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A Report on

State Employee Benefits as a Percentage of Total Compensation

February 2012

Report No. 12-705



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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 2011 was \$58,808, or \$28.27 per hour, an increase of less than 1.0 percent from fiscal year 2010.

The total compensation package for fiscal year 2011 comprised \$39,804 (approximately 67.7 percent) in average annual salary and \$19,004 (approximately 32.3 percent) in average benefits for a classified, regular full-time employee. The increase in the total compensation package resulted primarily from increased health insurance costs paid by the State.

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 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.

As noted above, the State's total compensation package for fiscal year 2011 was approximately 67.7 percent salary and approximately 32.3 percent benefits. This compares favorably with other state and local governments' compensation packages, which average 65.2 percent salary and 34.8 percent benefits, according to the U.S. Bureau of Labor Statistics.

**Total Compensation Package for the Average
Classified, Regular Full-time Employee
\$58,808**

Salary - \$39,804
(Approximately 67.7 percent)

Benefits - \$19,004
(Approximately 32.3 percent)

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 2011, the State spent approximately \$9.3 billion on salaries, wages, and insurance benefits for state agency employees (excluding higher education institutions).

There are other benefits the State offered that were not included in the calculation of the compensation package. Examples of these benefits are 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 special advocates volunteer 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 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 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 2011, 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 2011 was \$58,808, or \$28.27 per hour, an increase of less than 1.0 percent from fiscal year 2010. The State's total compensation package in fiscal year 2011 was approximately 67.7 percent salary and approximately 32.3 percent benefits. This compares favorably with other state and local governments' compensation packages, which average 65.2 percent salary and 34.8 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 70.5 percent salary and 29.5 percent benefits.¹

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 work and home.

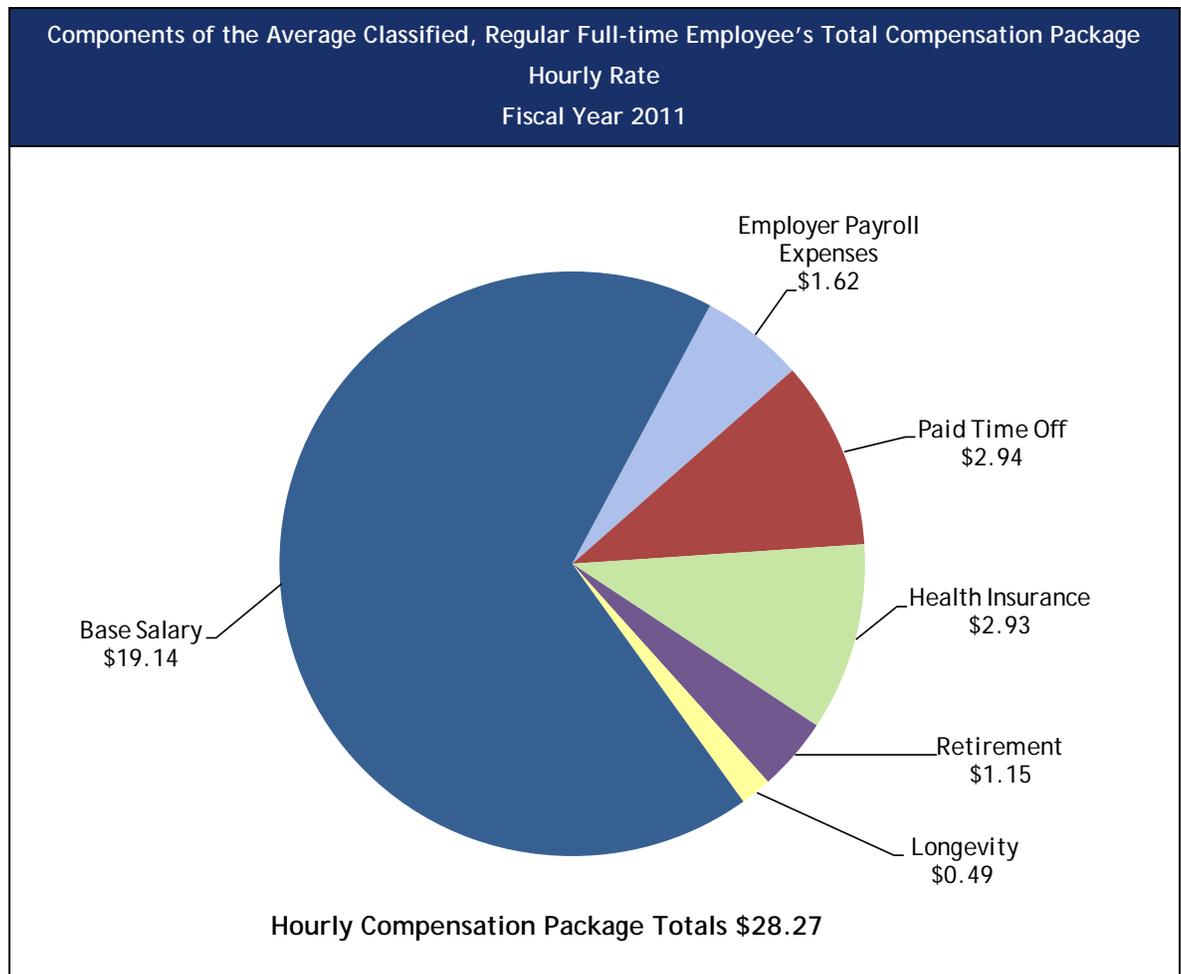
¹ *Employer Costs for Employee Compensation*, September 2011, U.S. Bureau of Labor Statistics.

