



John Keel, CPA
State Auditor

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

February 2009
Report No. 09-704



A Report on

State Employee Benefits as a Percentage of Total Compensation

SAO Report No. 09-704
February 2009

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 2008 was \$55,468, or \$26.67 per hour, an increase of 2.5 percent from fiscal year 2007.

Total Compensation Package for the Average Classified, Full-time Employee
\$55,468

Salary - \$37,365 (67.4 percent)

Benefits - \$18,103 (32.6 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. 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.
- Time not worked—includes holidays, sick leave, and annual leave.
- Health insurance.
- Retirement contributions.
- Miscellaneous pay—includes benefit replacement pay and longevity pay.

The State's total compensation package was 67.4 percent salary and 32.6 percent benefits. This compares favorably with other state and local governments' compensation packages, which average 65.8 percent salary and 34.2 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 2008, the State spent \$8.5 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, such as state-paid or -sponsored professional development and training, state compensatory time, extended sick

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

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

leave, military leave, parent-teacher conference leave, and volunteer firefighters and emergency medical services training leave. While the use of these benefits may vary depending upon agency and 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 2008, 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), time not worked (holidays, sick leave, and annual leave), health insurance, retirement contributions, and miscellaneous pay (benefit replacement pay 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 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 subject 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	9
Appendix 2	
Details of the Total Compensation Package.....	10

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 2008 was \$55,468, or \$26.67 per hour, an increase of 2.5 percent from fiscal year 2007 and an increase of 15.2 percent since fiscal year 2004. The State’s total compensation package was 67.4 percent salary and 32.6 percent benefits. This compares favorably with other state and local governments’ compensation packages, which average 65.8 percent salary and 34.2 percent benefits, according to the U.S. Bureau of Labor Statistics (BLS). The average private sector employee, according to BLS, has a total compensation package that consists of 69.7 percent salary and 30.3 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, 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—includes Social Security and Medicare taxes, unemployment compensation, and workers’ compensation.

- Time not worked—includes holidays, sick leave, and annual leave.
- Health insurance.
- Retirement contributions.
- Miscellaneous pay—includes benefit replacement pay and longevity pay.

Figures 1 and 2 show the breakdown of the State’s total compensation package for fiscal year 2008. 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

