



A Report on

State Employee Benefits as a Percentage of Total Compensation

July 2020
Report No. 20-705



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Overall Conclusion

The State of Texas provides a comprehensive total compensation package to employees working in state agencies. The average value of the total compensation package for a classified, full-time employee for fiscal year 2019 was \$74,232, or \$35.69 per hour. This is an increase of 2.8 percent compared to two years ago in fiscal year 2017, when the average value of the total compensation package for a classified, full-time employee was \$72,205, or \$34.71 per hour. Average annual salary and retirement contributions paid by the State were the two components of the average total compensation package that had the largest percentage increase between fiscal year 2017 and fiscal year 2019.

**Average Total Compensation
Package for a Classified, Full-time
Employee**
\$74,232

Salary - \$47,994 (64.7 percent)
Benefits - \$26,238 (35.3 percent)

The State's total compensation package for a classified, full-time employee for fiscal year 2019 was composed of \$47,994 (64.7 percent) in average annual salary and \$26,238 (35.3 percent) in average annual benefits. In comparison, other state and local governments' total compensation packages averaged 62.3 percent salary and 37.7 percent benefits, according to the U.S. Bureau of Labor Statistics. For private industry employees, the average total compensation package consisted of 70.1 percent salary and 29.9 percent benefits, according to the U.S. Bureau of Labor Statistics.

As part of the total compensation package, State of Texas employees receive both direct compensation, or base pay, for time worked, as well as indirect compensation, which includes benefits. (See Appendix 2 for a detailed list of the items in the State's total compensation package.) Quantifiable benefits included in the calculation of the State's total compensation package were:

- Employer payroll expenses—includes Social Security and Medicare taxes, unemployment compensation, and workers' compensation.
- Paid time off—includes holidays, sick leave, and vacation leave.
- Health insurance.
- Retirement contributions.
- Longevity pay.

This project was conducted in accordance with Texas Government Code, Section 654.036.

For more information regarding this report, please contact Courtney Ambres-Wade, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

The State offered other benefits that were not included in the calculation of the total compensation package. Examples of those benefits were state-paid or state-sponsored professional development and training, state compensatory time, military leave, emergency leave for a death in the employee's family, educational activities leave, volunteer firefighters and emergency medical services training leave, court-appointed special advocates volunteer leave, wellness leave, and extended sick leave. While the use of those benefits may vary depending upon employee circumstances, they are real and valuable benefits to employees at all levels.

In addition to salary and benefits, the State may provide employees with other rewards that cannot be easily quantified but provide indirect, real, and valuable benefits. Examples of those rewards include flexible work schedules and employee recognition programs.

Project Objective and Scope

The objective of this project was to identify and determine the estimated value, including salary and benefits, of the compensation package provided to employees of the State of Texas.

The scope of this project included the average annual salary and quantifiable benefits for classified, full-time employees that the State offered in fiscal year 2019, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the State's total compensation package were: employer payroll expenses (Social Security and Medicare taxes, unemployment compensation, and workers' compensation); paid time off (holidays, sick leave, and vacation leave); health insurance; retirement contributions; and longevity pay.

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Detailed Results

Chapter 1

Employee Benefits as a Percentage of Total Compensation

Total Compensation

Total compensation (or total rewards) refers to the complete reward and recognition package that an employee receives.

The average value of the total compensation package for a classified, full-time employee for fiscal year 2019 was \$74,232, or \$35.69 per hour (see text box for more information about total compensation). This is an increase of 2.8 percent compared to two years ago in fiscal year 2017, when the average value of the total compensation package for a classified, full-time employee was \$72,205, or \$34.71 per hour. The State's total compensation package for a classified, full-time employee for fiscal year 2019 was composed of \$47,994 (64.7 percent) in average annual salary and \$26,238 (35.3 percent) in average annual benefits. In comparison, other state and local governments' total compensation packages averaged 62.3 percent salary and 37.7 percent benefits, according to the U.S. Bureau of Labor Statistics. For private industry employees, the average total compensation package consisted of 70.1 percent salary and 29.9 percent benefits, according to the U. S. Bureau of Labor Statistics.¹

The use of the total compensation (or total rewards) package allows the State to attract, motivate, and retain employees. That total compensation package includes an employee's base salary, benefits, and other rewards listed in Figure 1 on the next page.

