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A Report on

State Employee Benefits as a Percentage of Total Compensation

March 2013
Report No. 13-707



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***State Employee Benefits as a Percentage
of Total Compensation***

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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 2012 was \$59,772, or \$28.74 per hour, an increase of 1.6 percent from fiscal year 2011, when the hourly rate was \$28.27.

The two components of the average total compensation package that had the highest increases between fiscal year 2011 and fiscal year 2012 were the health insurance costs paid by the State and salary.

The total compensation package for fiscal year 2012 was comprised of \$40,160 (67.2 percent) in average annual salary and \$19,612 (32.8 percent) in average benefits for a classified, regular full-time employee. In comparison, other states' and local governments' compensation packages average 64.7 percent salary and 35.3 percent benefits, according to the U. S. Bureau of Labor Statistics.

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 calculation of the 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.

The State offered other benefits that were not included in the calculation of the compensation package. Examples of those benefits were state-paid or state-sponsored professional development and training, state compensatory time, military leave, emergency leave, parent-teacher conference leave, volunteer firefighters and emergency medical services training leave, court-appointed

**Total Compensation Package for the Average
Classified, Regular Full-time Employee**
\$59,772

Salary - \$40,160 (67.2 percent)
Benefits - \$19,612 (32.8 percent)

special advocates volunteer leave, wellness leave, and extended sick leave. While the use of those benefits may vary among individual employees, they are real and valuable benefits to employees at all levels.

In addition to salary and benefits, the State provides 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.

Summary of 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, regular full-time employees the State offered in fiscal year 2012, 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 vacation leave); health insurance; retirement contributions; and longevity 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.

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.

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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 2012 was \$59,772, or \$28.74 per hour, an increase of 1.6 percent from fiscal year 2011. The State's total compensation package in fiscal year 2012 was 67.2 percent salary and 32.8 percent benefits. In comparison, other states' and local governments' compensation packages average 64.7 percent salary and 35.3 percent benefits, according to the U. S. Bureau of Labor Statistics. The average private industry employee, according to the U. S. Bureau of Labor Statistics, has a total compensation package that consists of 70.3 percent salary and 29.7 percent benefits.¹

Total compensation (or total rewards) is a phrase used to describe the complete reward and recognition package that an employee receives. The use of the total compensation package allows the State of Texas to attract, motivate, and retain employees. This package includes an employee's base salary, benefits, and other rewards 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 work and home.

The cost to provide this package represents a significant investment for the State of Texas. In fiscal year 2012, the State spent approximately \$9.1 billion on salaries and benefits for state agency employees (excluding higher education institutions).