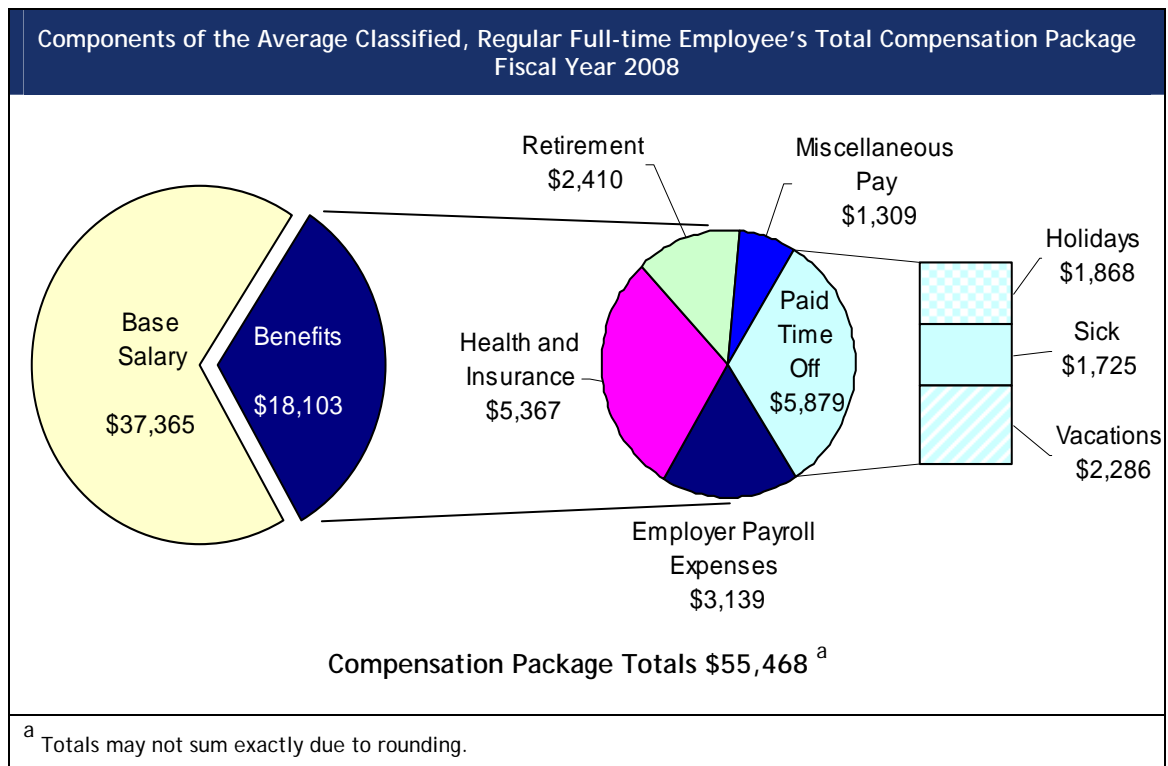
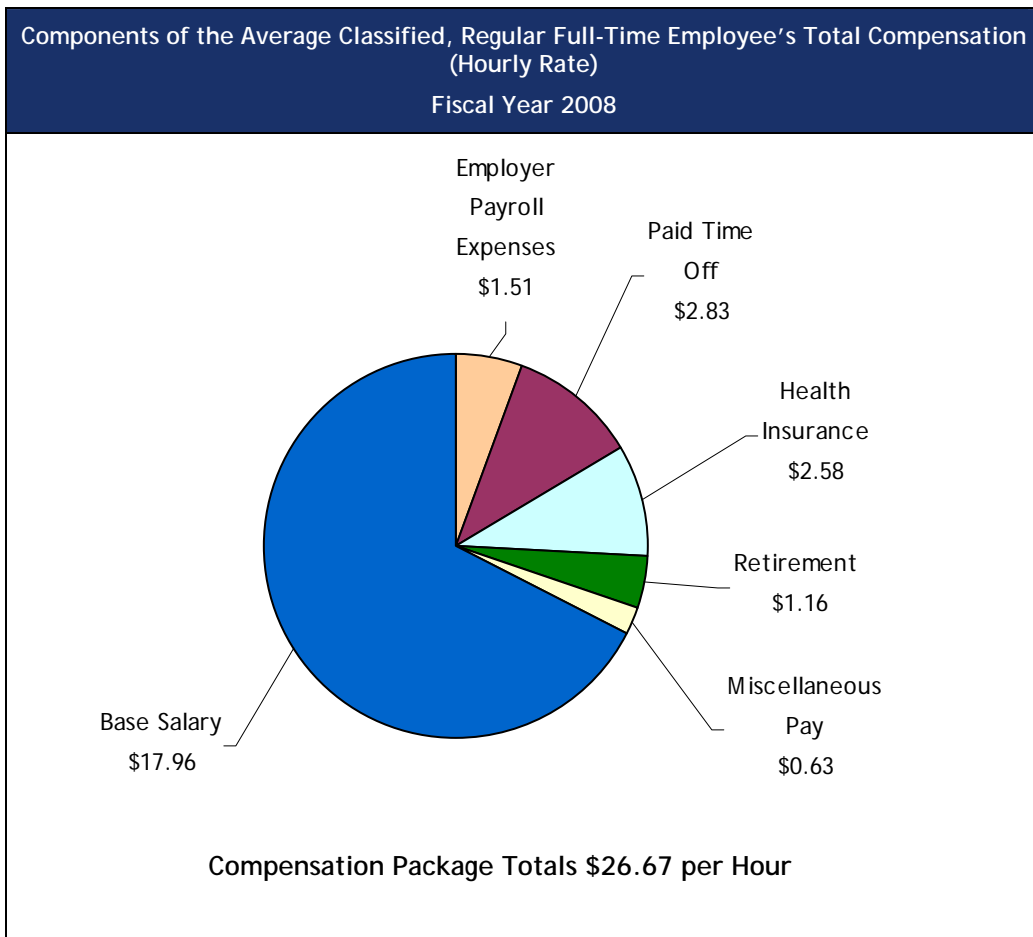


