



John Keel, CPA
State Auditor

A Report on

State Employee Benefits as a Percentage of Total Compensation

February 2011

Report No. 11-704



A Report on
**State Employee Benefits as a Percentage
of Total Compensation**

SAO Report No. 11-704
February 2011

Overall Conclusion

The State of Texas provides a comprehensive total compensation package to employees working in state agencies. The value of the total compensation package for the average classified, regular full-time employee for fiscal year 2010 was \$58,361, or \$28.06 per hour, an increase of 2.6 percent from fiscal year 2009.

**Total Compensation Package for the
Average Classified, Full-time Employee
\$58,361**

Salary - \$39,265 (67.3 percent)

Benefits - \$19,096 (32.7 percent)

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

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

The State's total compensation package for fiscal year 2010 was 67.3 percent salary and 32.7 percent benefits. This compares favorably with other state and local governments' compensation packages, which average 65.5 percent salary and 34.5 percent benefits, according to the U.S. Bureau of Labor Statistics.

Total compensation is a phrase used to describe the complete rewards and recognition programs the State provides to employees in exchange for their time, talent, and efforts. The cost to provide this package represents a significant investment for the State of Texas. In fiscal year 2010, the State spent \$9.2 billion on salaries, wages, and insurance benefits to state agency employees (excluding higher education institutions).

There are other benefits offered by the State that were not included in the assessment of the compensation package. Examples of these benefits are state-paid or -sponsored professional development and training, state compensatory

This review was conducted in accordance with Title 1, Texas Administrative Code, Section 3.9420.

For more information regarding this report, please contact Nicole Guerrero, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

time, military leave, emergency leave, parent-teacher conference leave, volunteer firefighters and emergency medical services training leave, court appointed special advocates volunteer leave, and extended sick leave. While the use of these benefits may vary depending upon employee circumstances, they are real and valuable benefits to employees at all levels.

In addition to payroll and benefit costs, the State provides employees with other rewards that cannot be easily quantified but provide indirect, real, and valuable benefits. Examples of these rewards include flexible work schedules, employee recognition programs, challenging and rewarding work environments, and career development opportunities.

Summary of Objective, Scope, and Methodology

The objective of this review 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 review included the average annual salary and quantifiable benefits for classified, regular full-time employees offered by the State in fiscal year 2010, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the compensation package were: employer payroll expenses (Social Security and Medicare taxes, unemployment compensation, and workers' compensation); paid time off (holidays, sick leave, and annual leave); health insurance; retirement contributions; and longevity pay. Benefit replacement pay was excluded from the fiscal year 2010 analysis because less than 30 percent of classified, regular full-time employees receive this type of pay.

To determine the value of the total compensation package, the estimated dollar values of quantifiable benefits were added to the average annual salary for classified, regular full-time employees. This review of benefits as a percentage of total compensation was not conducted as an audit and did not include 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.

Contents

Detailed Results

Chapter 1	
Employee Benefits as a Percentage of Total Compensation	1

Appendices

Appendix 1	
Objective, Scope, and Methodology	8
Appendix 2	
Details of the Total Compensation Package	9

Detailed Results

Chapter 1

Employee Benefits as a Percentage of Total Compensation

The value of the total compensation package for the average classified, regular full-time employee for fiscal year 2010 was \$58,361, or \$28.06 per hour, an increase of 2.6 percent from fiscal year 2009 and an increase of 11.9 percent since fiscal year 2006. The State’s total compensation package in fiscal year 2010 was 67.3 percent salary and 32.7 percent benefits. This compares favorably with other state and local governments’ compensation packages, which average 65.5 percent salary and 34.5 percent benefits, according to the U.S. Bureau of Labor Statistics (BLS). The average private industry employee, according to the BLS, has a total compensation package that consists of 70.6 percent salary and 29.4 percent benefits.

Total compensation (or total rewards) is a phrase used to describe the complete reward and recognition package that an employee receives. Use of the total compensation package allows the State to leverage multiple factors to attract, motivate, and retain employees. This package includes an employee’s base salary, benefits, and other rewards as listed in Table 1.

