turnover such as job role, years of service, and demographic characteristics.

Lack of career advancement hampers employee retention

- Lack of career advancement cited by 40% of employees who are considering leaving for other jobs
- Agencies and employees observed that an unclear career path exacerbates retention problems
- Successful career advancement programs require planning and funding
  - Several agencies have "career ladders" within job roles based on increased competencies/skills

Recommendation

DHRM should identify job roles for which career advancement programs would be most beneficial and work with agencies to develop effective career advancement programs.

Finding

Some job roles have significant recruitment and retention challenges that appear linked to low salaries.

Agencies have difficulties maintaining qualified staff in a variety of occupations

- Jobs with workforce challenges include
  - Health care
  - Correctional officers
  - Health and safety inspectors
  - Information technology
  - Emergency coordinators
  - Engineering technicians
- Agencies cited low starting salaries and lack of salary growth as key challenges for these roles

Workforce challenges cause operational issues for agencies

- Over half of agencies report negative impacts on operations due to recruitment/retention challenges
  - Diminished ability to function beyond minimum requirements
  - Lower quality and decreased timeliness of services provided to the public and other state agencies
  - Increased workload and lower staff morale

CASE STUDY: VDACS health and safety inspectors

Due to recruitment and retention challenges, ratio of food establishments to VDACS inspectors is twice as high as that recommended by the USDA.

Delay in inspections impacts the ability of businesses to open new food establishments. Farmers are unable to sell produce for higher prices if VDACS inspectors are not able to “grade” produce in a timely manner.

USDA = United States Department of Agriculture

CASE STUDY: DBHDS health care staff

State mental health facilities are significantly understaffed in core positions because of recruitment and retention challenges.

DBHDS has established standards for the number of licensed staff on mental health wards. Due to understaffing, facilities can quickly fall out of compliance with these standards, putting the state at risk for a DOJ investigation or lawsuit.

DOJ = United States Department of Justice

Some, but not all, workforce challenges appear linked to low salaries

Job role	Turnover rate	Vacancy rate	Salary benchmark	Likelihood of salary link
Psychologist I	20%	26%	−28%	High
Compliance & safety officer III	6%	18%	−19%	High
IT specialist III	4%	12%	−1%	Unclear
Security officer III	17%	16%	0% (on par)	Unclear
Statewide average	**8%**	**13%**	**−10%**	

NOTE: Salary benchmark numbers indicate the difference between average state salaries and market median for similar positions.

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Strategically managing salaries key to maintaining qualified workforce

- Salaries represent majority (63%) of state compensation spending
- Employees value salary more highly than benefits but are most dissatisfied with their salaries
- Salary increases can be effective at addressing and preventing some recruitment and retention challenges

Finding

Providing a uniform percentage increase for all employees is not most effective way to address workforce challenges. Decision-makers need better information to prioritize jobs for which salary increases can be most effective.

Funding is not used effectively when all employees receive the same raise

- Workforce challenges are concentrated in specific job roles and agencies
- Jobs with significant recruitment/retention challenges typically receive same increase as jobs with stable workforce
- State spent $544 million in uniform salary increases between FY06 and FY17

Decision-makers need better information to make strategic decisions about salaries

- A data-driven approach would enable decisions based on objective and reliable information
- Information should identify
  - Job roles and agencies with significant challenges
  - Whether challenges can be addressed by salary
  - Comparison of salaries to other employers
  - Impact of job roles on agency operations