¹ *Employer Costs for Employee Compensation*, September 2019, U.S. Bureau of Labor Statistics.

Figure 1



Value of the Total Compensation Package

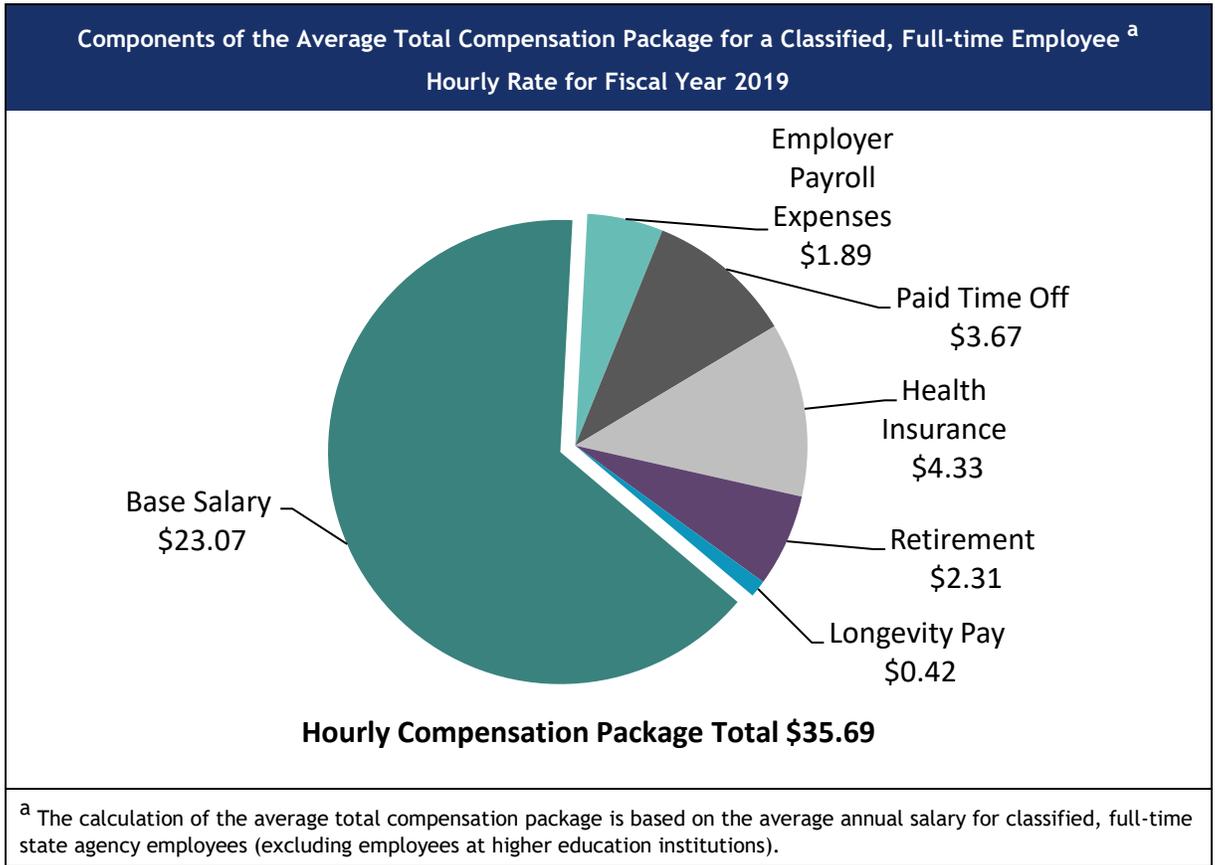
In fiscal year 2019, the State spent approximately \$11.8 billion on salaries and benefits for state agency employees (excluding employees at higher education institutions).

For the purposes of this report, the following quantifiable benefits were used to determine the estimated value of the State's total compensation package:

- Employer payroll expenses—includes Social Security and Medicare taxes, unemployment compensation, and workers' compensation.
- Paid time off—includes holidays, sick leave, and vacation leave.
- Health insurance.
- Retirement contributions.
- Longevity pay.

Figure 2 shows the breakdown of the State's average total compensation package for fiscal year 2019, expressed in hourly dollar rates.