Table 1

The State’s Total Compensation Package	
Component	Description
Compensation	Includes all wages and salaries provided to employees.
Benefits	Includes federally mandated programs, such as Social Security and unemployment, as well as core benefits that satisfy an employee’s basic expectations for health insurance, retirement, and paid time off.
Performance and Recognition	Includes programs that acknowledge or give special attention to outstanding employee actions, efforts, behavior, or performance. These programs may include monetary and non-monetary rewards.
Training and Development	Includes opportunities for employees to perform better in their jobs or advance their career goals.
The Work Experience	Includes items that are important to employees and the State but that are less tangible than employee pay and benefits. This may include scheduling flexibility and programs to help employees be successful at home and work, as well as challenging and rewarding work environments.

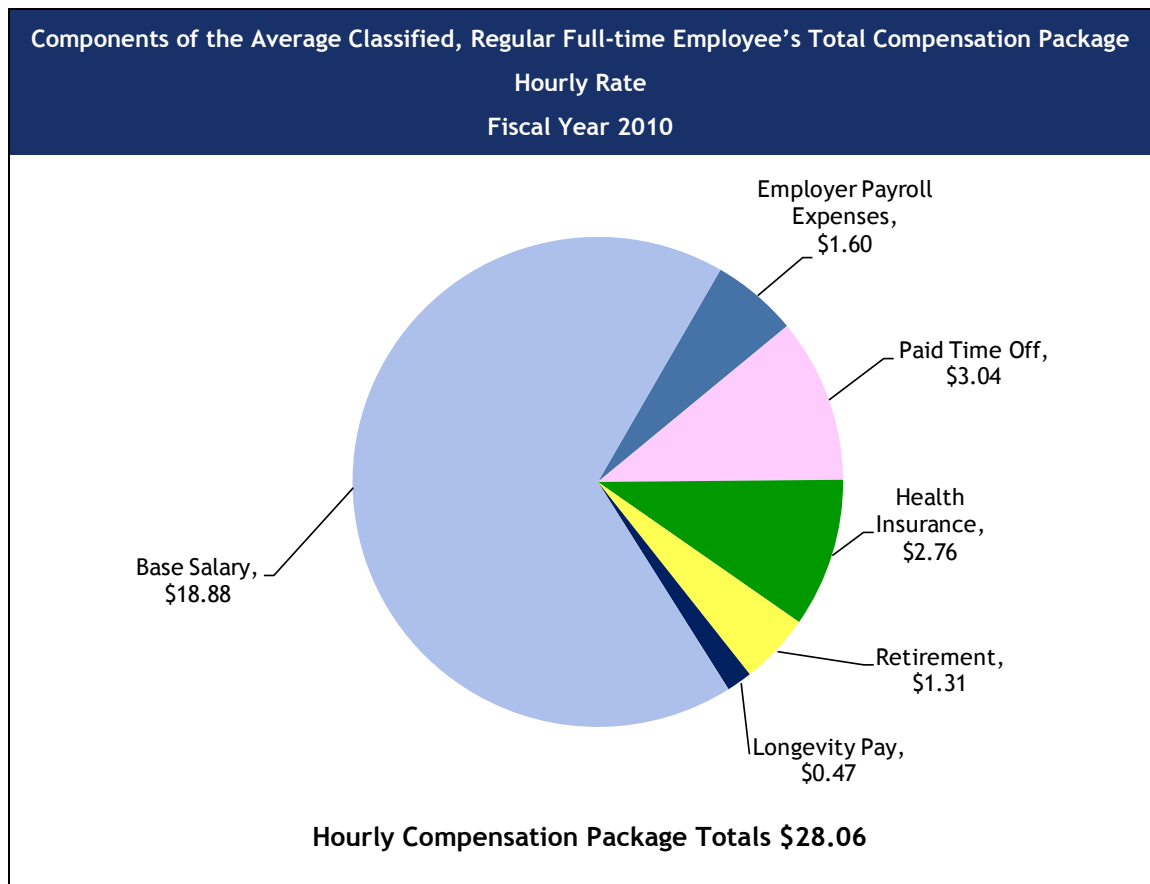
For the purposes of this report, the following quantifiable benefits were used to determine the estimated value of the State’s total compensation package:

- Employer payroll expenses—including Social Security and Medicare taxes, unemployment compensation, and workers’ compensation.

- Paid time off—includes holidays, sick leave, and annual leave.
- Health insurance.
- Retirement contributions.
- Longevity pay.

