

May 2010

*The Benefits
of the
Privileged Class*

POLICY

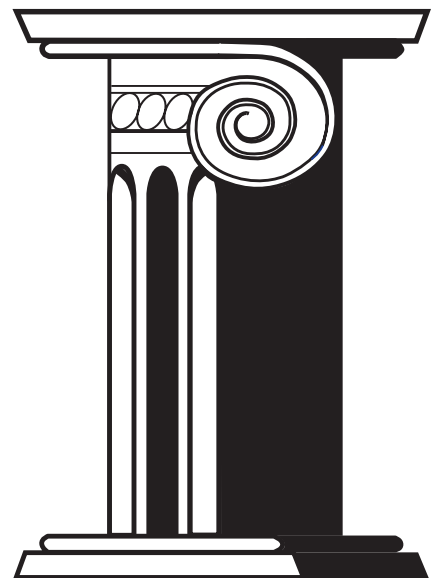
STUDY

No. 10-3

by

**Amy K. Frantz
Public Interest Institute
Mt. Pleasant, IA**

PUBLIC INTEREST



I N S T I T U T E

POLICY STUDY

May 2010

No. 10-3

Public Interest Institute

**Dr. Don Racheter,
President**

POLICY STUDIES are published as needed. They are longer, analytical articles on important public issues.

POLICY STUDIES are published by Public Interest Institute *at* Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

Contributions are tax-deductible under sections 501(c)(3) and 170 of the Internal Revenue Code.

Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: "Reprinted by permission from POLICY STUDY, a publication of Public Interest Institute."

The views expressed in this publication are those of the authors and not necessarily those of Public Interest Institute.

If you have an article you believe is worth sharing, please send it to us. All or a portion of your article may be used. This publication is brought to you in the interest of a better-informed citizenry, because IDEAS DO MATTER.

We invite you to:
CALL us at 319-385-3462
FAX to 319-385-3799
E-MAIL to public.interest.institute@limitedgovernment.org
VISIT our Website at www.limitedgovernment.org
WRITE us at our address on the back cover

Copyright 2010

The Benefits of the Privileged Class

Contents

Executive Summary	3
Introduction	4
How many workers are employed by the State of Iowa?	6
Salary and Benefits for Executive Branch employees	7
Underfunded Retirement Benefits	14
What Steps Have Other States Taken?	16
Conclusion	17
Endnotes	18

At one time, working for the government was considered a public service and the wages earned were generally lower than those that could be earned in a similar occupation in the private sector. In return, government workers generally received more job security and somewhat better benefits. However, in modern times, the average government worker receives better benefits than the average private-sector worker, without the sacrifice of receiving lower pay.

The U.S. Department of Labor's Bureau of Labor Statistics (BLS) periodically releases a calculation of Employer Costs for Employee Compensation. The BLS data shows that not only is the employer cost overall higher for state and local government workers than for full-time private-sector workers, but the cost of benefits to the employer is also higher. The cost to the employer for state and local government workers is particularly higher in the areas of insurance and retirement benefits.

According to the most recent data from the U.S. Census Bureau, Iowa's state government employs 42,551 full-time employees. Using the Census Bureau's estimate for Iowa's 2009 population of 3,007,856 citizens, Iowa has one state government employee for every 71 people residing in our state.

As the chief executive officer of the state of Iowa, the Governor heads up the Executive Branch of the state government. The 20,515 full-time employees of Iowa's Executive Branch make up almost half of the full-time employees of Iowa's state government. The benefits outlined in this *POLICY STUDY* that are received by the Executive Branch employees may not be the exact benefits received by all state government employees, but they are a good representation of the benefits available.

State pension plans are also under increasing stress, from states skipping payments into the pension plan to be able to spend more on other programs, to the recession that caused the assets of some pension plans to plummet, as well as state employees that retire earlier often because of incentives provided by the state and who are living longer after their retirement.

Iowa's government employees should remember that they are ultimately working for the taxpayers, and while their benefits should be fair, they should also be comparable with those received by private-sector workers in Iowa who pay the taxes to hire the government workers.

Executive Summary

“Not only is the employer cost overall higher for state and local government workers than for full-time private-sector workers, but the cost of benefits to the employer is also higher.”

The Benefits of the Privileged Class

“However, in modern times, the average government worker receives better benefits than the average private-sector worker, without the sacrifice of receiving lower pay.”

Introduction

At one time, working for the government was considered a public service and the wages earned were generally lower than those that could be earned in a similar occupation in the private sector. In return, government workers generally received more job security and somewhat better benefits. However, in modern times, the average government worker receives better benefits than the average private-sector worker, without the sacrifice of receiving lower pay.

