



A Report on

State Employee Benefits as a Percentage of Total Compensation

April 2018

Report No. 18-704



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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 2017 was \$72,205, or \$34.71 per hour. This is an increase of 8.8 percent compared to two years ago in fiscal year 2015, when the average value of the total compensation package for a classified, full-time employee was \$66,383, or \$31.91 per hour. Retirement contributions and health insurance costs paid by the State were the two components of the average total compensation package that had the largest percentage increase between fiscal year 2015 and fiscal year 2017.

Average Total Compensation
Package for a Classified, Full-time
Employee
\$72,205

Salary - \$46,475 (64.4 percent)
Benefits - \$25,730 (35.6 percent)

The **State's** total compensation package for a classified, full-time employee for fiscal year 2017 was composed of \$46,475 (64.4 percent) in average annual salary and \$25,730 (35.6 percent) in average annual benefits. In comparison, other state **and local governments'** total compensation packages averaged 62.6 percent salary and 37.4 percent benefits, according to the U.S. Bureau of Labor Statistics. For private industry employees, the average total compensation package consisted of 69.6 percent salary and 30.4 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 base pay, for time worked, as well as indirect compensation, which includes benefits. (See Appendix 2 for a detailed list of the items in the **State's** total compensation package.) Quantifiable benefits included **in the calculation of the State's 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.

This project was conducted in accordance with Texas Government Code, Section 654.036.

For more information regarding this report, please contact John Young, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

The State offered other benefits that were not included in the calculation of the total compensation package. Examples of those benefits were state-paid or state-sponsored professional development and training, state compensatory time, military leave, emergency leave **for a death in the employee's family**, educational activities 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 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.

Project Objective and Scope

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 2017, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the **State's** 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.

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Detailed Results

Chapter 1

Employee Benefits as a Percentage of Total Compensation

Total Compensation

Total compensation (or total rewards) refers to the complete reward and recognition package that an employee receives.

The average value of the total compensation package for a classified, full-time employee for fiscal year 2017 was \$72,205, or \$34.71 per hour (see text box for more information about total compensation). This is an increase of 8.8 percent compared to two years ago in fiscal year 2015, when the average value of the total compensation package for a classified, full-time employee was \$66,383, or \$31.91 per hour. The State's total compensation package for a classified, full-time employee for fiscal year 2017 was composed of \$46,475 (64.4 percent) in average annual salary and \$25,730 (35.6 percent) in average annual benefits. In comparison, other state and local governments' total compensation packages averaged 62.6 percent salary and 37.4 percent benefits, according to the U.S. Bureau of Labor Statistics. For private industry employees, the average total compensation package consisted of 69.6 percent salary and 30.4 percent benefits, according to the U. S. Bureau of Labor Statistics.¹

The use of the total compensation (or total rewards) package allows the State to attract, motivate, and retain employees. That total compensation package includes an employee's base salary, benefits, and other rewards listed in Figure 1 on the next page.

¹ *Employer Costs for Employee Compensation*, September 2017, U.S. Bureau of Labor Statistics.

