

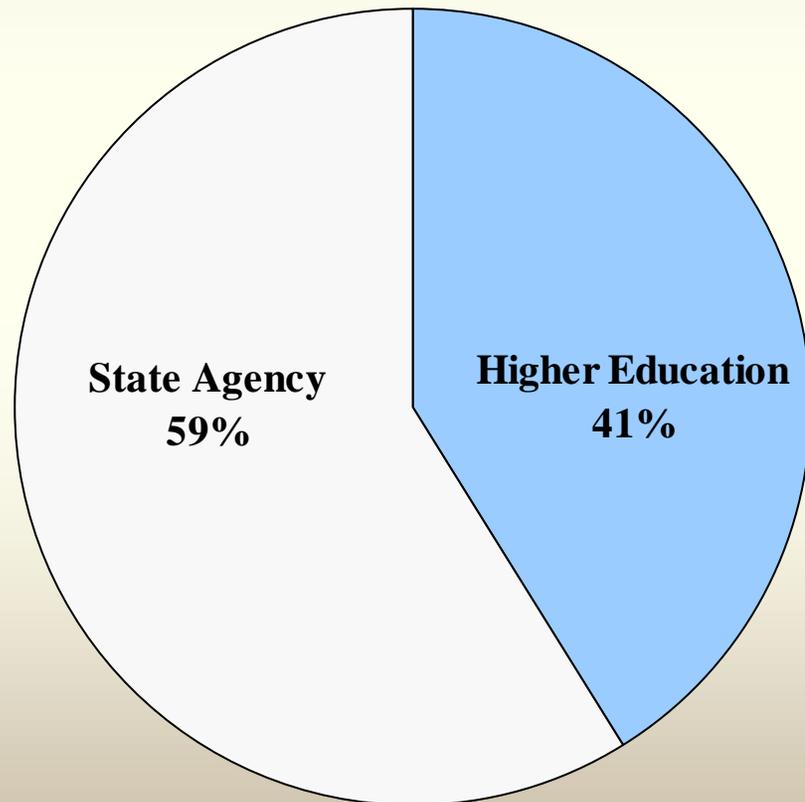
State & Higher Education Employees: Compensation Issues and the 2001-03 Budget

Senate Ways and Means Committee
February 7, 2001

Pete Cutler



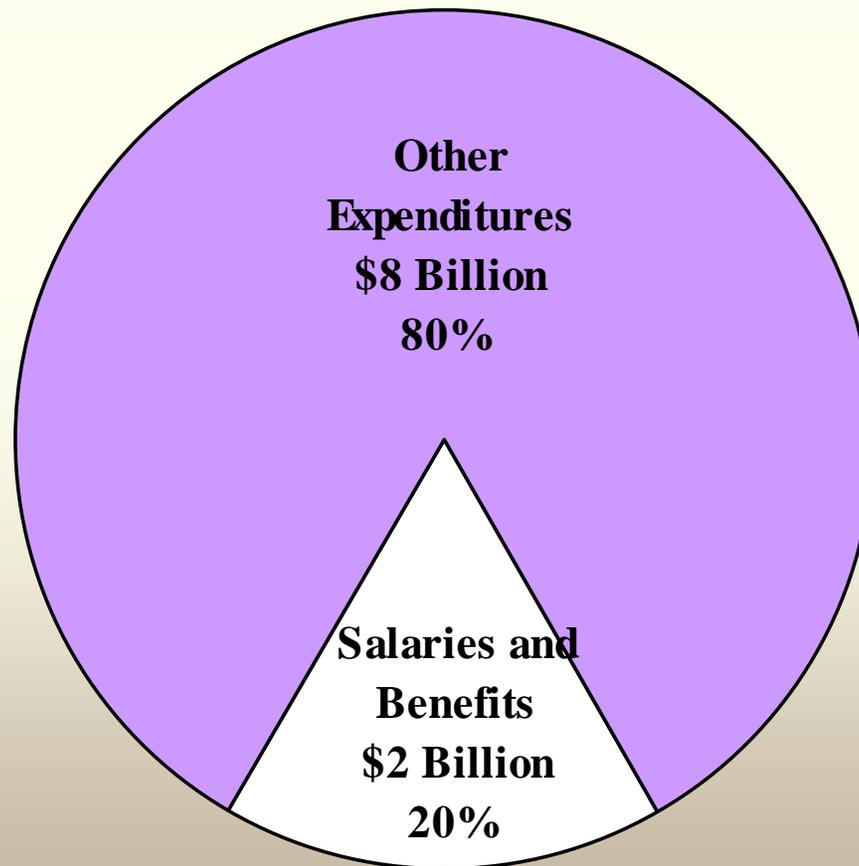
There are Over 100,000 State and Higher Ed Employees



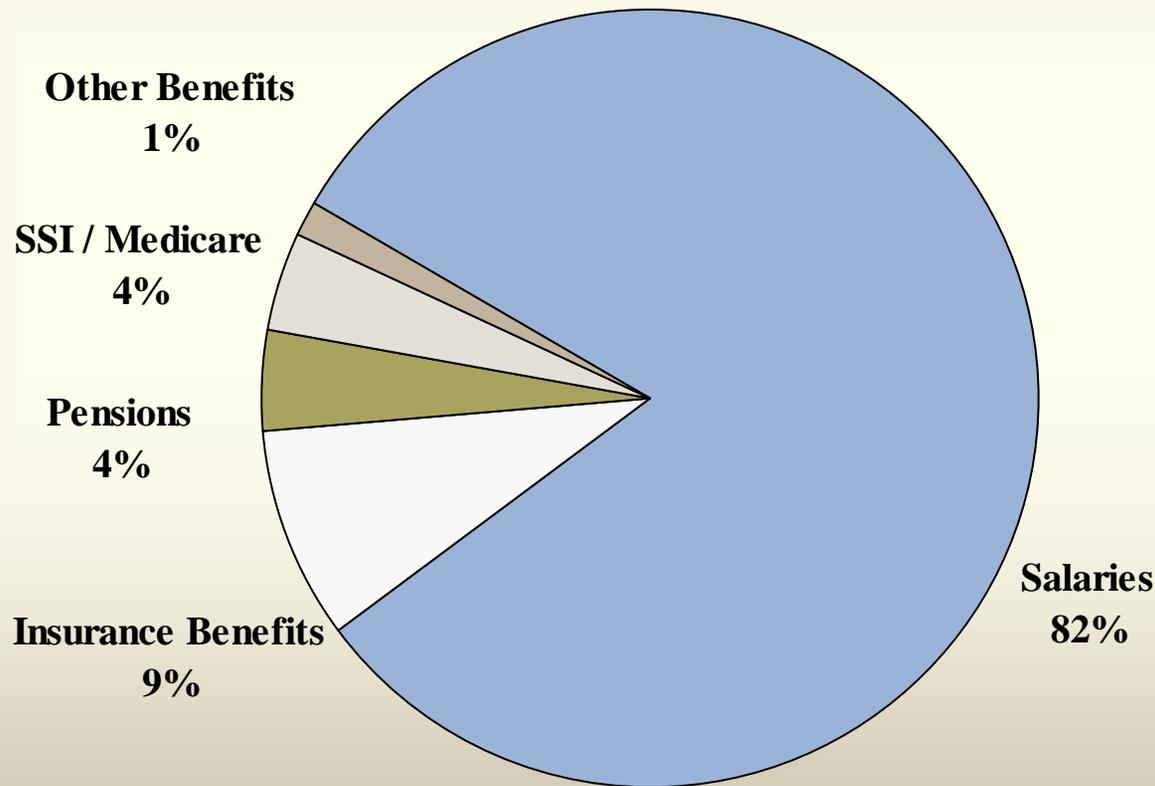
	1999-01 Biennial FTEs
Higher Education	41,170
State Agency	58,942
Total	100,112