The U.S. Department of Labor’s Bureau of Labor Statistics (BLS) periodically releases a calculation of Employer Costs for Employee Compensation.² Table 1 shows these costs for state and local government workers and for all workers in private industry. I also included the figures for full-time private-sector workers because a 2005 study by Dave Swenson and Liesl Eathington of the Department of Economics at Iowa State University states that “the private sector has a large number of part-time and partial-year jobs, while the public sector primarily employs persons full-time and year-round” thus comparing state and local government workers to just full-time private-sector workers is a more apples-to-apples comparison according to the findings of the ISU study.³

The BLS data shows that not only is the employer cost overall higher for state and local government workers than for full-time private-sector workers, but the cost of benefits to the employer is also higher. The cost to the employer for state and local government workers is particularly higher in the areas of insurance and retirement benefits.

This disparity in the benefits given to state and local government workers is even more acute when looking at the federal government, as reported recently in *USA Today*:

Overall, federal workers earned an average salary of \$67,691 in 2008 for occupations that exist both in government and the private sector, according to Bureau of Labor Statistics data. The average pay for the same mix of jobs in the private sector was \$60,046 in 2008, the most recent data available.

These salary figures do not include the value of health, pension and other benefits, which averaged \$40,785 per federal employee in 2008 vs. \$9,882 per private worker, according to the Bureau of Economic Analysis.⁴

Table 1. Employer Costs for Employee Compensation (Wages & Benefits), per hour worked

	State & Local Government workers	Private Industry: All workers	Private Industry: Full-time workers
Total compensation	\$39.60	\$29.37	\$31.45
Wages & salaries	\$26.11	\$20.49	\$21.88
Total Benefits	\$13.49	\$8.88	\$9.57
Paid leave vacation holiday sick personal	\$2.99	\$2.04	\$2.32
Supplemental Pay overtime & premium shift differentials nonproduction bonuses	\$0.33	\$0.74	\$1.01
Insurance Life Health short-term disability long-term disability	\$4.61	\$2.54	\$2.61
Retirement & benefits defined benefit defined contribution	\$3.19	\$1.29	\$1.15
Legally required benefits Social Security & Medicare Federal unemployment insurance State unemployment insurance Workers' comp	\$2.36	\$2.27	\$2.48

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation – December 2009," March 10, 2010, <<http://www.bls.gov/news.release/ecec.nr0.htm>>; News Release Table 1. Civilian workers, by major occupational and industry group; Table 3. State and local government, by major occupational and industry group; and Table 11. Private industry, by occupational group and full-time and part-time status.

The Benefits of the Privileged Class

How many workers are employed by the State of Iowa?

Any look at employment numbers, including the number of state-government employees, is somewhat fluid, as employees come and go throughout the year, and the total number of employees can change frequently.

According to the most recent data from the U.S. Census Bureau, Iowa's state government employs 42,551 full-time employees. Using the Census Bureau's estimate for Iowa's 2009 population of 3,007,856 citizens, Iowa has one state government employee for every 71 people

residing in our state. Table 2 compares this number for our state to the states that surround Iowa. The Census Bureau also indicates that Iowa's state government has 24,956 part-time employees, for a total of 67,507 people working for the Iowa state government.

Earlier this year, in March 2010, *The Cedar Rapids Gazette* published an article about employment levels in state government.⁵ The *Gazette's* analysis found there were 68,785 state-government employees in Iowa. Table 3 shows a breakdown of the state employment figures found in the March 14, 2010, *Cedar Rapids Gazette*.

Table 2. Citizens per State Government Employee - Iowa and Surrounding States

	State Government Employees (full time)	Population estimate	Citizens per State Government Employee
Illinois	109,118	12,910,409	118
Iowa	42,551	3,007,856	71
Minnesota	65,046	5,266,214	81
Missouri	79,565	5,987,580	75
Nebraska	26,967	1,796,619	67
South Dakota	11,834	812,383	69
Wisconsin	55,206	5,654,774	102

Source: U.S. Census Bureau, *American FactFinder, Population Finder, "2009 Population Estimates,"* <<http://www.census.gov/>> and U.S. Census Bureau, *"State Government Employment Data: March 2008,"* Revised December 2009, <<http://www.census.gov/govs/apes/>>.

Table 3. State Employment figures

Executive Branch	20,418
Legislative Branch*	356
Judicial Branch	1,768
Community-based Corrections	1,125
Fair Authority**	60
Regents	
External funding sources	9,821
State General fund	9,798
Students	18,389
University of Iowa Hospitals and Clinics	7,050
Total	68,785

* Excludes employees hired just for the Legislative session

** Fair numbers are full-time positions only, others may be a mix of full-time and part-time positions.

Source: Charlotte Eby, "State work force down by 1,500," *The Cedar Rapids Gazette*, March 14, 2010, p. 1A.

Salary and Benefits for Executive Branch employees

As the chief executive officer of the state of Iowa, the Governor heads up Iowa's Executive Branch of the state government. The Executive Branch includes those departments overseen by other elected officials, such as the Department of Agriculture or the State Treasurer's office, as well as those headed by political appointees, such as the Department of Corrections or the Department of Economic Development.⁶

The Executive Branch's Department of Administrative Services (DAS), Human Resource Enterprise, publishes an annual snapshot of the Executive Branch workforce, including data on the number of employees, the benefits received by those employees, and length of service in state government of those employees.⁷ At the end of fiscal year 2009 (note: FY09 ended June 30, 2009) "there [were] 20,515 full-time employees who work for the State of Iowa Executive

The Benefits of the Privileged Class

"The Gazette's analysis found there were 68,785 state-government employees in Iowa."

