

Joint Legislative Audit and Review Commission



**Review of State Employee
Total Compensation**

*General Government / Technology Sub-Committee,
Senate Finance Committee*

December 3, 2008



JLARC

Study Background

- On November 13, 2006, the Commission authorized JLARC staff to study compensation for employees of the Commonwealth
 - Various bills referred to JLARC study by House Appropriations Committee, House Rules Committee, and Members (2007 and 2008)
- Primary focus of study was salaries and benefits for classified State employees

In This Presentation

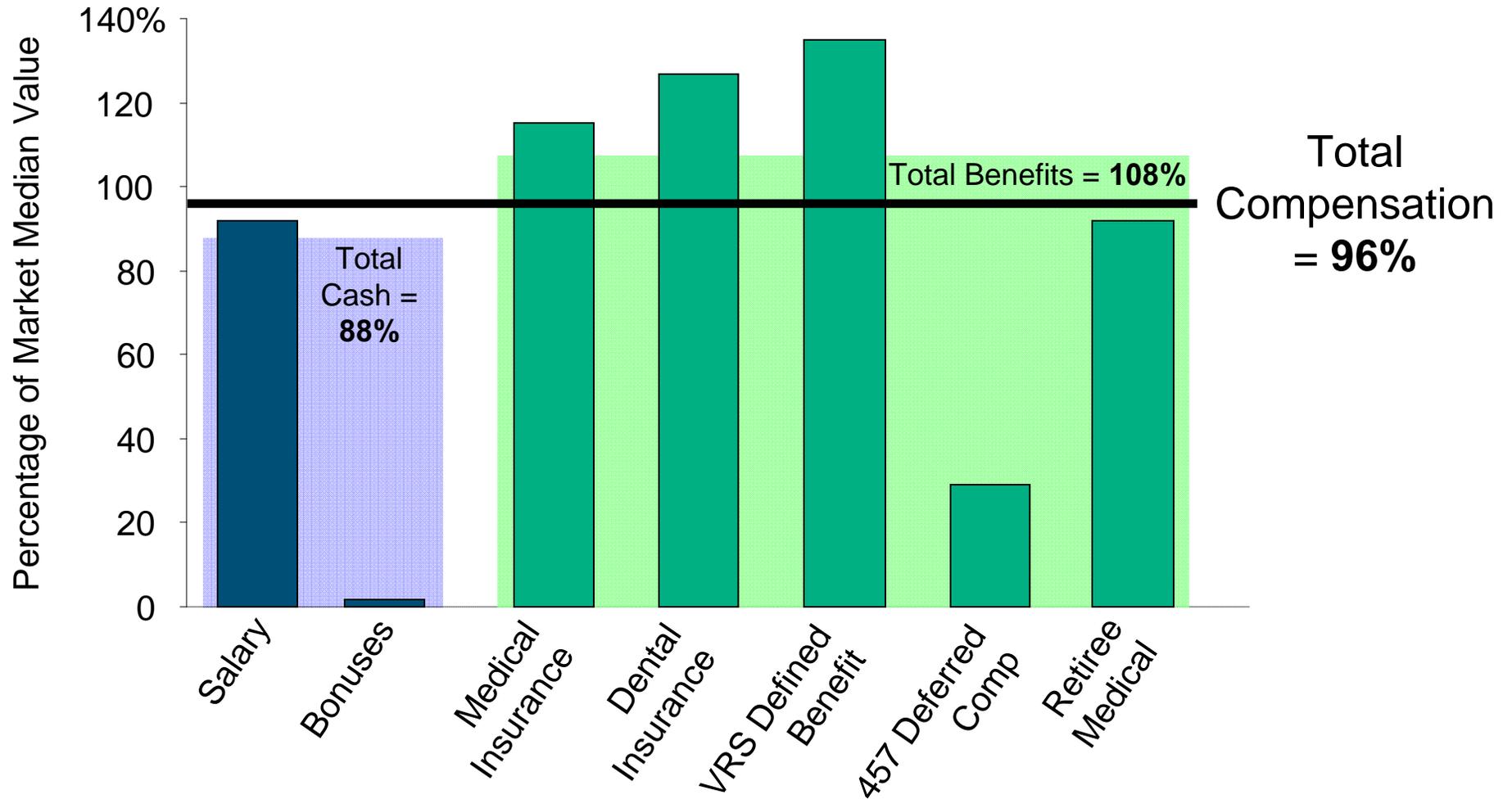
- Assessment of Total Compensation
- Assessment of Major Total Compensation Elements
- Total Compensation Options



Most Agencies Report Total Compensation Achieves Recruiting and Retention Purposes

- Statewide turnover rate in 2007 = 11.5%
 - Similar to other governments
 - Lower than private sector
- 81% agreed their total compensation attracts qualified staff
 - DOC and DMHMRSAS facilities tended to disagree

Mercer Found Virginia's Total Compensation Generally Competitive



Competitiveness Varies Considerably by the 43 Job Roles Mercer Benchmarked

Range of Competitiveness (% of Market Median)	# of Job Roles in Range	% of Total Job Roles Benchmarked
<90%	7	16.3%
90% - 110%	23	53.5
>110%	13	30.2