State and Higher Education Employee Compensation is About 20% of General Fund State Expenditures

***Fiscal Year 2000 General Fund State Expenditures**

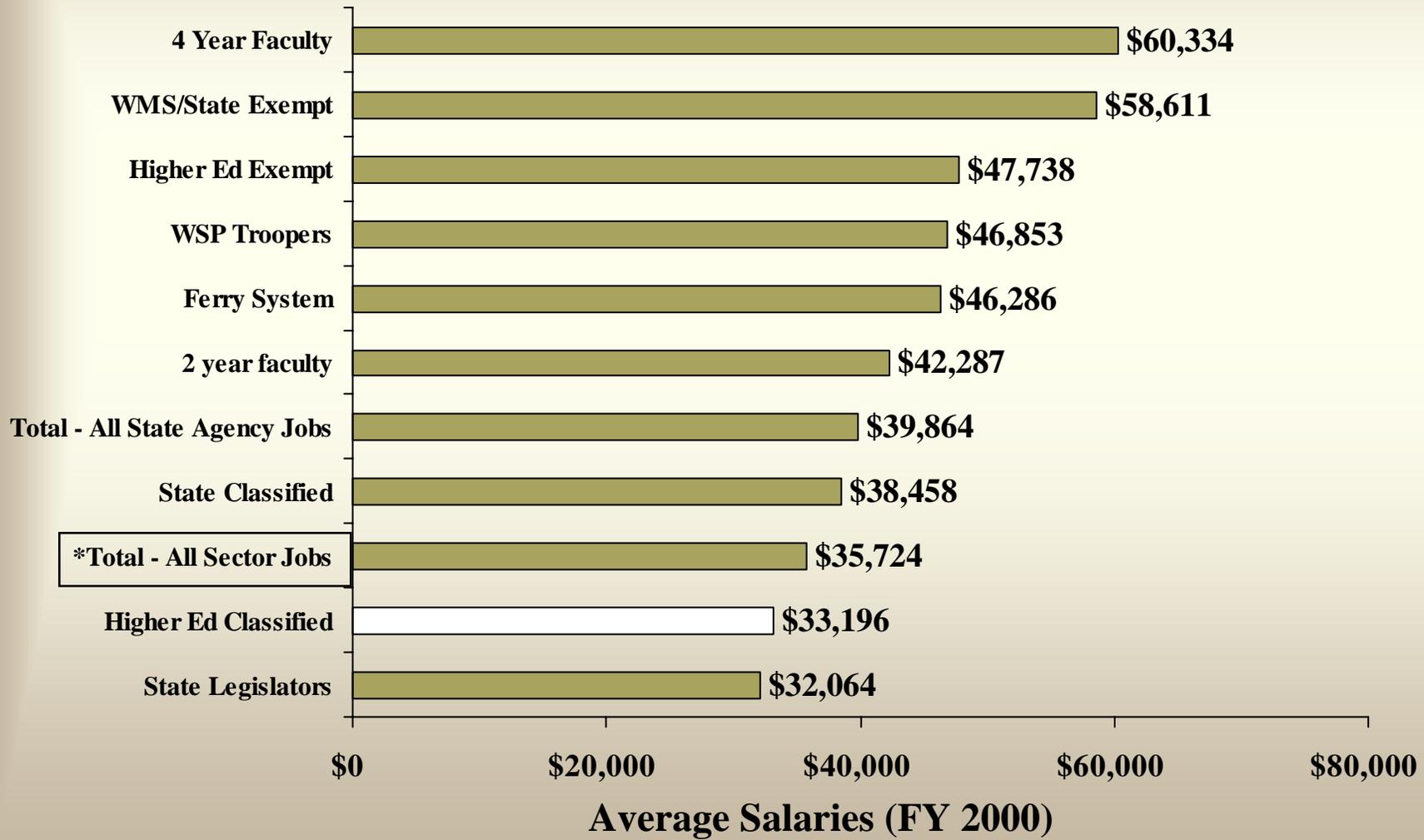


82% of General Fund Compensation Expenditures are for Salaries, and 18% are for Benefits