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.

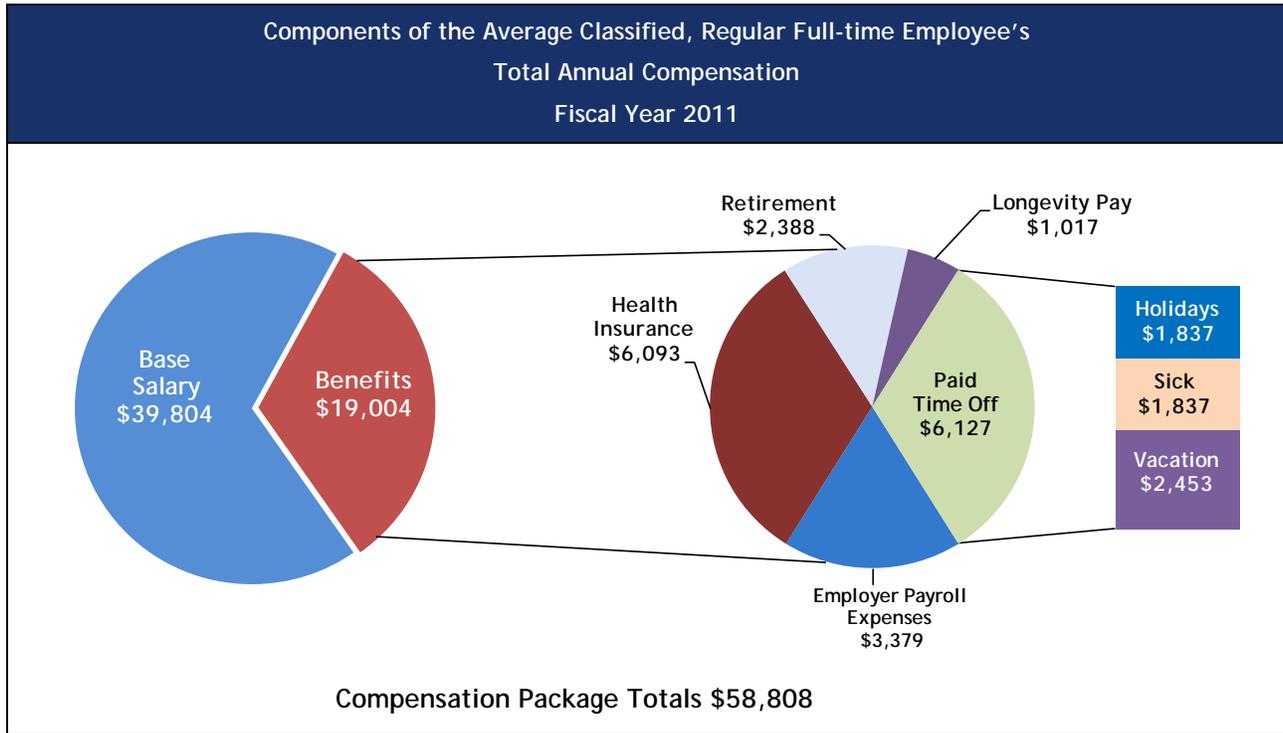
Figure 1 below and Figure 2 on the next page show the breakdown of the State's total compensation package for fiscal year 2011. These calculations are based on the average annual salary for a classified, regular full-time state employee (excluding employees at higher education institutions).