The Benefits of the Privileged Class

Branch (excluding Fair Authority, Community-Based Corrections, and the Regents employees).⁷⁸ The Executive Branch also had 317 part-time employees and 1,051 temporary employees at that time. “Three departments comprise 58.1% of all Executive Branch employees: Human Services (28.1%), Corrections (15.2%), and Transportation (14.8%).”⁷⁹ A full list of all the departments included in the DAS report’s employee total for FY 2009 can be found in Table 4.

“In Fiscal Year 2009, Executive Branch full-time employees, on average, earned \$53,619 annually in base salary. The average salary of Executive Branch full-time employees has increased 30.3% since Fiscal Year 2002 and 4.3% since last fiscal year.”¹⁰ Three Executive Branch employees were given Reassignment bonuses, for a total cost of \$7,283.20.¹¹ Two Executive Branch employees received Recruitment bonuses, for a total cost of \$19,632.¹² Forty

Table 4. Executive Branch Departments

Administrative Services	Iowa Department of Aging
Agriculture	Iowa Public Television
Alcoholic Beverages (Division of Commerce Dept.)	IPERS
Auditor	Justice
Banking & Professional Licensing (Divisions of Commerce Dept.)	Law Enforcement Academy
Blind	Lottery
Civil Rights	Management
College Aid	Natural Resources
Corrections	Parole
Credit Union (Division of Commerce Dept.)	Public Defense
Cultural Affairs	Public Employment Relations
Economic Development	Public Health
Education	Public Safety
Ethics/Campaign Disclosure	Revenue
Finance Authority	Secretary of State
Governor's Office	Transportation
Human Rights	Treasurer
Human Services	Utilities Board (Division of Commerce Dept.)
Inspections and Appeals	Veterans Affairs
Insurance (Division of Commerce Dept.)	Veterans Home
Iowa Communications Network	Workforce Development

Source: “Just the Facts For 2009,” Iowa Executive Branch Workforce Almanac, Iowa Department of Administrative Services, Human Resource Enterprise, November 2009, p. 6, <http://das.iowa.gov/hre/documents/publications/just_the_facts_2009.pdf>.

Executive Branch employees received Retention bonuses, for a total cost of \$208,799.50.¹³ No performance bonuses were given to Executive Branch employees in Fiscal Year 2009.¹⁴ Many Executive Branch employees were also eligible for a “Merit Step” increase in salary – “bumps in salaries given to state employees who are not at the top of their field’s pay grades. Around 50 percent of state employees qualify for such increases. Most are eligible for 4.5 percent raises.”¹⁵

The Iowa Department of Administrative Services indicates that Executive

Branch employees earn vacation days, depending on the years of service, and earn sick leave, determined by the employee’s sick leave balance and bargaining status. The following DAS charts indicate the amounts of vacation¹⁶ and sick leave¹⁷ that can be earned by full-time employees.

In Fiscal Year 2009, Iowa’s full-time Executive Branch employees “earned 440,772.0 days of vacation with a value of \$87,819,939.52 and took 407,804.2 days of vacation valued at \$81,542,852.90. This is approximately 19.88 vacation days taken per full-time employee.¹⁸ Employees

The Benefits of the Privileged Class

Vacation

As a permanent or probationary full-time state of Iowa employee, you accrue vacation as follows:

1-4 years of service	2 weeks (80 hours) per year
5-11 years of service	3 weeks (120 hours) per year
12-19 years of service	4 weeks (160 hours) per year
20-24 years of service	4.4 weeks (176 hours) per year
25 or more years of service	5 weeks (200 hours) per year

Note: You must be paid for 80 hours in a biweekly time period to accrue at these rates. Otherwise, your vacation accrual is prorated.

Part-time employees earn prorated amounts of vacation based on the number of paid hours.

Temporary employees (intermittent, emergency, intern, trainee, and seasonal status) do not earn vacation.

Source: Iowa Department of Administrative Services, Human Resources, Employee Benefits, Types of Leave, Vacation, <<http://benefits.iowa.gov/leave.html>>.

“In Fiscal Year 2009...approximately 19.88 vacation days [were] taken per full-time employee.”

The Benefits of the Privileged Class

used 175,151.0 days of regular sick leave, valued at \$33,654,109.45, during FY 2009. This is about 8.41 days per full-time and part-time employee. This was less than half of the total 339,268.4 days of total sick leave earned.”¹⁹

Full-time Executive Branch employees are also “entitled to nine (9) standard holidays per year” plus “two (2) unscheduled holidays per year.”²⁰ In certain cases, employees may also be granted

leave time for bone marrow and organ donation, to serve as a certified disaster service volunteer for the American Red Cross, to further their education, to run for a political office, for jury duty or a court appearance, and to serve in the military. Employees “may be granted paid leave to attend interviews during scheduled work hours for jobs within their agency,” and “must be given time off with pay to vote on a public election day if the employee’s regularly

Sick Leave

Your sick leave benefits are determined by your sick leave balance and your bargaining status.

