



CHAPTER 8

PAY PRACTICES

INTRODUCTION

A major change in the Commonwealth's Compensation Management System is the adoption of pay practices related to base and non-base (see ***In-Band Adjustment and In-Band Bonus***) pay that reflect the "best practices" employed by innovative public and private organizations. For discussion of other non-base pay awards, see Chapter 12 – Rewards and Recognition and Exceptional Recruitment and Incentive Options outlined in Appendix I.

The intent of these pay practices is to emphasize performance rather than entitlements, such as across-the-board increases. The pay practices have been designed to meet the following objectives:

- To establish modern compensation practices.
- To provide management with the capability to reward and recognize performers.
- To encourage employee growth and career development.
- To reduce reliance on job reallocations.
- To support performance-based salary increases rather than across-the-board increases.
- To require management accountability.

Previously, there were four predominant methods of providing salary increases to the Commonwealth's workforce. These methods included across-the-board increases, performance increases, promotions and position reallocations. In all cases, the amount of the salary increases were prescribed and fixed. With performance and across-the-board increases, the amount was determined and approved by the Governor and the General Assembly. Flat percentage increases based on a prescribed number of pay steps were presented in the promotion and position reallocation policies. Variable increases were not a significant part of the former compensation system because of the constraints inherent in a graded pay plan with fixed pay steps.

The Compensation Management System pay practices are designed to provide agency management with additional alternatives to reward and recognize the Commonwealth's workforce (see also Chapter 12, Employee Recognition). If used effectively, the pay practices support agencies' efforts in achieving their missions and organizational goals. In addition, the responsibility for effectively administering employee compensation shifts to the management of the individual agencies. This shift in responsibility will require agencies to develop an **Agency Salary Administration Plan** that outlines their implementation strategies for the Compensation Management System (see Appendix A, Agency Salary Administration Plan Guidelines and Agency Compensation Reform Transition Planning Checklist). Agencies may develop, and document in their Agency Salary Administration plan, additional compensation policies to guide salary administration processes and decisions within the agency.

The pay practices outlined in this Chapter provide agency management greater flexibility as well as a higher degree of accountability for justifying their salary decisions. The expectation is that managers will be accountable for their compensation decisions based on their agency and organizational needs, their budgets, compliance with Equal Employment Opportunity regulations and an overall understanding and demonstration of stewardship in the expenditure of public funds.

PAY FACTORS

The pay practices outlined in this section are designed to allow **variable** salary adjustments. In order for the pay practices to be implemented effectively, it is important to emphasize that **the range of percentage increases** is to be used rather than the highest percentage when making salary determinations. There are situations where the negotiated salary is less than the candidate's current or most recent salary. Agencies must proportion and allocate their salary dollars in meaningful ways based on agency missions and business necessity. In determining salaries, agency management must take the following **pay factors** into consideration. These factors will be the basis for determining all pay decisions.

Job Based Factors

- **AGENCY BUSINESS NEED:** The specific activities and organizational, financial, and human resource requirements that are directly derived from

the agency's mission. For example, changes in an employee's duties, abilities, etc. should be relevant to agency business need in order to be compensable.

- **DUTIES AND RESPONSIBILITIES:** The primary and essential work functions performed by an employee or group of employees. Variation in these duties and responsibilities help distinguish one employee from another for comparison purposes.

Employee Based Factors

- **PERFORMANCE:** The candidate's or incumbent's previous and/or current work accomplishments or outcomes and behavioral interactions that are typically assessed in written, verbal or observational forms. NOTE: All management-initiated salary increases are based on employees meeting an acceptable performance level (rated as "contributor" or higher).
- **WORK EXPERIENCE AND EDUCATION:** The candidate or incumbent's relevant employment history and academic qualifications. Work experience is the employment history of an individual, and typically includes the titles of jobs held and a corresponding description of the duties, responsibilities and tasks performed. Education is academic credentials obtained and is usually listed as high school diploma, associate degree, bachelor's degree or specific advanced degree.
- **KNOWLEDGE, SKILLS, ABILITIES AND COMPETENCIES:** Elements commonly listed for job requirements, hiring qualifications or employee credentials. Knowledge refers to acquired principles and practices related to a particular job (e.g. principles of nuclear physics or accounting). Skills refer to acquired psychomotor behaviors (e.g. operations of forklift or personal computer). Abilities are the talents, observable behaviors or acquired dexterity (e.g. capacity to lift 200 pounds). Competencies are the knowledge, skills and underlying behaviors that correlate with successful job performance (see Appendices F and G, Competency Based and Skill Based Systems).
- **TRAINING, CERTIFICATION AND LICENSE:** Job requirements or employee qualifications that are relevant or highly desirable for a particular job. Training refers to a specialized course of instruction outside the realm of recognized academic degree programs (e.g. in-service training, etc.).