- Job roles with above-average turnover tend to receive less competitive total compensation



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Salary Is Not State's Primary Recruiting and Retention Tool

- Only 9% of employees chose to work for and remain with the State because of salary
- Only 36% of employees agreed their salary was an attractive part of their compensation package
- Salary was most-cited reason why employees left their job in FY 2008

Mercer Found Virginia's Base Salaries Marginally Competitive

- Base salaries were, on average, 92% of the market median
- Total cash compensation was, on average, 88% of the market median
 - Lower value of bonuses provided by State

Motivation Negatively Impacted Due to Employee Dissatisfaction

- Nearly 11,000 employees report they are dissatisfied because of salary issues
 - Uncompetitive
 - Annual increases inadequate
 - Salary compression
 - Cannot afford basic living expenses

Health Insurance Strong Recruitment and Retention Tool

- #2 reason employees chose to work for and remain with State (#1 was job stability & security)
- 96% of agencies agreed effective at recruiting employees who have families
- 80% of agencies agreed effective retention tool

State Health Insurance Compares Favorably to Other Large Employers

- Mercer ranked medical benefit portion of State health insurance
 - 4th compared to 16 large peer employers in VA
 - 2nd compared to 7 nearby states
- State contributes higher portion of premium than most other employers
- Out-of-pocket costs, such as deductibles, coinsurance, and copayments are similar or below median

Health Insurance Costs Are Growing Portion of State Spending

- Over past ten years has grown faster than total State appropriations (135% vs 99%)
- Cost growth trends are not unique to State
- Factors within State's control driving costs
 - State premium contributions
 - Fixed cost provisions of plan
 - Limited focus on efficiency and health data

Retirement Benefits Retain Longer-Tenured Employees

- 93% of agencies agreed
- 3/4 of employees within 5 yrs of retirement agreed
- More important for longer tenured than for recently hired employees (Mercer)

PwC and Mercer Found VRS Benefits Competitive With Other VA Employers

- PwC ranked the VRS benefit 3rd compared to 7 other large public & private employers in Virginia
- Mercer ranked VRS benefits 6th compared to 16 large peer employers in Virginia

Retiree Trends and Income

- Majority of retirees retired prior to normal retirement age (unreduced benefit, 2000-07)
- VRS and Social Security benefits replace more than 80% of pre-retirement income
- Employees who choose to retire early face large increase in health costs as % of income



Retirement Funding and Costs

- Contributions to VRS plans lower than VRS Board certified rate in 10 of last 18 years
 - Virginia ranked 46th out of 50 states in average amount of contribution paid (Pew Center for the States)
- PwC: State's payment of employee contribution to VRS benefits is unique and costly
- PwC: COLA protects retirees' purchasing power but is cost driver for State

Leave Benefits Effective Recruitment and Retention Tool

- 72% of agencies agreed
 - for single employees or with few yrs of service
- 86% agreed
 - for employees with families or more yrs of service

Leave Benefits Comparable to Other Large Employers

- Mercer ranked State's total leave
 - 9th compared to 16 large peer employers in VA
 - 3rd compared to 7 nearby states
- Slightly more holidays, but less sick leave
- 12th out of 14 for annual leave

Leave Benefits a Concern in 24/7 Facilities

- Over 1/3 of DOC and about 1/2 of DMHMRSAS facilities agreed leave reduces agency productivity
- DMHMRSAS and DOC employees least satisfied with work / life balance
 - Especially employees working evening, night, or rotating shifts

Finding

	<i>Purposes</i>						<i>Cost</i>	
	Recruit	Retain	Motivation & Morale	Health & Productivity	Retire	Work / Life Balance	Current \$ (millions)	Future \$ Risk Level
Salary	◐	◐	◐				\$3,301	Low
Health Insurance	●	●		◐			\$677	High
Retirement Benefits	●	●			●		\$487	Med
Leave Benefits	●	●	◐	◐		◐	\$24	Low

