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Office of Program Policy Analysis & Government Accountability

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The Legislature Could Consider Several Options for Modifying State Employee Compensation

at a glance

In Fiscal Year 2008-09, Florida's total compensation costs for its nearly 122,000 non-university employees totaled $6.5 billion. About three-quarters (76%) was for wages, while 24% was for benefits. Insurance is the most costly employee benefit, followed by retirement and leave.

Many states are considering actions to reduce employee compensation costs as a means of addressing budget shortfalls. The Legislature could consider several options for reducing compensation costs for Florida's state employees. These options have advantages and disadvantages, as well as varying fiscal impacts.

Scope

As directed by the Legislature, this report examines compensation for state employees and answers five questions.

1. What is the cost of state employee compensation and what are the major components of this cost?
2. What benefits are available to state employees?
3. How does compensation for Florida's state employees compare to other states and the private sector?
4. What strategies are other states using to contain employee compensation costs?
5. What options could the Legislature consider to reduce employee compensation costs?

Background

Florida uses 16 separate personnel systems to provide wages and benefits for state agency, university, and other government employees (see Exhibit 1).

Exhibit 1
Florida Has 16 Personnel Systems for State Employees[1]

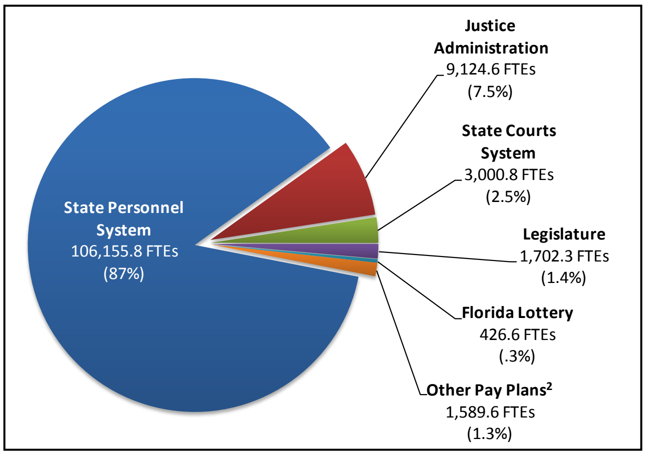
System Name	Members
State Personnel System	Employees of executive branch and state agencies
Justice Administration Personnel System	Public defender and state attorney staff as well as staff of the capital collateral regional counsels and the Justice Administrative Commission
Legislative Personnel System	Legislative committee staff and other support staff
Florida Lottery Personnel System	Department of Lottery staff
State Courts Personnel System	Judges, supreme court justices, and their support staff
Eleven separate university personnel systems	Personnel of each state university

[1] Some state employees are part of other pay plans not included in the above personnel systems. These employees include elected officials and certain employees within the Governor's Office and the Florida National Guard.

Source: Department of Management Services.

The largest personnel system is the State Personnel System, which constituted 87% of the state's non-university workforce of 121,999.7 full-time equivalent employees in Fiscal Year 2008-09, as shown in Exhibit 2.[1] The Department of Management Services (DMS) is responsible for administering the State Personnel System, but has no authority over the other personnel systems except for administering insurance and pension plans.

Exhibit 2
Most Non-University State Employees Are in the State Personnel System[1]



[1] Does not include Other Personal Services (OPS) employees.

[2] The 'Other Pay Plans' category includes elected statewide officials and select state employees within the Governor's Office and the Florida National Guard.

Source: Fiscal Year 2008-09 payroll data provided by the Auditor General.

Each personnel system administers pay plans that specify employment conditions, including the benefits available to employees. For example, there are three pay plans within the State Personnel System – Selected Exempt Service, Senior Management Service, and Career Service.

Most non-university state employees (71%) belong to the State Personnel System's Career Service pay plan, the state's civil service system that protects employees from disciplinary actions except for just cause. All other non-university state employees belong to pay plans and personnel systems that do not provide such protection for their employees; they serve at the will of the agency head or the electorate.

Due to a lack of centralized information on state university employee compensation costs, the remainder of this report uses the term 'state employee' to include employees of all personnel systems and pay plans except those of the 11 state universities. The report also does not include Other Personal Services (OPS) employees who do not receive state benefits.

Questions and Answers

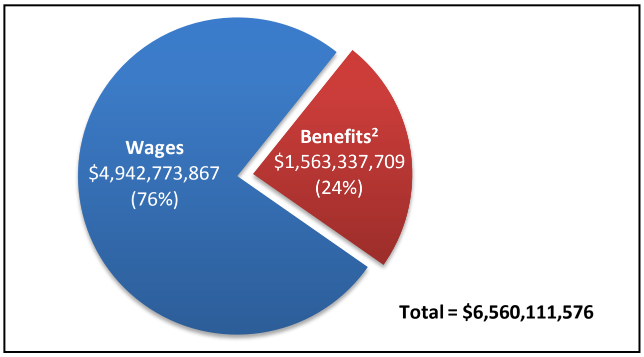
What is the cost of state employee compensation and what are the major components of this cost?

In Fiscal Year 2008-09, the state paid $6.5 billion in compensation costs for state employees (excluding university and OPS employees). As shown in Exhibit 3, about three-quarters ($4.9 billion) of this total was for wages that are paid bi-weekly or monthly, depending on the agency. The remaining $1.6 billion funded benefits such as health insurance and retirement plan contributions.[2] As used in this report, the term 'benefit' does not include federally required payments made on behalf of employees, such as Social Security and Medicare taxes.

[1] The count of full-time equivalent (FTE) employees sums the efforts of individuals who may work less than full-time. For example, an employee who works in a position for only six months is counted as .5 FTE. Due to a lack of centralized information, this total does not include employees of the 11 state universities.

[2] The number of state employees and compensation costs included in this report may differ from information reported by the Department of Management Services. We report the number of state employees on a full-time equivalent basis and actual payroll expenditures.

Exhibit 3
Wages Were the Largest Component of State Employee Compensation in Fiscal Year 2008-09[1]



[1] Does not include state university or Other Personal Services (OPS) employees.

[2] Benefits include retirement contributions, insurance (health, disability, and life), military and adoption subsidies, contributions to the cost of administering pre-tax benefits, and the payment for annual leave cashed in on an annual basis by members of the Career Service System.

Source: Payroll data provided by the Auditor General.

What benefits are available to state employees?

The state provides a range of benefits to state employees, including leave, insurance, and contributions towards retirement. These benefits vary by length of service, personnel system, and pay plan. Appendix A lists these employee benefits.

State employees are eligible for certain benefits. State employees have access to three major types of benefits: leave, insurance, and retirement.

