

Senate Finance General Government and Technology Subcommittee
Remarks of R. Ronald Jordan
representing the
Virginia Governmental Employees Association
January 21, 2014

Mr. Chairman and Subcommittee Members,

Thank you for inviting us to appear. Some of you may not be aware that the Commonwealth's state employee compensation goal is actually set out in the Code. Section 2.2-1202 of the Code of Virginia makes explicit that the goal of the State is to provide a total compensation package that is comparable to the private sector and the State's peers.

The last review to measure whether this statutory goal was being met occurred in the 2011 JLARC study. They retained Mercer Consulting (a nationally recognized HR consulting firm) to conduct the analysis.

Mercer found that State total compensation (salary and benefits) was *only marginally competitive*, falling at the bottom of the competitiveness range. Total compensation lagged the market by 6-10 percentage points, depending on whether the employee was in VRS plan 1 or plan 2 (employees in plan 2 are further behind due to its less generous benefit structure) and placed Virginia last in a ranking of total compensation among 16 large Virginia employers that compete for the same workforce.

That same analysis showed that the cash compensation component of this mix is *not competitive* when compared to the market. The competitiveness of the state's cash compensation had fallen to 82 percent of the market median for plan 1 employees and to 79 percent of the market median for plan 2 employees. The report further stated that the Commonwealth could fall even further behind should salaries continue to be frozen or should benefits be further reduced. Since that time, both have occurred.

It is important to note that this analysis was conducted prior to the pension changes that occurred in the 2012 session. Those changes curtailed benefits for existing employees and established a hybrid plan for new employees that guarantees far less at retirement than either plan 1 or plan 2. Subsequent analysis of total compensation will in all likelihood find that the Commonwealth is now totally non-competitive in salary as well as total compensation.

The State employee compensation system is broken. Absent any exponential change, the total compensation picture is only going to get worse. And in this worsening picture, cash compensation becomes far more important.

State employees received their first real base raise in six years with the 2% market pay increase, and the \$65 per year in compression pay that went into effect this past

summer. The value of the 2% increase, while well received, was offset by the 2% increase in social security taxes that went into effect in January of last year. In contrast, the compression pay generated great excitement because it was a tidy sum of money for employees who had seen their take home pay chipped away in small bites by health insurance premium increases, increases in health insurance co-pays, and even increases in state parking fees while watching new employees get hired at salaries comparable to or in excess of their own.

The challenge before you is well documented. We are extremely mindful and supportive of the phase in of full funding of the VRS Board recommended rates by 2018. We are also mindful of the pressures this places on other compensation issues and the challenges you face in the overall state budget. As the representative of the VGEA, I have come here this afternoon to offer some solutions that we believe will show you a responsible path forward.

Our **recommendations** to you focus on four things:

First, **total compensation**, we have three recommendations here:

Knowledge is important. Most state employees do not understand the monetary value of their benefits package. This needs to change. **Employees should receive an annual notice accompanying their W-2 that identifies the value of their total compensation and the breakdown between cash compensation and employer paid benefits.**

The Department of Human Resource Management's (DHRM) Annual Salary Survey should be expanded and converted to an annual survey of total compensation. **The introduced budget proposes funding to update the total compensation survey in FY 2016. We should not wait and recommend this effort be moved to the first year.**

The Code of Virginia already sets out the goal for total compensation – comparable to the private sector. **The Commonwealth should establish a plan for reaching this goal.**

Second, **salary market lag:**

The DHRM Annual Salary Survey shows that cash compensation or salaries for State positions lags behind comparable private sector salaries anywhere from 5% to 46% depending on the job class. Realistically, this gap is not going to be closed in one year, five years or maybe even 10 years since private sector salaries continue to increase annually. Fixing it requires a long-term commitment to a series of regular, incremental steps over a period of many years. However the **Commonwealth should also ensure that if it cannot make progress on closing the gap in a given year, then it should at least take steps to ensure that the gap does not grow even larger.**

Third, **performance pay**:

The Commonwealth's version of performance pay is a pat on the back for a good annual performance evaluation. Unlike the federal government and most large local government personnel systems, there is no regularly funded step or merit pay system for *consistently* rewarding good performance. Performance pay is a proven job incentive but to be effective it must be real and consistent. It is a supplement, not a substitute for base pay increases that improve market competitiveness.

The VGEA is proposing to build upon the bonus payment structure used in 2010 and 2012 with a permanent performance incentive payment system similar to best practices used by large private employers. Under this program, employees could receive lump sum payments ranging from 0% to 7%, depending on their annual performance. This would be implemented using existing DHRM guidelines (that were developed for this purpose and have only been used the one time that pay-for-performance was actually funded). This performance incentive payment would be paid to the employee immediately following the annual performance review. The key here is that they are *lump sum payments* and therefore would not result in a base salary adjustment. The employee must continue to perform well to receive performance incentive payments in each subsequent year. The amount of money available is the limiting factor on the bonus range but the goal would be to provide sufficient funding to achieve *a statewide average* performance bonus of 3% each year.

Lastly, **health insurance**:

The Commonwealth has traditionally kept the employee share of health insurance costs low to offset salaries that are lower than comparable private sector salaries. Today there has never been more uncertainty about the future of health insurance. We must not reduce health insurance benefits or increase the employee cost share without comparable offsetting increases in salary, otherwise these actions are simply a cut in total compensation. **The introduced budget contains both premium increases and co-pay increases. We would ask that you examine these very closely with an eye to mitigating their impact.**

Mr. Chairman, I thank you for your indulgence and would be happy to answer any questions.