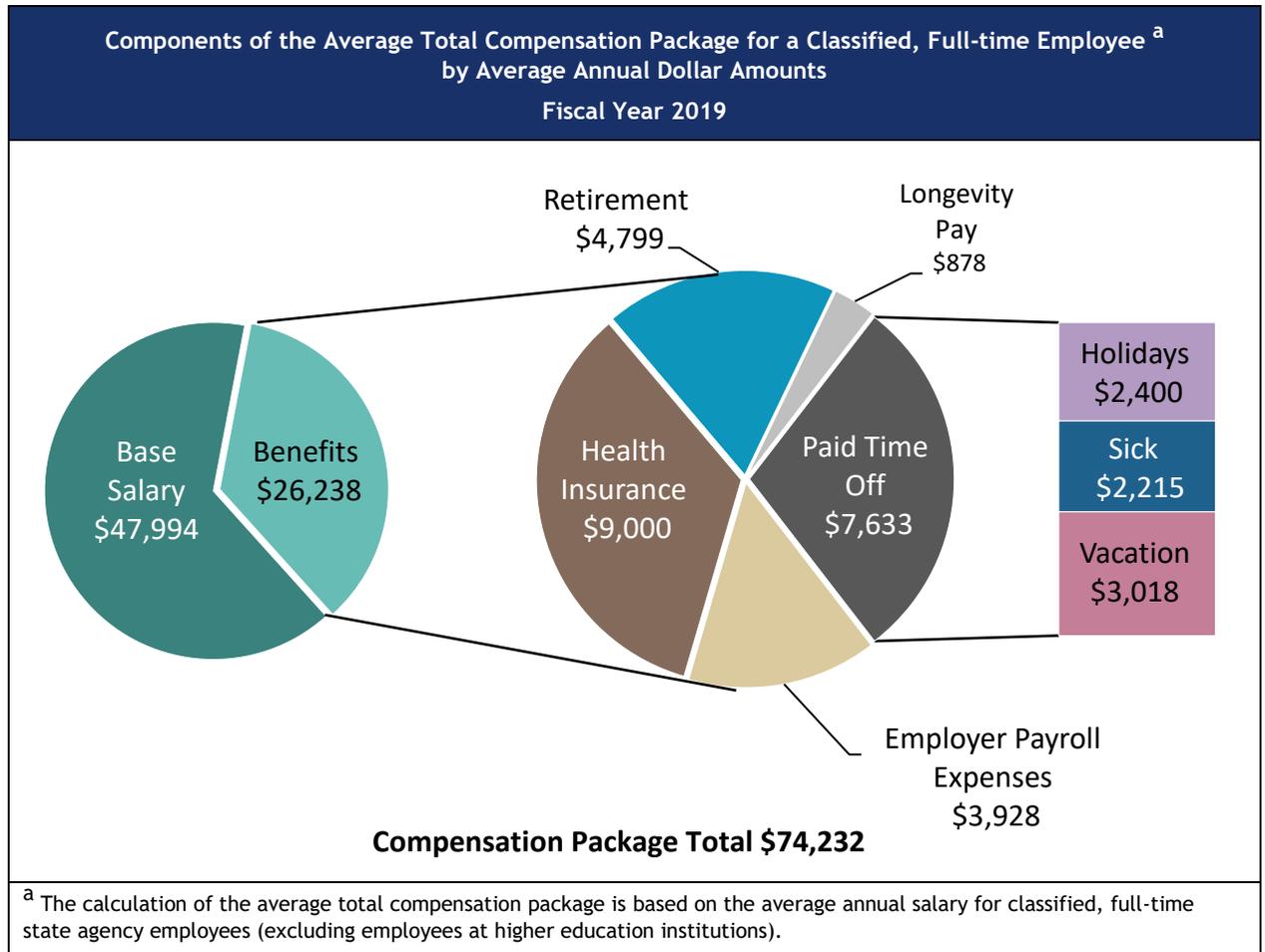
Figure 2



Sources: Various state agencies and state information systems.

Figure 3 shows a further breakdown of the State’s average total compensation package for fiscal year 2019, expressed in average annual dollar amounts.