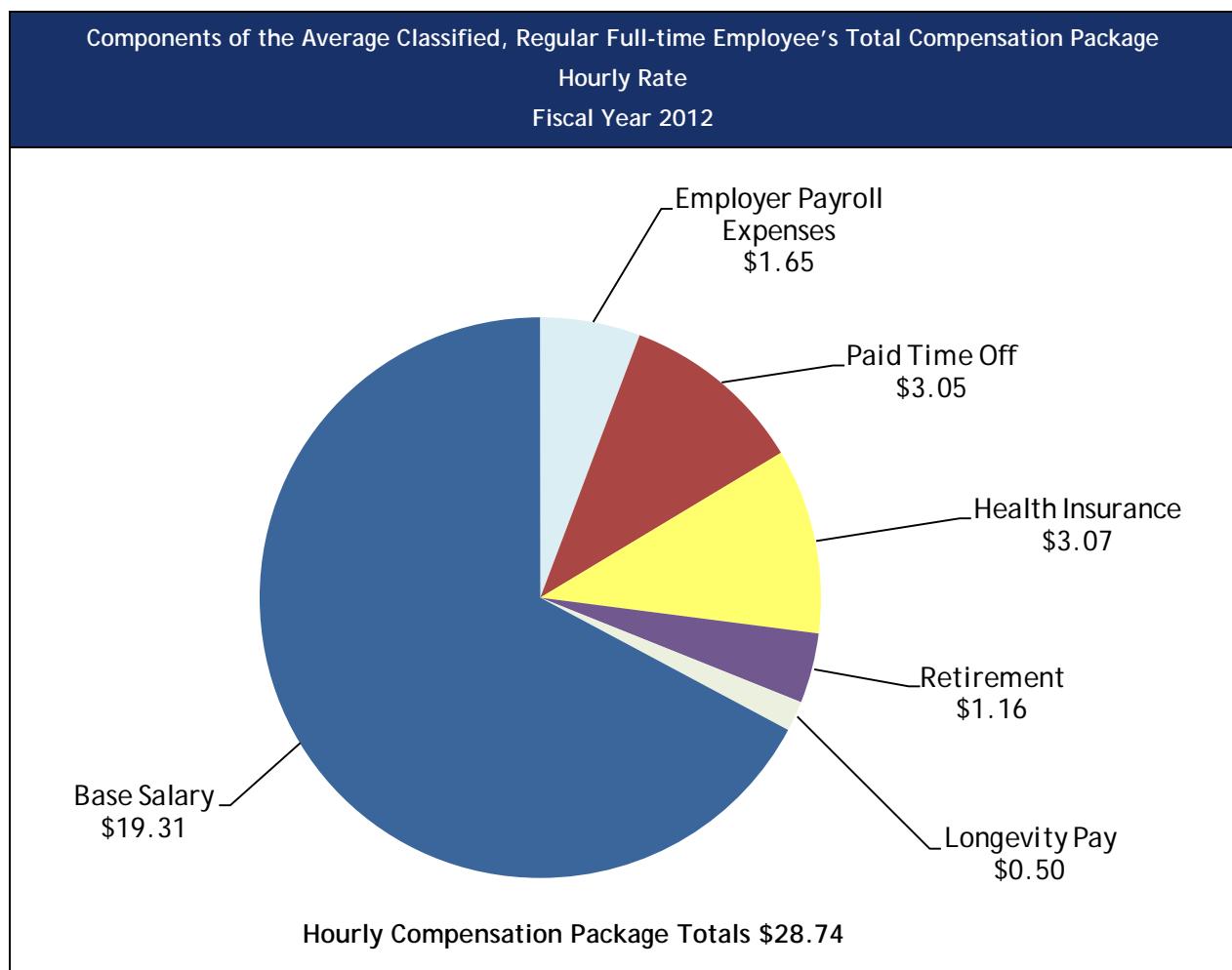
¹ *Employer Costs for Employee Compensation*, September 2012, U. S. Bureau of Labor Statistics.

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.

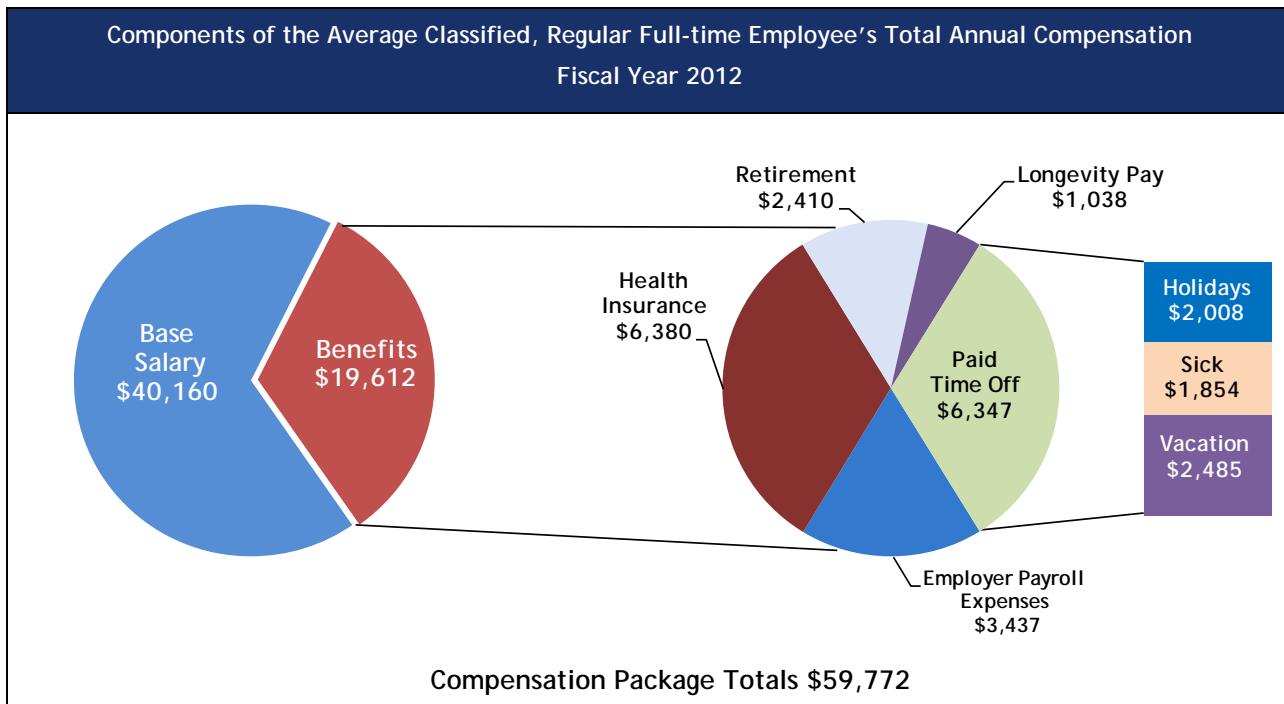
Figure 1 below and Figure 2 on the next page show the breakdown of the State's total compensation package for fiscal year 2012. These calculations are based on the average annual salary for a classified, regular full-time state employee (excluding employees at higher education institutions).