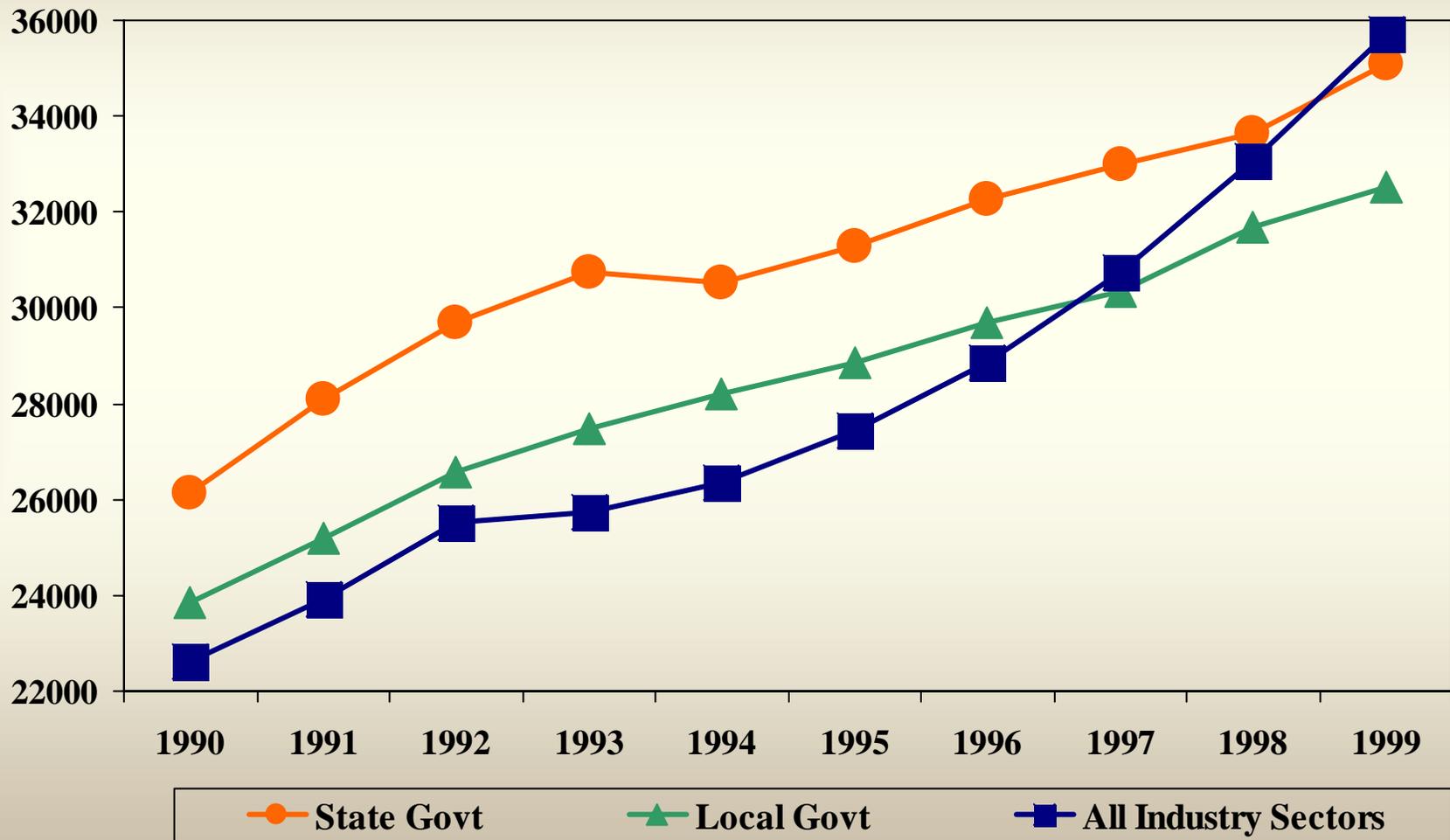


FY 2000 GF-S Expenditures	
	Millions
Salaries	\$1,664
Insurance Benefits	\$185
Pensions	\$87
SSI / Medicare	\$86
Other Benefits	\$26
Total Compensation	\$2,048

Average State & Higher Ed Salaries Vary by Occupation and Level of Responsibility

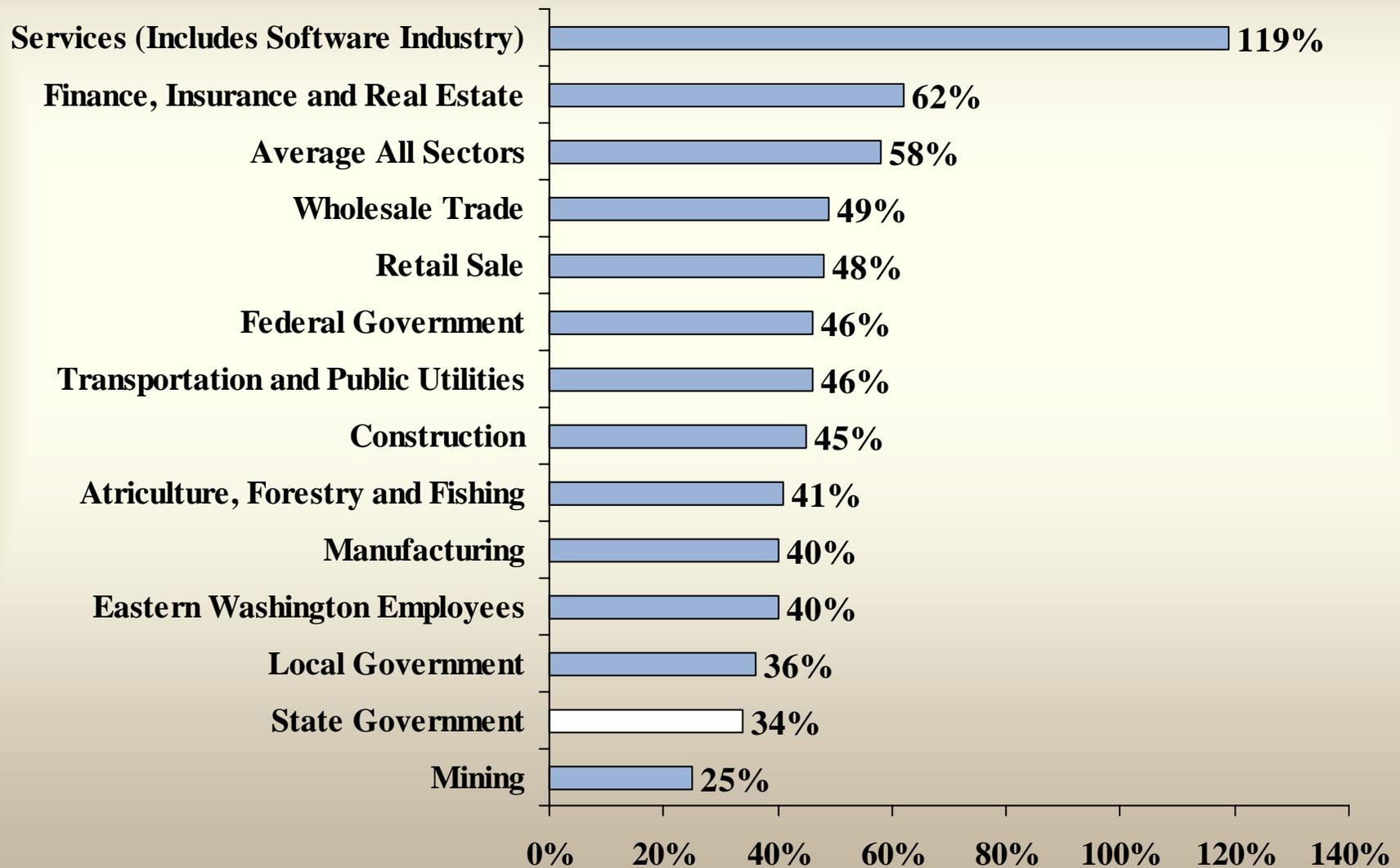


Since 1990, Private Sector Average Wages in WA State Have Increased Faster Than State and Local Government Average Wages



Source: LMEA, Employment Security Department

Since 1990, the Average Wages in All But One Sector of the Economy Have Grown Faster Than State Government