Certification refers to a specialized course of study resulting in a certificate upon successful completion (e.g. Cardiopulmonary Resuscitation, Certified Professional Accountant, Emergency Medical Technician, etc.). A license is a credential that is required by law to practice one's occupation (e.g. Registered Nurse, Pharmacist, Physician, etc.).

- **INTERNAL SALARY ALIGNMENT:** A fairness criterion that takes into consideration the proximity of one employee's salary to the salaries of others who have comparable levels of training and experience; similar duties and responsibilities; each employee's performance; and similar knowledge, skills, abilities and competencies. Internal salary alignment is determined by the examination of an employee's salary in relation to comparable co-workers.
- **CURRENT SALARY:** The candidate's or incumbent's present base pay compensation, which may be reported as an hourly wage, weekly, semi-monthly, monthly or annual salary. Does not include shift differentials, benefits, overtime, incentive premiums, bonuses, commissions or other similar non-base-pay compensation.

Market Factors

- **MARKET AVAILABILITY:** The relative availability of suitable, qualified employees in the general labor market, which is subject to the effects of supply and demand. Consideration should be given to the agency's tolerance for variation in the applicant pool and its willingness to accept applicants with fewer qualifications in times of high market demand.
- **SALARY REFERENCE DATA:** A composite of relevant salary information (e.g. average salary range, median salary, weighted average salary, etc.) extracted from available surveys that indicate market pricing for various jobs in the Commonwealth.
- **TOTAL COMPENSATION:** This includes all forms of cash compensation (e.g. base pay, shift differentials, overtime, on-call pay, bonuses, commissions, etc.) and the dollar value of the employer-sponsored benefit package (e.g. health and dental insurance, long and short term disability, paid leave, retirement, life insurance). NOTE: The greatest impact of total compensation will be on starting pay and competitive offers.

Financial Factors

- **BUDGET IMPLICATIONS:** The short and long term financial consequences of pay decisions and how salary dollars are managed by an agency.
- **LONG TERM IMPACT:** The strategic and financial effect of anticipated future salary costs, staffing changes, salary alignment among employees, career growth and salary reference data changes.

TYPES OF PAY PRACTICES

The pay practices (with the exception of Starting Pay) in the Compensation Management System can be broken down into two broad categories – employee-initiated or management-initiated.

Starting Pay

The objective of establishing a flexible ***Starting Pay*** practice is to attract highly skilled and competent job candidates to the Commonwealth's workforce. ***Starting Pay*** decisions remain the responsibility of the individual agencies and affect new employees and employees who are rehired by the Commonwealth.

The ***Starting Pay*** practice is competitive, negotiable, and the candidate may be offered a salary ranging from the minimum of the pay band or alternate band to an increase ranging from 0% to 15% above their current salary. There are situations where the negotiated salary is less than the candidate's current or most recent salary (e.g. geographic salary differences, different competencies for the new position, internal alignment, etc.). Salary offers must be at or above the minimum of the pay band and can not exceed the maximum of the pay band. Offers may exceed 15% of the candidate's current salary; however, the agency must document that the appropriate ***pay factors*** were considered, and that negotiations with the candidate transpired to ensure the minimum sufficient salary was offered in order to secure job acceptance. Agency heads, or their designees, have the authority to approve ***Starting Pay*** above 15%.

In determining ***Starting Pay*** for candidates, it is important to emphasize that agencies should use the range of salary options flexibly, rather than relying

on a flat percentage for all or the majority of **Starting Pay** determinations. When making Starting Pay determinations, the agency should consider all of the appropriate pay factors.