Leave. Employees in all personnel systems earn time away from duty without loss of salary. These leave categories include annual, sick, special compensatory, administrative, and paid state holidays.

- **Annual leave** can be used for any purpose desired by the employee. Some state employees may cash in up to 24 hours of annual leave a year.
- **Sick leave** is for health-related purposes such as personal or family illness, injury, or medical appointments that require the employee to be absent from the workplace.
- **Special compensatory leave** and **Federal Fair Labor Standards Act special compensatory leave** are earned by some employees in lieu of overtime pay and can be used for any purpose desired by the employee.
- **Administrative leave** is granted to employees on an as-needed basis for activities such as jury duty, death in the family, and natural disaster or other emergency conditions.
- **Nine designated holidays** are granted to state employees, with one additional day given to each salaried employee as a personal holiday.

Leave balances for most employees are tracked by the People First system managed by the Department of Management Services.[3]

Insurance. All state employees are eligible to participate in various insurance programs, which are administered by the Department of Management Services, Division of State Group Insurance. Insurance programs include health, life, disability, and various other products.[4]

- **Health insurance** options available to employees include membership in a health maintenance organization or in a preferred provider organization. State employees are also eligible to enroll in a health investor plan with either a preferred provider organization or a health maintenance organization that includes a Health Savings Account as an alternative to other health insurance plans.
- **Life insurance** is available to state employees through a group term policy.
- **Disability insurance** programs partially replace income for employees unable to work due to long-term disability.
- **Other insurance** products are available to state employees who choose to participate and include vision and cancer insurance.

[3] People First, Florida's human resource information system, tracks payroll, leave, and insurance benefits for members of the State Personnel System and the Florida Lottery Personnel System. The Justice Administration System and State Courts System use People First for payroll and insurance only. The Florida Legislature and the State Board of Administration use People First for insurance only.

[4] The Division of State Group Insurance administers insurance programs on behalf of state government as well as state retirees and Consolidated Omnibus Budget Reconciliation Act (COBRA) participants.

Retirement. State employees may select one of three retirement plans, which are administered by the Department of Management Services, Division of Retirement and the State Board of Administration. The state makes monthly contributions to the selected retirement plans, which are invested to pay benefits when the employee retires. All state retirement plans are non-contributory and are funded by the state; employees do not directly contribute to their selected retirement plan.[5]

- **Defined benefit** is a pension plan funded by employer contributions, which are transferred to the State Board of Administration for investment to pay future benefits to members and beneficiaries. Retired employees who are vested in the plan (i.e., have at least six years of service) receive a monthly pension that is calculated based on their age, salary, years of service, and membership class.
- **Defined contribution** is an individual retirement investment plan funded by employer contributions. Unlike the defined benefit plan, contributions are directed to various investment funds selected by the employee. There is no fixed benefit level at retirement, and employees are vested in the plan after one year of service.
- **Optional Annuity Program** is available only to members of the Senior Management Service pay plan. State contributions are invested with an approved provider selected by the employee and fund an annuity when the employee retires. There is no vesting requirement for this program, and employees can choose to contribute to the plan.

Other benefits. The state offers a variety of other benefits that may or may not directly affect an employee's total compensation, such as leave for approved volunteer activities and subsidies for eligible state employees who adopt a qualified child. In addition, for some positions, such as law enforcement officers, uniforms are provided.

Employee benefit levels vary. State employee benefits can vary based on length of service, assigned personnel system, and pay plan (see Appendix B).

Length of service. Some benefits, particularly leave, vary based on the number of years a worker has been employed by the state. For example, employees in the Career Service pay plan with fewer than 5 years of state service receive 8.667 hours of annual leave per month, while those with 10 or more years of state service accumulate annual leave at a rate of 13 hours a month.

Personnel system. There are differences in the benefit levels provided by different state personnel systems. For example, employees in the State Personnel System's Selected Exempt Service and Senior Management Service pay plans who have no prior state service receive 176 hours of annual leave upon their initial hire and on their annual employment anniversary date. In contrast, employees in the Legislative Personnel System with no prior state service earn 11 hours of annual leave per month.

Pay plan. Insurance benefits for employees vary by pay plan. For example, the state pays the full cost of health insurance premiums for employees in the Selected Exempt and Senior Management pay plans, while Career Service employees pay a monthly premium to share the cost of health insurance with the state. The monthly employee premium is $50 for employee-only coverage and $180 for family coverage.[6]

For the state's retirement plans, contributions vary based on employee salary and retirement system class. As shown in Exhibit 4, current state retirement contribution rates range from 8.69% to 19.76% of an employee's salary, depending on Florida Retirement System membership class.

[5] The Florida Retirement System includes state employees (including university employees), as well as local and regional government entities such as school boards.

[6] Effective May 2009, the monthly state premium was $498.68 for individual and $1,127.74 for family coverage.

Exhibit 4
State Contribution Rates Differ Significantly Across Retirement System Classes

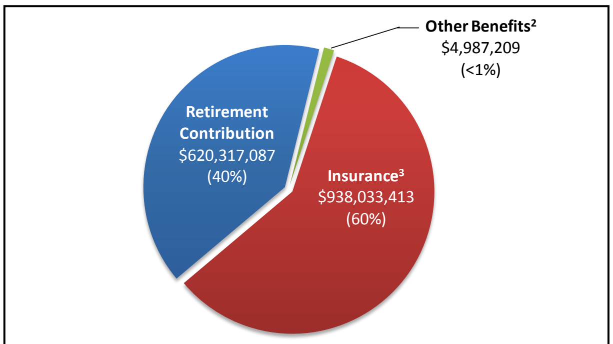
Employee Class	2008-09 Uniform Employer Contribution[1]
Regular	8.69%
Special Risk Administrative Support	11.39%
Senior Management Service	11.96%
Elected Officers: Legislators, Governor, Cabinet Members, State Attorneys, Public Defenders	13.32%
Elected Officers: Judges	18.40%
Special Risk	19.76%

[1] The uniform contribution rate is the rate necessary to fund the benefit obligations of the Florida Retirement System (FRS) defined benefit and defined contribution plans. Beginning July 1, 2010, the uniform employer contribution for each employee class will increase.

Source: Section 121.71, *F.S.*, and Ch. 2008-139, *Laws of Florida.*

Insurance is the most costly employee benefit. For Fiscal Year 2008-09, the state paid $1.6 billion for benefits for non-university state employees. As shown in Exhibit 5, the largest proportion of this cost was for insurance, which had a cost of $938 million (60% of the total).[7] Contributions to employee retirement investments accounted for $620.3 million (40%). Other categories accounted for less than 1% of total benefit expenditures.