Figure 3



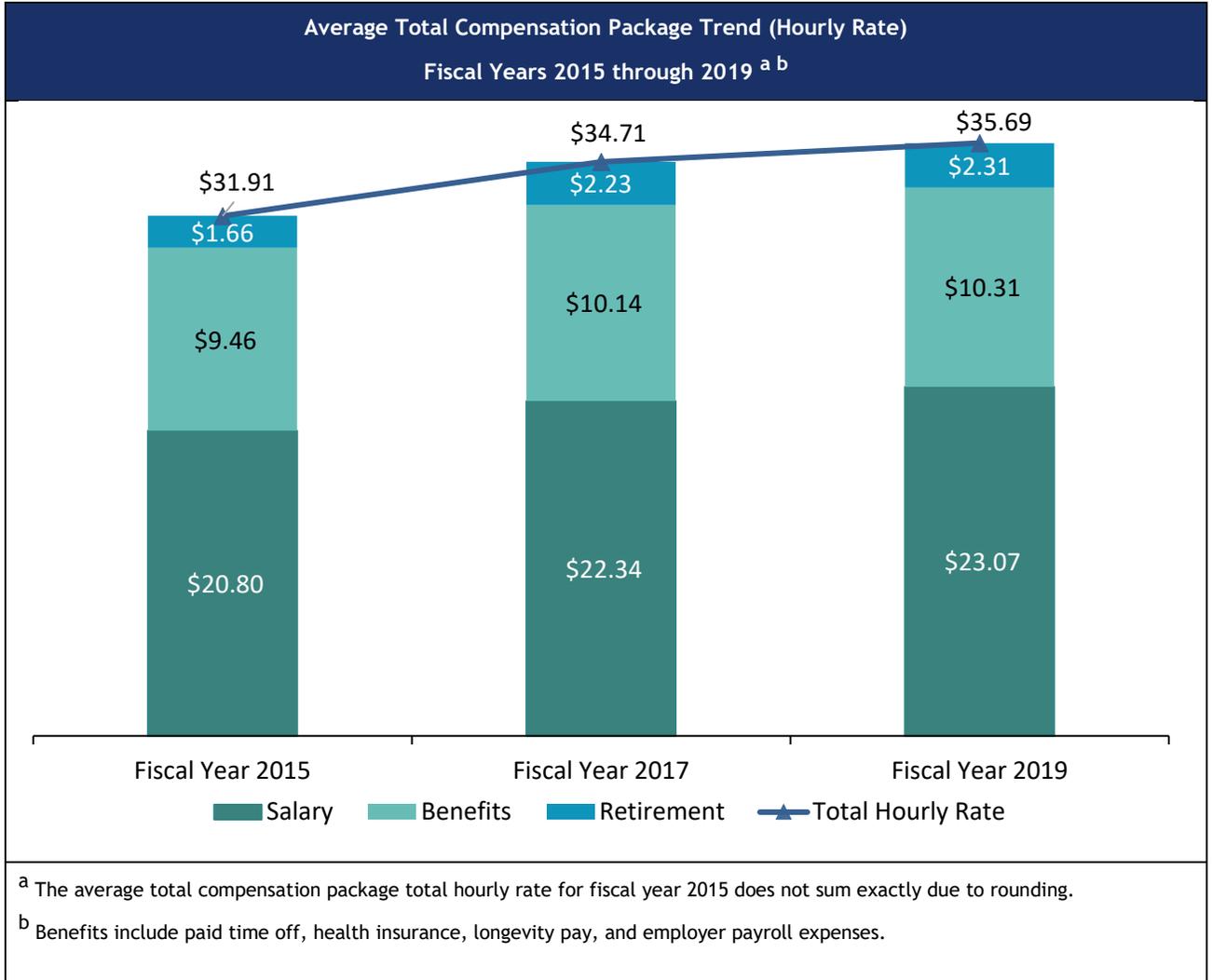
Sources: Various state agencies and state information systems.

Components of the Average Total Compensation Package

Figure 4 (on the next page) shows the trend (in hourly rates) for average salary, benefits, and retirement contributions for fiscal years 2015 through 2019. (See Appendix 2 for a detailed list of the estimated annual dollar value of each benefit category.)

Salary, benefits, and retirement contributions are the three main components of the State’s average total compensation package. The value of that package has increased by 11.8 percent when compared to five years ago in fiscal year 2015.

Figure 4



Sources: Various state agencies and state information systems.

