

July 11, 2008

Total Rewards Assessment
Observations and Suggested
Alternatives
JLARC/Commonwealth of Virginia

MERCER

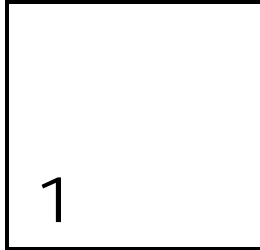


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Overview

The purpose of this document is to provide a summary of Mercer's observations and suggested alternatives to consider based on Mercer's assessment of the Commonwealth's Total Rewards programs.

Mercer assessed how each of the total reward elements contributes to, or impacts, the following objectives of the Total Rewards framework as outlined by the Commonwealth:

- Recruiting new employees
- Retaining existing employees
- Motivating existing employees to perform and achieve organization objectives
- Helping existing employees be healthy and productive
- Allowing employees to retire at the right time
- Allowing existing employees to maintain an appropriate work/life balance.

In addition, Mercer considered the extent to which current programs produce sustainable costs to taxpayers.

To assess the Commonwealth's total reward elements relative to these objectives, Mercer gathered information from three key perspectives:

- Employer perspective
 - JLARC's preliminary assessment of Virginia's total compensation key findings report.
- Cost and competitiveness perspective
 - Benefits valuation report
 - Market competitive analysis (market practices review/trend analysis, market pricing, and total remuneration analysis report)
 - Total Rewards cost modeling.
- Employee perspective
 - Conjoint analysis of employee Total Rewards preferences.

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Observations and Suggested Alternatives

Key observations from the assessment include the following:

1. The Commonwealth does not have a documented Total Rewards Strategy in place to guide decision-making on cash compensation, benefits (health and retirement), and work/life.
 - If the current state reflects the “default” strategy, the current Total Rewards strategy overall is very close to competitive at 96% of the market median (within plus or minus 5% of median). It is conservative on cash compensation, offset with richer benefits and work/life choice.
 - Absent a clearly articulated strategy, the alternatives outlined below generally address making each element of rewards competitive at median. However, if the Commonwealth takes action to make each component that is below market competitive at the median, the resulting total package will be above the market median for total remuneration. (With Total Rewards, the whole is greater than the sum of the parts—since other employers also have plans that vary in competitiveness around median, setting all of the parts at median produces total value above median).
 - The issue is compounded if the Commonwealth leaves the benefit components above market as they are today. If the Commonwealth addresses cash compensation issues and leave the benefits and paid time off largely untouched, in conjunction with the degree of work/life choice or balance provided, the package in total will be well above market median.
 - However, because of how the package is structured, the Commonwealth could make Total Rewards competitive, and still have difficulty attracting and retaining critical talent if the mix of rewards is not optimal based on the preferences of new or prospective hires.
 - Accordingly, the Commonwealth needs to consider how to shift the mix of rewards to best align both costs and value with the preferences of prospective employees and current employees most likely to be at risk.

The current programs with their heavy emphasis on non-cash components (benefits, retirement), appear to be geared to retain the current already long-tenured employees, (or possibly to attract prospective employees looking for a long term career opportunity with good work/life balance) and is likely to be less effective for attracting early in career talent interested in a shorter term employment opportunity. In developing a Total Rewards Strategy, the Commonwealth should consider more fully the desired talent strategy and the extent to which the focus on attracting long tenured talent will or should continue across all of the Commonwealth’s roles.

Suggested Alternatives	Rationale
<p>Develop a Total Rewards Strategy</p> <ul style="list-style-type: none"> ▪ Tailor the strategy to appeal to the employees the Commonwealth has to attract and retain in the next 10 years, particularly in critical talent job groups. ▪ Total Rewards Strategy serves as basis for cash, benefits, and work/life environment decisions by defining guiding principles concerning the following: <ul style="list-style-type: none"> – Role/objectives of each of the rewards programs (think in terms of what each program is supposed to “buy” from employees/prospective hires for the Commonwealth) – Identified talent markets – Desired competitive positioning for each component against identified markets, recognizing that targeting each component at median puts Total Rewards above median – Performance focus – Intent to have different strategies for different groups (e.g. critical skills jobs versus others) – Communication of the total reward strategies and programs – Key metrics for tracking each program’s effectiveness. ▪ Reconsider the current employee value proposition (EVP) and Total Rewards mix which appear tailored to long-tenured employees, and determine whether that approach should be modified going forward; an alternative value proposition and reward strategy would emphasize “current rewards” such as cash compensation and work/life choice, rather than benefits and “deferred rewards” like retirement. ▪ Review the types and amount of talent that will be needed by the Commonwealth, how the workforce contributes to organizational success and then tailor the reward mix and mechanisms to workforce characteristics that align with the strategic requirements of the Commonwealth. ▪ Develop specific criteria for identifying critical skills jobs (e.g., high turnover, high vacancy rate or time to fill, high and direct impact on priority government activities, low employee satisfaction, etc.) and establish differentiated reward strategies as needed to attract, retain, and motivate talent in those jobs. ▪ Address the extent to which reward program support should be more centralized (DHRM-managed) versus decentralized (agency-managed). ▪ Within the context of this strategy, the Commonwealth should develop a set of guiding principles to manage the financial 	<ul style="list-style-type: none"> ▪ Provides comprehensive foundation from which reward decisions are made and basis for assessing ongoing program effectiveness. ▪ Creates opportunities to manage total program costs and maximize the Total Rewards return on investment. ▪ Employee value proposition (EVP) drives the Total Rewards Strategy and how tax dollars are spent; consider whether the current Total Rewards mix is effective at sustainable costs. ▪ Defining role of DHRM versus agency relative to reward program support provides needed clarity, opportunities to leverage centralized support and balance consistency and operational efficiency, with agency flexibility where needed. ▪ Identifying and segmenting rewards for critical jobs helps address key competitiveness gaps in critical jobs quickly, more cost effectively, and strategically. ▪ In the current state, health benefits costs will continue to escalate at a pace 3-4 times salary increases. These principles provide a context within future costs can be managed.

<p>direction of the health plan; proposed guidelines will be addressed as a separate observation.</p> <ul style="list-style-type: none"> ▪ Similar guiding principles may be required for the retirement plan, although that is outside the scope of this part of the project. ▪ Develop communication plan to educate employees about Total Rewards. 	
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See Appendix I for a sample Total Rewards Strategy

2. The current role-based architecture lacks the specificity needed to identify jobs and career paths, limiting the ability to track market pay cost effectively, which contributes to attraction, retention, and motivation challenges.