Exhibit 5
Insurance Was the Most Costly State Employee Benefit in Fiscal Year 2008-09[1]



[1] Percentages do not add up to 100 due to rounding. Does not include state university or Other Personal Services (OPS) employees.

[2] Other benefits include annual payments to Career Service employees eligible to receive cash payments in lieu of taking up to 24 hours of earned leave per year, but do not include one-time terminal leave payments to employees separating from state employment. It also includes military and adoption subsidies.

[3] Includes state payments for health, disability, and life insurance, as well as $13.1 million given to the department to administer pre-tax benefits.

Source: Office of the Auditor General and Department of Management Services.

In addition to these annual benefit costs, when employees separate from state employment, they may receive one-time cash payments for the value of annual and sick leave accrued but not used during their years of service.[8] State agencies do not receive specific appropriations to make these leave payments, which totaled $48.8 million in Fiscal Year 2008-09. The Department of Management Services reports that for the employee leave that it tracks, as of June 30, 2009, the potential liability for unused annual and sick leave payments was approximately $674.8 million.[9, 10]

How does compensation for Florida's state employees compare to other states and the private sector?

Total employee compensation includes both salaries and benefits. As states generally offer differing benefit levels to their employees, direct comparisons among states are subject to some uncertainty. Comparisons to private sector employers are also subject to some uncertainty, because many occupational categories used by state governments do not have direct private sector counterparts. In addition, public sector wage and benefits information often combines compensation data for both state and local government employees.

Florida offers similar types of benefits as other states, but state employee salaries are lower than the national average for states. Florida, like most public employers, tends to offer more generous benefits than do private sector employers. State employee salaries are higher than the private

[7] Health insurance accounted for $910,384,650 of this amount.

[8] There are limits on the number of sick and annual leave hours for which employees may receive cash payment; these limits vary by pay plan.

[9] 'Potential liability' is the state cost if all employees were to separate at the same time and be paid for earned but unused leave.

[10] This does not reflect the state's total liability for unused leave. DMS tracks only the leave liability for members of the State Personnel System, and its leave liability reports do not adjust for all situations related to employee eligibility (e.g., must have one year of service to be paid for unused annual leave). The State Personnel System has an additional potential liability of $118.4 million (as of June 30, 2009) for paying compensatory leave benefits to designated employees who receive leave credits in lieu of holiday or overtime pay.

sector for lower skill level positions but are below private sector salaries at middle and upper skill level positions. This reflects the historical trade-off in which governments are perceived to offer lower salaries but greater benefits and employment security than private sector employers.

Florida's employee compensation costs are relatively low compared to most states. All state governments offer employee compensation packages that include both wages and benefits. Employee benefits offered by all states include paid leave, health insurance, and retirement plans. However, as noted by the National Conference of State Legislatures, each state (including Florida) has developed its own distinct benefits structure due in part to local conditions and collective bargaining agreements.

States also differ in how they balance wage and benefits in their overall compensation packages. For example, a 2007 national survey reported that Colorado and Vermont had similar average total compensation costs per full-time employee - $62,129 and $61,677, respectively. However, Colorado's compensation package was balanced at 81% wages and 19% benefits, while Vermont's system offered 71% wages and 29% benefits.[11]

As reported in the same national survey, Florida's average total compensation cost for state employees was $47,027, which included 74% wages and 26% benefits; average wages were $34,834.[12] Florida's average state employee wages were ranked 32nd among the 41 states (in the lower quartile) that responded to the survey. The Department of Management Services, in its Fiscal Year 2008-09 Annual Workforce Report, noted that Florida ranked last in the nation in state employee personnel costs per resident ($38) and was tied with Illinois for the lowest ratio of state employees to population (118 per 10,000 residents).

While valid comparisons are limited, state compensation tends to be higher than the private sector for less skilled positions but lower for positions that are more skilled. Comparisons between the public and private sectors are subject to several constraints. Notably, there are material differences in the types of jobs offered by the two sectors, and some positions frequently employed by governments – such as law enforcement officers – do not exist in the private sector. Governments also tend to employ a higher proportion of professional and administrative employees than does the private sector.

In areas where jobs can be directly compared across the public and private sectors, governments tend to offer higher compensation for lower-skill jobs than does the private sector. For example, the average annual wage for file clerks working in state government was $28,481, compared to $22,893 for those working in the private sector (based on the 2007 Labor Market Statistics reported by the Agency for Workforce Innovation).[13] However, the private sector tends to offer higher compensation for high-skill jobs. For example, the average annual wage for computer systems analysts working in the private sector was $66,841, compared to $50,700 for comparable state employees.

There are differences in benefit packages available to public and private sector employees. The U.S. Bureau of Labor Statistics reports that in 2009, health care benefits were available to 88% of state and local government workers compared to 71% of private industry workers. However, private sector access to health insurance varied greatly by salary level; 90% of the private sector workers receiving the highest wages had access to health care benefits, while only 25% of those with the lowest wages had this access.

Private sector employees also are less likely to be covered by a retirement plan that provides a guaranteed pension benefit. Economists at a 2009 forum sponsored by The Federal Reserve

[11] *The Book of the States 2008*, Volume 40, Council of State Governments, 2008.

[12] The relative proportion of wages and benefits used in the national survey differed somewhat from the data presented in Exhibit 3 (76% for wages and 24% for benefits) due to differences in sources of data, calculation methodologies, and fiscal year.

[13] The Agency for Workforce Innovation data includes wages of workers in state public administrator offices, universities, and health care facilities.

Bank of Chicago reported that in 2008, 42% of Fortune 500 firms offered an ongoing pension plan to their employees compared to 80% of state and local governments. However, private sector employers are able to offer more generous benefits than the public sector in areas including bonuses, profit sharing, and employee discounts for products and services.

What strategies are other states using to contain employee compensation costs?

The National Conference of State Legislatures reports that the legislatures and governors of at least 29 states have proposed or enacted measures to address budget shortfalls by decreasing state employee compensation during the 2010 budget year. These measures have included hiring freezes, layoffs, furloughs, and wage reductions. States have also made changes to employee insurance and retirement benefits.

Several states have imposed furloughs and across-the-board salary reductions. The National Conference of State Legislatures reports that at least 11 states have considered across-the-board employee wage reductions and furloughs. Five of these states (Delaware, Florida, Hawaii, Idaho, and Vermont) have reduced wages for at least some state employees and officials.[14]

Six states (California, Michigan, Minnesota, New Mexico, Rhode Island, and South Carolina) plan to achieve cost savings through employee furloughs. California and Minnesota have offered voluntary time reductions to employees, while Rhode Island has offered furlough days to employees in exchange for additional vacation credits.