Employee-Initiated Pay Practices

The pay practices included in this section are a result of an employee applying for a vacant higher, lower or equal position through a competitive process or moving into a lower or equal position through a voluntary non-competitive selection process. Salaries are negotiated between the employee and hiring manager. For discussion of Recruitment Guidelines, see Chapter 11

○ **Promotion**

A **Promotion** involves a competitive selection process, and results in the employee's movement to a different Role in a higher pay band. Promotional salary adjustments are negotiable. The salary normally may not provide more than a 15% salary increase except when necessary to bring an employee's salary to the minimum of the band, alternate band, or hiring range.

Agencies may authorize an increase up to the hiring range minimum by entering it into PMIS. If the agency wishes to advertise the position without a salary range or to advertise an approximate hiring range, the hiring range minimum may be entered into PMIS at the time the promotion is processed. The hiring range minimum does not need to be entered into PMIS for promotions resulting in salary increases of 15% or less.

The negotiated salary must not be lower than the Pay Band minimum or Alternate Band minimum, if an Alternate Band (within the Pay Band) is established for the new position. The new salary on promotion may also not exceed the maximum of the Alternate Band, which may be lower than the Pay Band maximum. If necessary, the agency may choose to adjust the Alternate Band minimum or maximum for a position at any time. For example, an agency may wish to hire an applicant who is not fully qualified for the position as a trainee and reduce the Alternate Band accordingly.

Agencies may approve exceptions to the promotion policy within the Pay Band or Alternate Band assigned to the position. Agencies must provide documentation of the basis for any such exceptions to DHRM.

○ **Voluntary Transfer**

A ***Voluntary Transfer*** occurs when an employee moves to a different position that is either: within the same Role; or in a different Role with the same pay band. ***Voluntary Transfers*** can be achieved through a competitive recruitment process or through a voluntary non-competitive process.

With a competitive ***Voluntary Transfer***, employees may negotiate a salary offer from the minimum of the Pay Band or alternate band up to 15% above their current salaries. The salary normally may not provide more than a 15% salary increase except when necessary to bring an employee's salary to the minimum of the hiring range.

Agencies may authorize an increase up to the hiring range minimum by entering it into PMIS. If the agency wishes to advertise the position without a salary range or with an approximate hiring range, the Hiring Range minimum may be entered into PMIS at the time the competitive voluntary transfer is processed. The hiring range minimum does not need to be entered into PMIS for competitive ***Voluntary Transfers*** resulting in salary increases of 15% or less.

There may be circumstances where the negotiated salary for a competitive ***Voluntary Transfer*** is less than the employee's current salary.

The non-competitive ***Voluntary Transfer*** allows the employee to negotiate a salary offer from the minimum of the pay band to 10% above the employee's current salary. However, there may be circumstances where the negotiated salary is less than the employee's current salary. The salary offer can not exceed the maximum of the pay band or alternate band.

Note that management-initiated, noncompetitive ***Reassignment within the Pay Band*** results in no change in the employee's salary (see ***Reassignment within the Pay Band*** on page 14).

○ **Voluntary Demotion**

A ***Voluntary Demotion*** occurs when an employee requests to move to a different Role in a lower pay band. A ***Voluntary Demotion*** can be achieved through a competitive or non-competitive selection process. The employee's

salary is negotiable from the minimum of the lower pay band up to the employee's current salary. Additionally, if the employee's current salary exceeds the maximum of the lower Pay Band or Alternate Band, the agency has the option of freezing the employee's salary for up to six months. After 6 months, the employee's salary must be reduced at least to the new Pay Band or Alternate Band maximum. The agency must explain the timing and amount of the salary reduction before the employee accepts the demotion.

Management-Initiated Pay Practices:

These pay practices are specifically designed to provide agency management the flexibility to manage employee compensation based on their agency's unique needs. Through the use of these pay practices, managers will have more influence over the agency's ability to attract, retain and reward employees that have a performance rating of "contributor" or higher. Pay practices initiated by agency management are non-competitive in nature and allow management to make pay determinations that directly impact an employee's compensation.

In addition to the management-initiated pay practices, a number of ***Exceptional Recruitment and Retention Incentive Options*** are available to assist with the recruitment and retention of employees that are critical to the agency mission and on-going operations of the agency and for which significant recruitment and retention problems exist. These ***Incentive Options*** typically follow labor market practices used by other industries where the Commonwealth competes for employees (see Appendix I, Exceptional Recruitment and Retention Incentive Options).

