



## CHAPTER 9

# DIFFERENTIALS AND SUPPLEMENTS<sup>1</sup>

## INTRODUCTION

In addition to base salary, the Compensation Management System provides other monetary payments to employees categorized as ***differentials*** and ***supplements***.

Generally, ***differentials*** are base pay adjustments to make salaries more competitive with the market. ***Differentials*** may be applied to ***Roles, Salary Reference*** (or ***SOC Titles, Work Titles, Pay Areas***), or individual positions in an agency and/or geographic location. ***Differentials*** are entered into the employee's record on PMIS.

Requests for ***differentials*** are submitted with appropriate documentation to the Department of Human Resource Management (DHRM). ***Differentials*** under the former classification plan were automatically approved under the Compensation Management System. However, agencies should periodically review the need to continue ***differentials***. DHRM also conducts such reviews

When employees are transferred, promoted, or demoted to new positions or move to a new geographic location, any ***differential*** is removed if it does not apply to the new position. Agencies should ensure that employees receiving a ***differential*** are fully informed of the applicable conditions.

***Supplements*** are non-base pay payments that apply to specific positions under certain circumstances. These pay determinations are decentralized to agencies and do not require DHRM authorization. However, agencies must provide information on any pay ***supplements*** to DHRM prior to implementation to determine any potential statewide impact.

Payment of ***differentials*** and ***supplements*** may be for brief or extended periods of time, depending upon need. (**Note:** It is expected that

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<sup>1</sup> Information on differentials and supplements is subject to change.

some **differentials** carried over from the old system may not be necessary as the new pay plan becomes fully developed.)

## **TYPES OF DIFFERENTIALS**

### **1. Pay Area Differentials**

The Commonwealth's pay plan recognizes two distinct pay areas (1) Statewide (SW) and (2) Northern Virginia (NOVA) (FP). Northern Virginia is an area of the state where market conditions have consistently required the payment of **differentials**.

#### **Statewide Pay Area (SW)**

The Statewide Pay Area (SW) applies to all localities in the state except those designated in northern Virginia.

#### **Northern Virginia Pay Area (NOVA)**

The northern Virginia **Differential** (NOVA) applies to employees in positions located in the area defined as northern Virginia. This pay area includes the counties of Fairfax, Arlington, Prince William and Loudon, and the cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park.

The amount of the **differential** varies by **Role** and is based on competitive rates for comparable jobs paid by other employers in the northern Virginia area. (Note: Some **Roles** are comprised of former classes (now **SOC** codes) with various **differentials**.) Therefore, for implementation purposes, the lowest **differential** for such classes was applied to the **Role** and the higher **differentials** were established as **Alternate Pay Bands**.)

NOVA **differentials** are based on the cost of competing for employees to perform specific kinds of work in the northern Virginia area. They are not cost-of-living allowances (COLA's) and they are subject to change. **Differentials** may be adjusted or removed if the employee's **Role** or geographic location changes. The salaries and **differentials** of NOVA employees who receive a **Role Change** or are

promoted, transferred, demoted are adjusted in accordance with the applicable pay practice and **differential** that applies to the new **Role**.

## **2. Competitive Differentials**

**Competitive differentials** are based on local market conditions and are typically reflected through an **Alternate Pay Band**, which is an extension to the minimum and maximum salaries of an existing pay band. **Competitive differentials** are administered as a percentage of base pay that may be added to the pay band to address a particular position, **Work Title, Salary Reference Title (SOC)** or **Role** because of lack of competitiveness due to market conditions in a specific agency and/or geographic location. They may apply to locations in either the **SW pay area** or the **NOVA pay area**.

Competitive **differentials** are entered in employees' records on PMIS as special rates, or may be established as **Alternate Pay Bands** on position records. (Note: Statewide staffing problems are remedied through **re-banding** a particular **Role**.)

## **3. Out-of-State Differentials**

**Out-of-State Differentials** are used where the Commonwealth employs individuals who work in locations outside Virginia because the market varies in different geographic regions of the United States. To attract qualified applicants to work in other states, it may be necessary to pay **differentials** that more closely match the markets in these areas.

### **Documentation Required for Agency Differential Request:**

Agencies experiencing staffing problems due to the lack of competitiveness in the labor market may submit a request to DHRM for consideration of a **differential** for positions, **Work Titles, Salary Reference Titles**, or **Roles**. The following information should be provided by the agency:

- **Problem Statement** that gives a concise summary of the problem. This statement should show a cause-and-effect relationship between pay and an identified problem.

*Example:* During the past six months the agency has lost fifteen electricians to competing firms that pay an average of 20% above State salaries.

- **Agency Actions** that describe what the agency has done to improve staffing for the positions under study, such as expanding the recruitment area, providing in-band salary adjustments to incumbents, etc. The agency should include an assessment of why the staffing problems persist.
- **Turnover and Vacancy** that describe the current staffing problem: turnover rate; current number and percentage of positions that are vacant; relevant historical data; and information from exit interviews. The analysis of information should focus on employees leaving for salary-related reasons. Promotions and transfers to other positions within State government are not indications of retention problems due to salary.