Some states are considering reducing state employee health insurance and retirement benefits. The National Conference of State Legislatures reports that at least five states have considered reducing state employee health benefits. Connecticut and Utah have increased mandatory employee contributions for health insurance, while three states (Georgia, Hawaii, and Ohio) have considered but not enacted similar changes. Three states (Nevada, New Mexico, and Virginia) have increased mandatory employee contributions to retirement systems. In Virginia, a temporary suspension of state payments to the state employee retirement fund has been proposed.

What options could the Legislature consider to reduce employee compensation costs?

The Legislature could consider numerous approaches to restructure state employee compensation and reduce costs. Exhibit 6 identifies options to reduce employee wages and benefits. Each option has advantages and disadvantages. Where possible, the exhibit also identifies the estimated fiscal impact of implementing each option based on the effect on state employees, excluding university and Other Personal Services employees.[15] It should be noted that these fiscal impacts are dependent on how they would be implemented (e.g., for the entire year, for all employees, and/or whether as a stand-alone action or in combination with other options). We did not attempt to project how the options would affect the competitiveness of state employee compensation.[16]

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[14] Delaware reduced state employee pay by 2.5% for the 2010 budget year; Florida reduced compensation for legislators; Hawaii cut the pay of the governor, lieutenant governor, department directors, judges, and legislators by 5%; and Idaho reduced the pay of 186 workers. The Florida Legislature also enacted a 2% pay reduction for state employees making more than $45,000 for Fiscal Year 2009-10, but the Governor vetoed this provision. In Vermont, a 3% pay reduction has been agreed to, but has not yet been ratified by state employee union members. California, Kansas, and Nevada also considered but did not implement pay reductions.

[15] OPPAGA calculated fiscal impacts based on payroll data supplied by the Auditor General and/or actuarial studies commissioned by the Department of Management Services.

[16] While s. 110.2035, *F.S.*, requires the Department of Management Services to conduct market studies of state employee compensation, the department has not conducted such a study since 2000 and estimates that it would cost $150,000 to conduct. For Fiscal Year 2007-08, the department requested, but did not receive funds to complete the study.

Exhibit 6
The Legislature Could Consider Options to Reduce State Employee Wages and Benefits

WAGES

Option 1 – Reduce wages of salaried state employees by a specific percentage

Employee salaries would be reduced by a specified percentage. The option could be applied to all state employees; those earning over a specified amount (e.g., $45,000); and/or those in specified roles (e.g., senior management).

Advantages

- Amount of savings would depend on level of reduction and number of employees affected. Based on wage data for Fiscal Year 2008-09, estimated savings of an across-the-board salary reduction would be
  - 1% reduction – $49 million
  - 2% reduction – $99 million
  - 3% reduction – $148 million[1]
- Retains skills of current employees
- Avoids costs of terminating state employees, (e.g., unemployment insurance, cash assistance, Medicaid, and housing programs)

Disadvantages

- Could have largest impact on lower paid employees
- Could make it difficult to recruit and retain a qualified workforce and could affect employee morale and productivity; state workforce has not been awarded a general pay increase since 2006[2]
- Agencies would incur some costs to process payroll adjustments for affected employees.
- State may need to offer an open enrollment period to allow affected employees to change deductions that affect take-home pay such as pre-tax medical accounts

Option 2 – Furlough state employees

Employees would be required to take unpaid days off, or agencies could be directed to achieve a percentage reduction in workdays. Employees could also be asked to take voluntary leave without pay. Some states have allowed employees to earn annual leave for unpaid furloughed hours.

The state would need to develop policies on how furloughs would affect benefits such as insurance and leave accrual. Due to statutory constraints, furloughs may need to be authorized through the General Appropriations Act.

Advantages

- Amount of savings would depend on the number of employees affected and number of furlough days. Based on wage data for Fiscal Year 2008-09, the estimated savings for furloughs affecting all state employees would be
  - Five days – $95 million
  - Ten days – $190 million
  - Fifteen days – $285 million
- Voluntary furloughs or allowing employees to earn annual leave for unpaid furloughs would reduce potential savings, but could help preserve employee morale.
- Allowing agencies to achieve furlough goals would enable agencies to protect staff that perform critical functions but would increase salary losses for other employees.
- Avoids costs associated with terminating state employees (e.g., unemployment insurance, cash assistance, Medicaid, and housing programs)

Disadvantages

- Could have largest impact on lower paid employees
- Could make it difficult to recruit and retain a qualified workforce, and could affect employee morale and productivity
- Employee absences due to furloughs could result in service disruptions to citizens.
- Agencies would incur some costs to process payroll adjustments for affected employees.
- State may need to offer an open enrollment period to allow affected employees to change deductions that affect take-home pay such as pre-tax medical accounts.
- Allowing employees to earn annual leave for furlough hours would increase the state's long-term leave liability.

BENEFITS

LEAVE

Option 1 – Convert to a 'paid time off' leave policy

Combine annual and sick leave into a single leave category of paid time off.

Advantages

- This could produce savings if employees earn fewer total hours of leave than current sick and annual leave levels; would reduce terminal leave payments.[3] The fiscal impact would depend on how employees manage their leave.
- Could be easier for agencies to administer
- Would give employees more discretion over leave use

Disadvantages

- State would incur costs to reconfigure systems that track leave (e.g., People First)
- Would require negotiation with employee unions
- Employees may be reluctant to use leave when sick, which could create public health concerns.
- Could increase the state's long-term leave liability if employees can sell all unused leave; currently, only one-quarter of sick leave hours are eligible for terminal leave payment[3]

Option 2 – Adopt a 'use it or lose it' leave policy for annual and sick leave

Employees would be prohibited from carrying forward leave balances from year to year. Employees could be awarded a lump sum of leave at the beginning of year to cover illnesses early in the year.

Advantages

- This would eliminate the state's accrued long-term liability for unpaid annual and sick leave, which totaled $674,774,894 for members of the State Personnel System at the end of Fiscal Year 2008-09. There is no statewide, centralized source of information for other personnel systems
- Could help prevent burnout, as employees would likely take time off during the year
- Could reduce long-term pension costs as fewer hours would be available for lump-sum terminal leave payments that are included in employees' final compensation

Disadvantages

- Would have an adverse impact on employees who could no longer accrue leave for serious illnesses or maternity leave; such employees would incur leave without pay
- Could create legal issues if workload prevents employees from using earned leave
- Could create staffing shortages in year implemented if employees with extensive current leave balances are required to use all leave before end of year
- Could create recurring staffing shortages at end of year when employees need to use remaining leave
- Would require negotiations with state employee unions

Option 3 – Reduce the amount of annual and sick leave employees can carry over from year to year

Implementing this option would reduce the amount of annual and sick leave that employees can carry over from one year to the next.