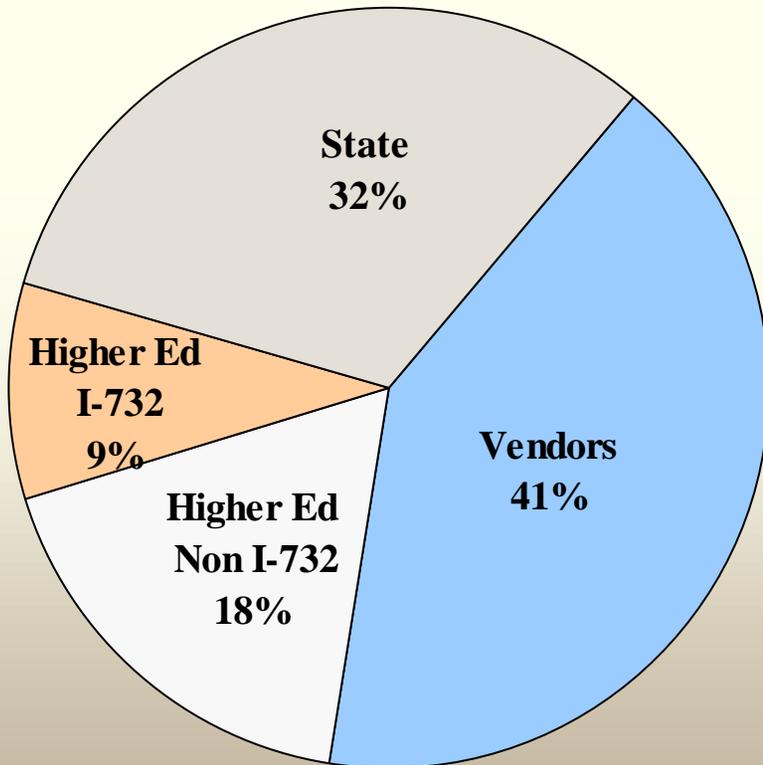


The Governor Proposes Across-the-Board Increases for All Employee Groups and Vendors

(July 2001 – 3.7% for Positions Covered by I-732; 2.2% for All Other)

(July 2002 – 2.6% for Positions Covered I-732; 2.5% for All Other)

Total GF-S Cost = \$258 Million



GF-S Cost (Millions)	
Vendors	\$107
Higher Education (Non I-732 Positions)	\$46
Higher Education (I-732 Positions)	\$23
State	\$82
Total Funding	\$258

The Governor Also Proposes Targeted Salary Increases to Address Specific Problems

	GF-S Cost (Millions)	Positions¹
6767 Process: Recruitment/Retention Increase (Top 12 of 29 proposals)	\$37	6,700
Partial Salary Survey Implementation (Bring all salaries within 25% of “Market”)	\$10	5,900
DOP “common class” proposal (3 Year Plan)	\$5	4,200
Attorney General Proposal (Special Salary Survey)	\$3	500
Subtotal – State	\$55	
Higher Education Faculty Proposals: Recruitment/Retention Community College Increments & Part-time Faculty	\$20²	-
Total Cost	\$70	

¹ Many Positions Would Be Eligible for Increases Under More Than One of the Proposals.

² Governor’s Budget Funds From Tuition and Shifts Tuition Activities to the General Fund.

6767 Priority List: Proposals Funded By the Governor

Priority	Classification/Title	Positions	% Incr.	GF-S (in Millions)	GF-S (in Millions)
				Proposal Cost	Running Total
1	PSYCHIATRISTS	63	20.0%	\$2.5	\$2.5
2	PSYCHOLOGISTS	134	10.0%	\$1.4	\$3.9
3	INFORMATION TECH - High. Ed	624	10.0%	\$4.6	\$8.6
4	FORENSIC DOC EXAM/SCIENTIST	87	5-10%	\$0.5	\$9.1
5	SOCIAL WORKERS	2,431	7.5%	\$9.3	\$18.4
6	CAMPUS POLICE	107	10.0%	\$0.4	\$18.8
7	FINANCIAL CLASSIFICATIONS - High Ed	549	5-12.5%	\$2.2	\$21.0
7	FINANCIAL CLASSIFICATIONS - Gen Gov	664	5-12.5%	\$2.7	\$23.7
8	INSURANCE EXAMINERS	20	10-22.5%	\$0.0	
8A	REGISTERED NURSES	1,210	5% & steps	\$7.6	\$31.4
8B	LICENSED PRACTICAL NURSES	797	5% & shift	\$5.4	\$36.7
9	PRESSURE VESSEL INSPECTORS	10	15.0%	\$0.0	
	Total	6,696			\$36.7

The Out-of-State Salary Survey is Heavily Influenced by High Wage States, and California in Particular

The Out-of-State Survey is based on:

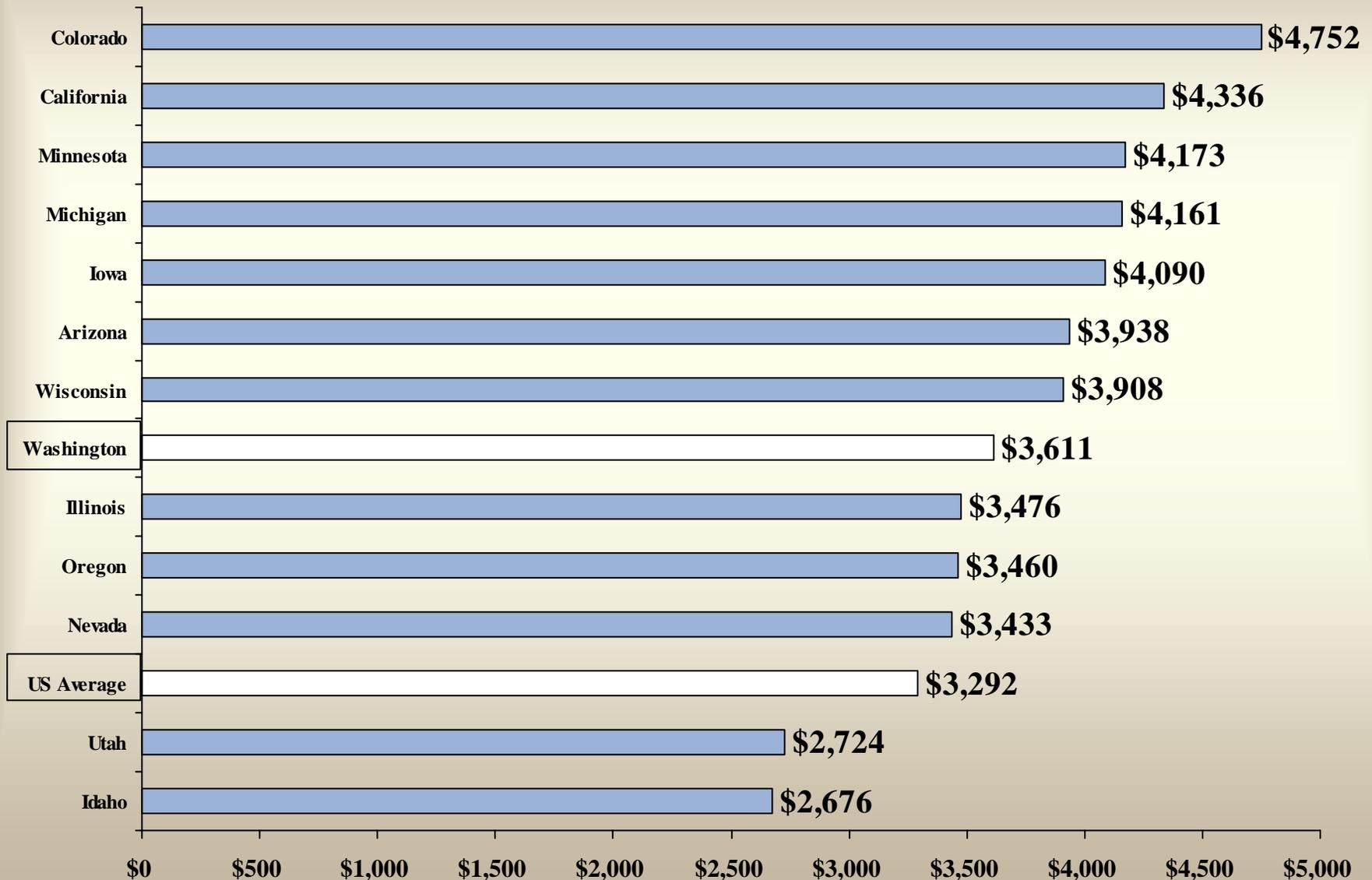
❖ **A survey of 12 states**

The sample includes the states with the 7 highest average state employee earnings; and

❖ **A weighted average, based upon the number of employees in each class.**

California data usually has a very large impact on the reported “market rate”.

10 of the 12 States in the Salary Survey have Average State Employee Earnings Greater than the National Average.

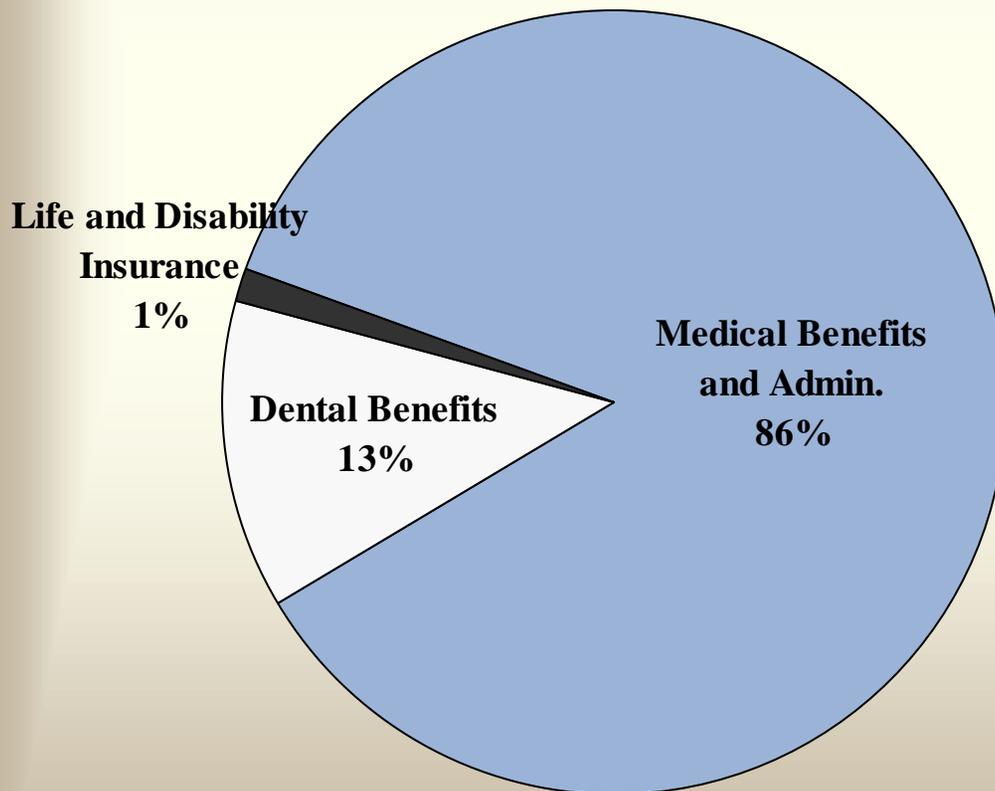


In the Current Year*, the State Will Spend Approximately \$677 Million GF-S on Health Insurance & Related Benefits for K-12, State, and Higher Ed Employees

	Monthly State Cost Per Employee	GF-S Funded Positions	GF-S Cost (Millions)
K-12	\$426	83,000	\$424
State Employees/ Higher Ed	\$436	48,300	\$253
Total		131,000	\$677

*Fiscal Year 2001/ School Year 2000-01

Approximately 86% of the Employer Contribution for State Employee Health & Related Benefits Goes to Costs of Health Benefits, Reserves, and Health Benefits Administration