Figure 1



Value of the Total Compensation Package

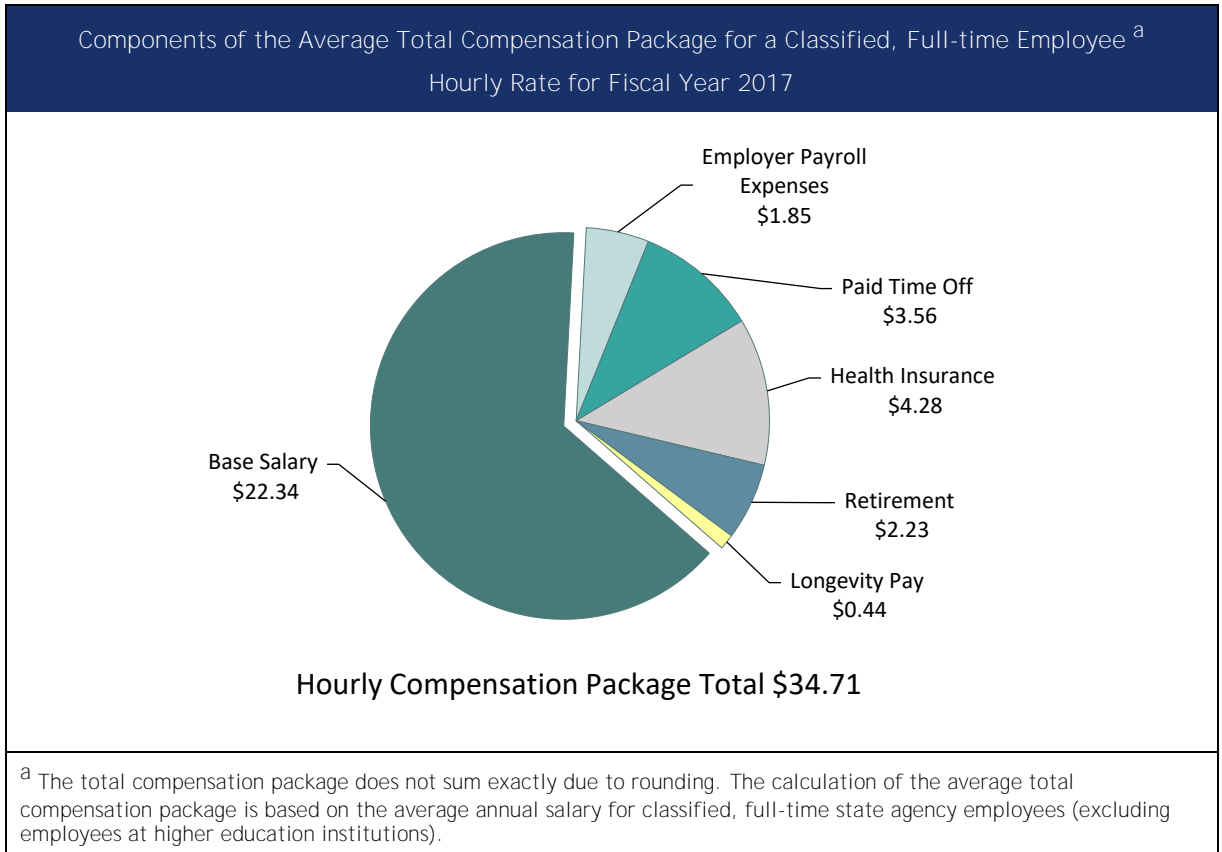
The cost to provide the total compensation package represents a significant investment for the State of Texas. In fiscal year 2017, the State spent approximately \$11.5 billion on salaries and benefits for state agency employees (excluding employees at higher education institutions).

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 2 shows the breakdown of the State's average total compensation package for fiscal year 2017, expressed in hourly dollar rates.