Advantages

- This would reduce the state's accrued long-term liability for unpaid annual and sick leave, which totaled $674,774,894 for members of the State Personnel System at the end of Fiscal Year 2008-09. There is no centralized source of information for other personnel systems.
- Employees would be required to take time off during the year, which could help prevent burnout.
- Could reduce the state's long-term pension costs, as fewer hours would be available for lump-sum terminal leave payments that are included in employees' final compensation
- Would reduce separation costs when employees leave state employment and sell unused leave; in Fiscal Year 2008-09, these payments totaled $48,757,178[3]

Disadvantages

- Could have an adverse impact on employees who would no longer be able to accrue leave for extended time away from the workplace for serious illnesses or maternity leave, and who may need to take time off without pay
- Could create problems if workload prevents employees from taking off earned leave time
- Could cause staffing problems for agencies if many employees try to reduce their leave balance toward the end of the year
- Would require negotiations with state employee unions

BENEFITS

LEAVE (continued)

Option 4 – Implement a policy of annual cash payments in lieu of carrying forward annual and sick leave balances

Pay employees for unused leave at end of each year.

Advantages

- Would reduce separation costs when employees leave state employment and sell unused leave; in Fiscal Year 2008-09 these payments totaled $48,757,178[3]
- Could reduce the state's long-term pension costs, as fewer hours would be available for lump-sum terminal leave payments that are included in employees' final compensation

Disadvantages

- Would increase state costs in the year implemented if employees were paid for existing unused leave at the end of the year
- Could reduce productivity if employees do not take time off and experience burnout
- Agencies may need additional annual appropriations to cover the cost of leave payments.[4]
- Would require negotiations with state employee unions

Option 5 – Standardize annual leave for all state employees

Eliminate current leave differentials based on longevity or pay plan, which currently range from 8.667 to 15 hours per month; some employees receive a lump sum of 176 to 240 leave hours upon employment and on their annual anniversary date.

Advantages

- Would reduce annual and terminal leave costs, if leave reduced to lowest common level. Fiscal impact would depend on how employees manage their leave
- Could reduce staffing needs and related costs, as many employees would have fewer leave hours
- Standardizing leave provisions could reduce workload in processing benefits.

Disadvantages

- Would reverse current policy of providing increased benefits to employees who do not have employment protection[5]
- Reducing leave would reduce overall employee compensation, and could negatively affect the state's ability to recruit and retain a qualified workforce.
- Would require negotiations with state employee unions

Option 6 – Reduce paid state holidays

Reduce the number of paid state holidays such as the personal holiday

Advantage

- This could reduce the amount of special compensatory leave awarded to employees who work on state holidays as well as terminal leave costs. The fiscal impact would depend on how employees manage their leave.

Disadvantages

- Ability to recruit and retain a qualified workforce
- Eliminating the personal holiday would limit options for employees who use it for religious holidays.
- Would require negotiation with state employee unions

Option 7 – Eliminate all paid sick and annual leave

No longer pay employees if they are away from work, as is done for Other Personal Services (OPS) employees

Advantage

- Would reduce costs, as most employees miss some work time due to illness or vacation; amount of savings would depend on extent of absences

Disadvantages

- Could have a significant impact on lower paid employees and those with extensive absences due to serious illnesses or family situations
- State would no longer be exempt from the guaranteed salary provisions of the U.S. Fair Labor Standards Act, which provides that employers cannot reduce certain salaried employees' salaries when they are not in the workplace
- Would require negotiations with state employee unions
- Would require new payroll procedures to adjust pay for hours missed each pay period due to illness, vacations, etc.
- Could negatively affect the state's ability to recruit and retain a qualified workforce
- Could create public health problems if sick workers go to work rather than take time off without pay
- Could reduce productivity over time if staff do not take vacation time

BENEFITS

LEAVE (continued)

Option 8 – Reduce the amount of Special Compensatory Leave that can be earned, accumulated, and compensated

Certain employees who are required to work on a state holiday or to work extra hours during a work period containing a holiday earn special compensatory leave on an hour-for-hour basis. Employees could be required to use special compensatory leave prior to using annual leave.

Advantage

- Could reduce the state's accruing liability for unpaid special compensatory leave, which totaled $117.2 million at the end of Fiscal Year 2008-09[3]

Disadvantage

- Would require negotiations with state employee unions

Option 9 – Reduce the amount of Fair Labor Standards Act (FLSA) Special Compensatory Leave that can be accumulated and compensated

Certain state employees covered under the Fair Labor Standards Act who work overtime currently earn additional leave (at a rate of 1½ times the hours worked) in lieu of receiving overtime pay. If the leave is not used within six months, the employee receives overtime pay for the leave. The state could require employees to use this leave prior to annual leave to reduce the number of hours of special compensatory leave compensated.

Advantage

- Would reduce the state's accruing liability for FLSA special compensatory leave, which totaled $1.1 million at the end of Fiscal Year 2008-09[3]

Disadvantages

- Would require negotiations with state employee unions
- If the amount of FLSA Special Compensatory Leave that may be accumulated was reduced, the state would be obligated to pay overtime wages for the hours that could not be converted to leave.

INSURANCE

Option 1 – Implement a flexible benefits program

In lieu of funding specific benefits such as health and life insurance, the state would provide a specific monetary amount to each employee for benefits; employees would select among available insurance products (e.g., health, life, family, or individual coverage).

Advantages

- Would allow employees to select insurance products that best meet their needs, such as low deductible policies or a higher level of life insurance coverage
- Would provide greater uniformity of benefits; employees with families currently receive higher benefit funding than those with individual coverage
- Would produce savings if amount provided to employees is lower than current funding for employee benefits

Disadvantages

- This could result in more state employees and their families being uninsured if they are unable to afford family coverage; these employees could potentially opt back into the health insurance program when their health care needs increase, thereby increasing costs.[6]
- Could negatively affect the state's ability to recruit and retain a qualified workforce

Option 2 – Require all employees to pay health insurance premiums

Discontinue paying the full cost of health insurance premiums for some employees. Some pay plans, such as those covering Selected Exempt Service, Senior Management Service, and elected officials do not offer employment protections as found in Career Service. Employees in these pay plans receive 'free' health insurance. In addition, employees whose spouses also work for the state do not pay health insurance premiums.