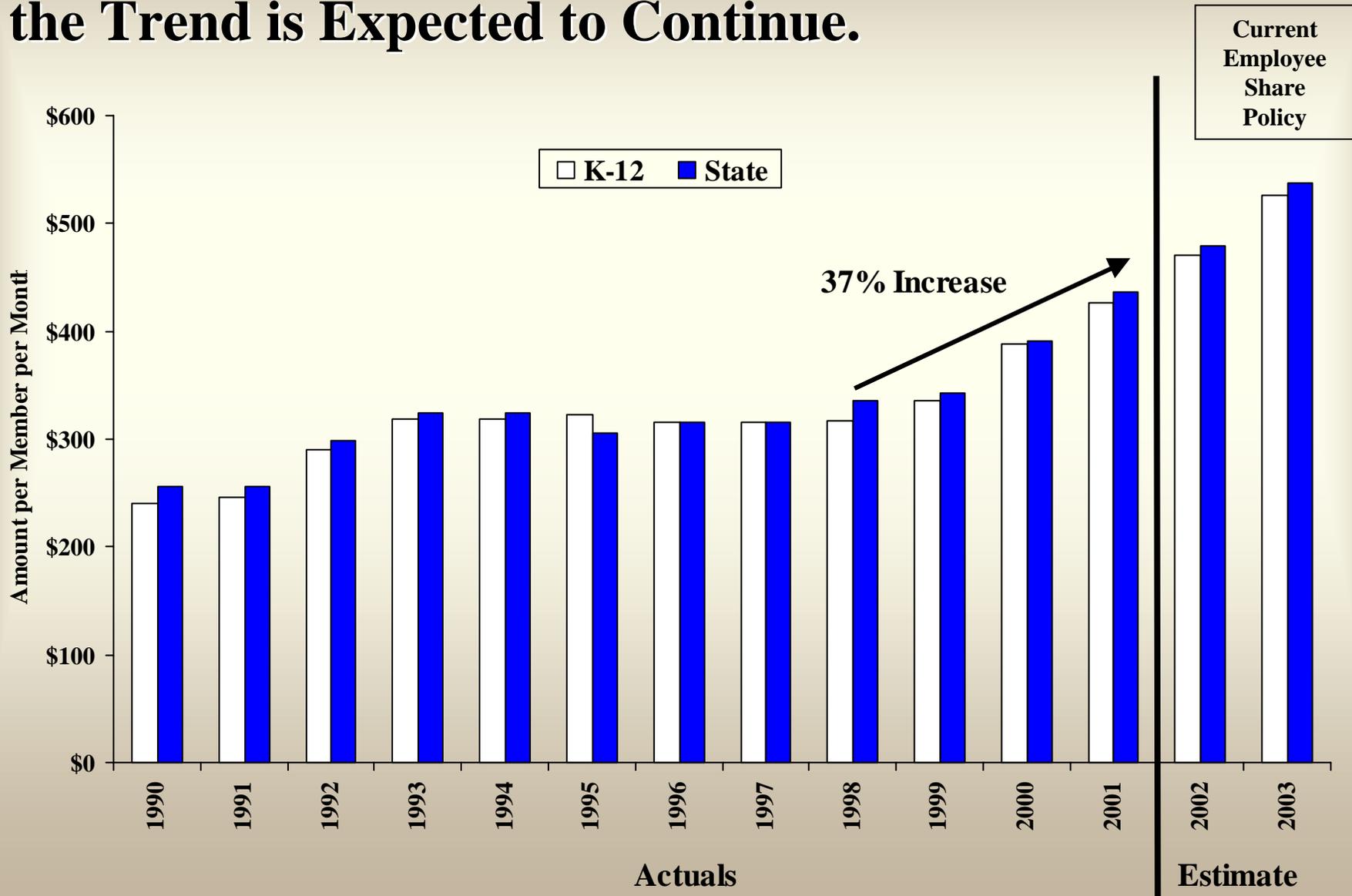


	FY 2001
Medical Benefits, Reserves and Administration	\$373
Dental Benefits	\$57
Life and Disability Insurance	\$6
Total Employer monthly Contribution	\$436

The Average State Employee Contribution for Health Insurance and Related Benefits in 2001 is Approximately \$29 per Month

	CY 2001	CY 2001
Health Insurance Coverage Tiers	Average Dollar Contribution	% of Total Contribution
Employee Only Coverage	\$13	6%
Family Coverage	\$44	7%
Overall	\$29	6%

The Cost of State Employee Health Insurance & Related Benefits has Increased More Than 37% in 3 Years and the Trend is Expected to Continue.



The State Employee Share of Health Insurance & Related Benefits is Lower Than the Share Paid by Most Other Employees

	Employee Only		Dependents	
	\$	% of Premium	\$	% of Premium
Washington State	\$13	6%	\$44	7%
WA & ORE Employers >10,000 ¹	\$25	14%	\$76	18%
National All Employers Over 500 ¹	\$41	23%	\$152	35%
Federal Govt. – Fee for Service Plans ²	\$68	25%	\$175	25%
Federal Govt. HMO Plans ²	\$100	25%	\$201	25%

¹ Wm Mercer 1999 National Survey

²Estimates Based on FEHB Program Website Information

The State Would Have to Increase its Contribution by About \$102 Per Month (23%) to Maintain its Share of Current Health Benefits

	FY 2001	FY 2002	FY 2003	FY 01-03
	Member Per Month	Member Per Month	Member Per Month	Member Per Month
State/ Higher Education Employer Contribution Rate	\$436	\$479	\$538	
Monthly Dollar Increase		\$43	\$59	\$102
Percent Increase		10%	12%	23%

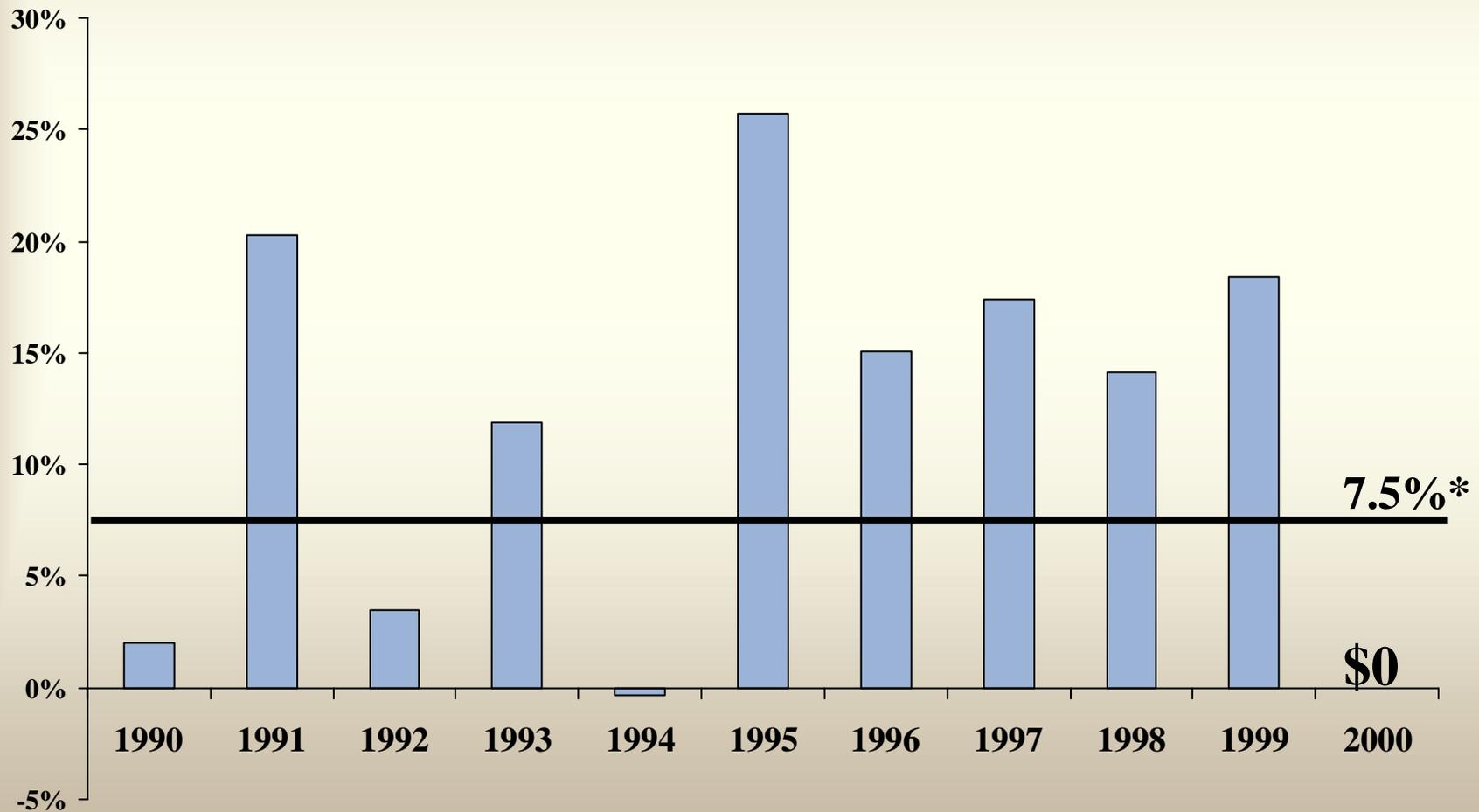
Total GF-S Increase for State, Higher Ed, and K-12