Suggested Alternatives		Rationale
A.	<p>Audit Existing Workforce Architecture and Identify Issues, Gaps, etc.</p> <ul style="list-style-type: none"> ▪ Conduct interviews with agency management, DHRM, etc. to further assess current architecture (how it is working in practice versus desired intent, with respect to support for hiring, career pathing, ability to track market pay rates, etc.). ▪ Gather additional research, documentation, etc. as needed. ▪ Summarize positives and negatives and develop recommendations for refining existing architecture. 	<ul style="list-style-type: none"> ▪ Provides the opportunity to isolate key issues to address versus refining/re-building entire architecture. ▪ Interviewing DHRM staff, agency managers, etc. allows for assessment of desired intent versus practice.
B.	<p>Refine Existing Workforce Architecture via Job Family/Sub-Family and Career Level-Based Approach</p> <ul style="list-style-type: none"> ▪ Refine existing architecture as needed to clarify jobs for market tracking purposes, and career paths. ▪ Create more specific job families and sub-families to better reflect how the external marketplace organizes jobs. ▪ Identify and distinguish roles based on career streams and levels (e.g, Management, Professional, Technical, Support) and career levels (1, 2, 3, etc.)— a role should not be a mix of different career streams (e.g., Professional and Support). ▪ The Commonwealth could target specific occupational families, career groups, and/or roles identified via the audit for refinement, and leave the others as is. 	<ul style="list-style-type: none"> ▪ Leverages broad architecture already in place, but applies more specificity where needed. ▪ Refined architecture provides framework necessary to identify jobs for enhanced market tracking and to clarify career paths, also supporting better workforce analysis and planning.

See Appendix II for more details on job analysis using a job family/career leveling framework

3. Commonwealth employees place considerably higher value on base salary than any other rewards, and current base pay competitiveness is slightly below market at 92% (competitiveness varies significantly by job and pay band). Likely contributing factors include:
 - Current role-based architecture organizes jobs too broadly into roles, limiting the ability to identify a job for the purpose of establishing, tracking and maintaining

- competitive pay levels (in current framework, some jobs may be paid significantly above market while others may be significantly below).
- The banded approach to base pay administration (8 bands, 105% range spreads from minimum to maximum) provides little framework for managing pay to market.

See Appendix III for examples of how pay varies significantly by job (e.g., SOC) within certain roles

Suggested Alternatives		Rationale
<p>A. Clarify Desired Market Positioning</p> <ul style="list-style-type: none"> ▪ Market position would be established within the context of the articulated Total Rewards Strategy. ▪ If base pay is at 92% of market median and total cash is at 88%, but overall Total Rewards are at 96% of median, how competitive does cash compensation need to be for effective attraction and retention of the necessary talent, taking into account employee stated preferences for cash? ▪ And if the target for the general population is, for example 95% of median, how competitive does cash need to be for critical skills groups? 	<ul style="list-style-type: none"> ▪ Clarifying the base and total cash target are important both to guide any improvements in cash compensation, but also to assure the Total Rewards positioning does not exceed market median. 	
<p>B. Develop Market Ranges within Existing Bands</p> <ul style="list-style-type: none"> ▪ Gather additional job-based market data as needed (requires pricing subset of jobs). ▪ Develop overlapping market ranges (possibly job-specific or family-specific) within bands and place jobs into them based on market pricing and internal equity consideration. ▪ Essentially, this approach is retro-fitting a grade structure into banded framework. 	<ul style="list-style-type: none"> ▪ More narrow, market-based ranges within a band provide ability to track market for a job, as opposed to placing all jobs within a band that is 105% wide—this provides better guidance for pay decisions, and significantly better cost control. ▪ Leverages existing banded approach, but applies more rigor where needed. 	
<p>C. Develop Traditional Grade Structure with Wide Ranges</p> <ul style="list-style-type: none"> ▪ Gather additional job-based market data as needed (requires pricing subset of jobs). ▪ Develop traditional grade structure (more grades than current with more narrow ranges) and place jobs in them based on market pricing and internal equity consideration. ▪ Identify bands/career levels as needed to serve as complementary framework to grades—grades and ranges are aligned with bands/career levels. 	<ul style="list-style-type: none"> ▪ Traditional approach provides ease of administration, ability to effectively track and manage to desired market position, etc. ▪ Provides opportunity to maintain banding methodology. 	
<p>D. Segment Critical Skills Jobs</p> <ul style="list-style-type: none"> ▪ Determine critical skills/hot jobs via pre-determined criteria established as part of Total Rewards Strategy; adopt process for annual review and update to critical skills list. ▪ Establish strategic, differentiated base pay 	<ul style="list-style-type: none"> ▪ Isolates reward practices to areas of greatest need. ▪ Early base pay increases help address early turnover and compression in key areas. 	

<p>administration practices to assist in attracting and retaining staff in hot jobs; practices might include:</p> <ul style="list-style-type: none"> - One time, first year 6 month base pay increases (timing should coincide with point at which turnover is occurring to avoid "quick quits") - Pay ranges set above general market target (e.g., 60th-75th percentile). 	
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To support the more market-based pay administration alternatives outlined:

- The role-based architecture would need to be refined to provide the level of specificity needed to better define jobs and career paths.
- Significantly more centralized support, outside resources and technology would be needed to ensure timely, accurate market data and appropriate access to it
 - DHRM would play a more active role
 - Compensation technology and/or co-sourcing support to manage compensation survey participation and data uploads/refreshing, custom pay surveying on an ad hoc basis, ongoing market pricing, pay practice research, etc. may be good investments relative to the size of the payroll affected by the support.

4. It is not clear what reward elements, if any, are intended to provide rewards for, or drive, performance at the Commonwealth.
- The performance focus is typically outlined in the Total Rewards Strategy, which the Commonwealth does not have.
 - Cash compensation is a primary vehicle through which performance is rewarded in the private sector, and pay-for-performance is emerging in use in the public sector:
 - It is not clear how the Commonwealth rewards performance
 - The Commonwealth does not differentiate base pay increases significantly based upon performance or pay relative to market
 - The majority of bonuses are given "after the fact" – goals are not pre-determined so that rewards are based on the extent to which objectives/results are met, which is typical with incentives intended in a pay-for-performance context.
- (See Appendix IV for summary of 2007 bonus payouts)*

Suggested alternatives to consider, which could be used individually or in combination, include:

Suggested Alternatives		Rationale
A.	<p>Establish a Pay Zone Concept</p> <ul style="list-style-type: none"> ▪ Divide the market range into "pay zones," or thirds, to help guide not only merit increases, but all individual pay decisions (e.g., hiring rates, promotions, off-cycle increases, transfers or demotions). ▪ Pay zones may be characterized as follows: <ul style="list-style-type: none"> - Premium/Exceptional Performance Zone - Market Zone - Developing Zone. 	<ul style="list-style-type: none"> ▪ Pay zone approach provides framework for establishing clear, consistent guidelines for how individual pay decisions are made throughout the Commonwealth.