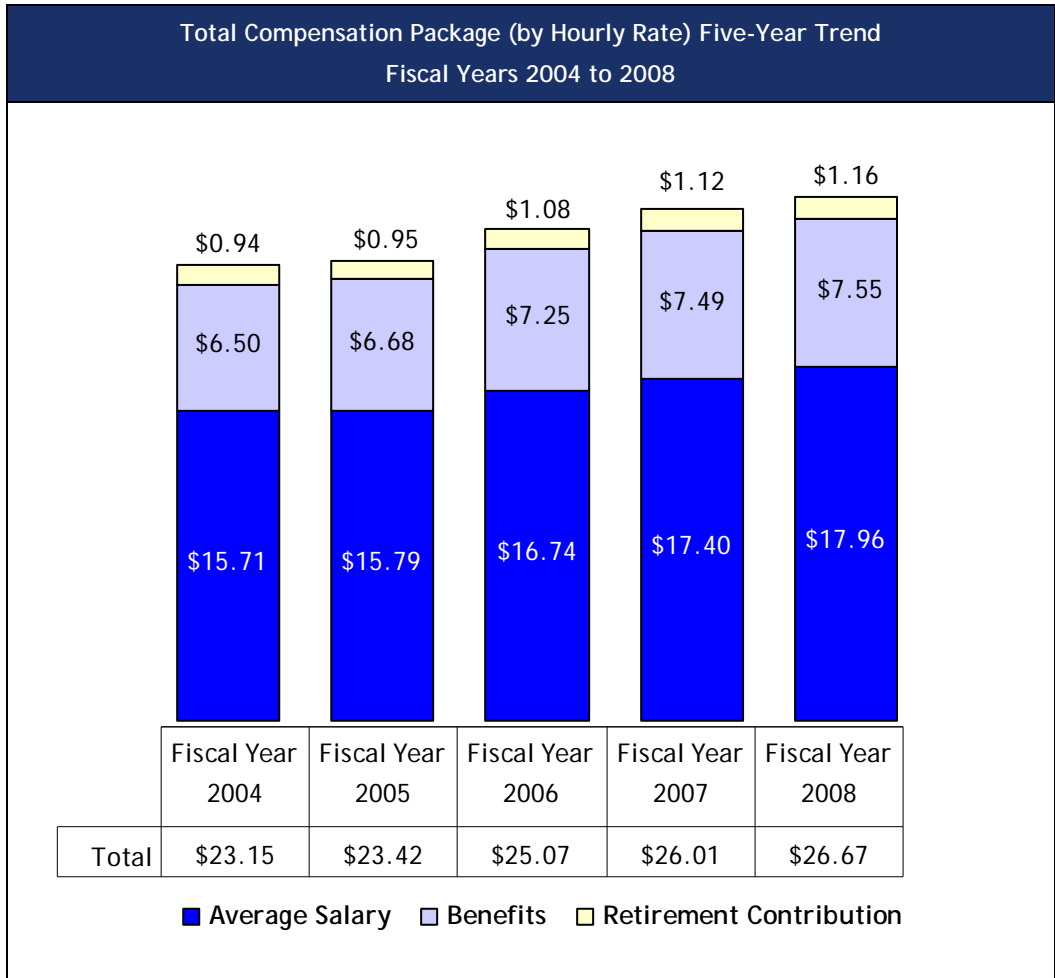
Figure 2



Components of the Total Compensation Package

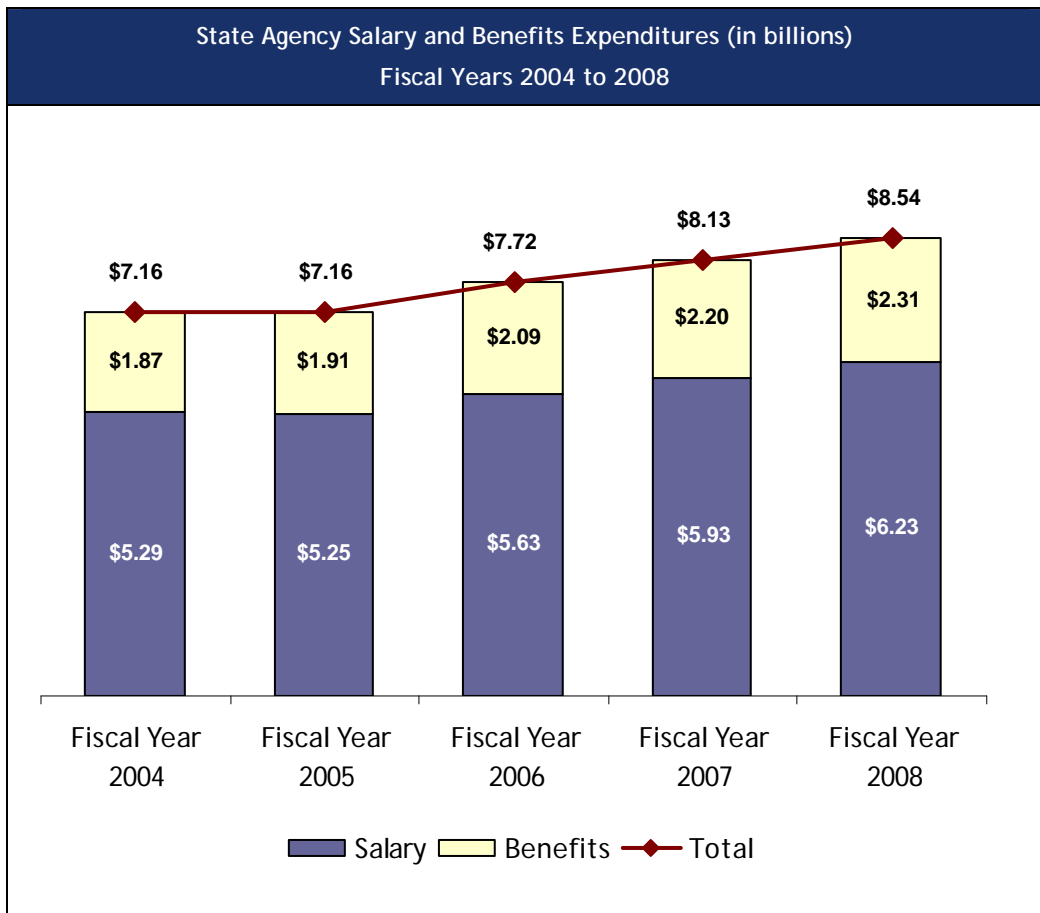
Salary, benefits, and retirement contributions are the three main components of the State's total compensation package. The value of this package has increased by 15.2 percent since fiscal year 2004, as shown (by hourly rate) in Figure 3 on the next page. This increase may be partially attributed to employee pay raises in fiscal years 2006 to 2008. (See Appendix 2 for a detailed listing of the value of each category.)

Figure 3



The State of Texas spent \$8.5 billion in fiscal year 2008 on salaries, wages, and insurance benefits to employees working in state agencies (excluding higher education institutions). Figure 4 shows the total dollars invested in each category in fiscal years 2004 to 2008.

Figure 4



Source: Comptroller of Public Accounts' Uniform Statewide Accounting System (USAS).

