

COUNTY OF ALBEMARLE

EXECUTIVE SUMMARY

AGENDA TITLE: Total Compensation Report	AGENDA DATE: October 7, 2009
SUBJECT/PROPOSAL/REQUEST: Acceptance of market data for use in budget development for FY10-11, subject to available revenues and proposed revisions to Voluntary Early Retirement Incentive Program (VERIP)	ACTION: x INFORMATION: x
STAFF CONTACT(S): Tucker, Foley, Elliot, Davis, Suyes, Gerome	CONSENT AGENDA: ACTION: INFORMATION:
LEGAL REVIEW: Yes	ATTACHMENTS: Yes
	REVIEWED BY:

BACKGROUND:

In November 2000, the School Board and Board of Supervisors approved a Total Compensation Strategy to target employee salaries at 100% of market median and benefits slightly above the market. The adopted market approved by the Boards is shown in Attachment #1.

This report details the supporting analysis for the recommendations to achieve the adopted Total Compensation Strategy for last year and for the Boards to consider in giving budget guidance to the County Executive and Superintendent. These projections are presented to the Boards for their information regarding the FY2010-11 budget process. It is noted that all final funding is subject to, and based upon, available revenues and Board direction. This report provides information on:

- 1) Compensation Strategies
- 2) Benefits Strategies
- 3) Review of VERIP Program

Staff recognizes that due to the projected revenue shortfall, funding to support these recommendations may not be available. However, this information is provided based on the Joint Board's adopted process to maintain our Total Compensation strategy.

STRATEGIC PLAN:

Goal 1: Enhance the Quality of Life for all Albemarle County Residents.

By June 30, 2009, the Board of Supervisors and general government employees will increase collaborative efforts with the School Board and with employees of the schools system to assist the School Division to achieve recognition as a "world class education system."

DISCUSSION:

To maintain competitive compensation based on the adopted strategy, two separate, but related actions are required:

- 1) Ensure a competitive salary scale so that the County/School Division is able to attract and recruit new employees.
- 2) Ensure current employees are rewarded for performance by maintaining internal equity in their pay range and also maintaining market competitiveness for similar skills.

To adhere to the Boards' adopted strategy, we implement the following processes each year:

- 1) Annually survey the adopted market to determine the salary scale adjustment implemented in those localities/schools for the current fiscal year.
- 2) Annually survey the adopted market to determine the average total salary increase granted employees in those localities/schools for the current fiscal year.
- 3) This market data is analyzed to ascertain where the salary scales (both classified employee and teacher) for Albemarle County stand relative to the adopted market and develop recommendations for next year's salary increases.

- 4) Obtain data on what other organizations are projecting for salary increases for the next fiscal year through a compensation database (WorldatWork, Eastern Region). This data is used to project the merit increase percentage and develop the teacher scale, including step increases.

Section 1: Board Adopted Process for Compensation Strategy: Market Analysis and Projections

Last year, the projections based on the Joint Board adopted process presented in October were to increase the classified salary scale by 3%, fund a classified merit increase of 3.93% and fund teacher increases by 3.3%. However, due to revenue shortfalls, we did not fund any increases. The following information is provided to both Boards to consider regarding development of the FY10-11 budget.

Step 1: FY09-10. Survey the market to determine if the scale adjustment implemented for classified/administrator and teacher pay scales achieved the strategy.

Classified/Administrator Scale Adjustments - Target median of adopted market

A competitive scale is important in attracting new hires. For classified employees, the scale adjustment impacts new hires and any employees with pay rates that might fall below the new minimums. The Albemarle County scale was not adjusted in FY09-10. In reviewing the salary scale data for FY09-10, our adopted market also did not adjust their scales. However, since we started the previous year at -0.76 below market, our current scale remains below market by -0.76 %.

Step 2: FY09-10. Survey the market to determine if the total salary increase implemented for classified pay achieved the strategy.

Classified Total Salary Increases - Target median of adopted market

We did not have a salary increase for FY09-10. The median salary increase amount implemented by our adopted market in FY09-10 was also 0%. However, we started last year at -0.35 below market, which results in our salaries remaining below market by -0.35%.

Teacher Scale Adjustments - Target top quartile (75th percentile) of adopted market

We did not apply an increase to the teacher scale; however market data indicates that we are in the top quartile at most steps. Our teacher scales are in the top quartile at: minimum, 5 years, 10 years, 15 years, and 30 years. Although we did not quite reach the top quartile at both T20 and T25, we are very close. This is shown in Attachment # 2.

Step 3: Projections for FY10-11. Based on current market position and scale/salary projections, determine the changes necessary to achieve the Board approved strategy using the WorldatWork, Eastern Region data.

Classified/Administrator Scale Adjustments

The scale adjustment impacts new hires and any employees with pay rates below the new minimums.