If the sick leave balance is:	Accrual Rate for: AFSCME IUP Science Unit Non-contract	Accrual Rate for: IUP Social Services Unit
Zero to 750 hours	18 days per year	12 days per year
Over 750 hours to 1,500 hours	12 days per year	9 days per year
Over 1,500 hours	6 days per year	6 days per year

“Full-time Executive Branch employees are also ‘entitled to nine (9) standard holidays per year’ plus ‘two (2) unscheduled holidays per year.’”

If you are a part-time employee, you accrue prorated amounts of vacation and sick leave based on the number of hours for which you are paid.

Temporary employees (intermittent, emergency, seasonal, intern, and trainee status) do not earn sick leave.

Depending upon your bargaining status, you may be able to use sick leave for medically related disabilities, personal illness, and personal medical and dental appointments. In some cases, you can use sick leave for deaths in the immediate family, pallbearer service, care of immediate family members, and adoption.

Employees on extended sick leave may apply for long-term disability or sick leave without pay. Contact the agency’s personnel assistant for more information.

Source: Iowa Department of Administrative Services, Human Resources, Employee Benefits, Types of Leave, Sick Leave, <<http://benefits.iowa.gov/leave.html>>.

scheduled work hours do not allow a continuous three-hour period before or after work hours when the voting polls are open.”²¹

Executive Branch employees receive health insurance benefits, dental benefits, life insurance, and long-term disability insurance. As you can see from the chart on page 12, taken from the DAS’ “Just the Facts for 2009” Workforce Almanac, the state generally pays 100 percent of the premiums for the employee’s single health insurance plan, and pays between 72 percent and 85 percent of the premiums for a family plan. The state pays 100 percent of the premiums for a single dental plan, and 50 percent of the premiums for a family dental plan. The state pays 100 percent of the premiums for Term Basic Life insurance, while the employee has the option to purchase supplemental life insurance on their own. And finally, the state pays 100 percent of the premiums for the employee’s long-term disability insurance.²²

In January of this year, 24 State Legislators introduced a bill, H.F. 2118, into the Iowa House of Representatives to require state-government employees to pay at least \$40 per month of the premiums for health insurance. This bill was referred to a Subcommittee of the State Government Committee, but no further

action was taken on this legislation before the end of the Legislative session in March. “We ask indigent Iowans and those living under the poverty level to contribute up to \$40 a month for their state-sponsored health plan, yet, in many cases, do not ask state employees to contribute anything,”²³ said State Representative Scott Raecker, one of the sponsors of H.F. 2118. “Iowa is one of only six states to offer the option of free health insurance to state government employees and their families.”²⁴

Another benefit provided to state-government employees is the Employee Assistance Program (EAP). The Iowa Department of Administrative Services’ website describes the program:

The Employee Assistance Program is a confidential, professional service to help executive, legislative, and judicial branch employees and their family members. With EAP you have access to prepaid, professional services to help you deal with problems before they begin to affect your health, happiness, or success.

The primary objective of the Iowa Employee Assistance Program is to provide a resource

The Benefits of the Privileged Class

“Executive Branch employees receive health insurance benefits, dental benefits, life insurance, and long-term disability insurance.”

CALENDER YEAR 2009 GROUP INSURANCE BENEFITS FACTS

Insurance Type	Funding Type	Who Pays What?	Projected Year 2009 Costs	Who's Eligible?	Current Vendor
HEALTH Traditional (Plan 3 Plus)	Minimum Premium	State pays 100% for single contracts and 85% of PPO family contract.	Total Projected Wellmark Cost = \$162,223,091	AFSCME, Judicial AFSCME, Judicial Non-Contract, PPME employees who work 20 hours or more per week are eligible.	Wellmark
Preferred Provider Organization (PPO-IA Select)	Minimum Premium	State pays 100% for single contracts and 85% of the PPO family contract.	Included Above.	AFSCME, Judicial AFSCME, PPME, and Non-Contract employees who work 20 hours or more per week are eligible.	Wellmark
Traditional (Deductible 3 Plus)	Minimum Premium	State pays 100% for single contracts and 72% of Deductible 3 Plus family contract.	Included Above.	UE/IUP and Non-Contract employees who work 20 hours or more per week are eligible.	Wellmark
Managed Care Organization (Category includes all HMOs)	Fully Insured	State pays 100% for single contracts and 85% of the AFSCME PPO family contract except for IUP employees who receive 72% of Deductible 3 Plus.	Total Projected Cost Equals \$154,794,950	All employees who work 20 hours or more per week are eligible.	Wellmark, United Healthcare, John Deere (2 Plans), Coventry (2 Plans)
DENTAL	Minimum Premium	State pays 100% for single contracts and 50% for a family contract (except for UE/IUP members).	Total Projected Cost Equals \$17,508,661	Employees must work 20 hours or more per week to be eligible	Delta Dental
LIFE Term Basic Life	Fully Insured	State pays 100%	Total Projected Cost Equals \$899,823	Employees must work 30 hours or more per week to be eligible	The Hartford
Supplemental (Optional)	Fully Insured	Employee pays 100%	Total Projected Employee Cost Equals \$1,781,815	Employees must work 30 hours or more per week to be eligible.	The Hartford
LONG TERM DISABILITY	Fully Insured	State pays 100%	Total Projected Cost Equals \$3,492,034		

NOTE: Health and Dental Insurance does not include SPOC plans or costs as these plans are based on a fiscal year.