Figure 1



Source: Various state agencies and state information systems.

Figure 2

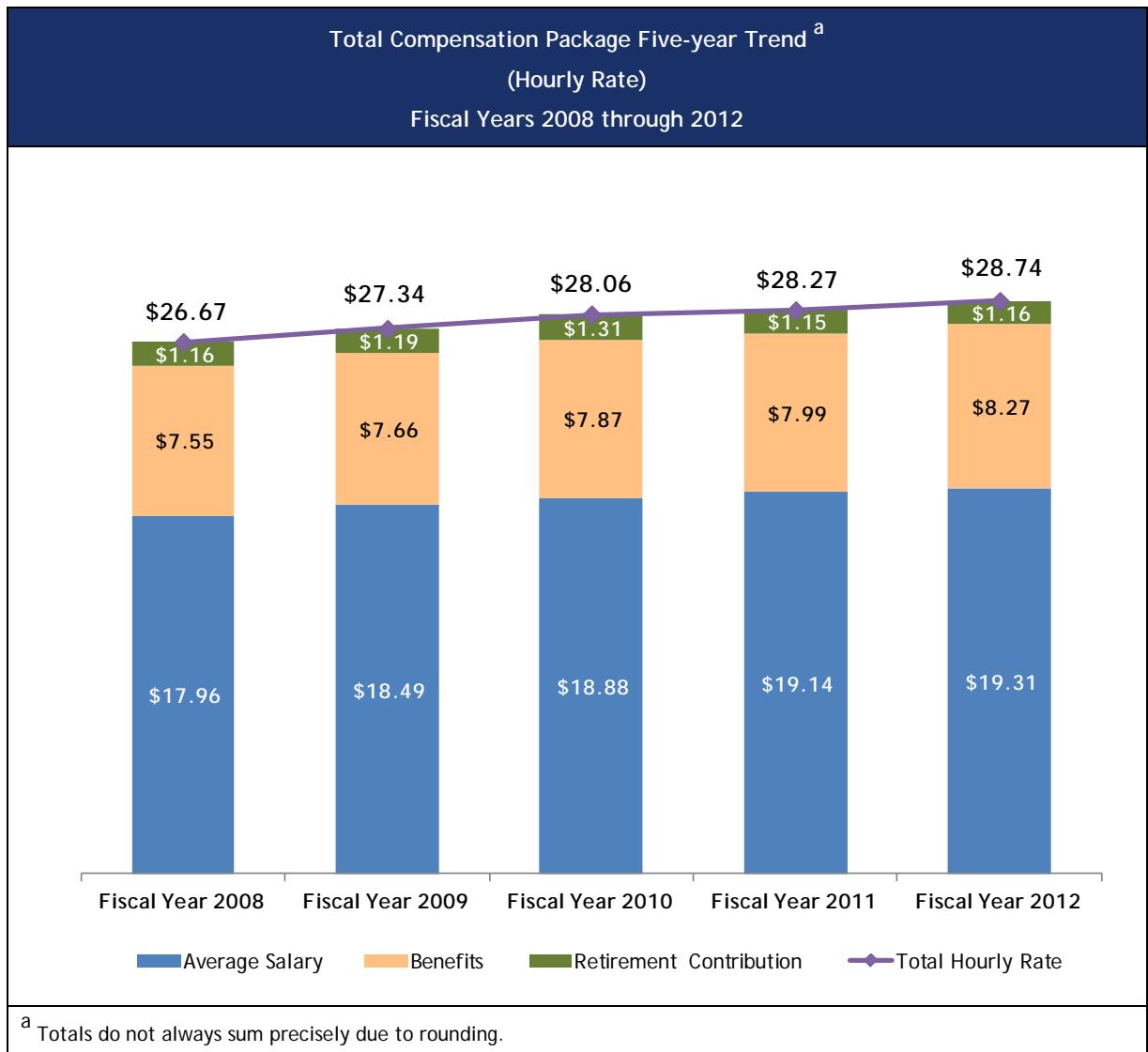


Source: Various state agencies and state information systems.

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 that package has increased by 7.7 percent since fiscal year 2008. Figure 3 on the next page shows the five-year trend for average salary, benefits, and retirement contributions for fiscal years 2008 through 2012. (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 two components of the average total compensation package that had the highest increases between fiscal year 2011 and fiscal year 2012 were health insurance costs paid by the State and salary.

In fiscal year 2012, the state contribution rate for retirement remained at 6.0 percent. In fiscal year 2013, the state retirement contribution rate will increase to 6.5 percent.

Table 2 lists the legislatively approved pay increases for state employees² for fiscal years 2008 through 2012.

Table 2

History of Legislatively Approved Pay Increases Fiscal Years 2008 through 2012		
Fiscal Year	Percent Increase	Details