- Adopted Market Salary Scale Median: 0%
- Albemarle Scale Relative to Market: -0.76%
- WorldatWork projection for Eastern Region (including Virginia): 1.5%
- **FY10-11 scale adjustment: 1% as the scale adjustment is considered relative to the merit increase to minimize compression issues.**

Classified/Administrator Salary Increase (merit percentage)

- Adopted Market Median increase: 0%
- Albemarle Salary Increase Relative to Market: -0.35 %
- WorldatWork projection for Eastern Region (including Virginia): 2.25%
- **FY10-11 salary increase: 2.60%**

Teacher Scale and Teacher Average Salary Increase

The teacher scale is based on the projected total increase obtained from WorldatWork, which projects a 2.25% salary increase. Any increase would include the step increase.

Worldatwork Projections Compared to Adopted Market

As the information below illustrates, the Worldatwork projection generally has been a reasonable indicator to rely on for our market projections with last year being an exception. However, given the current state of the economy and the challenges faced by local governments and school divisions, it is likely that the coming year will be similar to last year regarding salary increases. Additionally, information obtained from our adopted market illustrates some of the budget reduction measures other localities have implemented and are seriously considering. (Attachment #3)

Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Worldatwork Projection	3.7%	3.65%	3.65%	4%	3.3%
Adopted Market Median Increase	4%	4%	4%	3.63%	0%

Section 2: Benefits Strategy: Projections for Medical and Dental Insurance Premiums

The Joint Board adopted benefits strategy is to maintain a benefit program that is slightly above market. As the medical plan is a critical component of the benefits package, the plan design and employee premium levels of our medical plan are carefully reviewed every year.

FY09-10 Plan Year

Medical - Our medical insurance costs increased by 6% this year. The annual Board contribution amount is \$7,045. There were no plan design changes for this plan year.

Dental - Our dental insurance costs (both Board contribution and employee premiums) increased by 6%. The annual Board contribution amount for dental is \$238.

FY10-11 Plan Year Projections - Medical and Dental

Based on claims data and reserve balance, along with trend information provided by our benefits consultant, Tom MacKay with Keiter, Slabaugh, Penny & Holme, LLC, our estimated medical cost increase for FY10-11 is 8-10%. The Health Care Executive Committee in consult with KSPH has established a target of 20% to maintain in order to sufficiently cover health insurance claims. This is carefully monitored on an ongoing basis. Currently our reserves exceed 20% and could be used to offset future premiums.

Our dental insurance cost increase is estimated at 5.4%. As we have just started the new plan year, staff will continue to monitor claims experience and develop recommendations for both plan design and premiums as part of the County Executive's and Superintendent's budget proposals.

Section 3: Review of VERIP

Voluntary Early Retirement Incentive Program (VERIP)

Voluntary Early Retirement Incentive Program (VERIP) was adopted by the Board of Supervisors and School Board during the summer of 1993 for both School Division and Local Government employees. VERIP is designed for employees who have already met Virginia Retirement System (VRS) retirement eligibility standards, but are not yet 65. It gives these employees an "early" retirement option that assists with medical insurance costs and supplements reduced Social Security benefits. VERIP eligibility is defined as follows:

1. Must meet minimum VRS retirement eligibility standards (age 50 with 10 years of service or age 55 with 5 years of service);
2. Have worked for Albemarle County for 10 years immediately prior to retirement; and
3. Be employed in a benefits-eligible position at time of retirement

There are two parts of VERIP Benefits; both are payable for 5 years or until age 65, whichever comes first:

- 1) Contribution equivalent to the Board medical contribution given to active full-time employees; and
- 2) A monthly amount ("stipend") based on the difference between the estimated VRS benefit at retirement, and the estimated benefit the employee would receive with an additional 5 years of service (or the number of years remaining until the employee reaches age 65, whichever is less)

VERIP serves to incent experienced employees (particularly those within 15-20 years of retirement) to stay with the organization at least 10 years in order to qualify for the program benefits. The program also serves as an option for employees who wish to leave the work force, but are still several years away from qualifying for Social Security retirement benefits. Although retirees can draw Social Security benefits as early as age 62, Medicare is not offered until the employee has reached the age of 65. As such, VERIP benefits, which include up to 5 years of the Board contribution toward the employee's health insurance costs, allow employees who otherwise would be forced to remain in the workforce an opportunity to retire with their health coverage intact until Medicare-eligibility.

In order to sustain the core components of the Joint Board Adopted Total Compensation Strategy (which are market competitive salaries and health insurance benefits), it is critical to assess other components of the Total Compensation Program. Data from the Joint Board adopted market indicates that the Voluntary Early Retirement Incentive Program (VERIP) benefits exceed market levels. Additionally, the Resource Management Study recommended that the VERIP program should be reevaluated. As a result, the January 8, 2009 Executive Summary indicated that the market competitiveness of the stipend portion of the VERIP benefit would be assessed. To this end, a cross departmental

workgroup (with staff representation from the School Division, AEA, and Local Government) was established to assess the VERIP program. The charter for this task force was to develop strategies and recommendations to the Joint Boards. The workgroup met over the past several months to:

- Analyze workforce demographics, market data and employee survey feedback;
- Develop recommendations as to the phase-out of the VERIP stipend;
- Develop recommendations regarding the health insurance benefit as it relates to VERIP.

The following summarizes the team's recommendations.