Source: Iowa Department of Administrative Services, HRE - Benefits Bureau Data: EHolland. Chart taken from "Just the Facts For 2009," Iowa Executive Branch Workforce Almanac, Iowa Department of Administrative Services, Human Resource Enterprise, November 2009, p. 38, <http://das.iowa.gov/hre/documents/publications/just_the_facts_2009.pdf>.

for resolving problems in order to retain valued employees and to promote their health and well-being.

The Employee Assistance Program is a valuable tool that is available to employees, managers, supervisors, and family members.²⁵

The EAP provides services such as counseling services for “Alcohol or other drug abuse, Career struggles/job burn-out, Death/dying issues, Financial consultation (budgeting, investing), Health or stress concerns, Interpersonal conflicts, Marriage or family problems, Legal concerns (personal, non-employment related), and Workplace conflicts.”²⁶ These counseling services are free for employees and their families, but are “intended to be short term

in nature” so are limited to a few counseling sessions.²⁷ According to the DAS’ “Just the Facts For 2009” Workforce Almanac, 888 clients (employees or their family members) were served by the Employee Assistance Program in Fiscal Year 2009.²⁸

Retirees from the state’s Executive Branch are eligible to continue to participate in the health and dental insurance plan coverage, with either single or family coverage, as long as the retiree is at least 55 years of age and is receiving IPERS pension benefits. Retirees must pay the state portion of the premiums for health and dental insurance. There is a Sick Leave Insurance Program (SLIP) that allows certain employees who retire before they are eligible for Medicare “to use all or part of their unused sick leave balance to pay the state’s share of their health care premiums after they

The Benefits of the Privileged Class

“The Employee Assistance Program provides services such as counseling free for employees and their families.”

SLIP Calculation Example

Below is an example of how SLIP account is calculated.

Assumption: An employee has a sick leave balance of 1,000 hours and an hourly rate of \$20.00 at retirement.

Multiply the total number of sick leave hours by the regular rate of pay (1,000 * \$20.00).	\$20,000.00
Subtract \$2,000 from the total.	-\$2,000.00
Subtotal	\$18,000.00
Multiply the remaining amount times the conversion rate (80% x \$18,000) <i>(Conversion rate for sick leave balance between 750 – 1,500 hours is 80%)</i>	\$14,400.00
Credited to the employee's SLIP account	\$14,400.00

Source: Iowa Department of Administrative Services, Human Resources, Employee Benefits, Sick Leave Insurance Program (SLIP), SLIP Calculation Example, <http://benefits.iowa.gov/retirees_slip.html>.

The Benefits of the Privileged Class

“For a more thorough list and description of the benefits given to Executive Branch employees, visit the Iowa Department of Administrative Services, Human Resources Enterprise web page.”

retire until the time when they are eligible for Medicare.”²⁹ The following chart from DAS is an example of how the monetary value of a retiree’s sick leave balance for the SLIP is calculated.³⁰

The 20,515 full-time employees of Iowa’s Executive Branch make up almost half of the 42,551 full-time employees of Iowa’s state government, as reported by the U.S. Census Bureau. The benefits received by the Executive Branch employees may not be the exact benefits received by all state government employees, but they are a good representation of the benefits available. For a more thorough list and description of the benefits given to Executive Branch employees, visit the Iowa Department of Administrative Services, Human Resources Enterprise web page at <http://benefits.iowa.gov/index.html>.

Underfunded Retirement Benefits

State pension plans are under increasing stress, from states skipping payments into the pension plan to be able to spend more on other programs, to the recession that caused the assets of some pension plans to plummet, as well as state employees that retire earlier often because of incentives provided by the state and who are living longer after their retirement.

Dr. Barry W. Poulson and Dr. Arthur P. Hall talk about the ups and downs of funding defined-benefit pension plan obligations in their recent study, “State Pension Funds Fall Off a Cliff”:

In the course of the 20th century, states made significant progress in pre-funding their pension obligations. By the 1970s, the funding ratio reached 50 percent; in the 1990s, the ratio reached 80 percent; and in 2000, the ratio exceeded 100 percent. With a booming economy and the run up in the stock market in the 1990s, most states eliminated unfunded liabilities in their pension plans.

This success in eliminating unfunded liabilities in state pension plans was short lived. When recession hit in 2001, the fall in the stock market brought significant losses in assets held by state and local government pension funds.