Suggested Alternatives	Rationale
<ul style="list-style-type: none"> ▪ Establish target zone for each employee and assess gaps. ▪ Use higher annual increases or additional “merit increases” to raise employees to the target zone and provide smaller or no increases to employees who are already paid above target. <p><i>(See Appendix V for example of merit matrix and pay zone concept)</i></p>	
<p>B. Establish Merit Pay (Standard Percent by Performance Level or Percent Varying by Pay Competitiveness)</p> <ul style="list-style-type: none"> ▪ Assign annual/merit increases based upon consideration of performance and pay relative to market, or midpoint of pay range. ▪ To maximize impact, consider adopting this alternative in conjunction with the one of the market-based range alternatives outlined. 	<ul style="list-style-type: none"> ▪ Provides framework for determining merit increases based upon performance and market. ▪ Creates ability to distribute merit dollars where they are needed most—those with highest performance and lowest pay relative to market receive largest increases.
<p>C. Develop Annual Incentive Plan</p> <ul style="list-style-type: none"> ▪ Re-allocate budget dollars for project bonuses, etc. to be used for incentive plan purposes. ▪ Assign market-based incentive targets (percent of base pay) to targeted jobs/employees, identify measures and standards, and payout relative to the attainment of those standards. ▪ Consider implementing as a pilot in targeted areas of the Commonwealth (e.g., by agency, program, level, critical skills/hot jobs). ▪ Incentive plan effectiveness is strongly related to managers’ ability to communicate goals, feedback, etc. effectively. (The Commonwealth should consider this when determining whether to explore this alternative.) 	<ul style="list-style-type: none"> ▪ Employees report dissatisfaction with current potential for bonuses. ▪ Annual plans are common in the private domain and represent an opportunity for state governments who want to move to a more performance-based culture. ▪ Developing a more targeted approach to variable pay design will help drive greater line of sight than the de-centralized, after the fact nature of current bonus programs.
<p>D. Award PTO as Incentive</p> <ul style="list-style-type: none"> ▪ Define criteria and process. ▪ Give managers the option to provide 1-3 additional days of PTO as an incentive for employees and/or teams that achieve desired objectives. ▪ Consider implementing as a pilot in targeted areas of the Commonwealth (e.g., by agency, program, level, critical skills/hot jobs). 	<ul style="list-style-type: none"> ▪ Time off is a key “currency” for achieving stated work/life balance and wellness objectives; this approach may also be particularly appealing to new hires and Generation Y employees.

Suggested Alternatives		Rationale
<p>E. Establish a Combined Market Compensation / Rewards for Performance Approach</p> <ul style="list-style-type: none"> ▪ Set pay range Maximum at 50th percentile of the market plus ten percent. ▪ Set pay range Minimum at 85% of the range Maximum. ▪ Establish a schedule of base pay increases every 12 months (first increase at 6 months). <ul style="list-style-type: none"> – The schedule of payments assume that the incumbent will learn and develop, becoming increasingly competent and productive. – No supervisor recommendation or performance documentation is required to support the salary increase. – Supervisors are polled prior to each scheduled increase; if the employee is developing on schedule, the supervisor need take no action; if the employee is NOT developing on schedule, the supervisor DEFERS the scheduled increase, informs the employee that the scheduled increase has been deferred, and works with the employee to close the development gap. – The supervisor can authorize the payment of the deferred increase at any time the performance gap is closed. ▪ Once the employee’s salary reaches Maximum, merit pay consists of non-recurring lump sum payments. ▪ Consider implementing in targeted areas only (e.g., critical skill hourly jobs). 	<ul style="list-style-type: none"> ▪ This method is effective in workforces where supervisors are not motivated or capable of disciplined performance management. ▪ The supervisor’s focus shifts from compliance with mandated performance review administration to identifying and working with marginal performers and nonperformers. ▪ Very powerful for attraction of new talent in that you can document early career / early job pay growth and ensure that pay will be at market. ▪ Strong pay for performance and cost-control in that pay above market is primarily on a performance basis and MUST be earned each year. 	
<p>F. Provide Differentiated Career Development Opportunities to Top Talent (e.g., Top 10% – 20%)</p> <ul style="list-style-type: none"> ▪ Establish criteria and process for identifying top talent (high performers and high potentials). ▪ Develop career development package, which might include: <ul style="list-style-type: none"> – Accelerated learning and development opportunities – More aggressive promotions – Ability to cross-train in other areas. ▪ Development a measurement system for tracking ongoing effectiveness (e.g., career advancement tracking, employee satisfaction, etc.). 	<ul style="list-style-type: none"> ▪ Employees report relatively high dissatisfaction with opportunities for advancement. ▪ Satisfaction with opportunities for growth and development is a key indicator of commitment and the Commonwealth is below national norms. ▪ Using career development as a reward is a growing trend and often under-utilized point of emphasis in the Total Rewards package. ▪ Developing a process for identifying and managing top talent, if effectively executed, may result in a point of differentiation for the Commonwealth as an employer. 	

5. Given the strong focus on salary from the employee survey, the Commonwealth should consider alternatives where employees can convert benefits to cash.

Suggested Alternatives		Rationale
<p>A. Allow Employees to Sell Back Accrued Vacation Annually</p> <ul style="list-style-type: none"> ▪ Modify the current annual leave policy that pays out accrued annual leave at termination to allow employees to make annual elections to receive this cash before termination. ▪ These guidelines should be structured in such a way as to not increase the Commonwealth’s cost for paying out accrued annual leave, but giving employees the choice to receive that cash while still employed. ▪ The number of days sold, assuming the employee has accrued annual leave to sell, should make the payout meaningful to the employee. 	<ul style="list-style-type: none"> ▪ Given the proper structure, this can provide employees with a meaningful payout now for a benefit they would not otherwise receive before termination. ▪ Since the Commonwealth pays out accrued annual leave today, this program does not cost additional funds, it just offers the employee the choice to accelerate the payment. 	
<p>B. Provide a Cash Payment for Employees That Opt Out of Participation in the Medical Plan</p> <ul style="list-style-type: none"> ▪ Employees must demonstrate that they have health benefits coverage elsewhere, but if they do then the Commonwealth would increase their salary a small amount annually, or provide a one-time lump sum amount. 	<ul style="list-style-type: none"> ▪ Approximately 91% of all eligible employees select coverage, and the average medical and pharmacy cost of an employee is \$3,300 after adjusting for employee only contributions (FY2007). Offering an employee a \$1,000 salary increase or lump sum for opting out reduces the overall health plan cost and creates choices for employees to receive additional cash. 	

6. Current leave policies are numerous and overlapping, which complicates employee understanding and accurate administration of these programs. For example, family and personal leave can be used for personal or family illness, and so can sick leave (up to 1/3 can be used for illness of a family member), as well as annual leave. While the Commonwealth does not provide excessive annual time in its annual and personal leave programs, the employee can supplement this time with the educational, emergency / disaster, community service and bone marrow / organ donor leave programs.