Advantage

- In Fiscal Year 2008-09, eliminating the fully paid health insurance benefit for 34,249 employees would have saved $60,120,360.[7]

Disadvantages

- Could have a disproportionate effect on lower paid employees, who would incur the additional expense of paying health insurance premiums
- Could increase the number of state employees and their dependents who are uninsured, if some employees are unable to afford premiums[6]
- Could negatively affect the state's ability to recruit and retain a qualified workforce

BENEFITS

INSURANCE (continued)

Option 3 – Increase employee health insurance premiums

Require employees to pay a larger share of monthly insurance premiums. This could be done by increasing current contribution levels ($50 for single and $180 for family coverage) or increasing the employee contribution rate for higher cost plans (according to the Department of Management Services, health maintenance organizations are currently the most costly plans).

Advantages

- Would reduce the state's costs for employee health insurance premiums; fiscal impact would depend on the amount of cost shift to employees
- Would be an incentive for employees to select policies that are less costly to the state
- Would increase employee awareness of benefit costs and their overall compensation

Disadvantages

- Could have a disproportionate effect on lower paid employees, who may not be able to afford higher premiums
- Could increase number of employees and their dependents who are uninsured, if some employees are unable to afford premiums[6]
- Could negatively affect the state's ability to recruit and retain a qualified workforce

Option 4 – Create a larger group health insurance participant pool

Expand the state health insurance group by allowing local governments to participate.

Advantage

- This could help local governments contain costs by spreading the health care risk of their employees with the larger state workforce. According to Department of Management Services officials, there would be no cost advantage to the state because the current participant pool is large enough to sufficiently spread the risk and administrative costs.[8]

Disadvantages

- Could be costly to incorporate local governments into the state health insurance system
- Could be challenges with collective bargaining for local government employees
- Could increase state costs if local participation is not mandatory and only local government high-risk groups participate

Option 5 – Develop health insurance products that focus on employee wellness

Modify current health insurance policies to emphasize employee wellness.

Advantage

- Could reduce long-term health care costs for state employees and dependents, thereby potentially lowering health insurance premium costs for the state and employees

Disadvantage

- Could produce short-term costs if the wellness program offered benefits such as disease management programs or fitness club memberships

Option 6 – Reduce coverage provided by health insurance plans

Offer reduced health insurance coverage by eliminating benefits, increasing employee co-pays and deductibles, and/or introducing deductibles and co-insurance for some health maintenance organization services.

Advantages

- This would produce savings if reduced coverage lowered health insurance premiums. The fiscal impact would depend on the changes made. For example, the Department of Management Services reports that the net savings to the state would be $93.8 million if all participants in the group health insurance program were enrolled in the current health investor, high deductible health plan. Alternatively, according to DMS, the state would save $78.9 million if HMO plans were revised to add an annual $250/$750 deductible and 90% coinsurance.
- State would share increasing health care costs with employees

Disadvantages

- Higher costs could have a disproportionate effect on lower paid employees.
- Could negatively affect the state's ability to recruit and retain a qualified workforce
- May negatively affect the health status of state employees and their dependents if they did not seek medical services due to increased employee costs

BENEFITS

INSURANCE (continued)

Option 7 – Establish health insurance coverage levels based on number of dependents

Vary the structure for employee health insurance on family size, (e.g., in addition to employee only and family coverage, add a middle tier for 'employee plus one').

Advantage

- This could reduce health insurance premiums for the state and those employees with a single dependent who would not require more costly family coverage. The fiscal impact would depend on the tier structure selected, and the employee contribution to premiums.

Disadvantage

- Employee premiums for family coverage could increase, as lower cost two-person families would no longer be included in coverage group.

Option 8 – Create separate health insurance pools for active state employees

Establish a separate health insurance pool for active state employees, which would involve establishing separate programs for non-Medicare eligible retirees and Medicare retirees.

Advantage

- Could reduce state's health insurance costs for active employees; fiscal impact would be determined by an actuarial study[9]

Disadvantages

- Would shift costs to retirees, as their risk pool would no longer include active state employees who generally are younger with lower health care costs
- May increase number of uninsured retirees who could not afford higher premiums

Option 9 – Increase eligibility audits for state-subsidized benefits

Ensure the state is only paying for eligible participants by auditing dependent eligibility and removing ineligible dependents from health plans.

Advantage

- This could reduce state costs associated with benefits for ineligible persons. Based on program enrollment for December 2008, the Department of Management Services estimates potential health insurance premium cost savings of $6.1 million to $12.4 million per year.

Disadvantage

- May require funding for auditing services

Option 10 – Eliminate all health, life, and disability insurance benefits

Eliminate state involvement in providing insurance products for employees, who would be required to obtain individual insurance if they wished to have coverage.

Advantage

- Would save $938 million (based on Fiscal Year 2008-09 expenditures,) as the state would no longer contribute to employee health, life, and disability insurance

Disadvantages

- Employees would likely incur substantially higher costs for individual health and life insurance products.
- The percentage of workforce that is uninsured would likely increase because some employees may not be able to afford individual policies or may be uninsurable due to age or health status.[6]
- Could increase absenteeism from work and public health hazards if employees come to work sick because they no longer have access to health care
- Could negatively affect the state's ability to recruit and retain a qualified workforce
- Depending on the outcome of national health insurance reform, the state as an employer could be subject to penalties if it no longer offered health insurance.

BENEFITS

RETIREMENT

Option 1– Consolidate employee retirement classes, based on ability to work a normal 30-year career

Consolidate the current five retirement classes into fewer classes, which would reduce the higher pension credits currently earned by some employees. For example

- Class 1 could include employees expected to reach the normal retirement age of 62 with 30 years of service; and
- Class 2 could include members whose duties preclude them from working more than 25 years or beyond age 55, such as law enforcement officers, firefighters, and corrections officers.

Advantages

- Consolidation would have saved an estimated $359 million in Fiscal Year 2008-09; savings would accrue to all Florida Retirement System (FRS) employers (only a portion - an estimated $111.9 million - would accrue to the state). An actuarial study is necessary to more precisely estimate the fiscal impact related only to state employees.
- May help the state retain experienced employees, since individuals receiving a reduced pension benefit may choose to defer retirement

Disadvantages

- Would require negotiations with employee unions
- Employees receiving reduced benefits would have to work longer to earn the same retirement benefit.
- Reducing pension accrual rates for some groups of employees would reduce the overall compensation package, which could negatively affect the state's ability to recruit and retain a qualified workforce.
- Would affect the entire FRS, not just state agencies, which could present challenges for the system's 909 non-state employers, based on 2009 DMS data

Option 2– Reduce the Special Risk Class to law enforcement, firefighters, and correctional officers

Limit the Special Risk Class to law enforcement, firefighters, and corrections officers, the original employee groups covered by the class when the Florida Retirement System was established in 1970. This option recognizes the physical demands faced by these employees and provides for their earlier retirement.

