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State Auditor

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

April 2014
Report No. 14-704



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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 2013 was \$60,871, or \$29.26 per hour, an increase of 1.4 percent from fiscal year 2012, when the average hourly rate was \$28.87. The two components of the average total compensation package that had the largest percentage increase between fiscal year 2012 and fiscal year 2013 were retirement contributions and health insurance costs paid by the State.

Average Total Compensation Package
for a Classified, Full-time Employee
\$60,871

Salary - \$40,398 (66.4 percent)
Benefits - \$20,473 (33.6 percent)

The total compensation package for fiscal year 2013 was composed of \$40,398 (66.4 percent) in average annual salary and \$20,473 (33.6 percent) in average benefits for a classified, full-time employee. In comparison, other state and local governments' compensation packages average 64.4 percent salary and 35.6 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 pay, for time worked, as well as indirect compensation, which includes benefits. (See Appendix 2 for a detailed list of the items in 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.

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

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 benefit costs, 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, full-time employees that the State offered in fiscal year 2013, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the 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 value of the total compensation package, the estimated dollar values of the quantifiable benefits were added to the average annual salary for classified, full-time employees. 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.

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Detailed Results

Chapter 1

Employee Benefits as a Percentage of Total Compensation

The average value of the total compensation package for a classified, full-time employee for fiscal year 2013 was \$60,871, or \$29.26 per hour, an increase of 1.4 percent from fiscal year 2012. The State's total compensation package in fiscal year 2013 was composed of \$40,398 (66.4 percent) in average annual salary and \$20,473 (33.6 percent) in average benefits for a classified, full-time employee. In comparison, other states' and local governments' compensation packages average 64.4 percent salary and 35.6 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 to attract, motivate, and retain employees. That 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 compensation, as well as core benefits such as 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 employer-supported opportunities for employees to perform better in their jobs or advance their career or personal goals.
The Work Experience	Includes items that are important to employees and the State but are less tangible than employee pay and benefits. It may include scheduling flexibility and programs to help employees be successful at work and home.

The cost to provide the package represents a significant investment for the State of Texas. In fiscal year 2013, the State spent approximately \$9.2 billion on salaries and benefits for state agency employees (excluding employees at higher education institutions).

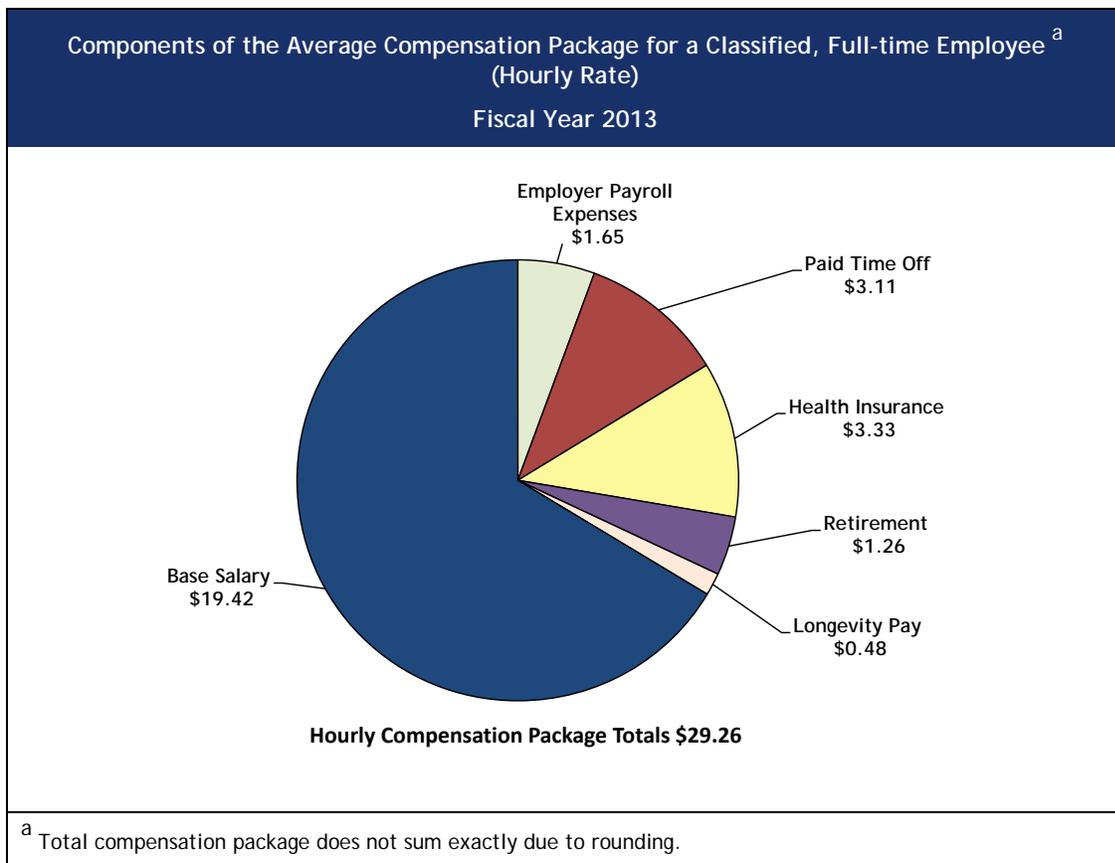
¹ *Employer Costs for Employee Compensation*, September 2013, U.S. Bureau of Labor Statistics.