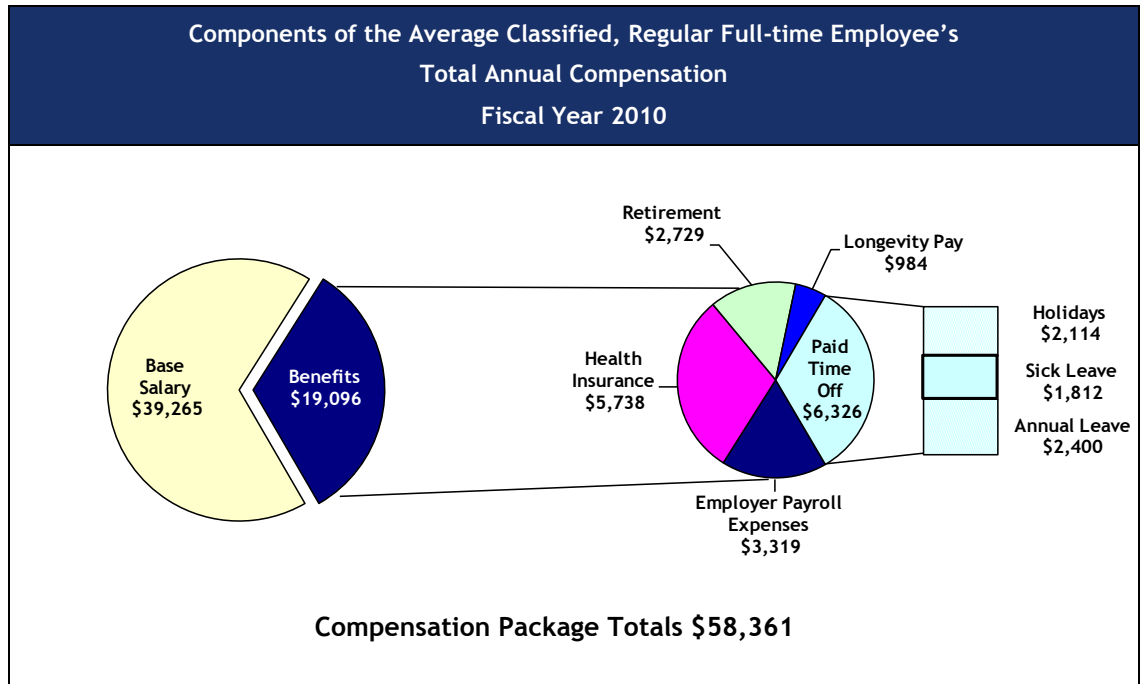
Figures 1 and 2 show the breakdown of the State’s total compensation package for fiscal year 2010. These calculations are based on the average annual salary for a classified, regular full-time state employee (excluding employees at higher education institutions).

Figure 1



Source: Various state agencies and state information systems.