Suggested Alternatives		Rationale
<p>A. Consolidate the Various Non-sick Leave Programs into One Paid-Time-Off (PTO) Program</p> <ul style="list-style-type: none"> ▪ Uncouple the personal leave program from VSDP and re-brand all programs under a name/title that defines it as the Commonwealth's annual leave program. ▪ This program does not eliminate the various leave programs, but it does provide an annual maximum to the number of days of scheduled leave an employee can take, which can vary based on what unique leave programs are used. ▪ See Appendix VI for a proposed structure to this program. 	<ul style="list-style-type: none"> ▪ Employees value the many leave programs available to them and the aggregate number of leave days available. This program is intended to keep the leave programs but reduce to overall days available to a number that is equal to or greater than private sector employers that the Commonwealth competes with for employees. ▪ Typically the consolidation of these programs simplifies administration for the Commonwealth and communication to employees. 	
<p>B. Reduce the Number of Vacation Days to 7 from 12, and Give Every Employee 3 Floating Holidays</p> <ul style="list-style-type: none"> ▪ The Commonwealth recognizes 12 holidays, which while consistent with many public sector entities, far exceeds the private sector. ▪ It must be considered that any reduction of holidays, however warranted, will be viewed as a take away by employees. So these changes must be clearly communicated as a win-win situation for employees and the Commonwealth. 	<ul style="list-style-type: none"> ▪ The number of fixed holidays can be reduced, but when partially replaced with floating holidays can still provide a very competitive program that while continue to be valued by employees. ▪ This supports program value to diverse employee groups. 	

7. The Commonwealth has not changed its COVACare plan design or employee contributions meaningfully for several years, resulting in increases of greater than 20% in costs being absorbed by the Commonwealth since 2006. This represents an unsustainable rate of cost increase for the Commonwealth. A chart is provided in Appendix VIII that shows that given current trend estimates (10%), health plan costs will increase by more than \$400 million a year by 2012 unless changes are made to impact trend.

Suggested Alternatives	Rationale
<p>A. Implement a Set of Guiding Principles Under which all Decisions for Managing Health Plan Costs will be Evaluated. These Five Points Represent a Starting Point for Discussion:</p> <ul style="list-style-type: none"> ▪ The State's current health insurance program is a strong recruiting and retention tool. No option should substantially erode the role that the current health insurance program plays in recruiting and retaining a qualified workforce. ▪ The State's current health insurance program appears to provide most employees with sufficient access to healthcare. No option should make accessing healthcare unattainable for employees, especially those at lower income tiers. Options may need to include changes to make employees more aware of the actual cost of services and medications, but not to an extent that employees, particularly those with lower incomes, avoid needed treatment or medications based on the cost. ▪ Family members of employees comprise a larger portion of those insured by the State's health insurance plan than employees. Given recent cost pressures and the relatively high cost of insuring spouses, options may need to prioritize spending more towards State employees, especially when non-State health insurance is available to family members. Taxpayers receive greater value for insuring employees than insuring family members because healthier State employees are able to come to work and be productive. ▪ A substantial portion of current State spending is driven by lifestyle factors that can at least partially be controlled and managed by employees. Options may need to include changes that provide stronger incentives for employees to be mindful of their health and consequent costs to the system. In addition, incentives and support systems should be structured to facilitate improved health outcomes while striving to reduce overall costs (short- and long-term) to the plan. ▪ State spending on employee health insurance has more than doubled in the past decade. While this trend is not unique to the State, it is unlikely taxpayers are well served by this trend continuing at the previous rate. Consequently, options are needed to better control State spending on healthcare as well as provide healthcare more efficiently moving forward. 	<ul style="list-style-type: none"> ▪ There are many stakeholders in the discussion of benefits employees receive and the cost of those benefits. A set of principles will provide the structure within which these stakeholders can make decisions over time that serve the best interest of the Commonwealth, its employees and the taxpayers. ▪ These principles are broad enough that the Commonwealth can make changes that are less or more aggressive, depending upon the needs within a particular budget cycle. ▪ Examples of health plan program changes for each of these principles are included in Appendix VII.

8. DHRM maintains the CommonHealth program that offers many of the initiatives that are observed in successful health promotion programs. However, program integration and participation levels can be improved through more cohesive packaging of the various programs.

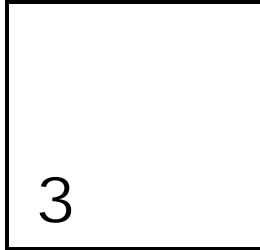
Suggested Alternatives		Rationale
<p>A.</p> <p>Revamp Current Web Portal to be the Custom Health Aggregator Site, Emphasize CommonHealth Brand and Mission, and Link to all Initiatives, Whether Perpetual or Seasonal:</p> <ul style="list-style-type: none"> ▪ Import the subjects of greatest interest to the state employees. ▪ Coordinate the site content to specifically support other programs. ▪ Have a direct URL that can be accessed off-site by dependents or employees at home. ▪ Provide single sign-on technology. ▪ Continually update and refresh the site content to maintain interest. 	<ul style="list-style-type: none"> ▪ Poor site usability frustrates employees and drives them away from self-service portals. 	
<p>B.</p> <p>Include Standard Features on the Custom Health Aggregator Site:</p> <ul style="list-style-type: none"> ▪ Secure messaging which prevents emails with PHI being sent directly to the user's desktop ▪ Access to personal health records that include both pre-filled and self-reported data ▪ Single sign-on and user authentication from the employer intranet site ▪ Personalized messaging and alerts based on age, gender and previous topic searches ▪ Access to other Health Management Program tools and resources ▪ Consumer cost and quality information ▪ Detailed clinical information from linked providers and facilities. 	<ul style="list-style-type: none"> ▪ A robust, personalized and branded web portal will support employee engagement and encourage action and personal ownership. ▪ Employers should design effective portal marketing campaigns that target the distinct motivations among different users. 	

9. Program participation and effectiveness can be improved through integration of key data across certain programs and the use of meaningful incentives for completing program activities, but the incentive design is for trinkets which may not motivate and drive employee participation.

Suggested Alternatives		Rationale
<p>A. Offer Incentives which are Valuable to the State Population</p> <ul style="list-style-type: none"> ▪ Employees value compensation, so provide incentives in the form of contributions to an HRA/HSA/FSA, premium discounts, etc. 	<ul style="list-style-type: none"> ▪ The goal of incentives is to develop internal motivation to practice health behaviors for the benefits they provide. ▪ External motivators (incentives and rewards) can provide the initial 'push' to get people started. ▪ External rewards can also keep people motivated in the early stages of practicing a new behavior before the benefits of the new behavior are fully realized. ▪ Rewards or incentives should be focused on participation rather than on results or outcomes. ▪ Everyone should have a chance to earn the reward (win). 	

10. Participation in the HRA was minimal in 2007. State needs to communicate and incentivize completion of the HRA to drive participation. While there is little or no direct ROI in using an HRA alone, savings are generated through engagement in care management programs that address the health of the population across the continuum and behavior change.

Suggested Alternative		Rationale
<p>A.</p>	<p>A Best-In-Class HRA Tool must Assess:</p> <ul style="list-style-type: none"> ▪ Health risks, chronic conditions and family health history ▪ Stages of readiness ▪ Health status/quality of life ▪ Productivity measures ▪ Psycho-social issues. 	<ul style="list-style-type: none"> ▪ The HRA is the best tool for early identification of individuals at-risk or with chronic conditions. ▪ It covers topics not typically accessible by medical claims that include self-reported mental and physical health status. ▪ Helps through specific questions to measure productivity related to health such as absence and impaired work ability.
<p>B.</p>	<p>A Best-In Class HRA Questionnaire must:</p> <ul style="list-style-type: none"> ▪ Be scientifically sound ▪ Contain credible content ▪ Be visually appealing and suitable to the audience ▪ Be customizable to include additional questions. 	<ul style="list-style-type: none"> ▪ Provides metric markers for longitudinal tracking and evaluation of changes in person-level and population health risks over time. ▪ It triggers to initiate behavior change efforts. ▪ It sets a baseline for individuals and the organization upon which change can be measured over time.