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.

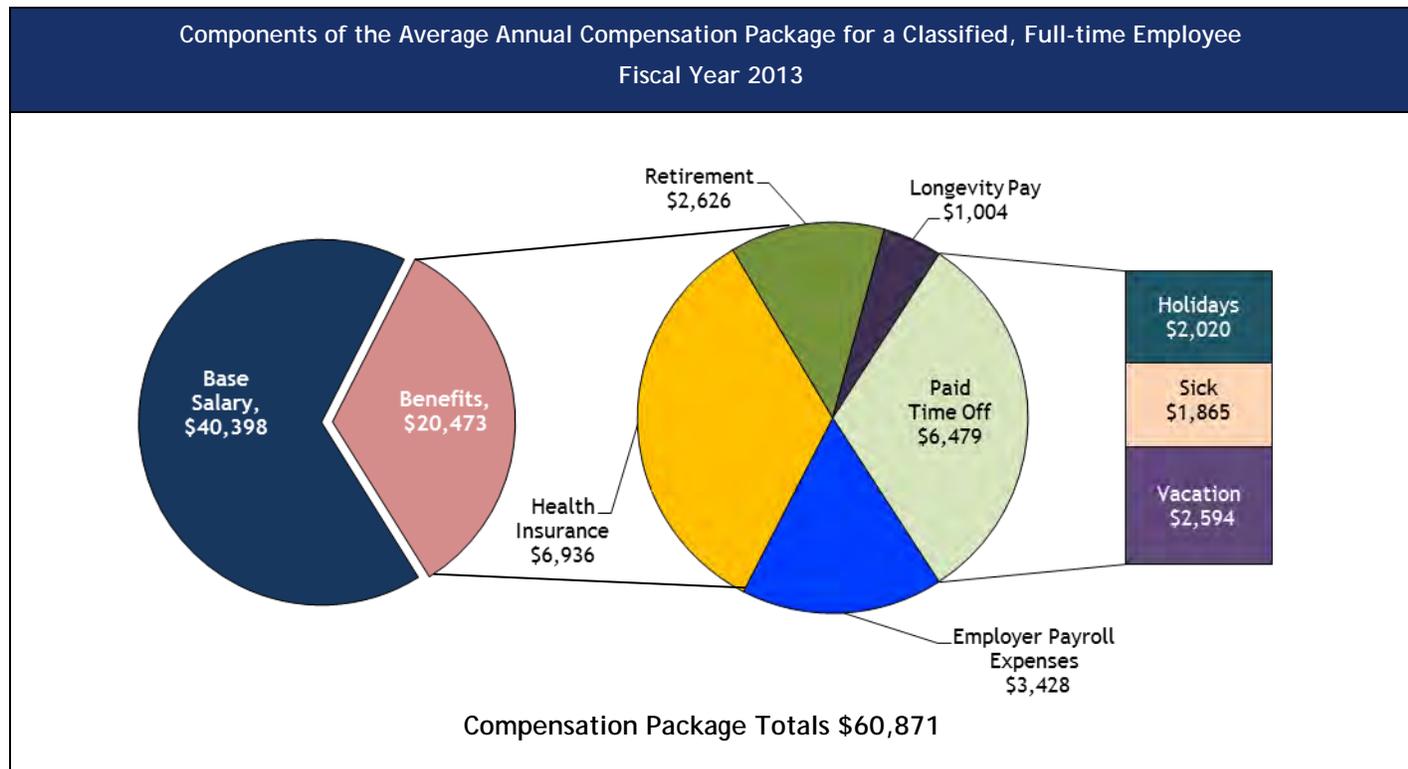
Figure 1 below and Figure 2 on the next page show the breakdown of the State’s total compensation package for fiscal year 2013. The calculations for these figures are based on the average annual salary for classified, full-time state agency employees (excluding employees at higher education institutions).