Advantage

- The potential savings from this option depends on how many employees would be transferred from the Special Risk to the Regular class. For example, for the entire Florida Retirement System, cost savings for Fiscal Year 2008-09 would have been approximately $83 million if 20% of the Special Risk Class members transferred to the Regular Class, approximately $20 million of which is for state employees. An actuarial study is necessary to more precisely estimate the fiscal impact related only to state employees.

Disadvantages

- Would require negotiations with employee unions
- Individuals transferred out of the Special Risk Class (e.g., some medical personnel who work in correctional facilities) would no longer receive higher retirement compensation due to their higher employment risks, which could negatively affect the state's ability to recruit and retain a qualified workforce.
- Employees transferred out of the Special Risk Class would need to work longer to receive the same benefits provided by the current system.
- Would affect the entire FRS, not just state agencies, which could present challenges for the system's 909 non-state employers, based on 2009 DMS data

Option 3– Reduce accrual rates for all members of the Florida Retirement System

Establish comparable pension benefits for Florida Retirement System members, regardless of class. For example, the Legislature could set a uniform accrual rate of 1.6% - 1.68%, the current accrual rate of the Regular Class.

Advantage

- For the entire Florida Retirement System, this option would have reduced employer contributions by $327.5 million in Fiscal Year 2008-09; an estimated $91.6 million of which is for state employees. An actuarial study is necessary to more precisely estimate the fiscal impact related only to state employees.

Disadvantages

- Would require negotiations with employee unions
- Employees receiving a reduced retirement benefit would need to work longer to earn the same retirement income.
- Could negatively affect the state's ability to recruit and retain a qualified workforce
- Would affect the entire FRS, not just state agencies, which could present challenges for the system's 909 non-state employers, based on 2009 DMS data

BENEFITS
RETIREMENT (continued)
Option 4– Require employees to contribute a percentage of their salary to the retirement system Convert the Florida Retirement System to an employee contributory system.
Advantage ▪ For the entire Florida Retirement System, requiring all members to contribute 1% of their salaries to the system would have generated $275 million in Fiscal Year 2008-09. Requiring state employees to contribute 1% of their salaries to the FRS would have generated $44 million.[11] **Disadvantages** ▪ Requiring pension contributions would reduce overall compensation packages, which could negatively affect the state's ability to recruit and retain a qualified workforce. ▪ Would require additional funding for personnel and technology to calculate and distribute refunds to employees who leave the system before vesting ▪ Would affect the entire FRS, not just state agencies, which could present challenges for the system's 909 non-state employers, based on 2009 DMS data
OTHER
Option 1– Reduce or eliminate adoption subsidy Reduce or eliminate the subsidy paid to employees who adopt children through Florida's foster care system.
Advantage ▪ Would reduce or eliminate the costs associated with this program, which according to the Department of Children and Families, totaled $613,605 in Fiscal Year 2008-09 **Disadvantages** ▪ Would remove an incentive for public employees to adopt foster children ▪ Could lead to increased state costs for foster children

[1] Unless otherwise noted, fiscal impacts are based on payroll data provided by the Auditor General.

[2] Only employees meeting performance standards were eligible for the pay adjustment.

[3] Separation costs are currently covered with funds in an agency's annual appropriation.

[4] For classes of employees currently eligible for cash payments for 24 hours of leave each year (Career Service employees), agencies make payments out of salary and benefit appropriations.

[5] Career Service employees are protected from being reprimanded, discharged, suspended without pay, or demoted except for just cause. Other classes of employees are hired and fired at the will of the employer.

[6] Dependents of state employees are not eligible to receive premium assistance through Florida's KidCare program, which serves uninsured children. In addition, depending on the outcome of national health insurance reform, employees opting out of health insurance programs could be subject to fines and/or other penalties.

[7] Does not include spouses of state workers who also work for the state.

[8] According to the Department of Management Services, small local governments can currently join the state group health plan; however, each participating local government remains its own risk pool.

[9] Currently, the premium cost for non-Medicare eligible retirees is comparable to the premium cost of benefits for active employees. Since healthcare costs increase with age, retirees under the age of 65 are not paying the full cost of their benefits, which results in the state subsidizing retirees under the age of 65.

[10] For a more detailed analysis of the four options for changing the Florida Retirement System, see OPPAGA Report No. 10-15.

[11] Employer contributions would not be reduced on a dollar-for-dollar basis because funds must be available for refunds to employees leaving the FRS before vesting.

Source: OPPAGA analysis.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of Management Services for review and response. The Secretary's written response is included in Appendix C.

Appendix A

State Employees Have Access to Numerous Benefits

State employees receive a variety of benefits, including leave, insurance, and retirement contributions, as well as access to adoption subsidies, deferred compensation, and employee assistance programs. Table A-1 lists benefits provided to Florida's state employees. While general benefit categories are the same for all state employees, the benefit level may vary according to personnel system and pay plan.

Table A-1
State Employees Have Access to Numerous Benefits, Including Leave, Insurance, and Retirement Plans

MAJOR BENEFIT CATEGORIES
Leave – Each employee is eligible for leave benefits, which include, but are not limited to, paid annual and sick leave. Employees are also eligible for administrative leave, which includes jury duty, death in the family, closing facilities under emergency conditions, formal investigations, elections, examinations and interviews, and mentoring.
Holidays – State employees are granted nine paid holidays per year, as well as one personal holiday.
State Group Insurance – State employees are eligible to participate in state group insurance programs including health, life, disability, vision, and dental. Some insurance products are funded entirely by the state, others require employee contributions, and some are fully paid for by the employee.
Retirement – The state makes retirement contributions on behalf of active employees, who may choose a traditional pension plan, an investment plan, or in some cases, an annuity plan.
OTHER BENEFIT CATEGORIES
Adoption Benefits – The state provides a subsidy to state employees who adopt a special-needs child or a non-special needs child whose permanent custody has been awarded to the Department of Children and Families or to a Florida-licensed child placing agency.
Deferred Compensation – Employees cover the full cost if they choose to participate in this retirement investment program.
Direct Deposit – Employee salary and retirement payments are directly deposited into their designated bank, savings and loan association, or credit union via Electronic Funds Transfer.
Employee Assistance Programs – State employees and their family members may participate in the program, which offers confidential, professional counseling services, 24 hours a day.
Florida Tuition Waiver Program – State employees who participate in this program may enroll for up to six credit hours of courses per term at a state university or institution in the Florida College System, on a space-available basis. Due to fiscal constraints, some institutions have recently closed access to classes through the waiver program.
Military Pay - State employees who are members of the U.S. military reserves or the National Guard and begin active military service beyond short-term training receive full state pay for the first 30 calendar days of active military service. Subsequent to the first 30 calendar days of active military service, if the employee's military base pay (excluding allowances for housing) is less than their state salary, the employee is entitled to supplemental pay to bring the employee's salary up to the level earned on the date the employee was called to active military service.
Parking – Most employees have access to free or low-cost parking close to their workplace. For paid parking, monthly fees tend to be below market value.
Supplemental Insurances – Employees have access to a variety of supplemental insurance products, and pay the premiums if they choose to enroll. This includes vision, hospitalization, and cancer coverage.