Appendix

APPENDIX I: Sample Total Rewards Strategy Framework

Guiding Principles	Total Rewards Strategy Framework		
	Compensation	Benefits (Health)	Work/Life Environment
Role of Rewards Component	<ul style="list-style-type: none"> Provide competitive base salary levels necessary to attract and retain talent. Compensate for day-to-day responsibilities performed at fully acceptable level and above. 	<ul style="list-style-type: none"> Provide flexible and market competitive health benefits to support employment brand and support attraction and retention. 	<ul style="list-style-type: none"> Provide flexible work practices, telecommuting and support to promote the appropriate balance of productivity and employee engagement; support employment brand.
Comparative Framework	<ul style="list-style-type: none"> Other local, state, and federal governments for government-specific jobs Regional or local general industry for non-state government specific jobs. 	<ul style="list-style-type: none"> Blend of regional and general industry and state government. 	<ul style="list-style-type: none"> N/A
Competitive Positioning	<ul style="list-style-type: none"> Target median levels or above. Target above market median pay levels for critical skills/high impact jobs if required to attract and retain. 	<ul style="list-style-type: none"> Target median 	<ul style="list-style-type: none"> Target "above median"
Impact of Positioning / Cost Management	<ul style="list-style-type: none"> Ensures competitive pay and supports attraction and retention for critical jobs Considers affordability. 	<ul style="list-style-type: none"> Supports attraction and retention 	<ul style="list-style-type: none"> Supports attraction and retention; objective is for employees to promote working for the Commonwealth via sharing their positive experiences throughout the community.
Differentiation	<ul style="list-style-type: none"> Provides opportunity to allocate higher budget increases and bonus dollars to top performers and high potentials or to strategically important roles that are hardest to attract and retain. 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Could use additional time off to differentiate

Guiding Principles	Total Rewards Strategy Framework		
	Compensation	Benefits (Health)	Work/Life Environment
Performance Focus	<ul style="list-style-type: none"> Limited focus on performance; reward performance through promotions and/or less formal recognition. Reward significant team and individual achievements through project and recognition bonuses given in a timely, specific manner. 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Offers the opportunity to reward top performers and high potentials or hard to attract and retain employees with greater flexibility if that is a reward they value (and where appropriate to the role).
Employer / Employee Responsibility	<ul style="list-style-type: none"> Focus on base pay for all employees; employees influence pay growth through fully meeting performance expectations and developmental priorities necessary for career growth/promotion. 	<ul style="list-style-type: none"> Cost sharing through employee and employer contributions. Promote wellness via discounts to health costs for pro-active health efforts by employee. Offer higher deductible, consumer-driven choices to provide lower out-of-pocket alternatives. 	<ul style="list-style-type: none"> Within options outlined by the employer, employees take responsibility for choosing when and (in some cases) where to work to optimize productivity, availability to constituents or stakeholders and work/life fit.
Transparency	<ul style="list-style-type: none"> Provide detailed pay information and performance evaluation guidelines to managers. Outline pay policies and procedures to govern pay decisions. 	<ul style="list-style-type: none"> Ensure program documentation is readily available and understandable to employees. 	<ul style="list-style-type: none"> Ensure program documentation is readily available and understandable to employees.
Communications	<ul style="list-style-type: none"> Clearly communicate philosophy and strategy to enhance understanding and perceived value. Ensure employees understand the concept of “total rewards” value. 		
Employee Choice	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Multiple options 	<ul style="list-style-type: none"> Multiple options
Program Consistency	<ul style="list-style-type: none"> Common structure/approaches where designated with dedicated, centralized support (DHRM) with variation possible based on employee group (e.g., agency) 		
Success Factors	<ul style="list-style-type: none"> Desirable voluntary turnover Maintained/improved employee satisfaction results Improved performance 		

Options to Consider:

Total Rewards Elements	Option 1	Option 2
Base Pay	95% of market median*	100% of market median*
Total Cash Compensation	90% of market median	100% of market median
Benefits	Maintain current above market position	Reduce to market median
Retirement	Maintain current above market position	Reduce to market median
Work/Life	Promote current programs	Promote current programs

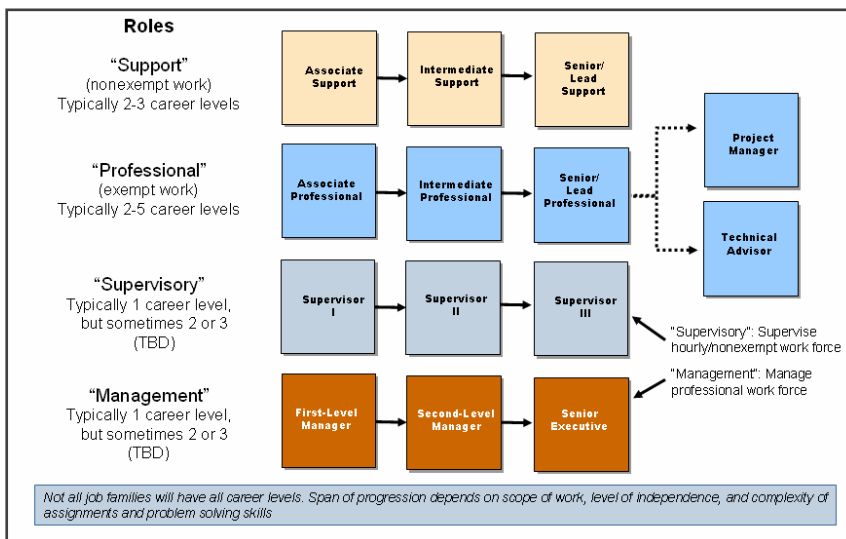
*Midpoints set at this position

APPENDIX II: Job Analysis Using a Job Family/Career Leveling Framework

- Identify the job families/sub-families that exist within the organization and assign each job to a family/sub-family

Accounting / Finance Job Families Corporate Accounting & Control Accounts Receivable/Credit Accounts Payable Payroll Tax Internal Audit Financial Analysis	Sales/Mktg Job Families Brand Management Category Management Trade Marketing Account Management Direct Sales	Other Shared Services Job Families General Administrative Support Human Resources Health, Safety and Environment
Information Technology Job Families Applications Computer/Network Operations Technical/IT Support	Mfg/Operations Job Families Production Environmental Compliance Inventory Control Planning Purchasing	

- Identify the number of career levels required in each job family; assign each job to a career level