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 was authorized, except for targeted increases for specific positions.
2011	0.0%	No legislative increase was authorized, except for targeted increases for specific positions.
2012	0.0%	No legislative increase was authorized.

Source: State of Texas salary increase history, State Auditor's Office.

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. 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.³ In fiscal year 2012, longevity pay was paid to 74.8 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. The costs for those additional types of compensation were excluded from the total compensation calculation. Other forms of compensation include recruitment and retention bonuses and hazardous duty pay, the use of which may vary

² The legislative increases in Table 2 were provided to most state employees; however, they do not reflect pay increases, promotions, or merit increases that individual state employees received within their respective state agencies.

³ Longevity pay is authorized in Texas Government Code, Section 659.043.

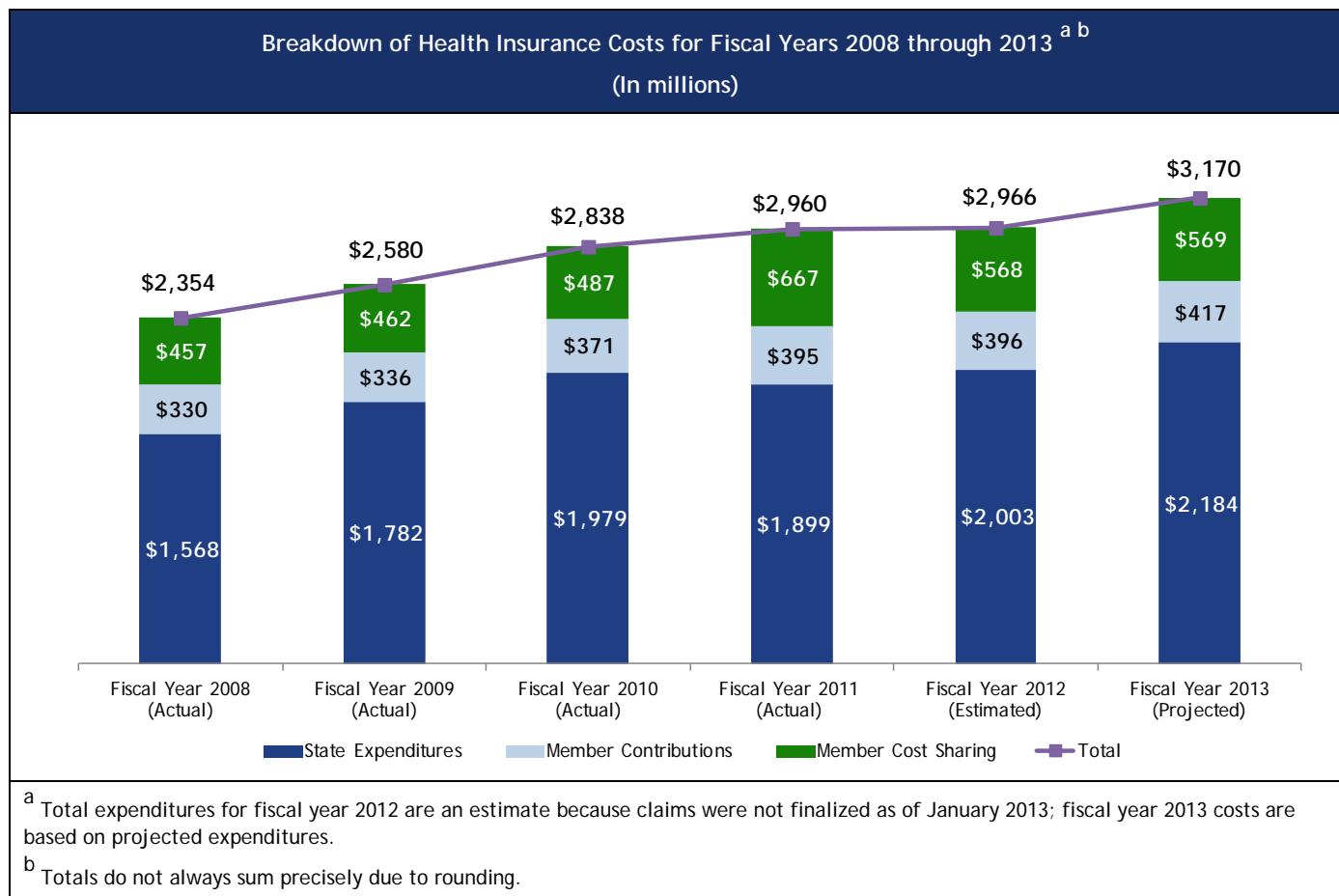
according to the agency because of differing statutory requirements and workforce needs.