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. Two types of miscellaneous pay are included in the total compensation calculations: benefit replacement pay and longevity pay. Specifically:

- Benefit replacement pay was established to offset an employee's Social Security contributions. The program was discontinued on January 1, 1996; however, employees who worked for the State as of August 31, 1995, were still eligible to receive the payments.¹ As of fiscal year 2008, 29.3 percent of classified regular employees were still receiving these payments.

¹ Texas Government Code, Sections 606.064, 659.121 and 659.123, and the Comptroller's Notice to State Agencies FM 96-20.

- Longevity pay is provided to full-time employees who have at least two years of lifetime service credit.² In fiscal year 2008, longevity pay was paid to 70.8 percent of classified, regular full-time employees.

In addition to these two types of miscellaneous pay, many employees receive additional compensation through performance incentives, on-call pay, salary and educational stipends, or shift differentials. Other forms of compensation include recruitment and retention bonuses and hazardous duty pay for qualified employees, the use of which may vary according to the agency because of differing statutory requirements and workforce needs.

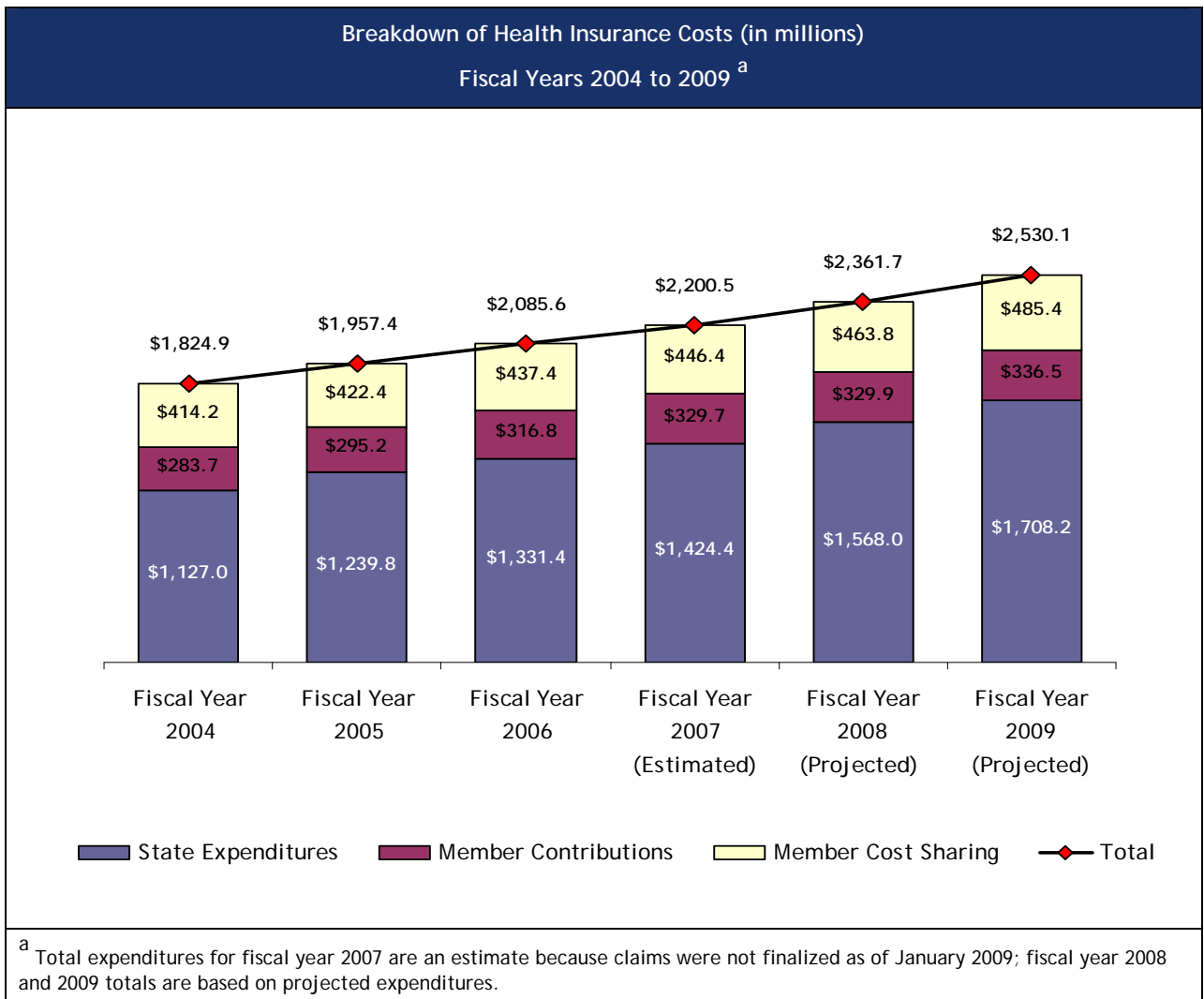
Benefits

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 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 2008, \$2.4 billion was spent in the State to provide health insurance benefits to state employees and their dependents. This cost covered 285,101 members and provided insurance to 509,071 individuals in Texas. The State consistently funded 100 percent of member-only coverage (for full-time employees) and 50 percent of dependent coverage. Overall, the State pays 66 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 5 shows the breakdown of actual and projected health insurance costs for fiscal years 2004 to 2009.

² Texas Government Code, Section 659.043.

Figure 5



Source: *Employee's Retirement System (ERS) Health Plan Financial History*, Rudd and Wisdom, Inc., 2008.

- **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. The State also offers employees the option of participating in flexible medical savings accounts. Although the majority of these programs are paid for by the employee, the State negotiates rates so that it can provide employees affordable options.
- **Employee Leave.** The State also 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 2008 earned (1) 12 days of sick leave, (2) an average of 15.9 days of annual leave, and (3) 13 paid

