
Joint Legislative Audit and Review Commission



Working Session:
Review of Compensation for
State Employees

Justin Brown, Project Leader

April 9, 2007



JLARC

Overview

- Study Mandate and Referred Legislation
- Compensation Background and Key Concepts
- Proposed Study Issues
- Major Study Methods
- Project Status and Timeline

Rationale for a Review of Compensation

- Concerns about State employee compensation
 - Impact on recruitment and retention of a qualified workforce
 - Effect on productivity
 - Equity across the State workforce
 - Consistency with best practices
 - Short- and long-term costs

- A comprehensive study of compensation will address these concerns

Study Mandate

- On November 13, 2006, the Commission authorized JLARC staff to study compensation for employees of the Commonwealth
 - Determine appropriate mix of salaries and benefits
 - Identify alternative benefits for employees
 - Assess defined benefit, defined contribution, and hybrid retirement plans
 - Assess the provisions and requirements of each retirement system managed by VRS
 - Compare State employee total compensation to other public and private employers

Legislation Referred to JLARC Study by 2007 General Assembly

- Switch retirement plan to defined contribution
- Increase retirement multiplier
- VALORS benefit
- Allows localities to provide SPORS benefits to juvenile detention staff
- Return to work provisions
- Early retirement of judges

Overview

- Study Mandate and Referred Legislation
- Background and Key Concepts
- Proposed Study Issues
- Major Study Methods
- Project Status and Timeline

State Government Operations are Large, Complex, and Critical

- State government is a large, complex organization with multiple goals, values, and cultures
 - Annual operating budget more than \$30 billion
 - More than 200 agencies
 - Nearly 120,000 State employees
- State programs often address issues not addressed by the private sector
- Citizens rely on State and local governments for many critical activities