Scale of Purposes Achieved

● Mostly ◐ Partially ○ Minimally [blank] N/A

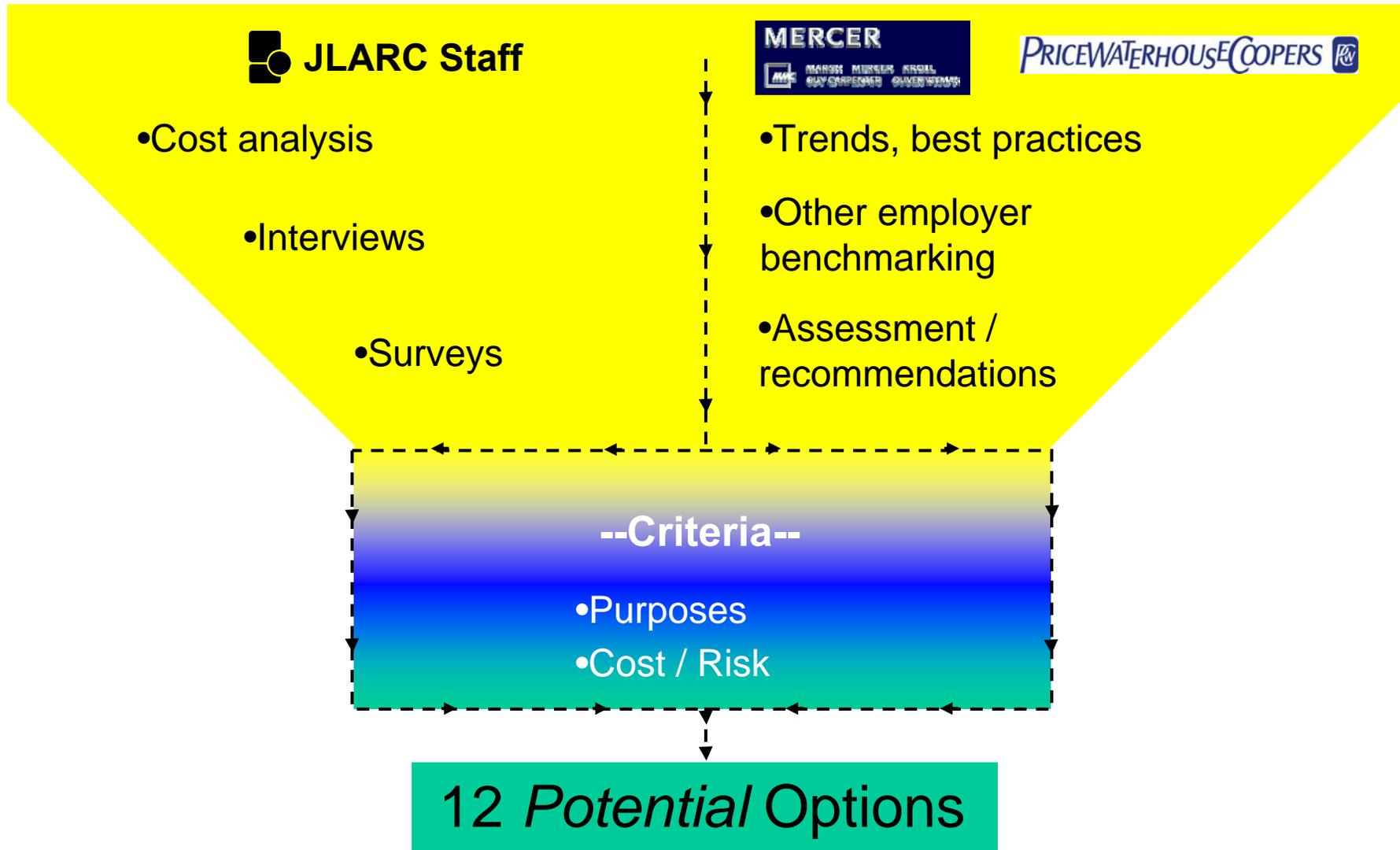


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JLARC Staff Used Information-Driven Process and Criteria to Identify 12 Potential Options



Option 1 Better Achieves Purposes and Reduces Future Cost and \$ Risk

	<i>Purposes</i>						<i>Cost</i>	
	Recruit	Retain	Motivation & Morale	Health & Productivity	Retire	Work / Life Balance	Projected \$ Yr 5 (millions)	Future \$ Risk Level
Mod. Pay for Purpose (S1)	↑	↑	↔				+\$89	Higher
Mod. health changes (H1)	↔	↔		↔			-\$46	Lower
Employee VRS contribution(R1)	↔	↔			↔		-\$91	Lower
Reduced COLA (R2)	↔	↔			↔		-\$55	Lower
New hire ret. age 60 (R3)	↔	↔			↔		-	Lower
Exchange leave for cash (L1.b)	↔	↔	↑	↑		↔	+\$21	Lower
Projected Total \$ Impact in Year 5							-\$82 million	

Impact on Purposes

↑ Beneficial ↔ Minimal ↓ Harmful [blank] N/A



Option 2 Includes Different Retirement Structure (New Hires / Non-Vested)

	<i>Purposes</i>						<i>Cost</i>	
	Recruit	Retain	Motivation & Morale	Health & Productivity	Retire	Work / Life Balance	Projected \$ Yr 5 (millions)	Future \$ Risk Level
Mod. Pay for Purpose (S1)	↑	↑	↔				+\$90	Higher
Mod. health changes (H1)	↔	↔		↔			-\$46	Lower
Create new combination plan (R5)	↔	↔			↔		-\$66	Lower
New hire IPT (R4)	↔	↔			↔		-	Lower
Exchange leave for cash (L1.b)	↔	↔	↑	↑		↔	+\$21	Lower
Projected Total \$ Impact in Year 5							-\$1 million	

Impact on Purposes

↑ Beneficial ↔ Minimal ↓ Harmful [blank] N/A



JLARC Staff for This Report

Glen Tittermary, Deputy Director

Justin Brown, Project Leader

Trish Bishop

Christine Wolfe

Tracey Smith

Janice Baab

Mark Gribbin

Shannon White

For More Information

<http://jlarc.state.va.us>

(804) 786-1258