Figure 1



Source: Various state agencies and state information systems.

Figure 2

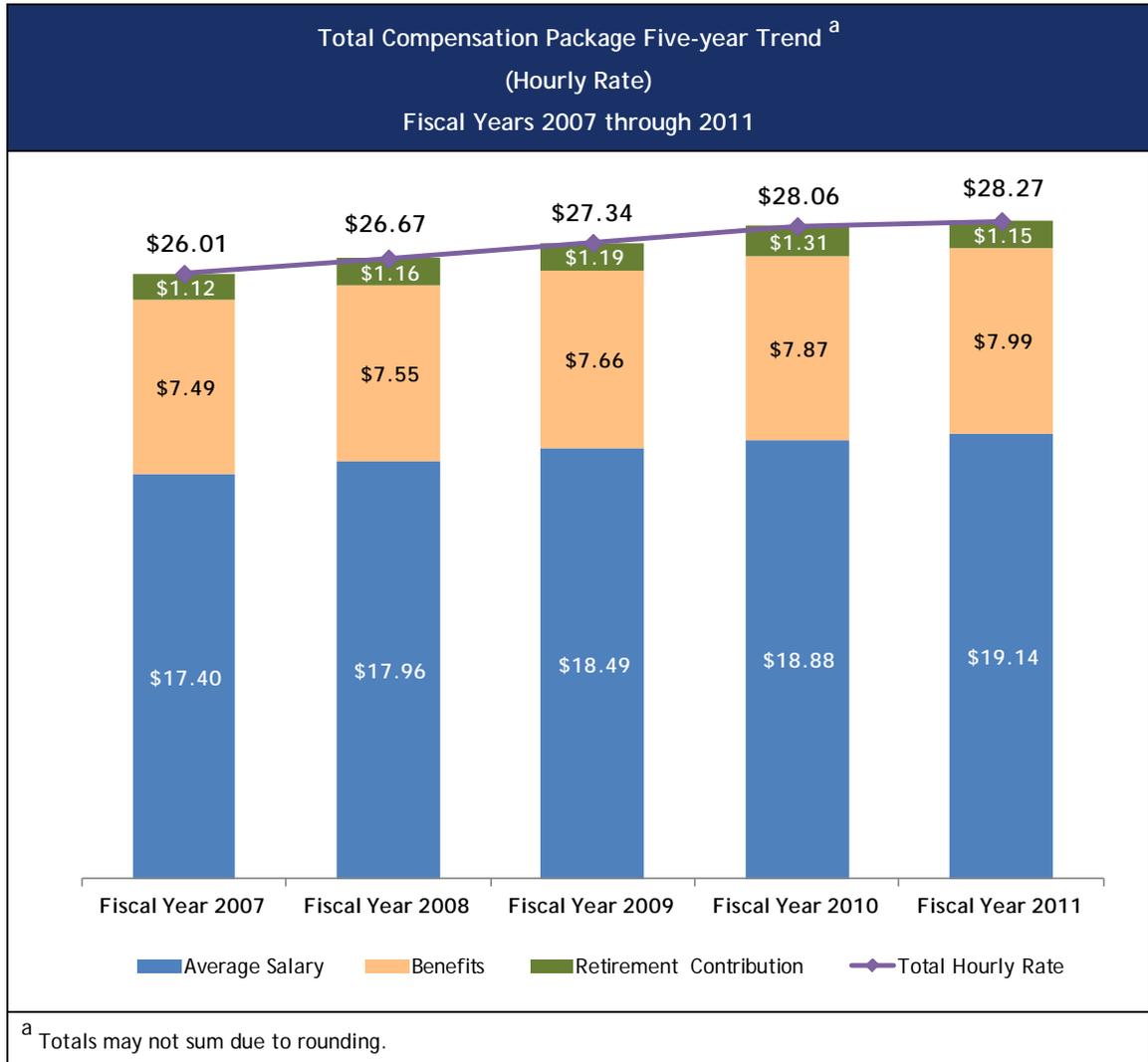


Source: Various state agencies and state information systems.

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 8.7 percent since fiscal year 2007. Figure 3 on the next page shows the five-year trend for average salary, benefits, and retirement contributions for fiscal years 2007 through 2011. (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 in fiscal year 2011 resulted primarily from increased health insurance costs paid by the State. The increases in the average salary since fiscal year 2007 may be partially attributed to employee pay raises in fiscal years 2007 through 2009. In addition, during fiscal years 2010 and 2011 certain employee groups received targeted pay increases that were approved by the 81st Legislature. 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.

In fiscal year 2011, there was a change in the state contribution rate for retirement, which decreased to 6.00 percent. In fiscal year 2010, the retirement contribution rate was 6.95 percent. Table 2 on the next page lists

