The Retrenchment of the State Employee Workforce in Michigan

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Executive Summary

This report details some of the changes that state employees have seen in their level of employment, compensation, working hours, and benefits. From 2001 to 2008, the size of the state workforce decreased by more than 11,000. Over this period, state employees have also accepted furlough programs. Real wage growth for state employees has been very close to zero, and state employees have paid more for retirement and health-care benefits. Taken together, these changes have saved the State of Michigan approximately $3.3 billion in wages, $143 million in pension expenditures, and $300 million in health expenditures, for a total of more than $3.7 billion.

We present the highlights of these changes in this executive summary. More details can be found in the remainder of the report.

1. The Shrinking Number of State Employees

- From 2001 to 2008, Michigan's state-employee workforce was reduced by more than 11,000, or 18.1% of 2001 employment. The employment decreases affected nearly every department of state government. For example, State Police employment was reduced 32.3% from 2002 and 2008. The Departments of Agriculture, Natural Resources, and Environmental Quality lost an average of 28.8% of their workforces from 2001 to 2008.
- By 2008, employment reductions led to a decrease of more than $600 million annually in salary alone, when we compare with the level of employment that existed in 2001. When accumulated over the entire period since 2001, these employment reductions are associated with a reduced state expenditure of more than $3 billion.

2. Pay Levels for State Employees

- The House Fiscal Agency reports that state employees earn less than their private-sector counterparts, on average, in *each* of eight different categories of educational attainment.

3. Changes in Wages, Benefits, and Other Work Arrangements

- From 2002 to 2009, after adjustment for inflation, covered state employees saw little to no real wage growth.

  In 2003-05, state employees accepted "banked-leave-time" and furlough programs, resulting in savings of approximately $275 million for the State of Michigan. Another furlough program is currently underway.
- Beginning in 2008, state employees accepted substantial increases in their premiums, deductibles, and co-pays for health insurance. Over the life of the current contract, these changes are expected to lead to $300 million of savings for the State of Michigan.
- Beginning in 1997, new state employees were covered under a defined-contribution pension plan. This change is estimated to have led to savings for the State of Michigan of $143 million through 2006. The savings will accelerate in future years.

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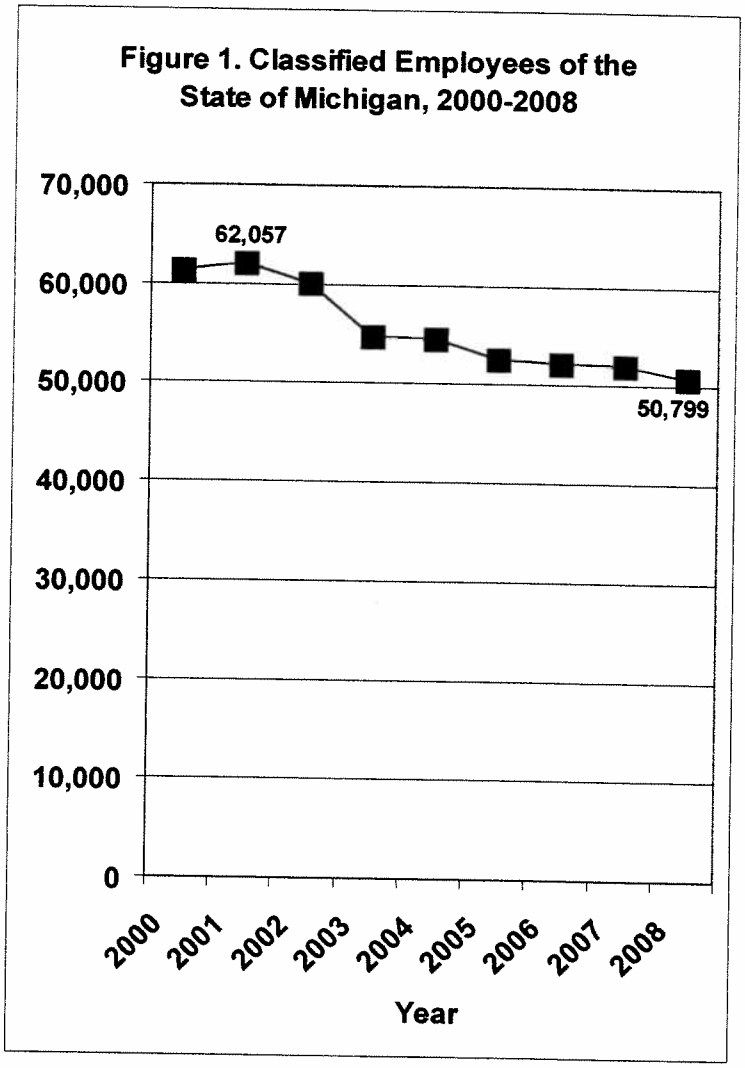
I. Introduction

