

## Proposal for a Comprehensive Review of Compensation for State Employees

This paper has been prepared by JLARC staff in response to questions and concerns about employee compensation and benefits raised by several members of the Commission. Its purpose is to describe the current compensation of State employees, and to outline the scope of a possible study to address issues related to the appropriate balance of salary and benefits, the need for changes in the structure of benefits including retirement, and the adequacy of compensation generally to ensure that the Commonwealth can hire and retain a qualified workforce in a competitive labor market.

### Background

Compensation for employees of the Commonwealth of Virginia currently consists of salary and a substantial package of benefits. The State salary structure (exclusive of Northern Virginia) consists of nine pay bands, as shown in Table 1.

**Table 1: State Salary Structure**

Band	Salary Range	
	Minimum	Maximum
1	\$ 14,212	\$ 29,168
2	18,567	38,105
3	22,188	45,539
4	28,987	59,492
5	37,869	77,720
6	49,473	101,533
7	64,633	132,646
8	84,435	173,289
9	100,307	Market

Source: Department of Human Resource Management.

The pay bands are tied to the Commonwealth's job organization structure which consists of seven occupational families. Occupational families are broad groupings of jobs that share vocational characteristics. Occupational families are divided into career groups or specific occupational fields common to the labor market. Career groups are comprised of roles or broad groups of occupationally related positions that represent different levels of work or career progression. Within roles, agencies assign specific job titles to describe specific positions.

An individual employee's salary is based on an employee's application of his or her knowledge, skills, abilities and competencies, as well as work experience and education, training, certification, and licensure. As outlined in the Commonwealth's compensation structure, an employee's salary is based upon compensable factors such as job complexity, accountability, performance and results.

The State benefits package consists of several major benefits such as a non-contributory defined benefit retirement, health insurance, group life insurance, and leave. (Some employees in institutions of high education have the option to participate in the Optional Retirement Plan, which is a defined contribution plan, instead of the defined benefit plan.)

Among the categories of leave are annual, sick, personal and family, community service, and holiday leave.

In addition, employees are covered under the Virginia Sickness and Disability Program (VSDP). This program entitles eligible employees to short- and long-term disability coverage and is mandatory for employees hired after January 1, 1999. Employees hired before 1999 who did not opt out of the VSDP in 2002 are also covered by the program. Employees also have the option to participate in the Commonwealth’s Deferred Compensation and Cash Match Plans. Flexible benefits, such as premium conversion, medical reimbursement, and dependent care reimbursement accounts, are also available. A complete listing of State employee benefits is contained in Appendix A.

The costs of the benefits for an employee depend on the employee's salary and selection of certain optional benefits such as family health care insurance. The costs of some benefits, such as the retirement plan, are a fixed percentage of salary, while other benefits, such as health insurance, are flat amounts not based on employee salary. As a result, the cost of benefits for each employee will vary, both as a percentage of salary and in actual dollars. In addition, some benefits, such as the CommonHealth wellness program, have an administrative cost, but are not funded as a percentage of payroll or through a per employee fee.

Table 2 provides an illustrative example of the costs of major employee benefits for the average hypothetical employee with Employee Plus One health care coverage. Three other examples with employees in different pay bands, with different health care elections, and with different years of service are included in Appendix B.

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**Table 2: Hypothetical Average Employee Salary and Benefits**

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<b>Salary</b>	\$36,945
<b>Benefit Costs</b>	
Social Security (OASDI)	2,291
Medicare (HI)	536
VRS Retirement (Employer)	2,121
VRS Retirement (Employee, Paid by State)	1,847
Retiree Health Insurance Credit	395
Cash Match Program	480
Health Insurance (Employee Plus One)	8,100
Group Life Insurance	417
Long-term disability	658
<b>Total</b>	<b>16,845</b>
<i>Percent of Salary</i>	<i>46%</i>
<b>Leave (Leave costs are included in salary)</b>	
Holidays (12 Days)	1,705
VSDP Sick Leave (80 hours)	1,421
VSDP Family & Personal Leave (40 hours)	710
Annual Leave (144 hours accrued)	2,258
<b>Total</b>	<b>6,394</b>
<i>Percent of Salary</i>	<i>17%</i>

Note: This example illustrated benefits and compensation for an employee in Pay Band 3, with 14 years of service, and with employee plus one health care coverage.

Source: JLARC staff analysis.

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As shown in Table 2 and in Appendix B, salary, health care costs, and retirement benefits are the three largest categories of expenditure on behalf of an employee. Employee leave is included in all of these examples. Unlike retirement, health insurance, and other benefits, the costs associated with employee leave are already incorporated into the employee's salary and therefore are not in addition to the employee's salary.