Figure 2

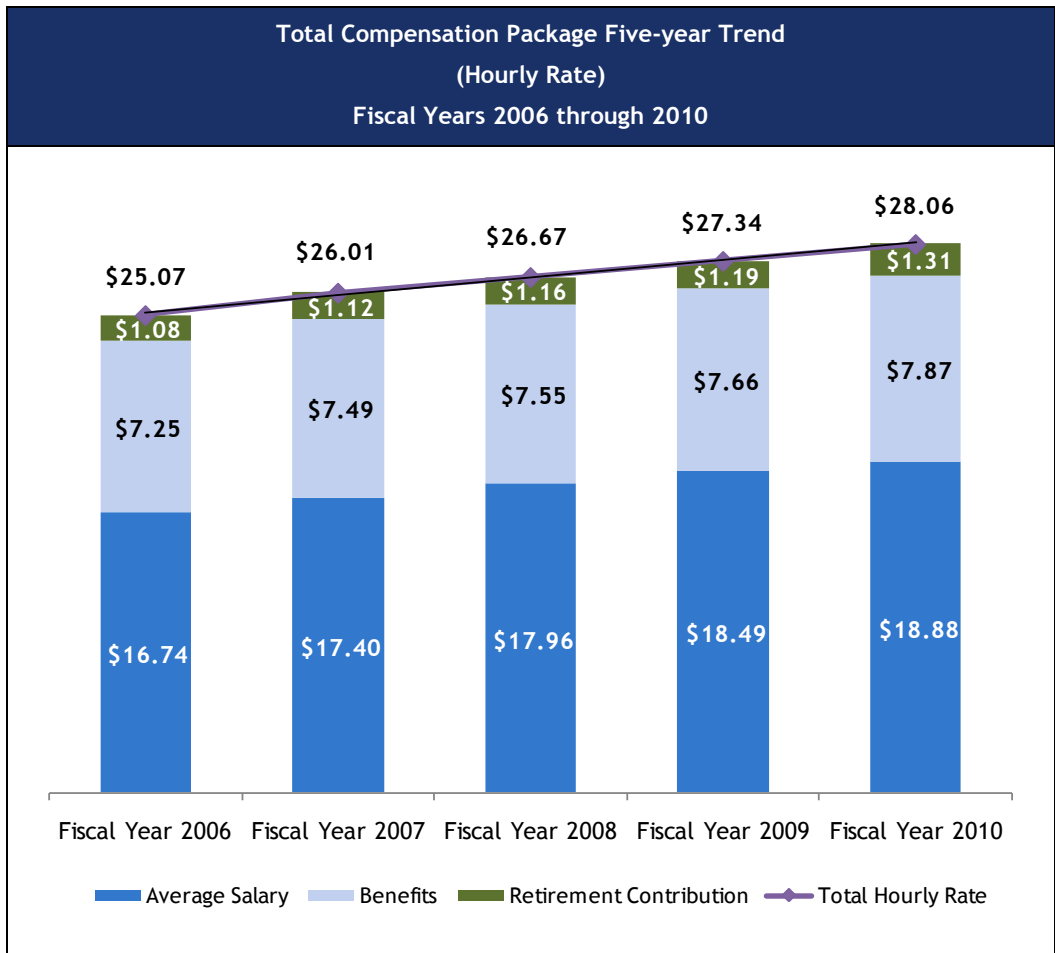


Source: Various state agencies and state information systems.

Components of the Total Compensation Package

Salary, benefits, and retirement contributions are the three main components of the State's total compensation package. The value of this package has increased by 11.9 percent since fiscal year 2006. Figure 3 on the next page shows the five-year trend for average salary, benefits, and retirement contributions for fiscal years 2006 through 2010. (Also see Appendix 2 for a detailed list of the value of each benefit category.)

Figure 3



Source: Various state agencies and state information systems.

The increase in the total compensation package since fiscal year 2006 may be partially attributed to employee pay raises in fiscal years 2006 through 2009. In addition, during fiscal year 2010 certain employee groups received targeted pay increases. For example, Correctional Officers at the Department of Criminal Justice and Juvenile Correctional Officers at the Texas Youth Commission received a 3.5 percent pay increase that was authorized by the 81st Legislature. Also, there were changes in the state contribution rate for retirement, which increased to 6.95 percent for fiscal year 2010. Table 2 on the next page lists the legislatively approved pay increases for state employees¹ between fiscal years 2006 and 2010.

¹ These legislative increases were provided to most state employees; however, they do not reflect pay increases, promotions, or merit increases that state employees receive within their respective state agencies.

Table 2

History of Legislatively Approved Pay Increases for Fiscal Years 2006 through 2010		
Fiscal Year	Percent Increase	Details
2006	4.0%	Employees received a 4.0 percent increase or a minimum increase of \$100 per month.
2007	3.0%	Employees received a 3.0 percent increase or a minimum increase of \$50 per month.
2008	2.0%	Employees received a 2.0 percent increase or a minimum increase of \$50 per month.
2009	2.0%	Employees received a 2.0 percent increase or a minimum increase of \$50 per month.
2010	0.0%	No legislative increase authorized, except for targeted increases for specific positions.

Source: State of Texas Salary Increase History, State Auditor's Office.

The State of Texas spent \$9.2 billion in fiscal year 2010 on salaries, wages, and insurance benefits to employees working in state agencies (excluding higher education institutions).

Salary and Wages

The most visible element of the State's total compensation package is cash compensation provided to employees for work they perform. Although direct or base pay represents an employee's normal salary rate, state employees may be eligible for additional forms of compensation. In addition, longevity pay is included in the total compensation calculations. Longevity pay is provided to full-time employees who have at least two years of lifetime service credit.² In fiscal year 2010, longevity pay was paid to 72.2 percent of classified, regular full-time employees.

In addition to longevity pay, many employees receive additional compensation through performance incentives, on-call pay, salary and educational stipends, benefit replacement pay, or shift differentials. 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 differing statutory requirements and workforce needs.