The following pay practices are all management-initiated pay practices available in the Compensation Management System:

- **Temporary Pay**

Temporary Pay is based on an agency's need for an employee to assume different responsibilities on an interim basis or granted for additional assignments associated with a special time-limited project. It is a management-initiated pay practice that is typically non-competitive and may be granted to an employee for assuming new duties in the same or different Role on a time-limited basis. Typically, special project assignments will be within the scope of the employee's Role or a different Role in the same pay band.

Temporary Pay is reflected as a “special rate” and is discontinued when the employee no longer performs in the interim Role or upon completion of the special project. It is important to note that **Temporary Pay** does not automatically occur whenever an employee is given special assignments or assumes additional duties. This practice is reserved for situations where the new or additional duties or assignments are organizationally critical to on-going operation.

There are two situations where **Temporary Pay** may be considered by agency management. First, the agency needs an employee to assume a different Role in a higher pay band for a period of time. In these situations, agency management can grant 0% to 15% above the employee’s current salary. **Temporary Pay** offers can not exceed the maximum of the higher pay band.

The second situation where **Temporary Pay** can be used is when the agency needs an employee to assume new duties in the same or different Role in the employee’s same pay band on an interim basis or handle and complete a special time-limited project(s). In these situations, agency management can grant a 0% to 10% increase not to exceed the pay band maximum.

○ **Role Change**

A **Role Change** is a non-competitive change where a position is changed to a different Role in a higher, lower or same pay band - **Upward Role Change, Downward Role Change** or **Lateral Role Change** respectively. (**Role Change** was formerly referred to as **position reallocation**.) The agency’s Human Resource Department is responsible for approving and monitoring **Role Changes**, and may delegate this authority to management within the agency.

An **Upward Role Change** is a change in **Role** that is assigned to a higher pay band. With an **Upward Role Change**, agency management may grant a 0% to 10% salary increase but cannot exceed the maximum of the higher pay band and the salary must be increased at least to the minimum of the higher pay band.

A **Downward Role Change** is a change in Role that is assigned to a lower pay band. The employee’s salary is unchanged, unless it exceeds the maximum of the lower pay band. In this case, the employee's salary is

maintained for a six-month period, and then is reduced to the maximum of the pay band.

A **Lateral Role Change** is a change in Role within the same pay band. With a **Lateral Role Change**, agency management has the discretion to grant a 0% to 10% increase to the employee as long as the salary does not exceed the maximum of the pay band. A salary increase due to a **Lateral Role Change** is considered an in-band adjustment and counts toward the 10% fiscal year maximum outlined for **In-Band Adjustment** (below).

o **In-Band Adjustment and In-Band Bonus**

In-Band Adjustment and Bonus is a multi-faceted non-competitive pay practice. The In-Band Adjustment allows agency management the flexibility to provide potential salary growth and supports employee career progression within a pay band. The In-Band Bonus allows additional flexibility to give non-base adjustments when a bonus is more appropriate than a base pay adjustment or when management requires additional time to address budget constraints. The range of increases for an **In-Band Adjustment and Bonus** is 0% to 10%, and the employee's base salary can not exceed the maximum of the assigned pay band (or **sub-band**). **In-Band Adjustments** are administered as base pay compensation. **In-Band Bonuses** are administered as non-base pay compensation.

One reason for using an **In-Band Bonus** in lieu of **an In-Band Adjustment** is when budget constraints require time to develop funding to support a base-pay salary adjustment. In this case, agencies are encouraged to develop a plan to make the salary change a permanent adjustment. The Commonwealth's preference, however, is to grant base pay adjustments whenever appropriate and financially feasible. For the most part, non-base pay compensation (bonuses) should be a consideration only when budget constraints limit the agency's ability to financially fund a base pay increase. Criteria for **In-Band Bonuses** are included Section 5, In-Band Bonuses.

The total base and/or non-base pay increase an employee can receive for **In-Band Adjustments, In-Band Bonus and Lateral Role Change** can not exceed 10% within a fiscal year.

Employees at the maximum salary of their assigned pay band are not eligible for **In-Band Adjustments** or **In-Band Bonuses**. However, agencies

using **sub-bands** may grant **In-Band Bonuses** to employees whose salaries are at the maximum of the **sub-band** unless the maximum of the **sub-band** is the maximum of the pay band. In such cases, **In-Band Adjustments** or **In-Band Bonuses** may not be granted to employees.