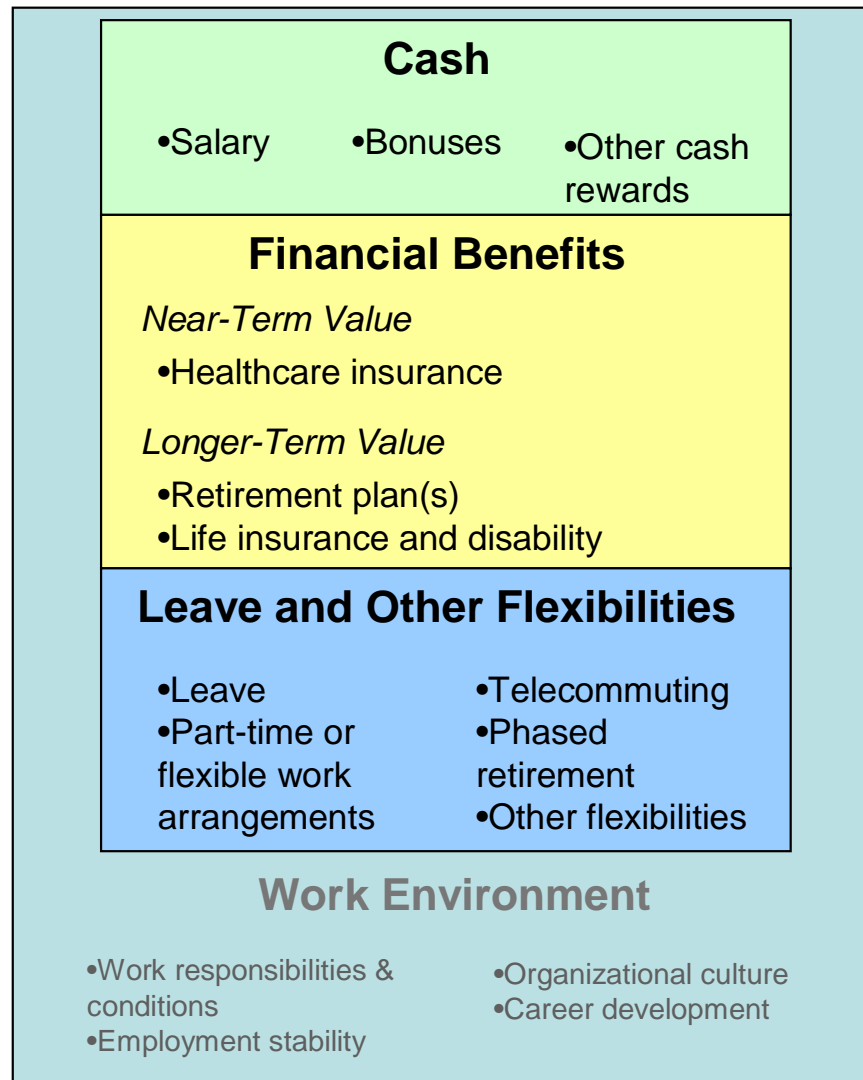
State Workforce is Also Complex

- Wide-ranging missions
 - Transportation
 - Public safety
 - Human services
 - Retail and customer service
- Comprehensive occupations and skillsets
 - Administrative and office support
 - Life and physical sciences
 - Security services
- Ages range from 17 to 89

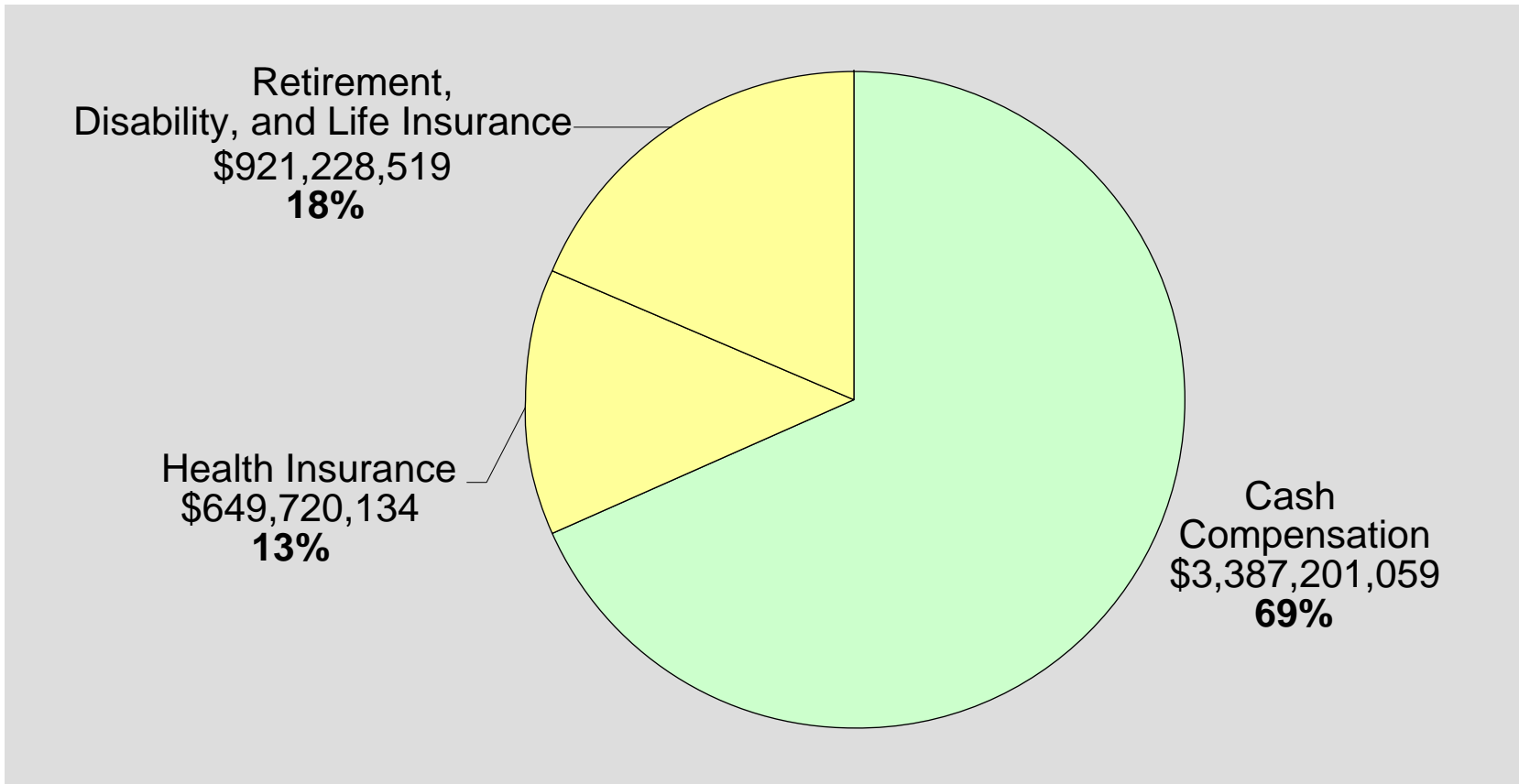
Ten Largest Career Groups = 2/3 of Classified State Workforce