Figure 1



Sources: Various state agencies and state information systems.

Figure 2



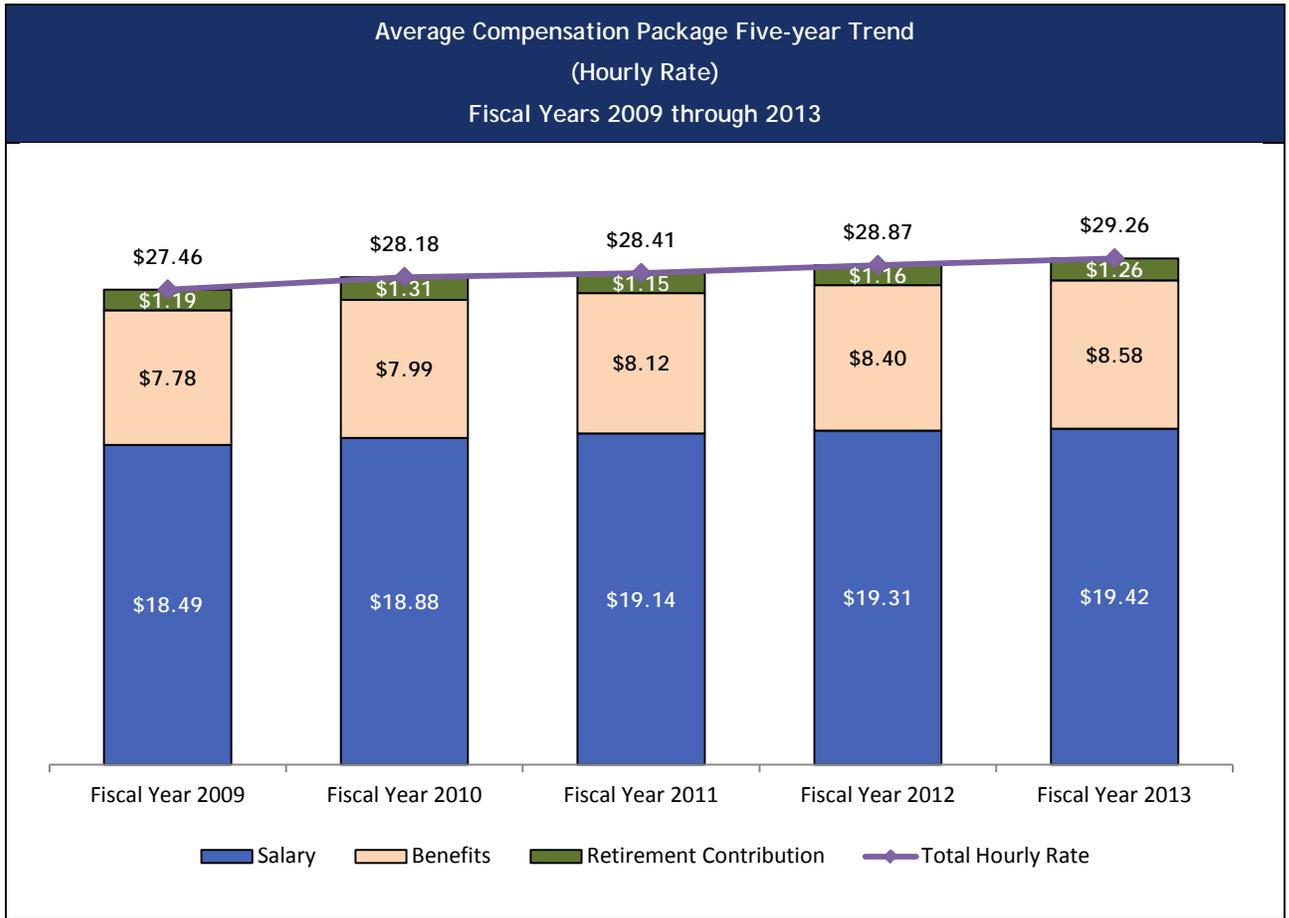
Sources: Various state agencies and state information systems.

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 6.6 percent when compared to fiscal year 2009. Figure 3 on the next page shows the five-year trend (in hourly dollar rates) for average salary, benefits, and retirement contributions for fiscal years 2009 through 2013. (Also see Appendix 2 for a detailed list of the estimated annual dollar value of each benefit category.)