VERIP Stipend

Current market data (Attachment #4) indicates that the level of benefit offered in terms of the stipend exceeds the majority of other localities, as few localities offer supplemental retirement benefits. Data from the Joint Board adopted market Total Rewards Survey conducted in February 2009 indicates that only 3 out of 40 localities offer a supplemental retirement benefit with no work requirement, while 8 localities require service to receive supplemental retirement income. Additionally, the average service requirement among those localities offering a retiree benefit is 15 years. The workgroup discussed implementing a service requirement for retirees in order to receive the stipend, but did not recommend implementing due to a variety of factors (administrative complexities, legal issues, market competitiveness and varying organization staffing needs which would not allow for commonality among the School Division and Local Government). The workgroup evaluated several alternatives for phase-out, such as declining percentages and decreasing years of eligibility. As the monetary value of the benefit to the employee was the same with these alternatives, the consensus was that the declining percentages may be easier to communicate and administer. In order to honor our organization's commitments to those employees nearing retirement, while moving toward a market competitive program, the following phase-out of the VERIP program is presented for consideration:

- 1) Graduated Declining Percentage Phase-out. The benefit would continue to be payable for 5 years or to age 65 (whichever comes first) and the stipend amount would remain the same for the payout period.

2010/2011	No change-VERIP stipend remains 100%
2011/2012	No change-VERIP stipend remains 100%
2012/2013	VERIP stipend amount is calculated at 80%
2013/2014	VERIP stipend amount is calculated at 60%
2014/2015	VERIP stipend amount is calculated at 40%
2015/2016	VERIP stipend amount is calculated at 20%

VERIP-Contribution equivalent to the Board medical contribution

The Board medical contribution for FY 09/10 is \$7,045 per year for active full-time employees. A retiring employee who meets the eligibility standards will receive the active employee Board contribution for five years or until age 65, whichever comes first. This may be taken as a taxable cash payment (added to the monthly stipend) or applied on a pre-tax basis toward their County medical insurance coverage. The workgroup reviewed the medical contribution relative to the Joint Board adopted market, both in terms of contribution level and eligibility requirement. Data indicates that 30 out of 40 respondents provide retiree coverage, with 19 of those contributing towards that coverage. Twenty two of the respondents require meeting VRS eligibility or 15 years or more service.

This benefit is extremely valued by retirees. As the stipend will likely be phased out, the team agreed that this benefit should be reviewed in the context of the stipend phase-out and is not recommending altering this benefit at this time. However, the market data supports further review of this benefit. The Board may choose to direct staff to review and develop recommendations.

Eligibility for retirees to remain on group medical and dental plans

The current service requirement for non-VERIP eligible retirees to remain on the group medical and dental insurance, while paying the entire contribution is four years. Current policy states:

Salaried Board Members and full-time or part-time regular employees who are not retiring under VRS and/or VERIP, are eligible for continuous participation in the County's group medical and dental insurance plan until they are eligible for Medicare coverage, provided that they meet the following requirements:

1. be 55 years of age or older;
2. retire from service or separate from employment in good standing after four (4) or more years of continuous service or employment; and
3. be participants in the County's Group medical and dental insurance plan on the day prior to separation from the County.

The workgroup recommends changing this policy to require meeting VRS eligibility for retirement (Reduced retirement is age 50 with 10 years of service, or age 55 with 5 years of service).

BUDGET IMPACT:

If the VERIP stipend phase-out option is implemented, stipend costs would begin to decline starting in FY12 and end completely by FY20. The following are estimates based on historical trend data:

	Estimated Total Stipend Cost through FY19/20 with Current VERIP	Estimated Total Stipend Cost through FY19/20 with Phase-out option	Estimated Savings through FY19/20 using Phase-out option
Local Government	\$2,024,152	\$1,094,233	\$929,919
School Division	\$10,876,553	\$5,789,521	\$5,087,033

RECOMMENDATIONS:

Staff offers the following for your consideration. The compensation projections are based on the Joint Board process and adopted strategy:

1. 1% increase in the classified salary scale.
2. 2.60% merit increase for classified staff.
3. Teacher increases to reach and/or maintain top quartile (2.25%) to be distributed along the scale.
4. Phase out of the VERIP stipend as proposed. Staff is looking for general feedback on this proposal at this time. This item will come back before the two Boards for final action at the next joint meeting currently scheduled for December 2nd.

Staff recommends approval of the following:

1. That a portion of the excess Health Care Reserve fund be applied to offset some of the increase in medical plan costs. The projected increase in medical is 8-10%.
2. That the service requirement for retirees to be eligible to remain on group medical and dental coverage be revised to require that employees must be 55 with a minimum of 5 years of service to be eligible, consistent with VRS benefits.
3. That the workgroup previously established to review the VERIP stipend benefit develop recommendations regarding the VERIP health contribution benefit.

ATTACHMENTS

[1 - Competitive Market List](#)

[2 - Teachers' Scale – Top Quartile Graph](#)

[3 - Budget Reduction Measures](#)

[4 - Albemarle County Early Retirement Benefit Survey](#)