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 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.** In fiscal year 2012, initial estimates indicated that the State and enrolled members through cost-sharing spent approximately \$2.97 billion to provide health insurance benefits to state employees and their dependents. That cost covered 302,585 enrolled members and provided insurance to 522,148 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 2012 indicate that the State will pay 67.5 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 on the next page shows the breakdown of actual and projected health insurance costs for fiscal years 2008 through 2013.

Figure 4



Source: *Employees Retirement System (ERS) Health Plan Financial History*, Rudd and Wisdom, Inc., 2012.

- **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. Employees can purchase these additional coverages through the group benefits program. The State also offers employees the option of participating in flexible medical savings and dependent care accounts.
- **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 these types of leave, full-time state employees during fiscal year 2012 earned (1) 12 days of sick leave, (2) an average of 16 days of vacation leave, and (3) 13 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 those 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 for the State's wellness initiatives.

- Retirement. The State offers a defined benefit retirement plan (see text box). The defined benefit retirement plan (or traditional pension plan) is designed to reward employees who spend the majority of their careers in state service. According to the Employees Retirement System's actuarial valuation for the fiscal year ending August 31, 2012, state employees contributed 6.5 percent of their salaries to the plan and the State contributed 6.0 percent.

Defined Benefit Retirement Plan

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

Appendices

Appendix 1

Objective, Scope, and Methodology

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

- Juliette Torres, MPA, CCP, PHR (Project Manager)
- Sharon Schneider, CCP, PHR
- Anton Dutchover
- Dana Musgrave, MBA (Quality Control Reviewer)
- John Young, MPAff (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 2012.

Table 3

Total Compensation Package Category Details			
Fiscal Year 2012			
Type of Benefit	Estimated Annual Dollar Value	Category Total	Percentage of Total Compensation
Employer Payroll Expenses	Social Security and Medicare Taxes	\$3,072	
	Unemployment Compensation	153	
	Workers' Compensation ^a	<u>212</u>	
Total Employer Payroll Expenses		\$3,437	5.8%
Paid Time Off	Payment for Holidays	\$2,008	
	Payment for Sick Leave	1,854	
	Payment for Vacation Leave	<u>2,485</u>	
Total Paid Time Off		6,347	10.6%
Health Insurance		6,380	10.7%
Retirement Contributions		2,410	4.0%
Longevity Pay		<u>1,038</u>	<u>1.7%</u>
Total Benefit Cost		\$19,612	32.8%
Average Annual Salary (Classified, Regular Full-time Employee)		\$40,160	67.2%
Total Compensation Package		\$59,772	100.0%

^a This was the average claim per person per year for employees who were 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 Thomas “Tommy” Williams, Senate Finance Committee
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor



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