By 2006, the funding ratio of state pension plans had fallen to 81 percent; and unfunded liabilities in these plans accumulated to almost \$360 billion. At that time, Standard

and Poor's projected the funding ratio would remain roughly constant—an outlook that proved to be optimistic. Since then, the stock market has fallen sharply and the economy has entered a recession.³¹

The U. S. Census Bureau in March issued a news release updating the Census' annual look at “the financial activity of the nation's state and local public employee retirement systems.”³² The Census' *2008 State and Local Government Employee Retirement Systems Survey* found that “the nation's state and local government employee retirement systems totaled \$3.2 trillion in holdings and assets in 2008, a loss of \$178.8 billion.”³³

For Iowa's state public employee retirement systems, the Census reports that the cash and investment holdings dropped from \$27.2 billion in Fiscal Year 2007 to \$25.6 billion in Fiscal Year 2008, a loss of \$1.6 billion.³⁴

In addition to pension benefits of retirees, states that provide retiree health benefits are facing additional unfunded liabilities. A report from last November from the U.S. Government Accountability Office (GAO) to Senator Herb Kohl (D-WI), the Chairman of the U.S. Senate Special Committee on Aging, outlined the liabilities facing

states for retiree health benefits. The GAO states “Because state and local governments have historically funded retiree health benefits when paid or provided rather than when the benefits are earned, much of their OPEB [other post-employment benefits] liability may be unfunded. This has raised concerns about the fiscal pressures that state and local governments will face in the coming decades.”³⁵

The results published in the GAO report are not encouraging for the states. The GAO “found that the total reported unfunded liabilities for OPEB (which are primarily retiree health benefits) for state... governments... [are] about \$405 billion.”³⁶ “Unfunded state liabilities ranged from \$71 million for Arizona to \$62 billion for California... Most state and local governments for which we reviewed CAFRs [Comprehensive Annual Financial Reports] have not set aside assets to fund OPEB liabilities... Thus, most state and local governments... are paying for their OPEB liabilities for active and retired workers in a given year from their current revenues.”³⁷

For the state of Iowa, the GAO reports an aggregate OPEB liability of \$404.3 million, with zero assets, leaving Iowa with an unfunded liability of \$404.3 million for primarily retiree health benefits.³⁸ This “pay-as-

The Benefits of the Privileged Class

“For the state of Iowa, the GAO reports an aggregate OPEB liability of \$404.3 million, with zero assets, leaving Iowa with an unfunded liability of \$404.3 million for primarily retiree health benefits.”

The Benefits of the Privileged Class

“This ‘pay-as-you-go’ practice allows current office holders to push the problem of paying for retiree health benefits onto future office holders and taxpayers.”

you-go” practice allows current office holders to push the problem of paying for retiree health benefits onto future office holders and taxpayers.

What Steps Have Other States Taken?

Some states have taken steps to curb the rising costs of government-employee and retiree benefits. In the state of New Jersey, recently elected Republican Governor Chris Christie, with the support of Democrat Senator Stephen Sweeney, the President of New Jersey’s State Senate, pushed through the adoption of legislation to scale back the benefits of New Jersey’s government workers. The legislation will “require all government employees to contribute, or contribute more, to the cost of their health-care insurance.”³⁹ Governor Christie “campaigned in part on a platform of cutbacks to government workers’ benefits, saying the benefits provided ‘are wildly out of proportion with the private sector.’”⁴⁰ The majority of New Jersey citizens seem to agree, with a recent poll showing 78 percent of voters backed making all government employees pay something toward their health-care benefits.⁴¹ In addition to these health benefits changes, “for new government hires, the measures limit payouts for unused sick leave, bar part-time workers from being eligible for

pensions and eliminate pension benefit raises approved in 2001.”⁴²

In Indiana, Governor Mitch Daniels made Health Savings Accounts (HSAs) available as an option for state-government workers. Governor Daniels describes the state’s HSA option and how this popular alternative has grown:

When I was elected Governor of Indiana five years ago, I asked that a consumer-directed health insurance option, or Health Savings Account (HSA), be added to the conventional plans then available to state employees. I thought this additional choice might work well for at least a few of my co-workers, and in the first year some 4% of us signed up for it.

In Indiana’s HSA, the state deposits \$2,750 per year into an account controlled by the employee, out of which he pays all his health bills. Indiana covers the premium for the plan...Unused funds in the account — to date some \$30 million or about \$2,000 per employee and growing fast — are the worker’s permanent property. For the very small number

of employees (about 6% last year) who use their entire account balance, the state shares further health costs up to an out-of-pocket maximum of \$8,000, after which the employee is completely protected. The HSA option has proven highly popular. This year, over 70% of our 30,000 Indiana state workers chose it, by far the highest in public-sector America.