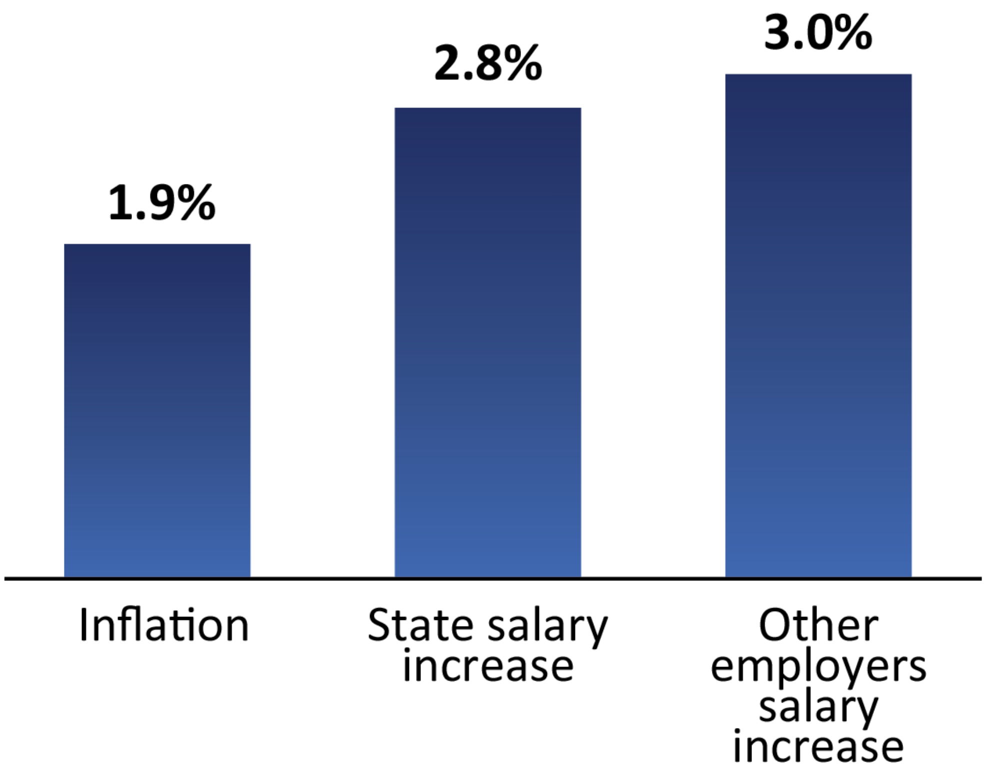
Recommendation

The General Assembly may wish to direct DHRM to convene a workgroup to develop a methodology that can be used routinely for prioritizing salary increases for job roles with the most significant workforce challenges.

Finding

Total state investment in salary increases over the last twelve years has enabled salaries to keep pace with other employers and inflation.

Average salary increase slightly exceeded inflation, comparable with other employers