the legislatively approved pay increases for state employees² for fiscal years 2007 through 2011.

Table 2

History of Legislatively Approved Pay Increases Fiscal Years 2007 through 2011		
Fiscal Year	Percent Increase	Details
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 was authorized, except for targeted increases for specific positions.
2011	0.0%	No legislative increase was authorized, except for targeted increases for specific positions.

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

The State of Texas spent approximately \$9.3 billion in fiscal year 2011 on salaries, wages, and insurance benefits for 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.³ In fiscal year 2011, longevity pay was paid to 74.2 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. 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 Texas Government Code, Section 659.043.

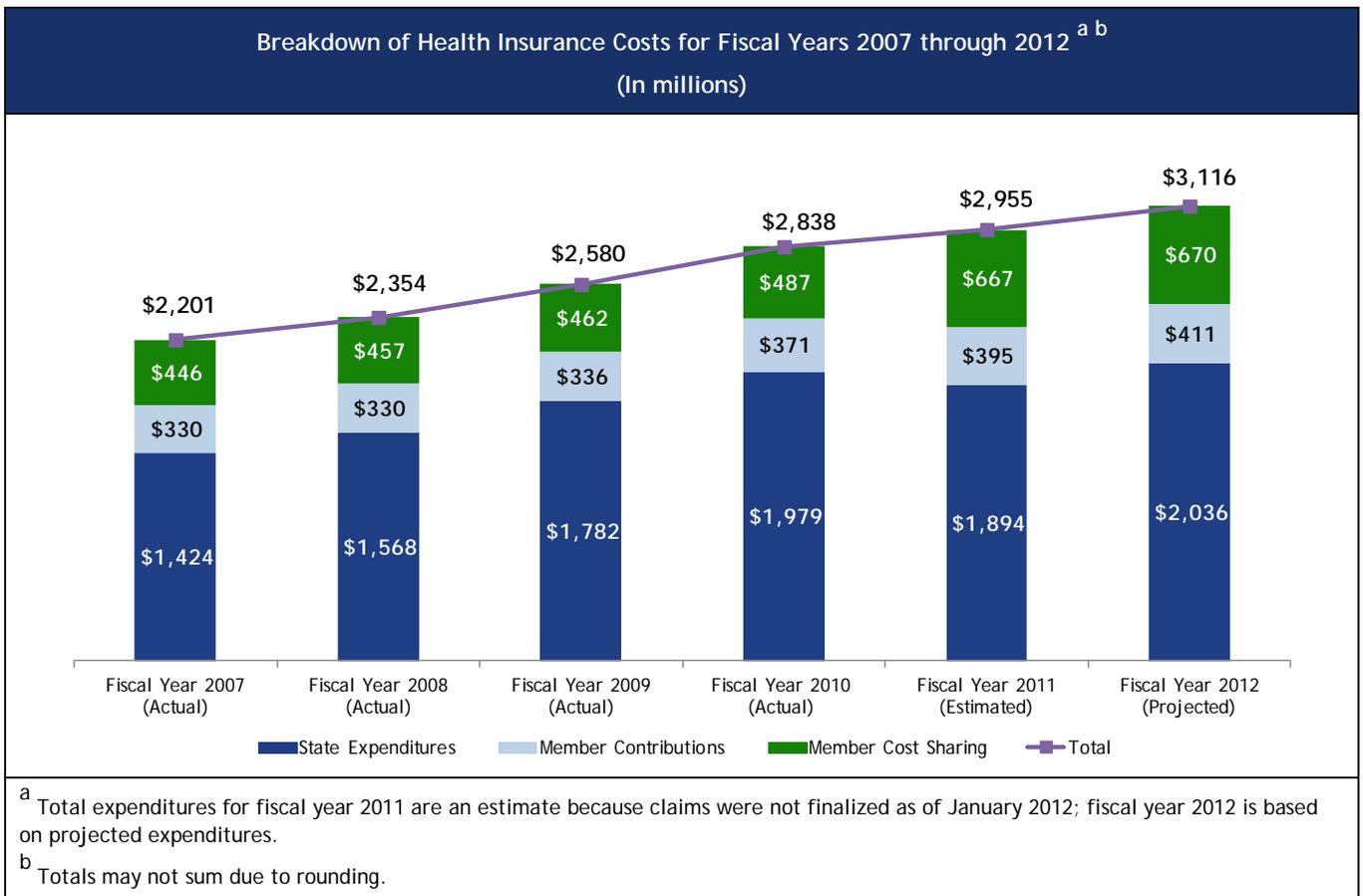
according to the agency because of differing statutory requirements and workforce needs.