State employees enrolled in the consumer-driven plan will save more than \$8 million in 2010 compared to their coworkers in the old-fashioned preferred provider organization (PPO) alternative.... HSA customers seem highly satisfied; only 3% have opted to switch back to the PPO. The state is saving, too. In a time of severe budgetary stress, Indiana will save at least \$20 million in 2010 because of our high HSA enrollment.⁴³

Indiana and New Jersey are among the states that have taken steps to scale back benefits or that have provided alternative means of providing benefits, while protecting those states' budgets from out-of-control spending on

government-employee and retiree benefits.

Conclusion

As Fred Barnes noted in *The New Fat Cats*,

“Once, taking a government job meant a sacrifice in pay and benefits. No more. Most bureaucrats have secure, recession-proof jobs with automatic salary increases, paid leave, and lavish benefits, notably in retirement. And they get to retire earlier than private-sector workers.”⁴⁴

U.S. Department of Labor's Bureau of Labor Statistics data shows the employer costs for employee benefits are higher for government-sector workers than for private-sector workers, and a review of the benefits provided to Iowa's Executive Branch employees demonstrates why those costs are higher. Iowa's government employees should remember that they are ultimately working for the taxpayers, and while their benefits should be fair, they should also be comparable with those received by private-sector workers in Iowa who pay the taxes to hire the government workers.

The Benefits of the Privileged Class

“Iowa's government employees should remember that they are ultimately working for the taxpayers, and while their benefits should be fair, they should also be comparable with those received by private-sector workers in Iowa who pay the taxes to hire the government workers.”

Endnotes

- ¹ Public Interest Institute has previously published articles on “Iowa’s Privileged Class” of state-government workers: “Iowa’s Privileged Class: State Government Employees,” *Institute Brief*, January 2010, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf17-3.pdf>>; “Iowa’s Privileged Class: State Government Employees,” *Policy Study*, November 2009, <<http://www.limitedgovernment.org/publications/pubs/studies/ps-09-9.pdf>>; “Iowa State Employees: Ten Years Later, They’re Still Iowa’s Privileged Class,” *Institute Brief*, May 2006, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf13-15.pdf>>; “The Pay Gap: Managing Iowa’s Finances,” *Institute Brief*, September 2004, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf11-27.pdf>>; “Iowa’s Privileged Class I – State Government Employees,” *Institute Brief*, May 2002, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf9-13.pdf>>; “Iowa’s Privileged Class II – State University Employees,” *Institute Brief*, June 2002, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf9-16.pdf>>; “Iowa’s Privileged Class III – Government School Teachers,” *Institute Brief*, July 2002, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf9-19.pdf>>; “What is Iowa’s Pay Gap,” *Iowa Economic Scorecard*, January 2002, <<http://www.limitedgovernment.org/publications/pubs/ies/Iesjan02.pdf>>; “Iowa’s Privileged Class I—State Government Employees,” *Institute Brief*, May 2001, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf8-16.PDF>>; “Iowa’s Privileged Class II—State University Employees,” *Institute Brief*, June 2001, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf8-18.PDF>>; “Iowa’s Privileged Class I—State Government Employees,” *Institute Brief*, August 1998, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf5-22.pdf>>; “Iowa’s Privileged Class II—Government Employees in Iowa Education,” *Institute Brief*, August 1998, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf5-23.pdf>>; “Iowa’s Privileged Class I—State Government Employees,” *Institute Brief*, May 1996, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf3-1.pdf>>; “Iowa’s Privileged Class II—Government Employees in Iowa Education,” *Institute Brief*, May 1996, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf3-2.pdf>>.
- ² “Employer Costs for Employee Compensation – December 2009,” U.S. Department of Labor, Bureau of Labor Statistics, March 10, 2010, <<http://www.bls.gov/news.release/ecec.nr0.htm>> (May 11, 2010).
- ³ Dave Swenson and Liesl Eathington, “Do Public Sector Employees in Iowa Earn More Than Private Sector Employees?” Iowa State University, Department of Economics, March 2005, <http://www.econ.iastate.edu/research/webpapers/paper_12259.pdf> (November 11, 2009).
- ⁴ Dennis Cauchon, “It pays to work for Uncle Sam, data show,” *USA Today*, March 5-7, 2010, p. 1A.
- ⁵ Charlotte Eby, “State work force down by 1,500,” *The Cedar Rapids Gazette*, March 14, 2010, p. 1A.
- ⁶ A more thorough discuss of Iowa’s Executive Branch can be found in Dr. Donald P. Racheter’s “Iowa Government and Politics,” a textbook that is distributed at no cost to interested Iowa Government teachers as part of Public Interest Institute’s Iowa Civics Project. For more information, visit <http://www.limitedgovernment.org/civics.html>.
- ⁷ “Just the Facts For 2009,” *Iowa Executive Branch Workforce Almanac*, Iowa Department of Administrative Services, Human Resource Enterprise, November 2009, <http://das.iowa.gov/hre/documents/publications/just_the_facts_2009.pdf> (May 6, 2010). Information in this Almanac covers Executive Branch employees, with the exception of Fair Authority, Community-Based Corrections, and the Regents employees.
- ⁸ *Ibid*, p. 1.
- ⁹ *Ibid*, p. 5.
- ¹⁰ *Ibid*, p. 16.
- ¹¹ *Ibid*, p. 17.
- ¹² *Ibid*.
- ¹³ *Ibid*.
- ¹⁴ *Ibid*.
- ¹⁵ Jason Clayworth, “Merit, step raises to add \$121 million to state wages,” *The Des Moines Register*, July 1, 2009, <<http://m.dmregister.com/news.jsp?key=484916>> (July 12, 2009).
- ¹⁶ Iowa Department of Administrative Services, Human Resources, Employee Benefits, Types of Leave, <<http://benefits.iowa.gov/leave.html>> (May 13, 2010).
- ¹⁷ *Ibid*.
- ¹⁸ The Executive Summary of the DAS report, “Just the Facts For 2009,” indicates that “These figures are slightly inflated due to the fact that a small portion of these vacation and sick leave hours are attributed to permanent part-time employees not included in the average.” However, in the table in the “Leave” section of the DAS report (pp. 34-36), these same figures are attributed to full-time employees, with no indication of the inclusion of any part-time employee vacation or sick leave information.
- ¹⁹ “Just the Facts For 2009,” p. 2.