Benefits

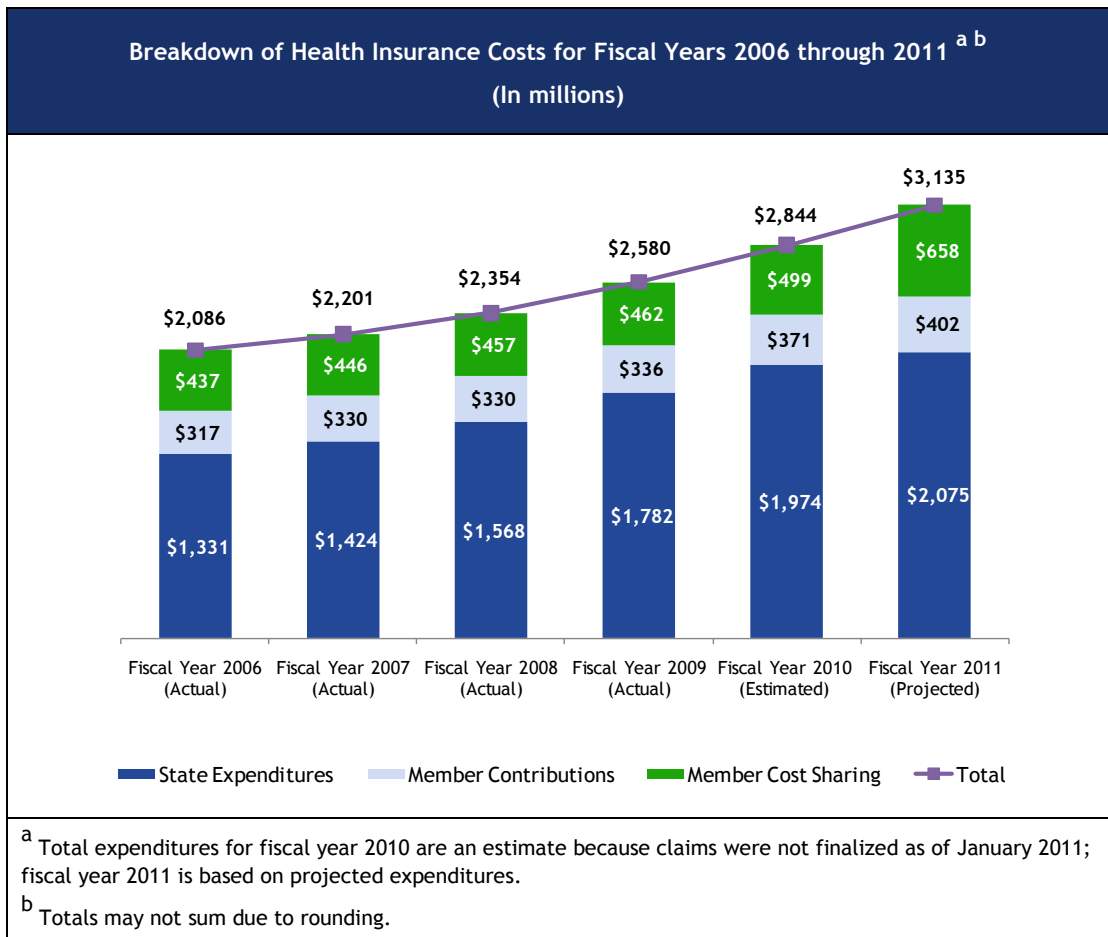
Benefits are the programs an employer uses to supplement the cash compensation that employees receive. Examples of benefits include federally mandated programs such as Social Security and unemployment, as well as core benefits that satisfy an employee's basic expectations for health

² Texas Government Code, Section 659.043.

insurance and paid time off. The State offers these insurance, income protection, savings, and retirement programs to provide security for its employees and their families. Specifically:

- Health Insurance.** In fiscal year 2010, initial estimates indicate that approximately \$2.8 billion was spent by the State and enrolled members through cost sharing to provide health insurance benefits to state employees and their dependents. This cost covered 298,107 enrolled members and provided insurance to 541,681 members and their dependents in Texas. The State consistently funded 100.0 percent of member-only coverage (for full-time employees) and 50.0 percent of dependent coverage. Cost estimates for fiscal year 2010 indicate that the State will pay 69.4 percent of the total cost of insurance benefits for state agency employees. The remaining cost is shared by members through monthly contributions and other sources, such as co-payments or insurance deductibles. Figure 4 shows the breakdown of actual and projected health insurance costs for fiscal years 2006 through 2011.

Figure 4



Source: *Employees Retirement System (ERS) Health Plan Financial History*, Rudd and Wisdom, Inc., 2010.