APPENDIX III: Illustration of Pay Variances by Job within Roles

Occupational Family	Career Group	Role Title	SOC Code	SOC Title	N	Mkt 50th	Variance from Orig Match
Eng and Tech	Arch and Eng Svcs	Architect/Engineer II	172141	Mechanical Engineers	3	\$67,243	21%
Eng and Tech	Arch and Eng Svcs	Architect/Engineer II	172071	Electrical Engineers	2	\$66,671	20%
Eng and Tech	Arch and Eng Svcs	Architect/Engineer II	172051	Civil Engineers	148	\$55,755	0%
Eng and Tech	Arch and Eng Svcs	Architect/Engineer II	171011	Architects, Except Landscape & Naval	9	\$53,599	-4%
Eng and Tech	Arch and Eng Svcs	Architect/Engineer II	172199	Engineers, All Other	5		
Eng and Tech	Arch and Eng Svcs	Arch/Engring Mgr II	119041	Engineering Managers	191	\$105,679	0%
Eng and Tech	Arch and Eng Svcs	Arch/Engring Mgr II	172051	Civil Engineers	32	\$55,755	-47%
Eng and Tech	Arch and Eng Svcs	Arch/Engring Mgr II	171011	Architects, Except Landscape & Naval	2	\$53,599	-49%
Eng and Tech	Arch and Eng Svcs	Arch/Engring Mgr II	111021	General & Operations Managers	1		
Eng and Tech	Arch and Eng Svcs	Arch/Engring Mgr II	119199	Managers, All Other	2		
Eng and Tech	Arch and Eng Svcs	Arch/Engring Mgr II	131199	Business Operations Specialists, All Other	1		
Eng and Tech	Engineering Technology	Engineering Technician III	173022	Civil Engineering Technicians	539	\$51,263	0%
Eng and Tech	Engineering Technology	Engineering Technician III	474011	Construction & Building Inspectors	282	\$51,124	0%
Eng and Tech	Engineering Technology	Engineering Technician III	173031	Surveying & Mapping Technicians	29	\$43,450	-15%
Eng and Tech	Engineering Technology	Engineering Technician III	173031	Surveying Technicians	75	\$43,450	-15%
Eng and Tech	Engineering Technology	Engineering Technician III	173011	Architectural & Civil Drafters	22	\$40,556	-21%
Eng and Tech	Engineering Technology	Engineering Technician III	173011	Civil Drafters	2	\$40,556	-21%
Eng and Tech	Engineering Technology	Engineering Technician III	131111	Management Analysts	1		
Eng and Tech	Engineering Technology	Engineering Technician III	131199	Business Operations Specialists, All Other	54		
Eng and Tech	Engineering Technology	Engineering Technician III	173023	Electrical & Electronic Engineering Technicians	6		
Eng and Tech	Engineering Technology	Engineering Technician III	173029	Engineering Technicians, Except Drafters, All Other	113		
Eng and Tech	Engineering Technology	Engineering Technician III	536041	Traffic Technicians	14		
Trades and Ops	Building Trades	Trades Technician III	371012	1st-Ln Supvrs/Mgrs of Lndscpng, Lwn Svc, & Grnc	52	\$62,962	65%
Trades and Ops	Building Trades	Trades Technician III	173022	Civil Engineering Technicians	5	\$49,887	31%
Trades and Ops	Building Trades	Trades Technician III	472111	Electricians	187	\$44,231	16%
Trades and Ops	Building Trades	Trades Technician III	499042	Maintenance & Repair Workers, General	393	\$38,077	0%
Trades and Ops	Building Trades	Trades Technician III	472031	Carpenters	190	\$37,220	-2%
Trades and Ops	Building Trades	Trades Technician III	372021	Pest Control Workers	8		
Trades and Ops	Building Trades	Trades Technician III	373011	Landscaping & Groundskeeping Workers	105		
Trades and Ops	Building Trades	Trades Technician III	471011	1st-Ln Supvrs/Mgrs of Construction Trades & Extract	15		
Trades and Ops	Building Trades	Trades Technician III	472141	Painters, Construction & Maintenance	96		
Trades and Ops	Building Trades	Trades Technician III	472152	Plumbers, Pipefitters, & Steamfitters	146		
Trades and Ops	Building Trades	Trades Technician III	472161	Plasterers & Stucco Masons	44		
Trades and Ops	Building Trades	Trades Technician III	472211	Sheet Metal Workers	22		
Trades and Ops	Building Trades	Trades Technician III	473012	Helpers--Carpenters	1		
Trades and Ops	Building Trades	Trades Technician III	499021	Heating & Air Conditioning Mechanics	2		
Trades and Ops	Building Trades	Trades Technician III	499021	Heating, AC, & Refrigeration Mechanics & Installers	158		
Trades and Ops	Building Trades	Trades Technician III	499041	Industrial Machinery Mechanics	4		
Trades and Ops	Building Trades	Trades Technician III	499051	Electrical Power-Line Installers & Repairers	9		
Trades and Ops	Building Trades	Trades Technician III	499094	Locksmiths & Safe Repairers	46		
Trades and Ops	Building Trades	Trades Technician III	499098	Helpers--Installation, Maintenance, & Repair Workers	37		
Trades and Ops	Building Trades	Trades Technician III	499099	Installation, Maintenance, & Repair Workers, All Other	68		
Trades and Ops	Building Trades	Trades Technician III	512041	Structural Metal Fabricators & Fitters	12		
Trades and Ops	Building Trades	Trades Technician III	512099	Assemblers & Fabricators, All Other	2		
Trades and Ops	Building Trades	Trades Technician III	514041	Machinists	2		
Trades and Ops	Building Trades	Trades Technician III	514121	Welders, Cutters, Solderers, & Brazers	25		

BOLD = SOC Title used to price

APPENDIX IV: 2007 Commonwealth of Virginia Bonus Payout Summary

Bonus Type	Ees Rcvg	Total Bonus Amt	Avg Bonus Amt
Recognition Award Monetary	1,296	\$470,105	\$363
Sign-On Bonus Pay-Out	114	\$135,700	\$1,190
New Knowledge/Skills/Abilities	145	\$112,931	\$779
Retention Bonus Pay Out	36	\$110,100	\$3,058
Retention Bonus	100	\$103,942	\$1,039
Project Bonus Pay Out	59	\$103,750	\$1,758
Change of Duties Bonus	67	\$82,187	\$1,227
Internal Alignment Bonus	9	\$28,750	\$3,194
Know/Skills/Ability Bonus Undo	17	\$17,570	\$1,034
Referral Bonus Pay Out	49	\$12,800	\$261
Project Bonus Pay Back	6	\$10,250	\$1,708
Internal Alignment Bonus Undo	1	\$5,667	\$5,667
Retention Bonus Pay Back	1	\$5,000	\$5,000
Recogn Award Monetary Pay Back	27	\$3,140	\$116
Referral Bonus Pay Back	3	\$1,050	\$350
Change of Duties Bonus PayBack	1	\$300	\$300
Overall	1,931	\$1,203,242	\$623