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 these insurance, income protection, savings, and retirement programs to provide security for its employees and their families. Specifically:

- **Health Insurance.** In fiscal year 2011, initial estimates indicate that approximately \$2.96 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 303,614 enrolled members and provided insurance to 544,039 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 2011 indicate that the State will pay 64.1 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 2007 through 2012.

Figure 4



Source: *Employees Retirement System (ERS) Health Plan Financial History*, Rudd and Wisdom, Inc., 2011.

- **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 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 2011 earned (1) 12 days of sick leave, (2) an average of 16 days of vacation leave, and (3) 12 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 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 actuarial valuation for the fiscal year ending August 31, 2011, state employees contributed 6.50 percent of their salaries to the plan and the State contributed 6.00 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 employees of the State Auditor's Office staff completed this project:

- Stacey Robbins McClure, MBA, PHR, CCP (Project Manager)
- Sharon Schneider, PHR
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Nicole M. 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 2011.

Table 3

Total Compensation Package Category Details			
Fiscal Year 2011			
Type of Benefit	Estimated Annual Dollar Value	Category Total	Percentage of Total Compensation ^b
Employer Payroll Expenses	Social Security and Medicare Taxes	\$3,045	
	Unemployment Compensation	99	
	Workers' Compensation ^a	<u>235</u>	
Total Employer Payroll Expenses		\$3,379	5.7%
Paid Time Off	Payment for Holidays	\$1,837	
	Payment for Sick Leave	1,837	
	Payment for Vacation Leave	<u>2,453</u>	
Total Paid Time Off		6,127	10.4%
Health Insurance		6,093	10.4%
Retirement Contributions		2,388	4.1%
Longevity Pay		<u>1,017</u>	<u>1.7%</u>
Total Benefit Cost		\$19,004	32.3%
Average Annual Salary (Classified, Regular Full-time Employee)		\$39,804	67.7%
Total Compensation Package		\$58,808	100.0%
^a This is the average claim per person per year for employees who are eligible for workers' compensation.			
^b Rounded to the nearest tenth of a percent.			

Source: Various state agencies and state information systems.

Copies of this report have been distributed to the following:

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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 Harvey Hilderbran, House Ways and Means Committee

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