

Pay for Performance Best Practice

Organization: Virginia Retirement System

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Virginia Retirement System (VRS) has a gainsharing program, however the program functions more like pay for performance. Each year the agency identifies Agency Performance Outcomes (APOs) which if attained, employees receive bonuses in the form of lump sums equal to 2.5% of their salary. Yet to be eligible to receive a bonus, the employee must earn an overall performance rating of at least “Meets Expectation.”

The goal of the program is that employees will worker harder to reach the annual APOs.

Individual performance is evaluated on six core values: Adapting to Change, Customer Service Orientation, Open Communication, Continuous Learning, Teamwork, Productivity and Quality Management. Individuals can receive an evaluation of “Does No Meet Expectations,” “Meets Expectations,” “Exceeds Expectations,” and “Exceptional.”

The VRS has 160 full-time employees and 25 wage (hourly) employees. Only full-time employees who meet their performance standards are eligible. New employees receive a pro-rated distribution of the 2.5% bonus, depending upon how many months they have worked at the VRS. Employees will receive the bonus the same way they receive their pay, either through direct deposit or check, but it will be paid July 6, 2007, which is not a scheduled pay date.

This is the first year of the gain sharing program in its current bonus format, so too early to tell if it will be a success or failure, but the HR feel it is certainly replicable.

Objective

The objective of the agency's salary policy and practices is to compensate employees reasonably and equitably and to encourage constructive individual and team effort. The policy recognizes that department managers are in the best position to appraise the performance of individuals under their supervision.

This pay system applies to all classified (full-time) employees of the VRS, with the exception of Investment Professionals.

Pay Structure

The VRS Administrative Pay Plan ensures that agency salaries are competitive with the market average of a mix of public and private sector organizations. The Plan also establishes a performance-based pay structure with the key expectation that all employees will achieve "fully satisfactory" job performance. The VRS Human Resources Office (HRO) contracts for a comparative market salary data at least every two (2) years to ensure competitiveness of the salary structure.

The Plan defines thirteen (13) salary grades. There is a 75% span between the minimum salary and the maximum salary of each salary grade. This broad range allows employees growth in grade without having to move to a higher salary grade. Placement of jobs in each grade is determined by measuring the degree of expertise required for each position in four areas:

1. ***Knowledge and Expertise*** measures the amount and depth of knowledge, experience and skills necessary for functioning effectively in a specified role. This expertise may be in technical disciplines, procedures specific to the organization, ability to use certain equipment, and/or management responsibility for planning, organizing and integrating the work of others.
2. ***Complexity and Conceptual Thinking*** measures the amount of analytical and problem solving skills required in the position to evaluate and diagnose differing situations and devise new approaches relating to the organization as a whole and/or its business strategies.
3. ***Contribution and Impact*** measures the breadth of the position's contribution to the advancement of VRS' mission of serving as steward of funds in our care and providing superior service to our customers and membership. This ranges from improving work processes in the work unit to influencing agency-wide results.
4. ***Effective Communication*** measures the position's requirements for interacting with and/or influencing coworkers, team members, contacts in other units/departments, members, retirees or contacts outside the organization.

The HRO evaluates each job in objective terms, not only to ascertain its demands on the individual but also to determine its worth in comparison to other jobs in the agency and its importance to VRS' success. The HRO establishes salary ranges for all grades, taking into account their relative importance to the agency and the salaries paid for comparable types of jobs in the private and public sectors. The salary range for a job includes a minimum, midpoint and a maximum salary.

The midpoint of each grade is set equal to the market average. Individual performance, time in the position, and previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

Typically, employees do not receive salaries above the maximum amount of their pay grade. However, employees may receive lump sum payments for performance equal to the amount of the base pay increase they otherwise would have received, had their salaries not reached the maximum amount of their pay grade.

Salary Practices

Hiring managers recommend the starting salary for new employees. The respective member of the Executive Committee approves the starting salary, before the job offer. When considering appropriate salary offers, take into consideration the salaries presently paid to employees in the department, the candidate's education, skills, work experience, and salary history. Starting salaries typically do not exceed the salary grade midpoint of the job. Additional justification is required to support offering salaries above the midpoint.

The salary for each position will be defined as follows:

1. **Minimum** is the lowest salary paid for a job within the salary grade.
2. **Midpoint** represents the target market salary paid to employees who are fully qualified and meet all competencies required to fulfill each of the position's responsibilities.
3. **Maximum** is the highest salary paid for the salary grade.

Salary Adjustments

Performance Pay

Pay is performance based. Supervisors assess employees' individual work goals and the core values of the VRS.

Individual Performance

Employees receive an annual evaluation that rates goals and core values using the following: "Does Not Meet Expectations," "Meets Expectations," "Exceeds Expectations," and "Exceptional."

Core Values: VRS has six *core values* that are essential in the performance of all jobs.