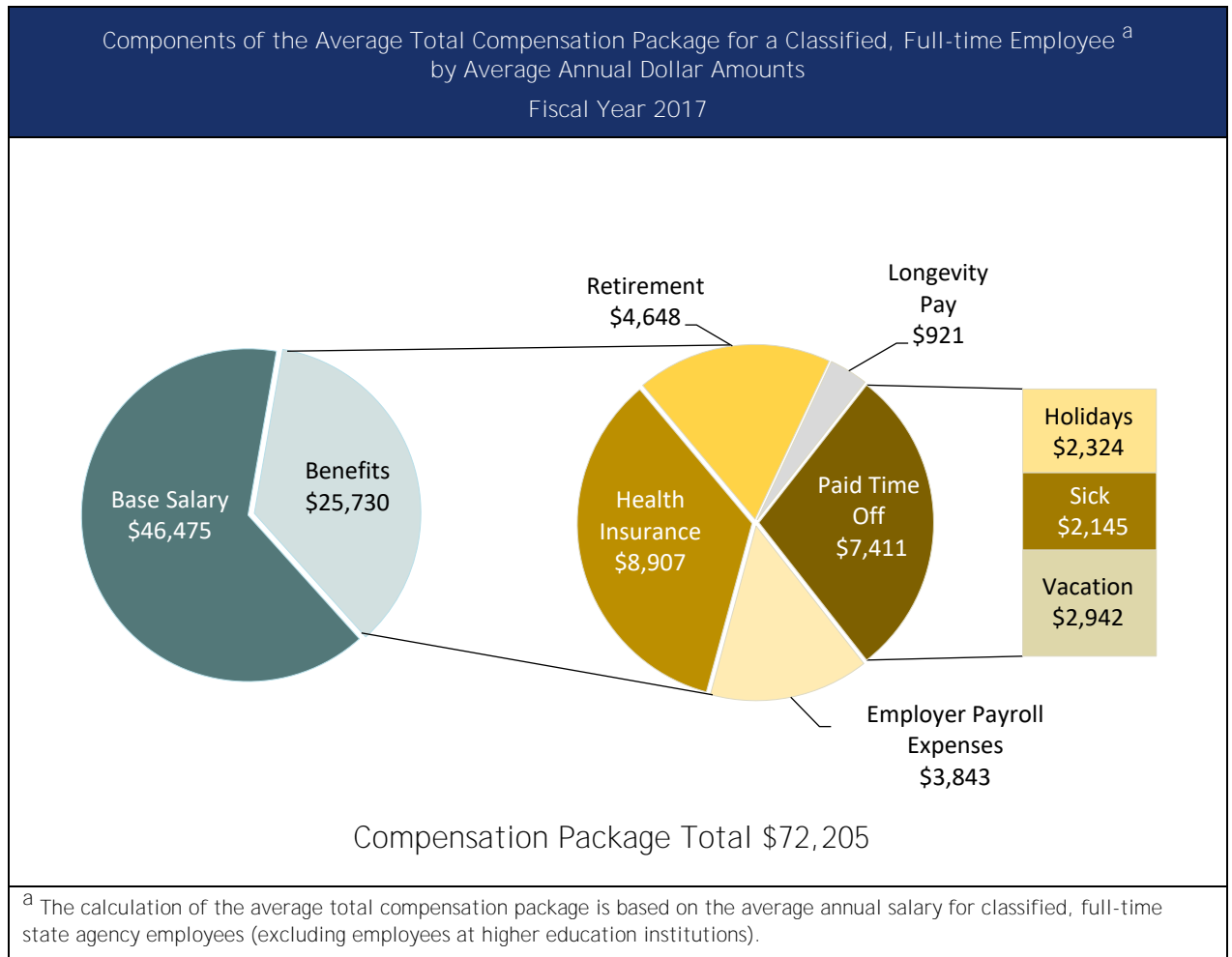
Figure 2



Sources: Various state agencies and state information systems.

Figure 3 shows a further breakdown of the State’s average total compensation package for fiscal year 2017, expressed in average annual dollar amounts.

Figure 3



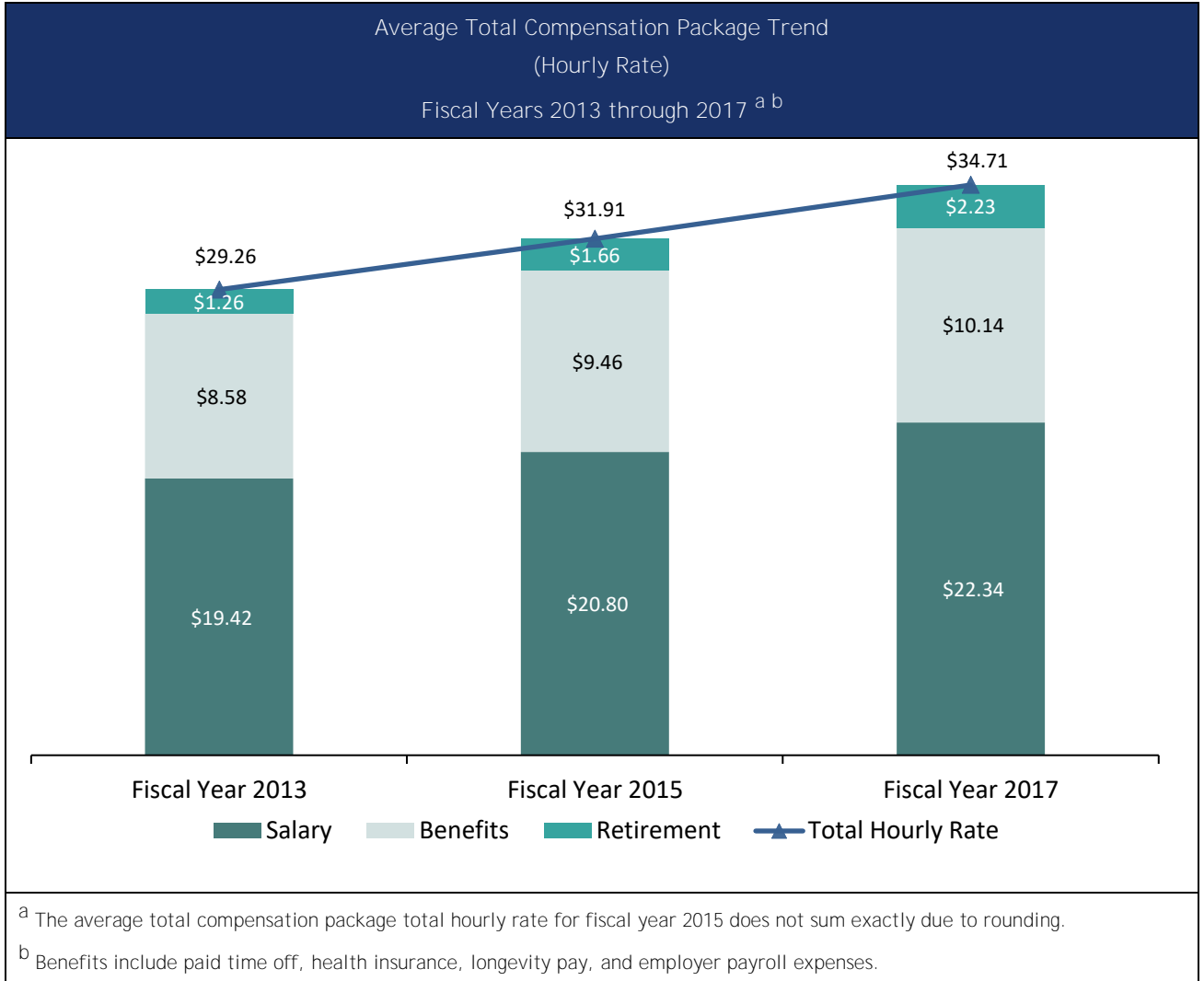
Sources: Various state agencies and state information systems.