The two components of the average total compensation package that had the largest percentage increase between fiscal year 2012 and fiscal year 2013 were retirement contributions and health insurance costs paid by the State (see Figure 3 on the next page). Retirement contribution costs paid by the State have increased by 9.0 percent since fiscal year 2012. Those costs were affected in part by the state contribution rate for retirement increasing to 6.5 percent from 6.0 percent in fiscal year 2012 (the employee contribution rate was also 6.5 percent in fiscal year 2013, the same as in fiscal year 2012). In addition, health insurance costs paid by the State have increased by 6.5 percent since fiscal year 2012.

Figure 3



Sources: Various state agencies and state information systems.

Although there was a less than 1.0 percent increase in the average annual salary for a classified, full-time employee in fiscal year 2013 compared to fiscal year 2012, the average annual salary may increase at a higher rate in future fiscal years due to the employee pay increases the 83rd Legislature approved.

Table 2 lists the legislatively approved pay increases for state employees.²

Table 2

Legislatively Approved Pay Increases for Classified Employees Fiscal Years 2009 through 2015		
Fiscal Year	Percent Increase	Details
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.
2013	0.0%	No legislative increase was authorized.
2014	1.0%	Employees received a 1.0 percent increase or a minimum increase of \$50 per month. Targeted increases for specific positions were also approved.
2015	2.0%	Employees will receive a 2.0 percent increase or a minimum increase of \$50 per month.

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

² The legislative increases in Table 2 do not reflect other types of increases such as promotions, equity adjustments, or merit increases that individual state employees may receive within their respective state agencies.

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

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 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 employee⁴, the State pays all of the employee's health insurance premium and 50 percent of dependents' health insurance premiums. See Appendix 3 for additional information on the breakdown of health insurance costs.
- **Other Insurance.** In addition to health insurance, state employees have access to other types of insurance, such as dental, basic term life, optional term life, dependent term life, and short- and long-term disability insurance. Employees can purchase those 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 those types of leave, full-time state employees during fiscal year 2013 earned (1) 12 days of sick leave, (2) an average of 17 days of vacation leave, and (3) 13 paid holidays.

In addition to those traditional forms of paid time off, employees may benefit from other types of leave that agencies are required to provide. Examples of the other types of leave include military leave, emergency leave, parent-teacher conference leave, parental leave, volunteer firefighters and emergency medical services 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 compensation package.

⁴ Effective September 1, 2013, full-time employees, for benefits purposes, were defined as state workers who work 30 or more hours per week.

- 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. The 82nd Legislature approved a state retirement contribution rate of 6.5 percent for fiscal year 2013 and an employee contribution rate of 6.5 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.

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. Currently, the State does not match employee contributions for deferred compensation plans.

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.

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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:

- Sharon Schneider, CCP, PHR (Project Manager)
- Kendra Campbell, MSIS, PHR
- Juan R. Sanchez, MPA, CIA, CGAP
- Michael Apperley, CPA (Quality Control Reviewer)
- 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 average value of the State's total compensation package for a classified, full-time employee (not including higher education institutions) for fiscal year 2013.