## Scope of the Review

The purpose of a review of State employee compensation would be to develop, for consideration by the General Assembly, alternative compensation structures which would better ensure the State's ability to hire and retain a qualified workforce. In assessing current compensation and in evaluating any alternatives, several goals could frame the analysis. Among the important goals that could be used in the analysis are to:

- Increase State employee productivity and improve work performance.
- Control the growth of salary, retirement, and other benefit costs.
- Enhance recruitment and retention of a qualified workforce.
- Improve employee morale and job satisfaction.
- Enhance benefit flexibility and choices for employees.
- Reduce administrative workload and costs for agencies.
- Make State compensation competitive with private employers.

Other goals for the study would be developed as a part of the study research.

The study would examine the complete compensation package for employees, including the adequacy of salaries benchmarked to a comparable labor market and all benefits (retirement, health insurance for active and retired employees, life insurance, deferred compensation, leave, holidays, and several others). The adequacy of salaries would be addressed with an analysis of public and private salaries of equivalent positions.

The existing mix of salary and benefits would be examined to determine if alternatives could increase productivity, enhance the value of compensation for employees, and/or control long-term costs for the State. There would likely be comparisons with other organizations (public and private) to assess the benefit alternatives that could be used. This comparison would also be useful in identifying any best practices. In light of the Commonwealth's aging workforce, the study might examine other emerging issues such as phased retirement.

The Virginia Retirement System has agreed to provide funding for an actuarial consultant to review the potential advantages, disadvantages, and costs associated with implementing a defined contribution retirement plan or a hybrid plan. The consultant would also evaluate the potential for modifications to the defined benefit retirement program based on the overall goals for the compensation package. For alternatives considered viable, it is anticipated that the consultant would also develop alternative implementation strategies.

It is important to note that any proposed structural changes to the retirement system would also affect participating political subdivisions. Accordingly, it appears that potential changes to the State employee retirement benefit structure could not be carved out and handled separately from the teacher and political subdivision groups and that any structural recommendations could result in broader change to the system. Further, the benefit structure for members of the State Police, the Virginia Law Officers Retirement System

(VaLORS), and other local law enforcement officers (LEOS) differs from that of State employees, teachers, and other employees of political subdivisions. The benefit structure for judges also differs from other employee groups. A separate analysis for these smaller groups, conducted in concert with the analysis of the larger employee groups, might also be necessary.

As shown in the illustrative examples in Table 2 and Appendix B, health care is the single largest benefit expense. Accordingly, health care must be included in any discussion of compensation and benefits. While health care costs drive premiums, issues related to managing health care costs themselves are beyond the scope of this review. In addition, the Commonwealth has made considerable progress in recent years in managing and maintaining health care costs in its health benefits programs. Nevertheless, an analysis of some alternatives for the State's health care benefits package should be included in the study.

### **Project Management and Resources**

A JLARC team would be assigned to the project, but one or more consultants would be required to conduct some portions of the study. For example, consultants would likely be used to complete the analysis of defined contribution retirement plans, a salary survey, and an analysis of health insurance benefits. As noted earlier, VRS has agreed to pay for the consultant to complete any retirement related analysis. A general fund appropriation would be needed for the other consulting work.

The JLARC study team would provide overall management of the project, complete the research and analysis on benefits other than retirement and health insurance, develop specific alternative compensation models based on various goals and on identified best practices, and prepare the final report (which would incorporate any consultant products). To evaluate the impact of the alternative models, JLARC staff would also develop examples of the compensation for individual employees and the overall costs of the models for the State.

### **Proposed Schedule**

Given the complexity of the analysis to be completed for the study, it is anticipated that it would require about two years to complete the study. A preliminary schedule is outlined below.

Project Planning	January – March 2007
Consultant Procurements	March – June 2007
Research and Analysis	May 2007 – March 2008
Report Development	April – July 2008
Final Report	October 2008

### **Other Possible Related Studies**

The director of DHRM noted to JLARC staff that she is in the process of convening a workforce commission to address employee benefits, including leave, health care, a cafeteria style plan for benefits, succession planning, and other related issues. She envisions the Commission including the Secretary of Administration, the Secretary of Finance, members of the legislature, and private sector participants. If JLARC proceeds with this study, we will need to coordinate our efforts with any being conducted by this proposed executive branch commission.

## **Appendix A State Employee Benefits**

### **Health Benefits**

State employees eligible for the health benefits program may enroll in a statewide health plan, or if living or working in the Northern Virginia area only, a regional health maintenance organization (HMO). Full-time employees pay the employee portion of the total monthly premium, with the State paying the remainder of the cost. Premiums are deducted from paychecks before taxes are paid. Part-time classified employees who work at least 20 hours, but less than 32 hours, per week (or salaried employees in similar positions in legislative, judicial and independent agencies) pay the total premium, which may be deducted from their paychecks on a pre-tax basis.