Career Group	# of Employees	% of Classified Total
Admin & office support	12,340	17.0
Security services	8,757	12.1
Direct services	4,532	6.3
Transportation operations	3,616	5.0
Program administration	3,419	4.7
IT specialists	3,226	4.5
Building trades	2,944	4.1
Law enforcement	2,867	4.0
Nursing / physician asst svcs	2,461	3.4
Housekeeping & apparel svcs	2,137	3.0

JLARC Staff *Draft* Total Compensation Framework



Salaried, Classified Employee Total Compensation = \$4.98 B in FY 2006



SOURCE: *Datapoint*, Virginia Auditor of Public Accounts, 2007.



Major Drivers of Increased Spending on Salaried, Classified Compensation (FY 2003 to FY 2006)

- Total compensation spending ↑ 25% to \$4.98B
- Salaries and bonuses ↑ 16.5% to \$3.4B
- State health insurance costs ↑ 51% to \$650M
- State retirement contributions ↑ 74% to \$423M

Examples of Employee Compensation

Salary

Employee Job Role/Agency	Years of Service	2006 Salary
Housekeeping Radford University	21	\$19,469
Admin & Office Specialist Dep't of Health	6	27,660
Security Officer III Greensville Corrections	2	28,573
Law Enforcement Officer III Dep't of State Police	4	47,313
Financial Services Specialist Dep't of Taxation	26	52,898
Policy and Planning Manager Dep't of Social Services	23	96,408
<i>State Average</i>	11.5	\$40,302

SOURCE: JLARC staff analysis of DHRM and VRS data.

Examples of Employee Compensation

Health Insurance

Employee Job Role/ Agency	Plan Selected	2006 Premium Paid by State	2006 Premium Paid by Employee	State Premium as % of Salary
Housekeeping Radford University	COVA Care, Family	\$11,892	\$1,680	61%
Admin & Office Specialist Dep't of Health	COVA Care, Single	4,536	480	16%
Security Officer III Greensville Corrections	COVA Care, Family	11,892	1,680	42%
Law Enforcement Officer III Dep't of State Police	COVA Care, Family	11,892	1,680	25%
Financial Services Specialist Dep't of Taxation	COVA Care, Family	11,892	1,680	22%
Policy and Planning Manager Dep't of Social Services	COVA Care, Family	11,892	1,680	12%

SOURCE: JLARC staff analysis of DHRM and VRS data.

Examples of Employee Compensation Retirement

Employee Job Role / Agency	State Contribution	Employee Contribution (Paid by State)	Social Security / Medicare Contribution	Retiree Health Credit Contribution	2006 Total Retirement Contributions	Total Retirement Contributions as % of 2006 Salary
Housekeeping Radford University	\$761	\$973	\$1,489	\$208	\$3,431	18%
Admin & Office Specialist Dep't of Health	1,082	1,383	2,116	296	4,877	18
Security Officer III Greensville Corrections	1,117	1,429	2,186	306	5,038	18
Law Enforcement Officer III Dep't of State Police	7,802	2,366	3,619	506	14,293	30
Financial Services Specialist Dep't of Taxation	2,068	2,645	4,047	566	9,326	18
Policy and Planning Manager Dep't of Social Services	3,770	4,820	7,375	1,032	16,997	18

SOURCE: JLARC staff analysis of DHRM and VRS data.

Examples of Employee Compensation

Life Insurance and Disability

Employee Job Role / Agency	2006 Group Life Insurance, State Contribution	2006 Long-Term Disability, State Contribution	Total Life Insurance and Disability	Life Insurance and Disability as % of 2006 Salary
Housekeeping Radford University	\$220	\$347	\$567	3%
Admin & Office Specialist Dep't of Health	313	492	805	3
Security Officer III Greensville Corrections	323	509	832	3
Law Enforcement Officer III Dep't of State Police	535	842	1,377	3
Financial Services Specialist Dep't of Taxation	598	942	1,540	3
Policy and Planning Manager Dep't of Social Services	1,089	1,716	2,805	3

SOURCE: JLARC staff analysis of DHRM and VRS data.