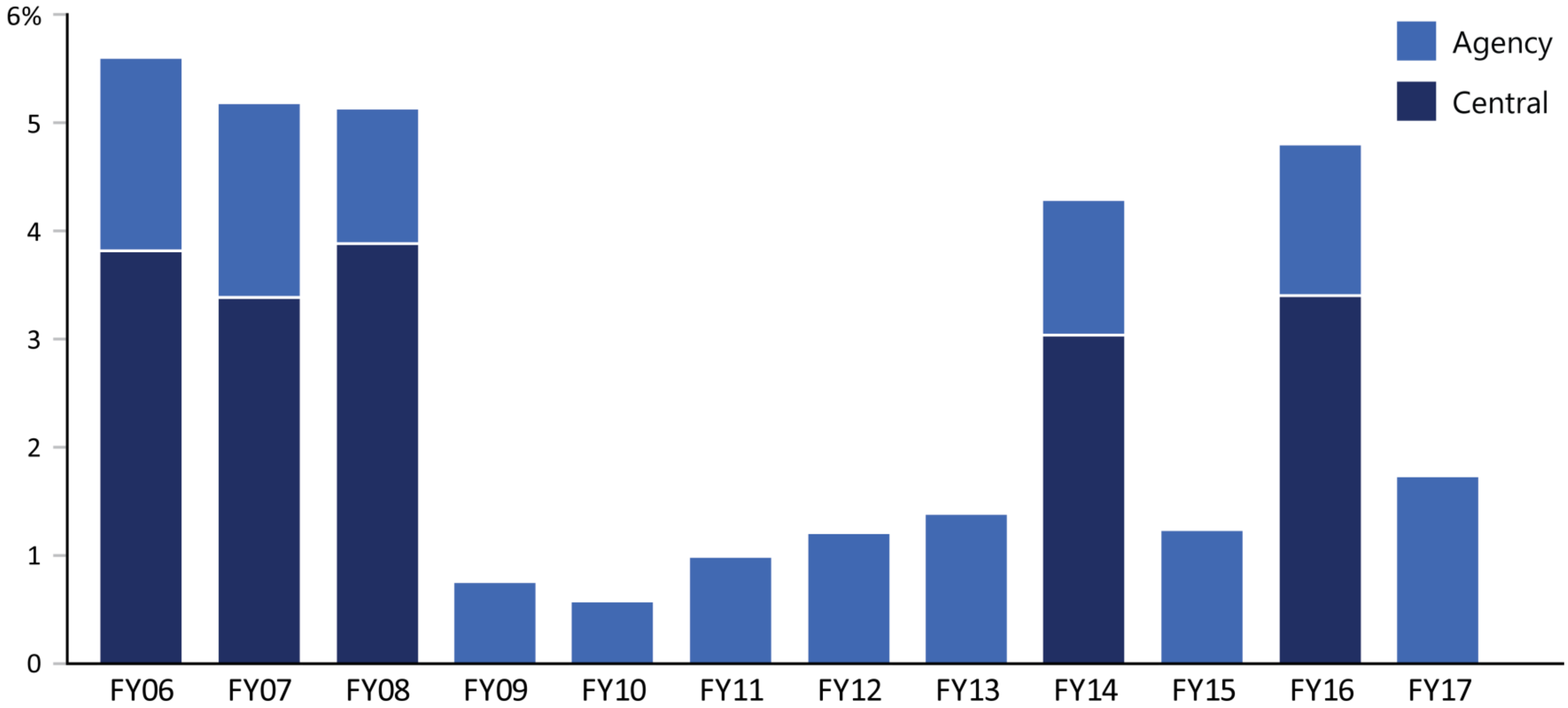


NOTE: Average annual increases between FY06 and FY17. Other employer figures from Mercer's U.S. Compensation Planning Survey.

Finding

The state appropriates funds for salary increases irregularly, and when appropriations are made, they are usually large, to make up for years without salary increases. This approach puts greater pressure on the state budget in some years and does not address workforce challenges.

The state has not appropriated funds for salary increases at regular intervals



NOTE: Salary growth is the average increase across all employees, even those who did not receive any raise.

Smaller salary increases at regular intervals could help manage workforce challenges

- Regular increases enable starting salaries to keep pace with other employers
- Employees who receive a salary increase are less likely to leave for another job
- Regular increases can be smaller and would reduce the need for larger, periodic increases to catch up

Finding

The budget process does not compel decision-makers to evaluate employee salaries and the need for salary increases.

Budget process does not compel decision-makers to consider salary increases

- Salaries currently compete with every discretionary item in the budget
- Other employers invest in salaries before other priorities
- Prioritization requires actionable information early in the budget process

Recommendation

General Assembly may wish to require DHRM to submit a report to the governor and the money committees in August with information on (i) job roles most in need of salary increases, (ii) proposed increases, and (iii) cost estimates.

Finding

Agencies lack the authority to increase individual employee salaries by different percentages based on employees' performance and other factors, even though doing so could help them address their workforce challenges.

Agencies require additional authority to strategically invest in salaries

- Agencies could make salary decisions based on their employees' work experience, job responsibility, and performance
- Agencies are not permitted to provide different percentage increases to employees when funds are appropriated
- Rewarding employees for performance can improve motivation and retention of high-performing employees, but requires careful implementation

Recommendations

The General Assembly may wish to provide agencies the option to use centrally appropriated funds to increase employee salaries by different percentages.

The General Assembly may wish to allow agencies to implement performance-based pay policies if they meet criteria established by DHRM.

Strategic salary investments require coordination and support

- DHRM requires additional resources to support strategic salary decisions at the central and agency levels
- Developing and implementing methodology requires analysis and collaboration
- Agencies need training and support to make strategic compensation decisions

Key findings

Virginia's total compensation is comparable to other employers on average, but strategic investments in salaries are necessary for specific job roles.

Competitive starting salaries are key for recruitment, and regular salary growth helps improve retention.

State could more strategically spend funds on employee salaries by prioritizing salary increases for jobs with greatest recruitment and retention challenges and providing salary increases at regular intervals.

New parental leave policy proposed in 2017

- SB 1412 (2017) would provide paid parental leave to adoptive parents and biological fathers
- Policy is modeled after VSDP leave available for physical recovery after childbirth
- Enactment clause delayed implementation pending re-enactment in 2018 and directed JLARC to review parental leave benefits in other states

Other states provide more flexibility to use sick leave for care of a new child

- Most states allow employees to use accrued sick leave for child care and bonding
  - Creates a larger amount of paid time off that employees can use following birth or adoption
- At least five states have specific parental leave policies

SB 1412 may be in violation EEOC guidance

- SB 1412 would provide parental leave to adoptive parents and biological fathers, not biological mothers
- Biological mothers are eligible for paid short-term disability leave for physical recovery, but not parental leave
- EEOC guidance: leave policies are not permitted to treat either gender more favorably

EEOC = Equal Employment Opportunity Commission

New policy would increase spending when employees would otherwise take unpaid leave

- Most parental leave would result in lost productivity, but not increased expenditures
- JLARC estimates fiscal impact of parental leave between $215,000 and $358,000
  - Due to employees receiving paid leave rather than taking unpaid, FMLA leave
  - Includes addition of biological mothers

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