### **Retirement Plan**

Membership in the retirement plan (defined benefit plan) is automatic and paid by the State. Employees become vested with the accumulation of five years of credited service. A vested member is eligible to receive a reduced retirement benefit at age 55 with at least five years of service. Employees can receive a reduced benefit as early as age 50 with at least 10 years of state service. Employees can retire with unreduced benefits at age 50 with at least 30 years of service or age 65 with at least five years of state service. The unreduced monthly retirement benefit is calculated as 1.7% times the years of creditable service, times the employee's average monthly salary during their highest 36 consecutive months of creditable compensation.

### **Group Life Insurance**

Upon employment, full-time classified employees are automatically enrolled in a group life insurance policy at no cost to the employee. This plan provides natural death, accidental death and dismemberment coverage. Coverage is the equivalent of two times the employee's annual salary for natural death and four times the employee's annual salary for accidental death.

### **Optional Life Insurance**

A voluntary supplemental group life insurance plan that allows employees of participating employers to purchase additional insurance at group rates for themselves, their spouse, and their dependents. The employee pays the premiums.

### **Retiree Health Insurance Credit**

The health insurance credit provides employees with a reimbursement to assist with the cost of health insurance premiums. The credit is added to a retiree's monthly retirement benefit. The credit is a dollar amount set by the General Assembly for each year of service. The credit ends upon the retiree's death and cannot exceed the amount of the individual health insurance premium. To be eligible for the credit an employee must be retiring with 15 or more years of creditable service, or retiring on disability, or receiving a long-term disability benefit through the Virginia Sickness & Disability Program (VSDP).

**Virginia Sickness and Disability Program (VSDP)**

Eligible State employees receive sick leave, family and personal leave, and short and long-term disability benefits. The program provides up to 10 days of sick leave and up to five days of family and personal leave per year, based on the employee's length of service (with no carry-over from year to year) and up to 125 workdays of short-term disability coverage. Income replacement levels during the use of short-term disability begin at 100 percent, reduce to 80 percent, then to 60 percent of salary. The number of days of income replacement at each level depends on the employee's length of State service at the time of disability.

After 125 workdays of short-term benefits, long-term disability begins with an income replacement level of 60% of salary. Once an employee goes into long-term disability, the employee is no longer on the agency's payroll.

**Disability Retirement**

If an employee is unable to perform his or her job because of a physical or mental disability and the disability is likely to be permanent, the employee may be eligible to apply for disability retirement benefits through the Virginia Retirement System (VRS).

State employees not covered under the Virginia Sickness and Disability Program are eligible for disability retirement.

**Employer Provided Long-term Care Coverage**

VRS administers a long-term care program provided to State employees free of charge. Employees can access this benefit if the employee requires assistance for an extended period of time. The long-term care benefit provides a \$75 basic daily benefit with a two-year lifetime maximum. Long-term care includes nursing or hospice facility care, assisted living facility care, home health care services, alternate care, transitional care, informal caregiver training, and respite care.

**Optional Long-term Care Insurance**

In addition to the VRS long-term care coverage, employees have the option to participate in a similar employee-paid program.

**Deferred Compensation Plan (457B)**

The Commonwealth's Deferred Compensation Plan (DCP) is a voluntary tax-deferred retirement savings program that is available to individuals who are employed by the Commonwealth of Virginia in either a salaried or wage position. The contribution limits are adjusted annually.

**Virginia Cash Match Plan**

This program is an employer-paid cash match program for salaried State employees who are making contributions to the Deferred Compensation Plan. The employer match amount is 50 percent of the employee's contribution to the Deferred Compensation Plan or \$20 per pay period (\$40 per month), whichever is less.