Components of the Average Total Compensation Package

Salary, benefits, and retirement contributions are the three main components of the State’s average total compensation package. The value of that package has increased by 18.6 percent when compared to five years ago in fiscal year 2013.

Figure 4 shows the trend (in hourly dollar rates) for average salary, benefits, and retirement contributions for fiscal years 2013 through 2017. (See Appendix 2 for a detailed list of the estimated annual dollar value of each benefit category.)

Figure 4



Sources: Various state agencies and state information systems.

Components of the Total Compensation Package with the Largest Percent Increase

Retirement contributions and health insurance costs paid by the State were the two components of the average total compensation package that had the largest percentage increase between fiscal year 2015 and fiscal year 2017. Retirement contribution costs paid by the State increased by 34.3 percent since fiscal year 2015. That increase can be attributed, in part, to the increase in the State’s retirement contribution rate, which increased from 7.5 percent in fiscal year 2015 to 9.5 percent in fiscal years 2016 and 2017. The 84th Legislature approved that increase.² Additionally, the average health insurance contribution paid by the State increased by 14.0 percent since fiscal year 2015.

The average annual salary for a classified, full-time employee in fiscal year 2017 increased 7.4 percent compared to two years ago in fiscal year 2015. That increase can be attributed, in part, to the employee pay increases in fiscal year 2016 approved by the 84th Legislature.

Table 1 lists the legislatively approved pay increases for state employees.³

Table 1

| Legislatively Approved Pay Increases for Classified Employees Fiscal Years 2014 through 2019 | | |
|---|------------------|--|
| Fiscal Year | Percent Increase | Details |
| 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 received a 2.0 percent increase or a minimum of \$50 per month. |
| 2016 | 2.5% | Employees paid in Salary Schedules A, B, and C received a 2.5 percent increase. Pay increases for certain positions in Salary Schedule C were also approved. |
| 2017 | 0.0% | No legislative increase was authorized. |
| 2018 | 0.0% | No legislative increase was authorized, except for one pay rate increase in Salary Schedule C for employees in Salary Group C3 with more than 20 years of service. |
| 2019 | 0.0% | No legislative increase was authorized. |

Sources: State of Texas Salary Increase History, State Auditor’s Office; the Office of the Comptroller of Public Accounts’ *Legislative Changes Affecting Salary Administration, 85th Legislature*; and the General Appropriations Act (85th Legislature).

² The State’s retirement contribution rates will remain at 9.5 percent for fiscal years 2018 and 2019, as approved by the 85th Legislature.