Source: Department of Management Services.

Appendix B

State Employee Benefits Vary Across Personnel Systems and Pay Plans

The benefits offered to state employees vary among personnel systems and the pay plans within these systems. Table B-1 below uses the State Personnel System, which includes 87% of the state's non-university workforce, to illustrate how major benefits vary based on pay plan membership. Other personnel systems also offer varying benefits, generally specified in administrative rules, which are based on the pay plan to which the employee belongs.

Table B-1
The State Personnel System Provides an Example of How Employee Benefits Vary by Pay Plan

	STATE PERSONNEL SYSTEM PAY PLANS		
	Career Service	Selected Exempt Services (SES)	Senior Management Service (SMS)
LEAVE BENEFITS			
Annual Leave	Accrues 8.667 hours to 13 hours of annual leave per month, depending on length of employment May cash in 24 hours of unused leave per year, to a maximum career total of 240 hours With a minimum of one year of service, eligible for terminal leave payouts up to 240 hours upon separation from the state	Receives 176 hours upon appointment date and each anniversary date Upon termination, may be paid up to 480 hours (most recent accrual is prorated at time of separation)	Receives 176 hours upon appointment date and each anniversary date Upon termination, may be paid up to 480 hours (most recent accrual is prorated at time of separation)
Sick Leave	Accrues 8.667 hours per month regardless of length of service Upon termination with a minimum of 10 years of service, may be paid for ¼ of sick leave balance not to exceed 480 hours	Receives 104 hours upon appointment date and each anniversary date Upon termination with a minimum of 10 years of service, may be paid for ¼ of sick leave balance not to exceed 480 hours	Receives 104 hours upon appointment date and each anniversary date Upon termination with a minimum of 10 years of service, may be paid for ¼ of sick leave balance not to exceed 480 hours
Holidays	Nine paid holidays each calendar year and one paid personal holiday each fiscal year	Same as Career Service	Same as Career Service
INSURANCE BENEFITS			
Health Insurance - preferred provider organization (PPO) or health maintenance organization (HMO)	Employee pays monthly premium of $50 for individual coverage or $180 for family coverage; effective May 2009, the state pays $448.68 or $947.74, respectively	State pays 100% of the premium for either individual or family coverage	State pays 100% of the premium for either individual or family coverage
Life Insurance	Coverage is 150% of salary. Employee pays approximately 20% of the premium with the state paying the remainder	Coverage is 200% of annual salary. The state pays 100% of the premium.	Coverage is 200% of annual salary. The state pays 100% of the premium.
Disability Insurance	None	The employee is eligible for 65% of income for a maximum of 364 days of continuous disability. The employee must exhaust all leave first and the amount may be offset by certain other benefits. The state pays 100% of the premium.	The employee is eligible for 65% of income for a maximum of 364 days of continuous disability. The employee must exhaust all leave first and the amount may be offset by certain other benefits. The state pays 100% of the premium.

	STATE PERSONNEL SYSTEM PAY PLANS		
	Career Service	Selected Exempt Services (SES)	Senior Management Service (SMS)
RETIREMENT BENEFITS			
FRS Defined Benefit Pension Plan (Regular Class)	State employees vest in the plan in six years. Normal retirement at age 62 or 30 years of service at any age. Benefit is 1.60% to 1.68% times the years of service times the average of the highest five fiscal years of compensation with adjustments for early retirement.	Same as Career Service	State employees vest in the plan in six years. Normal retirement at age 62 or 30 years of service at any age. Benefit is 2% times the years of service times the average of the highest five fiscal years of compensation with adjustments for early retirement.
FRS Defined Benefit Pension Plan (Special Risk Class)	State employees vest in the plan in six years. Normal retirement at age 55 or 25 years of service at any age. Benefit is 3% times the years of service times the average of the highest five fiscal years of compensation with adjustments for early retirement.	Same as Career Service	Same as Career Service
FRS Defined Contribution Investment Plan (Regular Class)	State employees vest in the plan in one year. The state deposits 9% of the salary into Regular Class employees' accounts.[1]	Same as Career Service	State employees vest in the plan in one year. The state contributes 10.95% of the salary into the employees' accounts.[1]
FRS Defined Contribution Investment Plan (Special Risk Class)	State employees vest in the plan in one year. The state deposits 20% of the salary into Special Risk Class employees' account(s).[1]	Same as Career Service	Same as Career Service
SMS Defined Contribution Optional Annuity	N/A	N/A	State employees vest immediately. The state contributes 12.49% of the salary into the employees' account(s).[1]

[1] This differs from the rate reported in Exhibit 4, because that rate blends the employer contribution rates for the defined contribution and defined benefit plans, while the rate reported above disaggregates the rate by plan.

Source: Department of Management Services and the 2008 General Appropriations Act.

Appendix C

DEPARTMENT OF MANAGEMENT Services

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Governor Charlie Crist

Secretary Linda H. South

March 16, 2010

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability
111 West Madison St., Room 312
Tallahassee, FL 32399-1450

Dear Mr. VanLandingham:

We have reviewed your preliminary and tentative report; *The Legislature Could Consider Several Options for Modifying State Employee Compensation.*

The department will implement or assist other entities in implementing any options the Legislature should choose to designate.

We appreciate your staff's efforts and cordial working relationship over the past few months. If you need additional information, please contact Steve Rumph, Inspector General, at 488-5285.

Sincerely,

Linda H. South
Secretary

cc: James Finch, Chief of Staff
David Faulkenberry, Deputy Secretary
Sharon Larson, Director of Human Resources
Michelle Robleto, Director of State Group Insurance
Sarabeth Snuggs, Director of Retirement
Elizabeth Irvin, Legislative Affairs Director
Linda McDonald, Communications Director

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