APPENDIX V: Example of Traditional Merit Increase Matrix and Pay Zone Concept

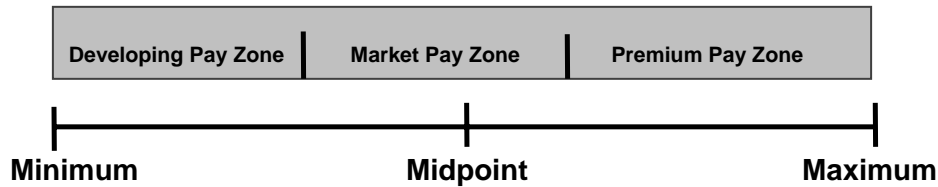
- Employees receive a merit increase between 0% and 6.5%, depending on performance and position in salary range
- The total cost in of the plan in which 97% of employees receive a merit increase is 3.5%

Performance Ratings and Distribution Guidelines		Position in Range			Average Increase
		Bottom Third (Developing Zone)	Middle Third (Market Zone)	Top Third (Premium Zone)	
Rating	Distribution	% of Population 40%	% of Population 40%	% of Population 20%	
5	15%	5.5-6.5%	4.5-5.5%	3.5-4.5%	5.2%
4	25%	4.5-5.5%	3.5-4.5%	3.0-4.0%	4.3%
3	55%	3.0%	3.0%	3.0%	3.0%
2	5%	0-2.0%	0.0%	0.0%	0.4%
1	0%	0.0%	0.0%	0.0%	0.0%

100%

cost of merit increase budget	3.5%
percent of population not receiving an increase	97.0%

- Pay zone concept:



Developing zone—target pay for employees who are new or developing in the job and who are not yet performing the full breadth of duties/responsibilities expected of the job at this job level.

Market zone—target pay for employees who are fully seasoned in the job with the combination of experience and competencies needed to perform all duties and responsibilities expected of the job.

Premium/Exceptional Performance zone—target pay for employees who consistently exceed all expectations with a combination of experience and competencies that justifies premium pay. May be the appropriate hiring zone for categories of critical skills jobs/hot talent.

APPENDIX VI: Leave Options for Further Analysis

Option 1: Allow employees to trade unused annual leave for cash.

Purposes: (1) To provide employees who desire additional cash compensation the opportunity to choose between leave and cash. (2) To offer an incentive to reduce employee absences in agencies where leave has been reported to hinder agency productivity.

Description: Currently, the State allows employees to receive the cash value of unused leave at termination, up to a cap of 42 days of annual leave. This option would allow employees to trade up to 3 days of unused annual leave each year for pay at their rate of salary, up to the current cap of 42 days during the course of their tenure. Employees would be required to maintain a minimum of one week (5 days) of annual leave, and therefore could not sell leave such that their balance would fall below five days. Employees currently carrying the maximum leave carryover balance based on their years of service (24 to 54 days) would be required to sell leave, if they chose to do so, from their accrued balance so they could not collectively sell or carry forward more than the maximum leave carryover amount allowed each year. Upon termination an employee could be paid for a maximum of 42 days less any leave sold throughout their tenure.

Option 2: Combine existing annual leave, family and personal leave, community service leave, and non-Federal holidays into a Paid Time Off (PTO) bank. Within this new structure, employees would be able to trade unused leave for cash.

Purposes: (1) To provide employees increased flexibility to take time off based on their individual needs and preferences. (2) To simplify administration of leave. (3) To provide employees who desire additional cash compensation the opportunity to choose between leave and cash.

Description: Currently, the State provides annual leave, family and personal leave, community service leave, and paid holidays to employees as shown in Table 1 below. An employee with less than five years of experience could potentially take 30 days off under the current structure, while those with 25 or more years of service could take 46 days off.

Provided that some agencies agree that the leave structure is confusing for employees and complicated to administer, several categories of leave could be combined to simplify administration while improving flexibility for employees. Given that not all employees use the full amount of leave they are provided, and that simply adding up the existing leave days would likely result in a total number of available leave days not conducive to maintaining current productivity,

	Annual	Family and Personal	Community Service	Paid Holidays	Total Available
Less than 5 years	12	4	2	12	30
5	15	4	2	12	33
10	18	5	2	12	37
15	21	5	2	12	40
20	24	5	2	12	43
25 or more	27	5	2	12	46

Several adjustments would be made when combining the current categories into a single PTO structure. These include:

- Providing increases in annual leave more frequently between years 1 and 5 of service, given that in 2007, 2/3 of employee turnover occurred among employees with less than 5 years of service.
- Slightly reducing the total amount of leave available given that the family and personal leave and community service leave categories have requirements that will not be in place under a PTO structure.
- Scaling back the current holidays provided to the 10 Federal holidays (all current holidays excluding Lee-Jackson Day and the day after Thanksgiving), and providing employees 2 floating holidays each year.
- Slightly reducing days of annual leave for employees with greater than 10 years of service.

The result would be a PTO structure that consolidates the current annual leave, family and personal leave, community service leave, and holidays into a single leave bank as shown in Table 2.

	PTO Days	Paid Holidays	Floating Holidays	Total Available
Less than 2 years	17	10	2	29
2	18	10	2	30
3	19	10	2	31
4	20	10	2	32
5	21	10	2	33
10	23	10	2	35
15	25	10	2	37
20	27	10	2	39
25 or more	29	10	2	41

Although some employees may accrue slightly fewer days per year, this option would offer increased flexibility in the use of holidays, community service leave, and family

personal days. This option would also include the ability for employees to trade unused leave for cash in an identical manner as shown in option 1 above.

Option 3: Combine existing annual leave, family and personal leave, community service leave, and non-Federal holidays into a Paid Time Off (PTO) bank with fewer days of leave. Within this new structure, employees would be able to trade unused leave for cash.

Purposes: (1) To provide employees with increased flexibility to take time off based on their individual needs and preferences, while limiting employees’ potential absences from work. (2) To simplify administration of leave. (3) To provide employees who desire additional cash compensation the opportunity to choose between leave and cash.

This option is similar to option 2, but slightly more aggressive in terms of a reduction in total leave days, particularly for employees with higher years of service. The general principles are similar to those stated in option 2, with an additional goal of reducing the overall number of potential employee absences. Employees could receive between three and six fewer days of leave a year. This option would still be competitive with private employers, but is likely to be viewed as a take-away by more employees. This option could be introduced only for new employees in order to reduce the impact on long-tenured employees.