Each agency is responsible for conducting exit interviews to obtain information on the reasons that employees are leaving their jobs. These interviews may reveal problems related not to salaries, but to other factors such as job satisfaction, opportunity for training and advancement, educational assistance, work environment and quality of management.

- **Recruitment** strategies that have been employed to fill vacancies. Agencies should specify the number of advertisements in a given period; media used; number of qualified applicants; salaries offered; applicants' most recent salary and the reasons applicants have declined employment offers.
- **Starting Salary** analysis that describes the agency's experience with salary offers for new employees during the last twenty-four months. This analysis should address the position in the pay band in which employees have been hired and the number of exceptional salaries (over 15% increases) that have been approved.
- **Internal Impact** that includes an analysis of the positive and negative effects that a *differential*, may have on the internal alignment with other employees in similar or related **Roles** in the agency.
- **Market Data** that may have been collected by the agency from competing firms in the local market area where the problem exists. Agencies should also assess any salary data that DHRM routinely provides. If competition is

not limited to a particular locality, the collection of market data should be coordinated with DHRM.

- **Certification of Availability of Funds** based on the type of action the agency has requested. All requests for a **differential** should be accompanied with a statement from the agency that funds are available to support any resulting salary increases. Certification to the Secretary of Finance that funds are available to support salary increases may be required.

DHRM uses national publications that report salary data for various localities throughout the United States. Additionally, where necessary salary data may be gathered from other state governments, which also compete in these marketplaces. This information is used to evaluate requests for **differentials**. This information is available to agency human resources professionals in the DHRM Resource Center.

DHRM will evaluate requests for competitive **differentials** based on the documentation provided by the agency. It may be determined that DHRM needs to conduct a survey to verify the local salary information or determine if there is a statewide pay issue with the pay band assignment of the **Role**. This may involve contacting other agencies in the area with the same or similar **Roles** to collect information and data and assess the full impact a **differential** would have on these agencies.

### **Discontinuation of Differentials**

When a **differential** is discontinued, employees in the affected **Role** will retain their current salaries and, unless they are at the maximum of the pay band, will advance in accordance with the Commonwealth's pay practices. Employees whose salaries are at or above the pay band maximum will be frozen until the Role is **re-banded** or pay band adjustments allow for additional salary increases.

### **TYPES OF SUPPLEMENTS**

**Supplements** are non-base pay payments that apply to specific position under certain circumstances. **Supplements** are designed to address unique needs of an agency and oftentimes reflect market practices used for similar jobs. **Supplements** are processed as special payments on payroll. They are

not entered in PMIS because they are not always a part of the employee's pay. The following is a listing of some **supplements** that are currently in effect:

1. **On-Call:** when the employee is required to be available to return to work when necessary. Compensation is usually provided at the rate of one (1) hour of pay or compensatory leave for each eight (8) hour shift served. For non-exempt employees, if the on-call duty is restrictive, the time is considered work time and must be paid in accordance with the Fair Labor Standards Act. Additionally, on-call pay must be included in the non-exempt employee's regular rate of pay when computing overtime liability.
2. **Call-Back:** when an employee is called back to work during non-work hours. Call-back pay is provided for a minimum number of hours even though the employee may actually work less than the minimum time.
3. **Shift supplements:** typically used in agencies that operate 24 hours per day, 7 days per week. Each agency must identify their work shifts that address their organizational needs. The information below provides general guidelines on shift hours. In addition, each agency must evaluate the workweek to include any work performed on the days traditionally considered a weekend (Saturday and Sunday). Employees working the second or third shift typically are paid the same supplemental amount. However, varying amounts may be approved depending on whether employees are assigned permanent or rotating shifts.
  - **First Shift:** Morning hours generally in the range of 8:00 a.m. to 4:00 p.m.
  - **Second Shift:** Afternoon hours generally in the range of 4:00 p.m. to midnight.
  - **Third Shift:** Night hours generally in the range of midnight to 8:00 a.m.
  - **Split Shift:** A work schedule where the employee works two or more partial shifts rather than a continuous eight (8) hour shift.

When employees are assigned to permanent second or third shifts, agencies may include the shift pay in all payments to them by setting up **alternate pay bands**, similar to the handling of **differentials**.

4. **Camp supplement:** paid to employees for days spent at summer camp supervising the activities of mentally disabled children.

5. **Medication supplement:** paid to employees who have completed the required training for dispensing medication, but whose **Roles** typically do not normally require dispensing medication. The supplement is paid for those periods when medications are dispensed.
6. **Working Condition supplement:** paid to employees who have unusual risks that exceed the normal work environment for State employees. **Alternate pay bands** may be set up where working conditions provide a continuing basis for higher pay, similar to differentials.

**Documentation Required for Agency Determined Supplements:**

Agencies need to document the rationale, the amount of the **supplement** and the circumstances under which the **supplement** will be paid and maintain this documentation in their files.