Components of the Total Compensation Package with the Largest Percent Increase

Average annual salary and retirement contributions paid by the State were the two components of the average total compensation package that had the largest percentage increase between fiscal year 2017 and fiscal year 2019. The average annual salary for a classified, full-time employee in fiscal year 2019 increased 3.3 percent compared to fiscal year 2017. Retirement contribution costs paid by the State increased 3.2 percent in fiscal year 2019 compared to fiscal year 2017.² The increase in retirement contribution costs can be attributed, in part, to the increase in the average annual salary for a classified full-time employee.

There was no legislatively approved pay increase for classified employees in fiscal year 2019. Table 1 lists the legislatively approved pay increases for state employees since fiscal year 2016.³

Table 1

Legislatively Approved Pay Increases for Classified Employees Fiscal Years 2016 through 2021		
Fiscal Year	Percent Increase	Details
2016	2.5%	Employees paid in Salary Schedules A, B, and C received a 2.5 percent increase. Pay increases for certain positions in Salary Schedule C were also approved.
2017	0.0%	No legislative increase was authorized.
2018	0.0%	No legislative increase was authorized, except for one pay rate increase in Salary Schedule C for employees in Salary Group C3 with more than 20 years of service.
2019	0.0%	No legislative increase was authorized.
2020	0.0%	No legislative increase was authorized.
2021	0.0%	No legislative increase was authorized.

Sources: State of Texas Salary Increase History, State Auditor's Office; the Office of the Comptroller of Public Accounts' *Legislative Changes Affecting Salary Administration, 86th Legislature*; and the General Appropriations Act (86th Legislature).

Salary and Wages

The largest component of the State's total compensation package is base pay provided to employees for work they perform. Although base pay represents an employee's normal salary rate, state employees may be eligible for additional forms of compensation. For example, longevity pay is included in the average total compensation package calculations. Longevity pay is

² The State's retirement contribution rate for members of the Employees Retirement System was 9.5 percent in fiscal years 2017, 2018, and 2019, and will remain at 9.5 percent for fiscal years 2020 and 2021, as approved by the 86th Legislature.

³ The legislative increases in Table 1 do not reflect other types of pay increases such as promotions, equity adjustments, or merit increases that individual state employees may receive within their respective state agencies.

provided to full-time employees who have at least two years of lifetime service credit.⁴

In addition to longevity pay, employees may receive additional forms of compensation, such as on-call pay, salary and educational stipends, benefit replacement pay, or shift differential pay. The costs for those additional types of compensation were excluded from the average total compensation package calculation. Other forms of compensation include recruitment and retention bonuses and hazardous duty pay, the use of which may vary according to the agency because of workforce needs and differing statutory requirements, respectively.

Benefits

Benefits are the programs an employer uses to supplement the base pay that employees receive. Examples of benefits include federally mandated programs such as Social Security and unemployment compensation, as well as core benefits that satisfy an employee's basic expectations for health insurance and paid time off. The State offers those insurance, income-protection, savings, and retirement programs to provide security for its employees and their families. Specifically:

- **Health Insurance.** Health insurance for most employees is available through the Employees Retirement System. For a full-time employee⁵, the State pays all of the employee's health insurance premium and 50 percent of dependents' health insurance premiums. In addition, an employee's health insurance coverage includes limited basic term life insurance and limited accidental death and dismemberment coverage for the employee.
- **Other Insurance.** In addition to health insurance, state employees have access to other optional types of insurance, such as dental, vision, additional term life, dependent term life, and short- and long-term disability insurance. Employees can purchase those additional coverages through the group benefits program.
- **Employee Leave.** The State provides employees with leave benefits in the form of paid time off for vacation leave, sick leave, and holiday leave. Although there are some restrictions on accruing and using those types of leave, full-time state employees during fiscal year 2019 earned (1) 12 days of sick leave, (2) an average of 16 days of vacation leave, and (3) 13 paid holidays.

⁴ Longevity pay is authorized in Texas Government Code, Section 659.043. For the purposes of this report, longevity pay is calculated as a benefit because it is a form of indirect compensation.

⁵ For the purpose of determining state contributions for health insurance, full-time employees are those employees working 30 hours or more per week.

In addition to those traditional forms of paid time off, employees may benefit from other types of leave that the State offers to employees for specific situations. Examples of the other types of leave include military leave; emergency leave for a death in the employee's family; educational activities leave; parental leave; volunteer firefighters, emergency medical services volunteers, and search and rescue volunteers training leave; state compensatory time; and court-appointed special advocates volunteer leave. Depending on an agency's policies and procedures, employees also may receive extended sick leave and administrative leave. Individual agencies also may provide paid time off for the State's wellness initiatives. Those other types of leave were not included in the calculation of the average total compensation package.