Table 3

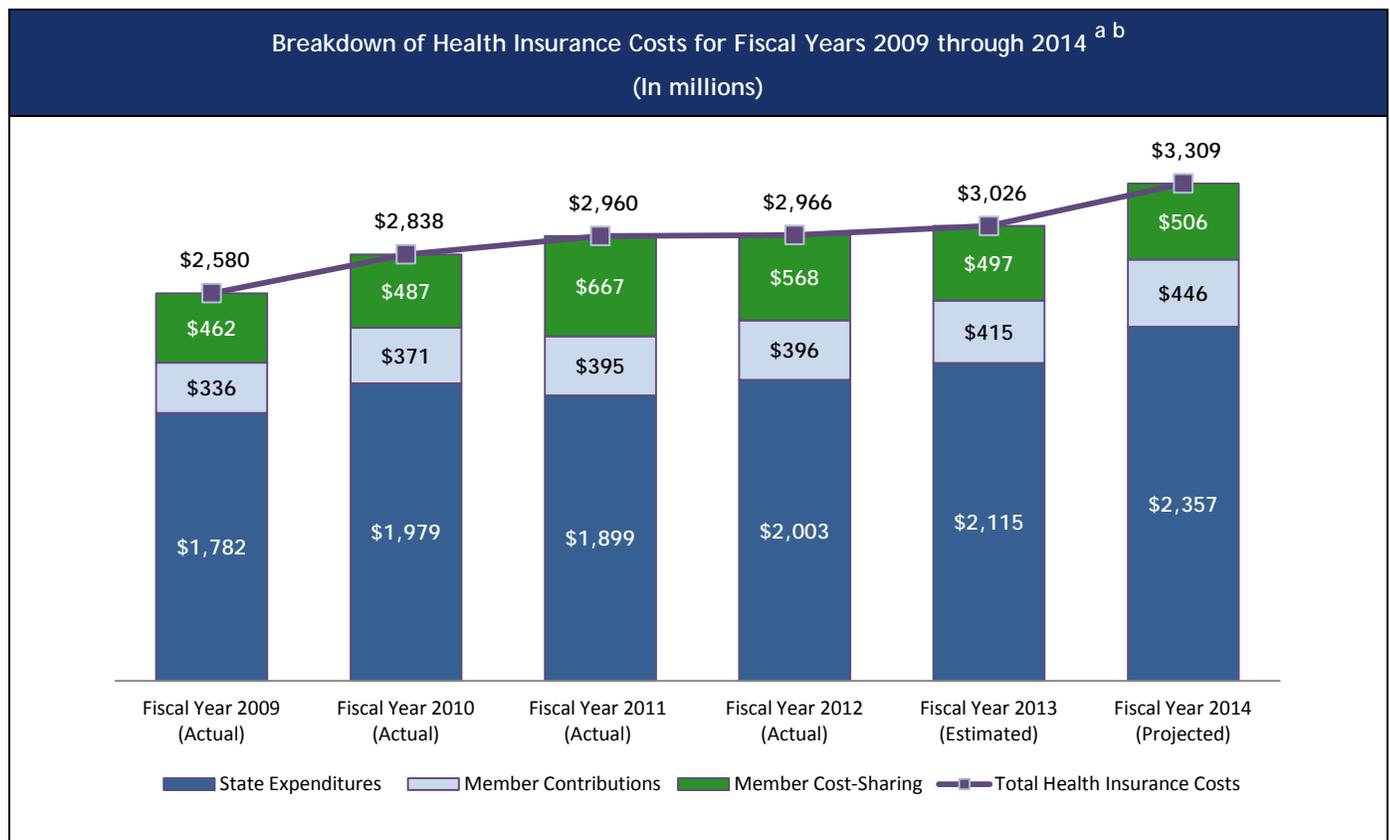
Average Compensation Package Category Details			
Fiscal Year 2013			
Type of Benefit	Estimated Annual Dollar Value	Category Total	Percentage of Total Compensation
Employer Payroll Expenses	Social Security and Medicare Taxes	\$3,090	
	Unemployment Compensation	\$ 87	
	Workers' Compensation ^a	\$ 251	
Total Employer Payroll Expenses		\$ 3,428	5.6%
Paid Time Off	Payment for Holidays	\$2,020	
	Payment for Sick Leave	\$1,865	
	Payment for Vacation Leave	\$2,594	
Total Paid Time Off		\$ 6,479	10.6%
Health Insurance ^b		\$ 6,936	11.4%
Retirement Contributions		\$ 2,626	4.3%
Longevity Pay		\$ 1,004	1.6%
Total Benefit Cost ^c		\$20,473	33.6%
Average Annual Salary (Classified, Full-time Employee)		\$40,398	66.4%
Total Compensation Package		\$60,871	100.0%
^a This is the average claim cost for employees who are eligible for workers' compensation.			
^b This is an average state contribution for all active employees of General Revenue-funded state agencies.			
^c Percentages do not sum exactly due to rounding.			

Sources: Various state agencies and state information systems.

Breakdown of Health Insurance Costs

Based on fiscal year 2013 estimates, the State and enrolled members, through cost-sharing, spent approximately \$3.03 billion on health insurance benefits. That cost covered 305,820 enrolled members and provided insurance to 522,936 members and their dependents in Texas.⁵ The State consistently funded 100.0 percent of member-only coverage (for full-time employees⁶) and 50.0 percent of dependent coverage. Cost estimates for fiscal year 2013 indicate that the State paid 69.9 percent of the total cost of insurance benefits for state employees. The remaining cost was shared by members through monthly contributions and other sources, such as co-payments or insurance deductibles. Figure 4 shows the breakdown of health insurance costs for fiscal years 2009 through 2014.

Figure 4



^a Total expenditures for fiscal year 2013 were an estimate as of January 2014; fiscal year 2014 costs were based on projected expenditures.

^b Totals may not sum due to rounding.

Source: *Employees Retirement System (ERS) Health Plan Financial History*, Rudd & Wisdom, Inc., August 2013.

⁵ Enrolled members include state agency employees, higher education employees, and retirees.

⁶ Effective September 1, 2013, full-time employees, for benefits purposes, were defined as state workers who work 30 or more hours per week.

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 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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