1. ***Adapting to Change***- Understands the benefits of short or long term change and acts as a catalyst of change.
2. ***Customer Service Orientation*** - Demonstrates concern for meeting or exceeding internal and external customers' needs in a manner that provides satisfaction for the customer.
3. ***Open Communication*** - Creates an atmosphere in which timely and high quality information flows smoothly throughout the agency and with external customers; encourages open expression of ideas and opinions.
4. ***Continuous Learning*** - Acquires, uses, and continuously develops professional/technical skills and knowledge to accomplish results and serve customers more effectively.
5. ***Teamwork*** - Willingly cooperates and works collaboratively toward solutions that generally benefit all involved parties; works cooperatively with others to accomplish agency objectives.
6. ***Productivity and Quality Management*** – Looks for improvements in work processes and business results; identifies and implements effective processes and procedures to reduce processing time, increase productivity, quality and accuracy, and add value.

Two additional core values apply to executives, managers, and supervisors:

1. **Coaching** - Works to improve the performance of others and facilitates their skill development by providing clear feedback, making specific suggestions for improvement, and reinforcing effective behavior and results.
2. **Leadership** – Develops and uses effective strategies and interpersonal styles to influence and guide others toward the accomplishment of identified goals and objectives.

Goals: Employees receive assessments of their work goals established in their annual performance plans. Job descriptions are the foundation for establishing performance plans.

Gain Sharing

VRS' Agency Performance Outcomes (APOs): VRS identifies APOs each year. Successful attainment of the APOs is the gain-sharing portion of the performance management program, paid as bonuses. If the VRS attains the APOs, employees receive a lump-sum bonus equal to 2.5% of salary. However, to be eligible for the bonus, employees must receive an overall performance rating of at least "Meets Expectations." The expectation is that all employees will work collaboratively and contribute to attaining the annual APOs.

Performance Pay Administration

The VRS awards performance increases based on meeting or surpassing performance standards. Employees receive performance pay increases reflective of their individual performance rating. This rating reflects their performance level in both goals and core values. The percentage of the pay increase varies depending on the level of performance.

The VRS performance cycle and thus performance-based increases align with the fiscal year, July 1st through June 30th. Performance evaluations are due after the close of the fiscal year. The VRS pays performance-based increases effective August 10th each year, unless otherwise specifically directed by the Appropriations Act or the VRS Director.

The Director's Executive Committee recommends the amounts for performance increases, APO lump-sum bonuses, and the specific procedures for payments. The VRS Board of Trustees approves or modifies the recommendations.

Performance pay is determined in the following manner:

- Individual performance: The percentage of the pay increase varies depending on the level of performance (overall rating of Meets Expectations, Exceeds Expectations, and Exceptional).
- Agency gain sharing: If the VRS achieves its APOs and the employee receives an overall rating of at least "Meets Expectations", the employee is eligible for a lump-sum bonus equal to 2.5% of salary.

The expectation is that employees with salaries closer to the maximum for their position will be more productive, produce better quality work, and have more work experience. However, employees cannot have their base pay exceed the maximum of the salary range, since that is the maximum the VRS is willing to pay in salary for that position. In situations where the salary range presents a cap, employees receive as much as possible of their performance pay to take their pay to the salary maximum. The VRS pays any remaining amounts as a bonus (lump sum payment). If employees are at their salary maximum at the time of the evaluation, they receive a lump sum payment for their performance.

VRS gives different salary adjustments to employees who work considerably less than a full performance year. Examples of employees who work considerably less than a full year include: (1) employees that have an extended leave of absence during the performance year; (2) new employees that have completed their introductory period but have worked less than 9 months.

Employees who work less than six months in a performance cycle are ineligible for performance pay or APO Bonus. Employees that work between six and nine months in the performance cycle receive prorated performance pay and APO bonuses. The HRO computes the prorated percentage by calculating the amount of time worked divided by 12 months (e.g., 6 months and 2 weeks = 6.5 time worked divided by 12 months = 54%). The work percentage is then multiplied by the percent of pay increase or bonus to calculate the new base pay or bonus amount (e.g., 54% x 5.45% base pay increase, for exceeding expectations in FY 2006, for example, = 2.943 % x \$40,000 (example current salary) = \$1,177.20 increase in salary to \$41,177.20). Employees who work more than nine months in the year are eligible for the full amounts of performance pay and APO bonuses.

Employees who receive an overall "Does Not Meet" rating do not receive any performance pay or the APO gain-sharing bonus. Supervisors must work closely with those employees to guide and coach them to help them attain an acceptable level of performance. Those employees are placed on probation for three months; the supervisor must prepare a performance improvement plan, and then closely

monitor the employee's progress. Employee must bring their performance up to "Meets" or they will be terminated, or demoted to a suitable job, if such an opportunity exists.