In-Band Adjustments are determined by the agencies and can be granted for the following reasons:

- Change in duties
- Professional/Skill Development - application of newly acquired job-related knowledge and skills obtained through education, certification or licensure
- Retention
- Internal alignment

1. **In-Band Adjustment - Change in Duties**

It is not uncommon for agencies to redesign and reconfigure work assignments and job responsibilities based on changes in organizational goals, technology, staffing, etc. Oftentimes, agencies are required to assign essential work to existing staff and these additional responsibilities do not warrant movement to a new Role with a higher pay band assignment.

The ***In-Band Adjustment for a Change in Duties*** allows agency management to grant salary increases ranging from 0% to 10% to employees at any level of the organization who assume new higher level duties and responsibilities that are critical to the operations of the agency. If a salary adjustment is appropriate for a temporary change in duties, the Temporary Pay practice should be used.

In considering salary adjustments, agencies should consider the extent of the change in duties and responsibilities in comparison with former duties, and also should compare the employee's salary and the duties and responsibilities to other employees in the agency or unit. This pay practice allows management the flexibility to financially reward employees for assuming significant additional duties that would otherwise go uncompensated unless an ***Upward Role Change*** occurred.

2. **In-Band Adjustment - Professional/Skill Development**

An important part of the Compensation Management System is to encourage and provide career growth and career progression opportunities for the Commonwealth's workforce. Therefore, this pay practice encourages and rewards employees for application of the knowledge and skills acquired through training, education, certification and/or licensure that benefit the agency.

The ***In-Band Adjustment for Professional/Skill Development*** is a non-competitive pay practice that allows agency management to grant salary increases to employees who acquire and apply new knowledge and skills in their jobs that they have gained through professional development activities. The range of the salary increase is 0% to 10% not to exceed the maximum of the assigned pay band.

3. **In-Band Adjustment - Retention**

The ***In-Band Adjustment for Retention*** is a non-competitive pay practice. This practice is designed to prevent employees from seeking employment outside the agency in occupations that have high visibility in the labor market when the employees' salaries may not be as competitive with the marketplace. Depending on the particular set of circumstances, agencies may grant an ***In-Band Adjustment*** in order to retain an employee or group of employees.

An in-band adjustment for retention may be granted to all employees in a particular functional area, or for individual employees, and serves as a mechanism available to management to avoid job turnover due to outside competition. Agency management may grant a range of 0% to 10% salary increases to employees to retain them as part of the Commonwealth's workforce. In no case can the ***In-Band Adjustment for Retention*** exceed the maximum of the pay band.

4. **In-Band Adjustment - Internal Alignment**

The term ***Internal Alignment*** refers to the proximity of one employee's salary to other employees' salaries in the same agency who have comparable levels of training and experience; similar duties and responsibilities; similar performance; and similar levels of expertise,

competencies and/or knowledge and skills. An ***Internal Alignment Adjustment*** is a non-competitive pay practice and is utilized when an employee is underpaid relative to the salaries of co-workers who have the same or similar features listed above.

An ***In-Band Adjustment for Internal Alignment*** is a management tool that can be used to achieve a more consistent alignment of salaries within their organization. Agencies can grant a salary increase in the range of 0% to 10% to align an employee's salary more closely to that of comparable co-workers.

5. **In-Band Bonuses**

The ***In-Band Bonus*** allows additional flexibility to give non-base adjustments when a bonus is more appropriate than a base pay adjustment or when management requires additional time to address budget constraints but is able to fund a non-base adjustment in the current fiscal year. Unlike the ***Exceptional Recruitment and Retention Incentives, In-Band Bonuses*** are not restricted solely to specific positions, ***Roles***, and/or ***Career Groups*** that have significant recruitment and retention problems and are critical to the agency's mission and on-going operations (See Appendix I – ***Exceptional Recruitment and Retention Incentive Options***).