<b>Educational Assistance</b>	Virginia State government provides educational assistance to employees under limited circumstances. Such assistance varies and is dependent upon the policies and procedures of individual State agencies.
<b>Employee Assistance Program</b>	All health plans offered to state employees and their dependents have employee assistance programs (EAPs). Included are up to four sessions at no charge for such services as mental health, alcohol or drug abuse assessment, child or elder care, grief counseling and legal or financial services.
<b>Flexible Benefits</b>	<ul style="list-style-type: none"><li>▪ <b>Premium Conversion</b> (Pre-Tax Premiums) lowers an employee's taxable income because health insurance premiums are deducted from the employee's paycheck before taxes are calculated.</li><li>▪ <b>Reimbursement Accounts</b> allow employees to set aside part of their pay each pay period on a pre-tax basis for one or both of these accounts:<ul style="list-style-type: none"><li>▪ <b>Medical Reimbursement Account</b> to pay for the out-of-pocket medical, dental, and vision care expenses not covered by the employee's health benefits plan.</li><li>▪ <b>Dependent Care Reimbursement Account</b> to pay expenses for the care of a child, disabled spouse, elderly parent, or other dependents who are physically and mentally incapable of self-care so that the employee can work or actively seek work.</li></ul></li></ul>
<b>CommonHealth</b>	The Commonwealth of Virginia's employee wellness program. Programs, challenges and health check screenings are offered across the State.
<b>Holidays</b>	Employees receive 12 paid holidays per year.
<b>Leaves of Absence</b>	The Commonwealth provides a number of types of leave to eligible employees. These include, annual, administrative, educational, emergency/disaster, Family and Medical Leave (FMLA), leave sharing, leave to provide community service, leave to donate bone marrow or organs, military leave, traditional sick leave, VSDP sick leave, VSDP family and personal leave, and VSDP short-term disability.
<b>Telecommuting</b>	This program allows agencies to designate employees to work in their homes or other alternate work locations.

**Appendix B**  
**Examples of the Costs of Benefits**

This appendix provides three illustrative examples of the costs of major employee benefits for the employees in different pay bands, with different health care elections, and with different years of service.

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**Example 1**

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<b>Salary</b>	<b>\$24,698</b>
<b>Benefit Costs</b>	
Social Security (OASDI)	1,531
Medicare (HI)	358
VRS Retirement (Employer)	1,418
VRS Retirement (Employee, Paid by State)	1,235
Retiree Health Insurance Credit	264
Cash Match Program	480
Health Insurance (Single)	4,536
Group Life Insurance	279
Long-term disability	440
<b>Total</b>	<b>\$10,541</b>
<i>Percent of Salary</i>	<i>43%</i>
<b>Leave (Leave costs are already included in salary)</b>	
Holidays (12 Days)	1,140
VSDP Sick Leave (64 hours)	760
VSDP Family & Personal Leave (32 hours)	380
Annual Leave (96 hours accrued)	1,140
<b>Total</b>	<b>\$3,420</b>
<i>Percent of Salary</i>	<i>14%</i>

Note: This example illustrates benefits and compensation for an employee in pay band 2, with less than five years of service, and with employee single health care coverage.

Source: JLARC staff analysis.

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**Example 2**

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<b>Salary</b>	<b>\$24,698</b>
<b>Benefit Costs</b>	
Social Security (OASDI)	1,531
Medicare (HI)	358
VRS Retirement (Employer)	1,418
VRS Retirement (Employee, Paid by State)	1,235
Retiree Health Insurance Credit	264
Cash Match Program	480
Health Insurance (Family)	11,892
Group Life Insurance	279
Long-term disability	440
<b>Total</b>	<b>\$17,897</b>
<i>Percent of Salary</i>	<i>72%</i>
<b>Leave (Leave costs are already included in salary)</b>	
Holidays (12 Days)	1,140
VSDP Sick Leave (64 hours)	760
VSDP Family & Personal Leave (32 hours)	380
Annual Leave (96 hours accrued)	1,140
<b>Total</b>	<b>\$3,420</b>
<i>Percent of Salary</i>	<i>14%</i>

Note: This example illustrates benefits and compensation for an employee in pay band 2, with less than 5 years of service, and with family health care coverage.

Source: JLARC staff analysis.

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**Example 3**

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<b>Salary</b>	<b>\$64,312</b>
<b>Benefit Costs</b>	
Social Security (OASDI)	3,987
Medicare (HI)	933
VRS Retirement (Employer)	3,692
VRS Retirement (Employee, Paid by State)	3,216
Retiree Health Insurance Credit	688
Cash Match Program	480
Health Insurance (Employee Plus One)	8,100
Group Life Insurance	727
Long-term disability	1,145
<b>Total</b>	<b>\$22,967</b>
<i>Percent of Salary</i>	<i>36%</i>
<b>Leave (Leave costs are already included in salary)</b>	
Holidays (12 Days)	2,968
VSDP Sick Leave (80 hours)	2,474
VSDP Family & Personal Leave (40 hours)	1,237
Annual Leave (144 hours accrued)	4,452
<b>Total</b>	<b>\$11,131</b>
<i>Percent of Salary</i>	<i>17%</i>

Note: This example illustrates benefits and compensation for an employee in pay band 6, with 14 years of service, and with employee plus one health care coverage.

Source: JLARC staff analysis.

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