Examples of Employee Compensation *Leave*

Employee Job Role / Agency	Paid Holidays	Annual	VSDP Sick	VSDP Family and Personal	Total <i>Potential</i> Days Off	% of Maximum Working Days Potentially Not Worked
Housekeeping Radford University	12	24	8	4	48	18%
Admin & Office Specialist Dep't of Health	12	15	8	4	39	15
Security Officer III Greenville Corrections	12	12	8	4	36	14
Law Enforcement Officer III Dep't of State Police	12	12	8	4	36	14
Financial Services Specialist Dep't of Taxation	12	27	8	4	51	20
Policy and Planning Manager Dep't of Social Services	12	24	8	4	48	18

SOURCE: JLARC staff analysis of DHRM and VRS data.

Examples of Employee Compensation

Total

Employee Job Role / Agency	Salary	Near-Term Financial Benefits	Longer-Term Financial Benefits	Total Salary and Financial Benefits	Total Financial Benefits as % of Salary	Days of Leave	% of Maximum Working Days Potentially Not Worked
Housekeeping Radford University	\$19,469	\$11,892	\$3,998	\$35,359	82%	48	18%
Admin & Office Specialist Dep't of Health	27,660	4,536	5,682	37,878	37	39	15
Security Officer III Greensville Corrections	28,573	11,892	5,870	46,335	62	36	14
Law Enforcement Officer III Dep't of State Police	47,313	11,892	15,670	74,875	58	36	14
Financial Services Specialist Dep't of Taxation	52,898	11,892	10,866	75,656	43	51	20
Policy and Planning Manager Dep't of Social Services	96,408	11,892	19,802	128,102	33	48	18

SOURCE: JLARC staff analysis of DHRM and VRS data.

Overview

- Study Mandate and Referred Legislation
- Compensation Background and Key Concepts
- Proposed Study Issues
- Major Study Methods
- Project Status and Timeline

Total Compensation

- Purpose and effectiveness of major elements of State's total compensation
- Comparative analysis of State's total compensation to other public, private, and non-profit organizations
- Appropriate mix of cash, other financial benefits, and leave and other flexibilities
- Range of potential options and alternatives, and projected impact

Salary

- Structure and levels
 - Pay-banding
 - Compensation reform
 - Adequacy of salary levels
- Employee preferences for salary vs. other elements of compensation
 - Career group
 - Years of service
- Employee and employer satisfaction

Health Insurance

- Plan structure and sustainability of current and future costs
 - Pooling active and early retirees
 - Cost implications of current plan structure as more State employees age
 - Employer vs. Employee contribution
- Employee preferences for health insurance vs. other elements of compensation
 - Increased choice
- Employee satisfaction
 - Retiree health credit

Retirement

- Unlike other aspects of total compensation, impact of potential changes will be assessed for all plans managed by VRS
 - Teachers
 - Political subdivisions / LEOS

- State and local funded status and projected long-term sustainability
 - VRS funded status / benefits payouts
 - General fund / local contributions
 - Employer vs. employee contribution

Retirement (continued)

- Employee preferences for retirement benefits vs. other elements of compensation
 - Career group
 - Years of service

- Current plan design and provisions
 - Defined benefit vs. Defined contribution vs. Hybrid
 - Multipliers, age / years of service
 - Phased retirement
 - Return to work
 - Employer and employee satisfaction

- Rationale for different retirement benefits for various career groups

Leave and Other Benefits / Flexibilities

- Employee preferences for leave vs. other elements of compensation
 - Increased choice
 - Pooling of leave categories
- Employee and employer satisfaction
- Other flexibilities

Options and Alternatives

- Identify potential changes within each element of compensation, and across elements
 - Assessment against purpose and key goals
 - Cost
 - Employee and employer perspective
 - Other organizations and best / innovative practice
 - Legislative interest

Information and Decision-Making Framework

- Potential need for standardized information and criteria
 - Rationale for considering change
 - Linkage between change requested and rationale
 - Projected impact on agency performance, State and local costs, and employees
 - Key considerations and risk