- ²⁰ Iowa Department of Administrative Services, Human Resources, Employee Benefits, Types of Leave, <<http://benefits.iowa.gov/leave.html>> (May 13, 2010).
- ²¹ Ibid.
- ²² “Just the Facts For 2009,” p. 38.
- ²³ Jason Clayworth of *The Des Moines Register*, “State’s cost to provide free insurance grows,” *The Burlington Hawk Eye*, December 2, 2009, p. 1A.
- ²⁴ Ibid. The other five states are Arkansas, Delaware, North Dakota, Oklahoma, and Oregon.
- ²⁵ Iowa Department of Administrative Services, Human Resources, Employee Benefits, Employee Assistance Program, <<http://benefits.iowa.gov/eap.html>> (May 13, 2010).
- ²⁶ Ibid.
- ²⁷ Ibid.
- ²⁸ “Just the Facts For 2009,” p. 48.
- ²⁹ Iowa Department of Administrative Services, Human Resources, Employee Benefits, Continuing Insurance Benefits at Retirement, <http://benefits.iowa.gov/retirees_continuing_benefits.html> (May 14, 2010).
- ³⁰ Iowa Department of Administrative Services, Human Resources, Employee Benefits, Sick Leave Insurance Program (SLIP), SLIP Calculation Example, <http://benefits.iowa.gov/retirees_slip.html>.
- ³¹ Dr. Barry W. Poulson and Dr. Arthur P. Hall, “State Pension Funds Fall Off a Cliff,” American Legislative Exchange Council, 2010, <http://www.alec.org/am/pdf/tax/ALEC_FINAL_pension_funds_split.pdf> (May 17, 2010).
- ³² Tom Edwards, “State and Local Public Employee Retirement Systems Assets Drop Nearly \$180 Billion in 2008 Census Bureau Reports,” *U.S. Census Bureau News*, March 25, 2010, <<http://www.census.gov/govs/retire/>> (May 11, 2010).
- ³³ Ibid.
- ³⁴ Ibid.
- ³⁵ “State and Local Government Retiree Benefits: Liabilities Are Largely Unfunded, but Some Governments Are Taking Action,” U.S. Government Accountability Office, Report to the Chairman, Special Committee on Aging, U.S. Senate, GAO-10-61, November 2009, p. 2, <<http://www.gao.gov/new.items/d1061.pdf>> (May 11, 2010).
- ³⁶ Ibid, p. 9.
- ³⁷ Ibid, pp. 9-10.
- ³⁸ Ibid, pp. 36-37.
- ³⁹ Gina Chon, “New Jersey Cuts Workers’ Benefits,” *The Wall Street Journal*, March 24, 2010, <<http://online.wsj.com/article/SB10001424052748704211704575139874289492234.html>> (March 25, 2010).
- ⁴⁰ Ibid.
- ⁴¹ Ibid.
- ⁴² Ibid.
- ⁴³ Governor Mitch Daniels, “Hoosiers and Health Savings Accounts,” *The Wall Street Journal*, March 1, 2010, <<http://online.wsj.com/article/SB10001424052748704231304575091600470293066.html>> (March 4, 2010).
- ⁴⁴ Fred Barnes, “The New Fat Cats,” *The Weekly Standard*, May 3, 2010, p. 10.

The Benefits of the Privileged Class

**Public Interest Institute
at Iowa Wesleyan College
600 North Jackson Street
Mount Pleasant, IA 52641-1328**

NONPROFIT ORGANIZATION
U.S. POSTAGE PAID
MAILED FROM ZIP CODE 52761
PERMIT NO. 338

This policy study is brought to you in the interest of a better-informed citizenry, because IDEAS DO MATTER.
You can write Public Interest Institute at:

Public Interest Institute
600 North Jackson Street
Mount Pleasant, IA 52641-1328