- ***Change in Duties:*** Although changes in duties should normally be compensated through a base adjustment, an ***In-Band Bonus*** may be appropriate while management develops a longer-term budget plan. It may also be appropriate to provide additional compensation in the form of a bonus to address projects or additional assignments at the same level. If a salary adjustment is appropriate for a temporary change in duties (additional assignment of higher level responsibilities in the same or higher pay band) the ***Temporary Pay*** practice should be used.
- ***Professional/Skill Development:*** An ***In-Band Bonus*** could also be granted for the acquisition and application of a degree, certification or license. Management must assess the impact and significance of the additional KSAs acquired through professional/skill development when determining whether a base adjustment would be more appropriate than a bonus.

- **Retention:** Agency management may grant a bonus of 0% to 10% to employees to retain them as part of the Commonwealth's workforce. This would typically be used when the retention issue is projected to have a short-term duration.
- **Internal Alignment:** An **In-Band Bonus** in lieu of an **In-Band Adjustment** for internal alignment may be used only when budget constraints require time to develop funding to support a base-pay salary adjustment. In this case, there should be plans in place to make the salary change a permanent adjustment.

- **Disciplinary or Performance-related Salary Action**

Agency management may initiate a **Disciplinary or Performance-related Salary Action** for employee discipline or performance reasons. In these situations, an employee can be assigned to a Role in a lower pay band or remain in the same pay band with less responsibilities. If the employee is moved to a Role in a lower pay band, then the employee's salary must be reduced to at least the maximum salary of the pay band and may be any rate within the band as long as the employee receives a minimum of a 5% reduction in pay. If the employee remains in the same pay band, then the employee's salary may be reduced to any rate within that band as long as the employee receives a minimum of a 5% reduction in pay. In no case, would an employee maintain his or her current salary or receive an increase in salary. The agency must redefine the duties of the employee to reflect a decrease in level of responsibilities.

- **Competitive Salary Offer**

Agency management may approve **Competitive Salary Offers** to employees who are deemed critical to the agency's mission and on-going operations when the employee receives a higher salary offer. The employment offer should be in writing and can be from another State agency (**internal competitive salary offer**) or an organization external to the Commonwealth (**external competitive salary offer**). For internal competitive salary offers, the other state agency may not make a second offer in response to the employing agency's counter-offer.

- **Internal Competitive Salary Offer**

In the case of a written employment offer from another State agency, there can only be one counter offer made by the employee's current agency for a job with a higher salary within the same or higher pay band. The amount of the competitive offer may not exceed the amount of the job offer from the other agency or the maximum salary of the pay band.

- **External Competitive Salary Offer**

In the case of a written employment offer from an organization external (private, not-for-profit, public non-State agency, or State non-classified) to the Commonwealth, the agency may make a counter offer to the employee. The amount of the competitive offer may not exceed the amount of the job offer from the external organization or the maximum of the pay band.

It is important to emphasize that **Competitive Salary Offers** are a way to retain employees who are pivotal to the successful operation of an agency and who have received external job offers. For extremely difficult recruitment and retention situations, the Compensation Management System has additional **Exceptional Recruitment and Retention Incentive Options** that may be used by agencies for employees critical to the agency mission and on-going operations of the agency, and for which significant recruitment and retention problems exist. (see Appendix I, Exceptional Recruitment and Retention Incentive Options).

- **Reassignment within the Pay Band**

Reassignment within the Pay Band is a management-initiated action to move an employee from one position to a different position within the same or different Role in the same Pay Band. **Reassignments** normally are based on agency staffing needs or operational needs.

When management **reassigns** an employee to another position within the same band, the first consideration is whether the old and/or new position has a northern Virginia or competitive differential assigned to it. If so, the employee's salary is adjusted accordingly. If there is no northern Virginia or competitive differential involved, the employee's base salary does not change.

After any adjustment for differentials, the employee's salary must be within the Pay Band or Alternate Band of the new position. If the employee's salary is not within the pay range assigned to the new position, the **Reassignment within the Pay Band** transaction is not appropriate and may not be used. Agencies should contact their assigned DHRM compensation consultants for assistance in determining alternative approaches if this occurs.

Both **Reassignment within the Pay Band** and **Voluntary Transfer** involves (1) a move to a different position; (2) within the same or different Role; and (3) in the same pay band. However, management initiates **Reassignment within the Pay Band** and **Voluntary Transfers (competitive and non-competitive)** are initiated by the employee (see **Voluntary Transfer** page 6).