- **Other Insurance.** In addition to health insurance, state employees have access to other types of insurance, such as dental, vision, life, supplemental life, dependent life, and short- and long-term disability insurance. These additional coverages can be purchased by employees through the group benefits program. The State also offers employees the option of participating in flexible medical savings accounts.

- **Employee Leave.** The State provides employees leave benefits in the form of paid time off for annual leave, sick leave, and holiday leave. Although there are some restrictions on accruing and using these types of leave, full-time state employees during fiscal year 2010 earned (1) 12 days of sick leave, (2) an average of 15.9 days of annual leave, and (3) 14 paid holidays. In addition to these traditional forms of paid time off, employees may also benefit from other types of leave that agencies are required to provide. Examples of these other types of leave include military leave, emergency leave, parent-teacher conference leave, parental leave, volunteer firefighters and emergency medical services training leave, and court-appointed special advocates volunteer leave. Depending on an agency's policies and procedures, employees may also receive extended sick leave and administrative leave. Individual agencies also may provide paid time off in the form of all-staff events or time off for volunteering and community involvement, as well as for wellness initiatives.

- **Retirement.** The State offers both a defined benefit retirement plan and a defined contribution retirement plan to employees. The defined benefit plan (or traditional pension plan) is designed to reward employees who spend the majority of their careers in state service. In fiscal year 2010, state employees contributed 6.50 percent of their salaries to the plan and the State contributed 6.95 percent.

Retirement Plans

A defined benefit plan, also known as a traditional pension plan, is a retirement plan under which the benefit upon retirement is known. The employer bears the financial risk and generally provides higher benefits for employees with longer service.

A defined contribution plan is an individual retirement plan under which the benefit at retirement is unknown and the employee bears the financial risk. Two of the most common defined contribution plans are 401(k) and 457 accounts.

Employees also have the opportunity to contribute to defined contribution programs, such as 401(k) or 457 accounts. These accounts can supplement the current state retirement plan. These plans also offer better portability options for employees who may not remain in public service. Currently, the State does not match employee contributions for defined contribution plans.

Appendices

Appendix 1

Objective, Scope, and Methodology

The objective of this review 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 review included the average annual salary and quantifiable benefits for classified, regular full-time employees offered by the State in fiscal year 2010, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the compensation package were: employer payroll expenses (Social Security and Medicare taxes, unemployment compensation, and workers' compensation); paid time off (holidays, sick leave, and annual leave); health insurance; retirement contributions; and longevity pay. Benefit replacement pay was excluded from the fiscal year 2010 analysis because less than 30 percent of classified, regular full-time employees receive this type of pay.

To determine the value of the total compensation package, the estimated dollar values of quantifiable benefits were added to the average annual salary for classified, regular full-time employees.

This review of benefits as a percentage of total compensation was not conducted as an audit and did not include 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 employees of the State Auditor's Office staff performed the review:

- Stacey Robbins McClure, MBA, PHR, CCP (Project Manager)
- Juliette Torres, PHR, CCP
- Dana Musgrave, MBA (Quality Control Reviewer)
- Nicole Guerrero, MBA, CIA, CGAP, CICA (Audit Manager)

Details of the Total Compensation Package

Table 3 presents a detailed list of the value of the State's total compensation package for fiscal year 2010.

Table 3

Total Compensation Package Category Details			
Fiscal Year 2010			
Type of Benefit		Estimated Annual Dollar Value	Percentage of Total Compensation
Employer Payroll Expenses	Social Security and Medicare Taxes	\$ 3,004	
	Unemployment Compensation	\$ 88	
	Workers' Compensation ^a	\$ 227	
	Total Employer Payroll Expenses	\$ 3,319	5.7%
Paid Time Off	Payment for Holidays	\$ 2,114	
	Payment for Sick Leave	\$ 1,812	
	Payment for Annual Leave	\$ 2,400	
	Total Paid Time Off	\$ 6,326	10.8%
Health Insurance		\$ 5,738	9.8%
Retirement Contributions		\$ 2,729	4.7%
Longevity Pay		\$ 984	1.7%
	Total Benefit Cost	\$19,096	32.7%
	Average Annual Salary (Classified, Regular Full-Time Employee)	\$39,265	67.3%
	Total Compensation Package	\$58,361	100.0%
^a This is the average claim per person per year for employees who are eligible for workers' compensation.			

Source: Various state agencies and state information systems.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Steve Ogden, Senate Finance Committee

The Honorable Thomas “Tommy” Williams, Member, Texas Senate

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.