- Used by JLARC staff during review, available for subsequent assessments of compensation by General Assembly

Impact Assessment

- Assess options identified using decision-making framework to provide information about impact of change on
 - Key compensation goals
 - Agency performance
 - State and local costs
 - Employees
 - Key considerations and risk

- Discussion of likely impact of potential changes will comprise majority of final report

Questions / Comments about Study Issues

- Scope of issues planned to be addressed
- Employee groups covered
- Other

Overview

- Study Mandate and Referred Legislation
- Compensation Background and Key Concepts
- Proposed Study Issues
- Major Study Methods
- Project Status and Timeline

JLARC Staff Hiring Consultant Support

■ JLARC study team

- Manage overall project and consultants
- Assess role of compensation in State costs, agency performance, and workforce
- Develop and assess impact of potential options for change

■ Consultants

- Comparative analysis of total compensation
- Retirement benefits analysis (paid for by VRS)
- Assist in assessing impact of potential options

Literature Review, Data Analysis, Case Studies

- Ongoing review of literature about current trends and issues
- Ongoing analysis of total compensation data
 - Trends
 - Costs
 - Purpose
- Case studies to collect lessons learned and ideas
 - Total compensation
 - Retirement-specific

Employer and Employee Surveys and Group Interviews

- Combination of online surveys and group interviews based on variety of factors
 - Turnover, hard-to-fill, market comparability, retirement
 - Access to a computer during daily work activities

- Employer and employee perspective
 - Classified employees
 - HR managers and agency leadership

- Teachers retirement plans managed by VRS

- Political sub-division plans managed by VRS

Ongoing Survey of Employees Who Leave State Service

- Existing data about why employees leave provides some information
 - HR staff enter information
 - Employees may have limited motivation to provide “real” reason

- Work with agency HR staff to have employees who leave State service complete a short online survey about reasons for leaving
 - Compensation-related
 - Other

RFP #1 - Total Compensation

- Consultant support for assessment and comparison of current total compensation
 - Assessment of each major element of total compensation against intended purpose
 - Innovative or best practice reports
 - Compare State total compensation by career group / job role to private, non-profit, and local gov't

- RFP released late spring, work performed through 2007

RFP #2 - Retirement

- Consultant support for analysis of potential changes to current retirement plan design and provisions
 - Innovative or best practice reports
 - Projections of feasibility and impact of changes to current plan design (DB vs. Hybrid vs. DC)
 - Projections of feasibility and impact of changes to current plan provisions (age / service, multiplier, vesting, etc.)

- RFP released late spring, work performed through 2007

Questions / Comments about Methods

- JLARC and Consultants
- Employer and employee outreach
- Other

Overview

- Study Mandate and Referred Legislation
- Compensation Background and Key Concepts
- Proposed Study Issues
- Major Study Methods
- **Project Status and Timeline**

Status, Completed Activities

■ Preliminary planning and data collection

- Background salary, healthcare, retirement, and leave data
- Draft research issues and methods
- RFP planning

■ Preliminary interviews / planning meetings

- | | | |
|--------|----------------|-----------------------------|
| – DHRM | – DMHMRSAS | – VDOT |
| – VRS | – DOC | – VML / VACO |
| – VGEA | – VEA | – DMME |
| – VHRC | – State Police | – Professional Firefighters |

Status, Pending Activities

- Finalize study issues and research workplan
 - Commission feedback

- Begin formal procurement process
 - Written determination
 - Evaluation committee
 - Finalize and release RFPs

- Execute research workplan
 - Surveys
 - Interviews
 - Case studies
 - Data analysis

Proposed Timeline

Research Activity	Timeframe
Planning and RFP development	Winter and Spring-07
Data collection and contract award	Spring and Summer-07
JLARC meetings and briefings	April, July, October-07, TBD-08
Analysis and options development	Fall-07 and Winter-08
Analyze impact of potential options	Spring-08
Final report and brief JLARC	Fall-08



JLARC Team

- Glen Tittermary, Deputy Director
- Justin Brown, Project Leader
- Trish Bishop, Principal / VRS Oversight Analyst
- Christine Wolfe, Senior Legislative Analyst
- Tracey Smith, Senior Legislative Analyst
- Janice Baab, Senior Associate Legislative Analyst