Table 3				
	PTO Days	Paid Holidays	Floating Holidays	Total Available
Less than 2 years	15	10	2	27
2	16	10	2	28
3	17	10	2	29
4	18	10	2	30
5	20	10	2	32
10	22	10	2	34
15	24	10	2	36
20	26	10	2	38
25 or more	28	10	2	40

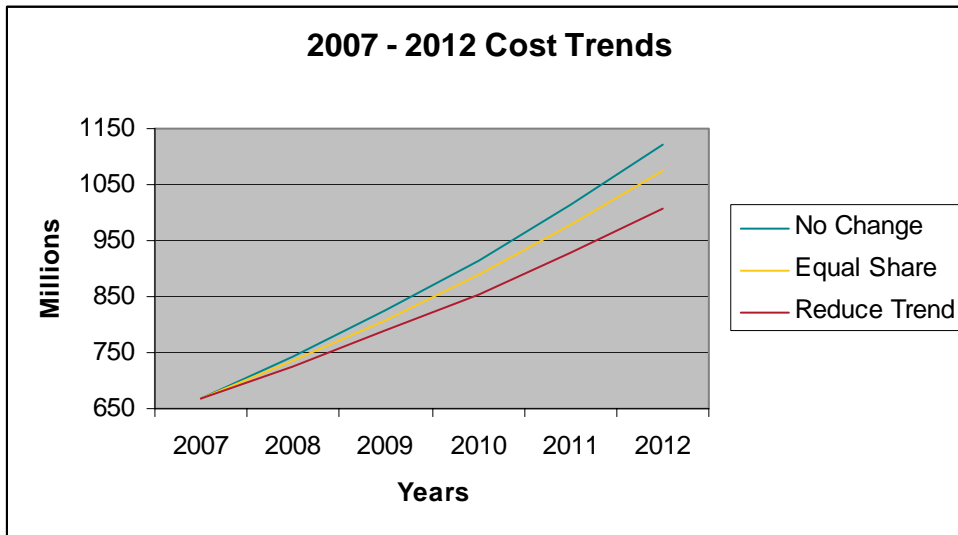
As with option 2, this option would also include the ability for employees to trade unused leave for cash in an identical manner as shown in option 1 above.

APPENDIX VII: Approaches to Mitigating Health Care Cost Trend

As mentioned in the report, the Commonwealth’s costs will increase by more than \$400 million by 2012 if actions are not taken to mitigating the current trend of health care costs.

Using \$668 million as the benchmark for health plan costs in FY2007, the following chart depicts the rate of growth for three scenarios:

- Continuation of recent practice of no material changes to plan design or employee contributions (assumes the Commonwealth’s costs increase 10% per annum and employee contributions increase at 2% per annum)
- Maintain the current employer / employee cost share of 88% Commonwealth and 12% employee (assumes the Commonwealth’s costs increase 10% per annum and employee contributions increase at 10% per annum)
- Reduce the trend rate and sustain that lower rate going forward (assumes the Commonwealth’s cost increase 8% per annum and employee contributions increase 5% per annum).



The difference between continuation of the current practice and maintaining equal shares (88%/12%) is \$46 million in cost avoidance to the plan by 2012, while maintaining a highly competitive benefit program, giving employees a basis for understanding their impact on health care costs, and possibly motivating them to act.

The following is a description of some of the tactical suggestions the Commonwealth can use to manage their costs to within each of the five proposed guiding principles. These are presented within four categories used to define benefit plan modifications:

- Plan effectiveness / efficiency (does the Plan design encourage the most cost efficient and effective manner for treating an illness or disease?)

- Plan design changes (does the Plan design provide financial protection but at the same time provide employees with an awareness of the cost of services?)
- Care / disease / medical management and wellness initiatives (do these various programs monitor and engage the employee at the appropriate time to seek the proper services in the proper setting?)
- Employee / retiree contributions (is the amount employees and retirees pay for different levels of coverage consistent with the Commonwealth guiding principles on cost sharing?)

Within each category suggestions have been divided between least and more aggressive impact. Least aggressive changes can be used to achieve the equal cost share of 88% Commonwealth cost and 12% employee cost. More aggressive changes will change the trend line for Plan costs, resulting in greater savings for the Commonwealth. This lists are not intended to be all encompassing, but to provide the Commonwealth with a series of suggestions that can be built upon to find the best solutions to meet the Commonwealth’s needs.

Category	Least Aggressive	More Aggressive
Plan effective / efficiency	<ul style="list-style-type: none"> ▪ Create more differentiation between generic (\$15) and brand (\$20) copays; a difference of \$10 or more is recommended to properly encourage generic utilization. ▪ Create more differentiation between primary (\$25) and specialist (\$35) copays; since specialist visits cost at least twice more than a primary visit, increase the specialist copay to \$50. ▪ For diabetic and asthmatic patients, reduce copays on their maintenance medication to encourage proper use of those drugs, which mitigates higher cost services to treat acute services. 	<ul style="list-style-type: none"> ▪ Implement a coinsurance design for pharmacy benefits (i.e., 80% / 20%) with a minimum and maximum employee cost share to replace the copy plan and increase use of generics and mail order. ▪ Implement a 70% / 30% coinsurance for all physician services.
Plan design changes	<ul style="list-style-type: none"> ▪ Fixed dollar provisions of the Plan (deductibles, copays) should be indexed to some extent to cost trends so that all costs increases are not borne solely by the Commonwealth. Increases don’t have to be made every year to every provision, but some changes should occur annually. ▪ Increase the coinsurance on high cost procedures like MRI, CT Scan and PET Scan from 90 / 10 to 80 / 20. 	<ul style="list-style-type: none"> ▪ Implement a third plan (i.e., a \$500 deductible plan, 80/20 coinsurance, \$2,500 out-of-pocket limit) and set contributions in the current COVA Care plan to make it financially attractive for employees to move to this plan. This gives employees choice to decide which plan is better for them and, if priced correctly, will lower than Commonwealth’s overall cost.

		<ul style="list-style-type: none"> ▪ Increase coinsurance on high cost procedures and implement a pre-certification program for these procedures.
<p>Care mgt / Wellness</p>	<ul style="list-style-type: none"> ▪ Incent employees to complete an HRA annually and provide that information to the Commonwealth's disease management vendor for review and outreach where indicated. 	<ul style="list-style-type: none"> ▪ Require completion of an HRA for enrollment in health benefits.
<p>EE / retiree contributions</p>	<ul style="list-style-type: none"> ▪ Set a target cost share (currently 88% / 12%) and maintain that share each year as Plan costs change (but never decrease them). ▪ Due to low contributions for family coverage, the Commonwealth is covering spouses that have benefits available through their own employers. We suggest changing the current three tier design to a four tier (ee only, ee plus one, ee plus children and ee plus family) and implementing a spousal surcharge to encourage spouses to get coverage from their employers. ▪ Within the target cost share, the Commonwealth can charge the employee a lower rate (i.e., 90/10) for single coverage, and a higher rate (85/15) for family coverage to ensure single coverage remains affordable for lower paid employees. ▪ Pre-65 retirees pay the "active" rate for health coverage, but their cost is still subsidized by the Commonwealth because their claims experience is generally much higher than active employees. We suggest adjusting these costs by 5% to 10% higher to lessen the impact on the Commonwealth's expense. Or, as an alternative, alter the plan design to lower benefits slightly for this group. 	<ul style="list-style-type: none"> ▪ Set a target cost share of 80% / 20% and move to that ratio over the next five years using increased contribution and plan design changes. This is still a higher cost share ratio than most employers in the private sector. ▪ Implement a salary band based contribution approach where the more an employee is paid the higher their contributions are for coverage. This protects lower paid employees while allowing the Commonwealth to collect more in contributions. ▪ Set a policy that the Commonwealth will not cover spouses that have health coverage through their employer. ▪ Have pre-65 retirees pay their actual claims costs by adjusting their premiums to reflect only their claims experience and not active employees.

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