\$213 Million

Some Funding Options for Health Care Coverage

Policy/Benefit Options	(Millions)	Average Employee Monthly Premium (All Tiers)	
		CY 2002	CY 2003
Maintain current benefits; Increase average employee share of total premium to 20%.	\$84 Million	\$92	\$103
Governor's Budget: Increase copays; eliminate double payments to HMOs; increase average employee share to 8% in 2002 and to 10% in 2003.	\$138 Million	\$52	\$61
Adopt benefit changes proposed in Governor's budget; Maintain 6% average employee share of total premium	\$191 Million	\$29	\$30
Maintain current benefits & Reduce average employee premium to \$15 per month	\$285 Million	\$15	\$15

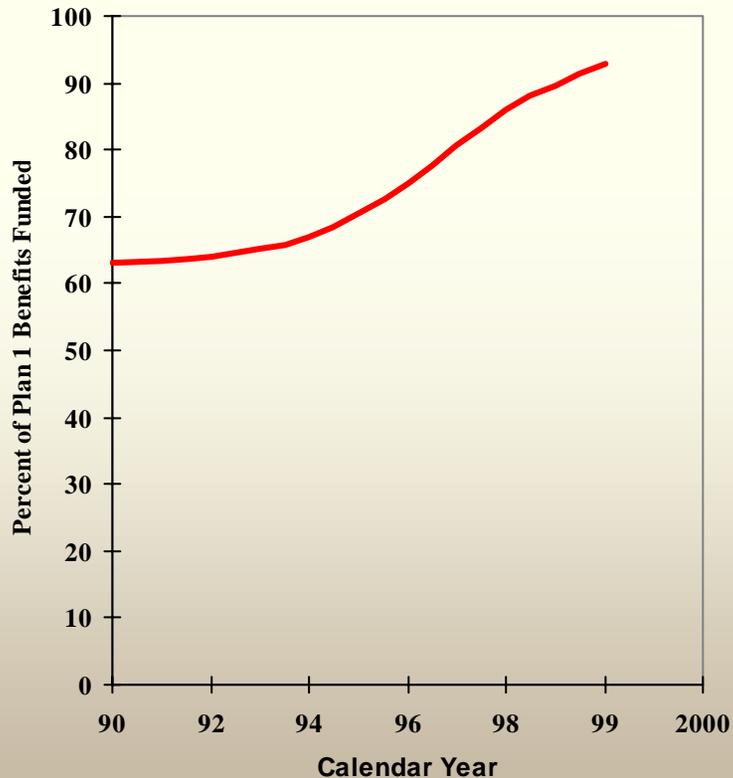
State Pension Fund Investment Returns Have Exceeded the 7.5% Long-Term Assumption



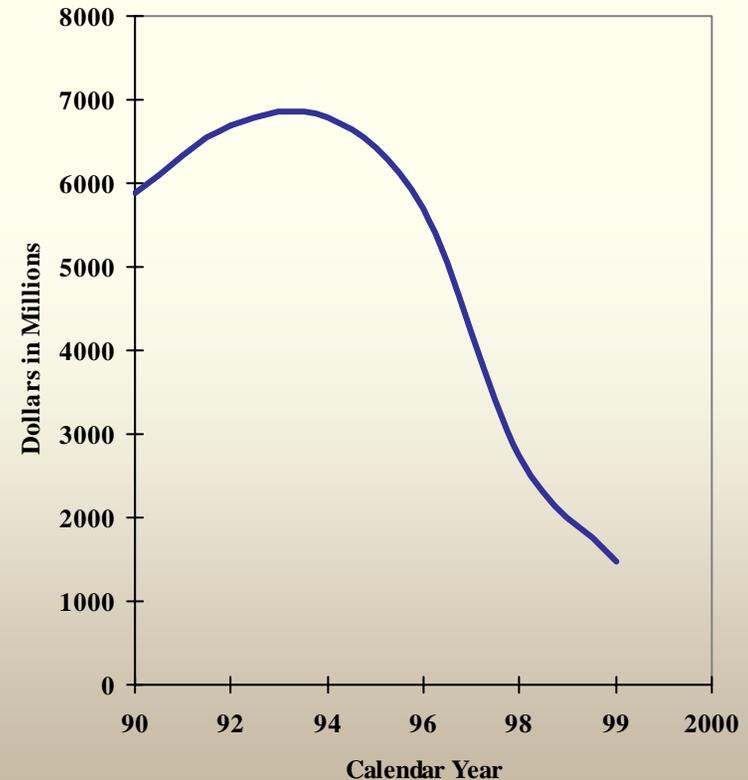
***Long-Term Investment Return Assumption (Estimated Earnings for 2000)**

Due to Excellent Investment Returns, State Pensions Systems are Better Funded Than Ever, and Unfunded Liabilities are Being Paid Off Much Faster Than Expected