³ The legislative increases in Table 1 do not reflect other types of pay increases such as promotions, equity adjustments, or merit increases that individual state employees may receive within their respective state agencies.

Salary and Wages

The largest component of the State's total compensation package is base pay provided to employees for work they perform. Although 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 average total compensation package calculations. Longevity pay is provided to full-time employees who have at least two years of lifetime service credit.⁴

In addition to longevity pay, employees may receive additional forms of compensation, such as performance incentives, on-call pay, salary and educational stipends, benefit replacement pay, or shift differential pay. The costs for those additional types of compensation were excluded from the average total compensation package 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.

Benefits

Benefits are the programs an employer uses to supplement the base pay 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 employee⁵, the State pays all of the employee's health insurance premium and 50 percent of dependents' health insurance premiums.
- **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.

⁴ Longevity pay is authorized in Texas Government Code, Section 659.043. For the purposes of this report, longevity pay is calculated as a benefit because it is a form of indirect compensation.

⁵ For the purpose of determining state contributions for health insurance, full-time employees are those employees working 30 hours or more per week.

- 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 2017 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 for a death in the employee’s family, educational activities 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 average total compensation package.

- Retirement. The State offers a defined benefit retirement plan (see text box). The defined benefit retirement plan (or defined benefit pension plan) is designed to reward employees who spend the majority of their careers in state service. The 84th Legislature approved a state retirement contribution rate of 9.5 percent for fiscal years 2016 and 2017, in addition to the payroll retirement contribution paid by state agencies at the rate of 0.5 percent of base salary for all employees who are members of the retirement system.

| |
|--|
| <p>Defined Benefit Retirement Plan</p> <p>Under a defined benefit retirement plan, also known as a defined benefit pension plan, the benefit upon retirement is known. The employer bears the financial risk and generally provides higher benefits for employees with longer service.</p> <p>Source: U.S. Securities and Exchange Commission.</p> |
|--|

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. New state agency employees are automatically enrolled in the 401(k) plan at 1 percent of their salary, or they can choose not to participate.

- Other Benefits. The State also offers employees the option of participating in health and dependent care flexible spending accounts and commuter spending accounts.

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.

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 2017, excluding employees at higher education institutions. Quantifiable benefits included in the calculation of the State's 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 average value of the total compensation package, the estimated dollar values of the quantifiable benefits were added to the average annual salary for a classified, full-time employee. 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.

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

- Juan R. Sanchez, MPA, CIA, CGAP (Project Manager)
- Kathy-Ann Moe, MBA
- Sharon K. Schneider, CCP, PHR, SHRM-CP
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

Details of the Total Compensation Package

Table 2 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 2017.

Table 2

| Total Compensation Package Category Details | | | |
|---|--|----------------|----------------------------------|
| Fiscal Year 2017 | | | |
| Type of Benefit | Estimated Annual Dollar Value | Category Total | Percentage of Total Compensation |
| Employer Payroll Expenses | Social Security and Medicare Taxes | \$3,555 | |
| | Unemployment Compensation | \$ 45 | |
| | Workers' Compensation^a | \$ 243 | |
| Total Employer Payroll Expenses | | \$ 3,843 | 5.3% |
| Paid Time Off | Holidays | \$2,324 | |
| | Sick Leave | \$2,145 | |
| | Vacation Leave | \$2,942 | |
| Total Paid Time Off | | \$ 7,411 | 10.3% |
| Health Insurance ^b | | \$ 8,907 | 12.3% |
| Retirement Contributions | | \$ 4,648 | 6.4% |
| Longevity Pay | | \$ 921 | 1.3% |
| Total Benefit Cost | | \$25,730 | 35.6% |
| Average Annual Salary (Classified, Full-time Employee) | | \$46,475 | 64.4% |
| Total Compensation Package | | \$72,205 | 100.0% |
| <p>^a This is the average claim cost for employees of General Revenue-funded state agencies who are eligible for workers' compensation. The average claim cost calculation excludes agencies with workforces composed entirely of unclassified employees, agencies that do not participate in the State Office of Risk Management's assessment program, and state active duty personnel.</p> <p>^b This is an average state contribution for all active employees of General Revenue-funded state agencies.</p> | | | |

Sources: Various state agencies and state information systems.

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Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

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

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor



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