holidays. In addition to these traditional forms of paid time off, employees may also benefit from extended sick leave, military leave, parental leave, emergency leave, and administrative leave depending upon agency policy and procedures and individual circumstances. 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

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.

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. Currently, state employees contribute 6.00 percent of their salaries to the plan and the State contributes 6.45 percent.

Employees also have the opportunity to contribute to defined contribution programs, such as a 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 2008, 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), time not worked (holidays, sick leave, and annual leave), health insurance, retirement contributions, and miscellaneous pay (benefit replacement pay 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 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 subject to certain quality control procedures to ensure accuracy.

The following employees of the State Auditor's Office staff performed the review:

- Christine Bailey, CCP, GRP (Project Manager)
- Juliette Torres, CCP, PHR
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Nicole Guerrero, MBA, CGAP, CIA (Audit Manager)

Details of the Total Compensation Package

Table 2 presents a detailed listing of the value of the State's total compensation package for fiscal year 2008.

Table 2

Total Compensation Package Category Details Fiscal Year 2008			
Type of Benefit	Estimated Annual Dollar Value ^a	Category Total	Percentage of Total Compensation
Employer Payroll Expenses	FICA (Social Security and Medicare taxes)	\$ 2,858.39	
	Unemployment Compensation	\$ 32.06	
	Workers' Compensation ^b	\$ 248.11	
		\$ 3,138.56	5.66%
Time Not Worked	Payment for Holidays	\$ 1,868.23	
	Payment for Sick Leave	\$ 1,724.52	
	Payment for Annual Leave	\$ 2,285.94	
		\$ 5,878.70	10.60%
Health Insurance Programs		\$ 5,366.76	9.68%
Retirement Contribution		\$ 2,410.02	4.34%
Miscellaneous Pay	Benefit Replacement Pay	\$ 301.00	
	Longevity Pay	\$ 1,007.90	
		\$ 1,308.89	2.36%
Average Annual Salary (Classified, Regular Full-Time Employee)		\$37,364.64	67.36%
Total Compensation Package		\$55,467.57	100.0%
^a Totals may not sum exactly due to rounding.			
^b Average claim per person per year who is eligible for workers' compensation.			

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) 936-9880 (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.