- **Retirement.** The State offers a defined benefit retirement plan (see text box). The defined benefit retirement plan (or defined benefit pension plan) is designed to reward employees who spend the majority of their careers in state service. The 85th Legislature approved a state retirement contribution rate of 9.5 percent for fiscal years 2018 and 2019, in addition to the payroll retirement contribution paid by state agencies at the rate of 0.5 percent of base salary for all employees who are members of the retirement system.

Defined Benefit Retirement Plan

Under a defined benefit retirement plan, also known as a defined benefit pension plan, the benefit upon retirement is known. The employer bears the financial risk, and the benefit may be fixed or may depend on a formula that considers factors such as salary and years of service.

Source: U.S. Securities and Exchange Commission.

Employees also have the opportunity to contribute to a deferred compensation plan, such as a 401(k) or 457 plan. Those plans can supplement an employee's current state retirement plan. New state agency employees are automatically enrolled in the 401(k) plan at 1.0 percent of their monthly salary, or they can choose not to participate.

- **Other Benefits.** The State also offers employees the option of participating in health and dependent care flexible spending accounts and commuter spending accounts.

Appendices

Appendix 1

Objective, Scope, and Methodology

The objective of this project was to identify and determine the estimated value, including salary and benefits, of the compensation package provided to employees of the State of Texas.

The scope of this project included the average annual salary and quantifiable benefits for classified, full-time employees that the State offered in fiscal year 2019, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the State's total compensation package were employer payroll expenses (Social Security and Medicare taxes, unemployment compensation, and workers' compensation); paid time off (holidays, sick leave, and vacation leave); health insurance; retirement contributions; and longevity pay.

To determine the average value of the total compensation package, the estimated dollar values of the quantifiable benefits were added to the average annual salary for a classified, full-time employee. That analysis was prepared from summary information received from the Employees Retirement System, the Texas Workforce Commission, the Office of the Comptroller of Public Accounts, and the State Office of Risk Management.

The information in this report was not subjected to all the tests and confirmations that would be performed in an audit. However, the information in this report was subjected to certain quality control procedures to ensure accuracy.

The following members of the State Auditor's Office staff completed this project:

- Juan R. Sanchez, MPA (Project Manager)
- Ryan Marshall Belcik, MBA, CISA
- Lara Foronda Tai, PHR, SHRM-CP
- Sharon Schneider, CCP, PHR, SHRM-CP
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Courtney Ambres-Wade, CFE, CGAP (Audit Manager)

Details of the Total Compensation Package

Table 2 presents a detailed list of the average value of the State's total compensation package for a classified, full-time employee (not including higher education institutions) for fiscal year 2019.

Table 2

Total Compensation Package Category Details				
Fiscal Year 2019				
Type of Benefit		Estimated Annual Dollar Value	Category Total	Percentage of Total Compensation
Employer Payroll Expenses	Social Security and Medicare Taxes	\$3,671		
	Unemployment Compensation	\$ 43		
	Workers' Compensation ^a	\$ 214		
Total Employer Payroll Expenses			\$3,928	5.3%
Paid Time Off	Holidays	\$2,400		
	Sick Leave	\$2,215		
	Vacation Leave	\$3,018		
Total Paid Time Off			\$7,633	10.3%
Health Insurance ^b			\$9,000	12.1%
Retirement Contributions			\$4,799	6.5%
Longevity Pay			\$ 878	1.2%
Total Benefit Cost			\$26,238	35.3%
Average Annual Salary (Classified, Full-time Employee)			\$47,994	64.7%
Total Compensation Package			\$74,232	100.0%
<p>^a This is the average claim cost for employees of General Revenue-funded state agencies who are eligible for workers' compensation. The average claim cost calculation excludes agencies with workforces composed entirely of unclassified employees, agencies that do not participate in the State Office of Risk Management's assessment program, and state active duty personnel.</p> <p>^b This is an average state contribution for all active employees of General Revenue-funded state agencies.</p>				

Sources: Various state agencies and state information systems.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dennis Bonnen, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Giovanni Capriglione, House Appropriations Committee

The Honorable Dustin Burrows, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor



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