Plan 1 Funding Ratio Trend

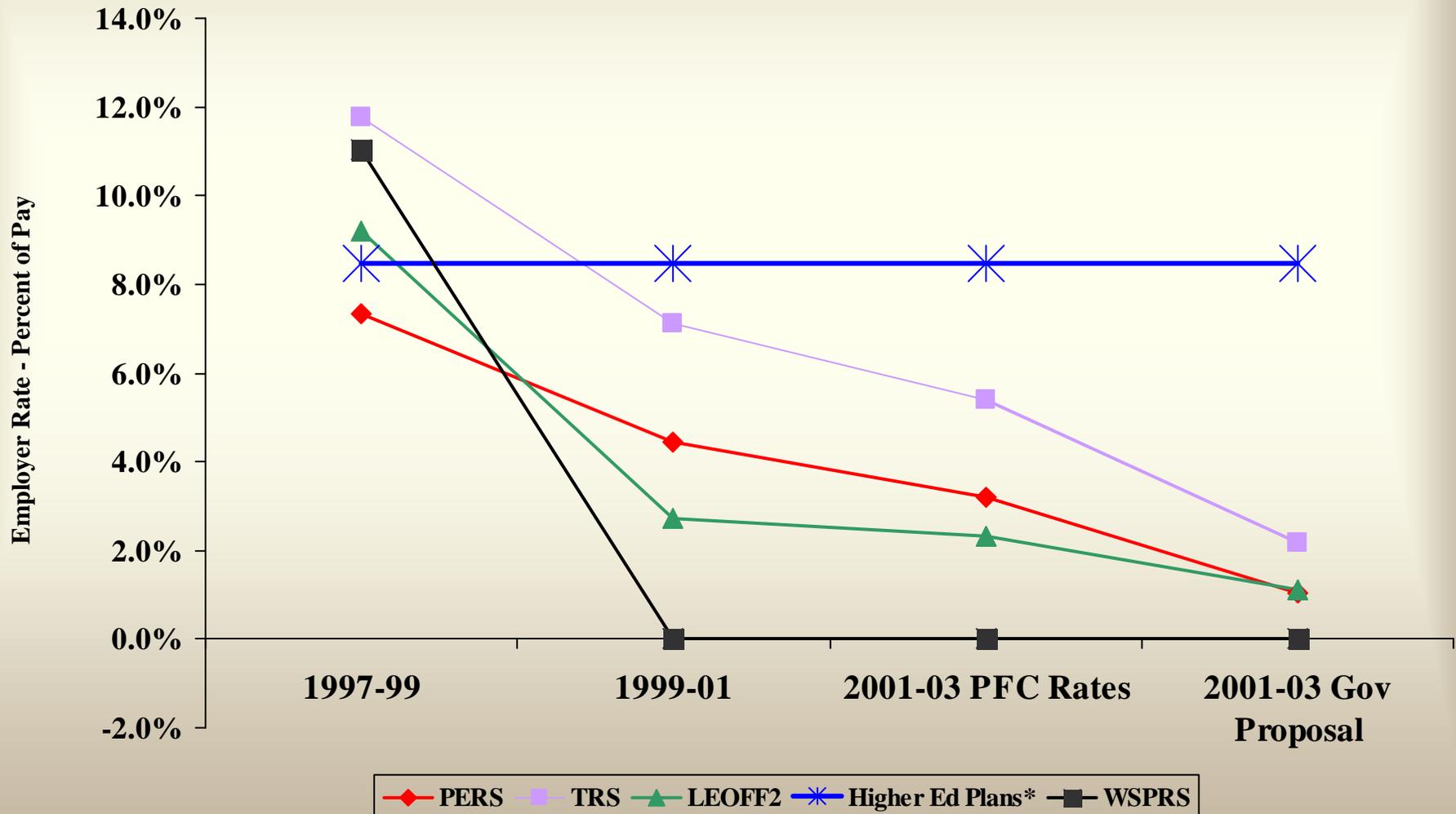


Plan 1 Unfunded Liability Trend



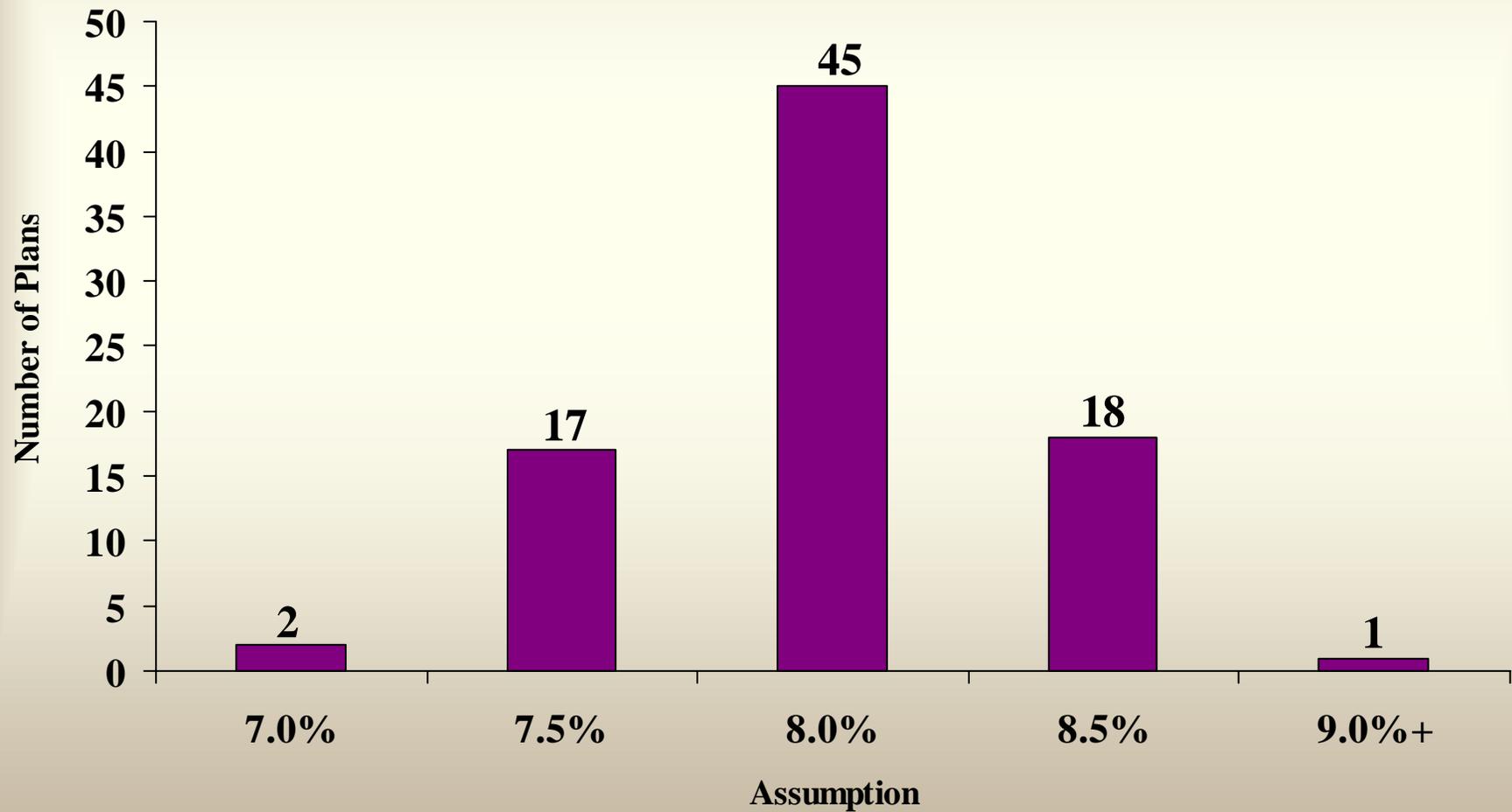
Data does not include LEOFF 1 surplus assets in 1998-99

Employer Paid Pension Rates are Dropping Rapidly in Most Plans, Primarily Due to High Investment Returns.



*Higher Ed estimated composite rate based on institution data for FY 2002.

Other Public Pension Systems: Investment Return Assumptions



Source: 1996 Wisconsin Retirement Research Committee Survey

The Governor's Budget Saves \$207 Million GF-S By Adoption of Pension Contribution Rates that Reflect an 8% Investment Return Assumption

1999-2001 - Estimated Pension Funding	GF-S (Millions) \$641
2001-2003 – Maintenance Level Budget (Pension Funding Council Rates)	GF-S (Millions) \$125 Savings
2001-2003 – Policy Level Budget (8% Assumption Rates)	GF-S (Millions) \$207 Additional Savings