The employees of the State of Michigan perform an extraordinarily wide variety of duties. In recent years, the number of these state employees has decreased substantially. This raises serious questions about the ability of the remaining state employees to discharge the duties that are required of them. Moreover, the state employees who remain have made a variety of concessions involving their compensation.

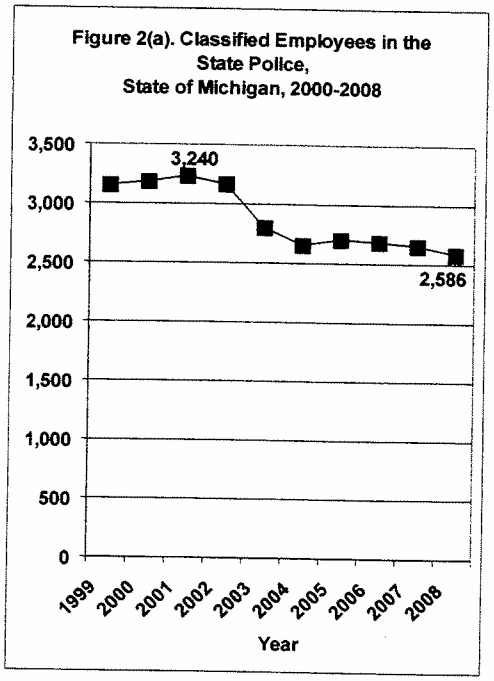
The purpose of this report is to document several of these significant changes in the size and compensation of the state workforce. No attempt will be made to assess the optimal number of state employees, or the optimal compensation. However, at a minimum, it will be clear that state employees have already played a very large role in helping the State of Michigan to grapple with its budgetary problems. Further cuts will run an increasing risk of leaving the state government unable to perform its vital functions.



II. The Shrinking Numbers of State Employees

We discuss wage and benefit issues in a later section. We begin with a description of the shrinkage in the number of state employees. The data presented here are taken from the Annual Workforce Reports, prepared by the State of Michigan Civil Service Commission.[1]

These workforce data are readily available, all the way back to 1966. The state workforce reached its peak in 1980, with nearly 70,000 workers. However, in this report, we focus on the trends in the current decade. Figure 1 shows the number of state classified employees from 2000 to 2008.[2] Figure 1 shows that the number of employees actually increased slightly from 2000 to 2001, but decreased substantially since 2001. Figure 1 and the subsequent figures provide a label with the highest and lowest levels of employment during this period. From the decade's peak in 2001, the size of the state-employee workforce decreased by more than 11,000. This is a reduction of about 18.1% of the peak employment.



The employment reductions shown in Figure 1 were spread very widely across the various departments of state government. Figures 2(a) through 2(g) show the decreases in the number of employees in selected departments. The details vary from one department to the next, but the trend is broadly similar in every case shown.[3]

Figure 2(a) shows the employment reduction in the State Police, where more than 20 percent of the peak employment in 2002 was gone by 2008. Figure 2(b) shows the reduction in the Department of State, which is involved with elections and motor-vehicle licensing and registration. In the Department of State, employment decreased by nearly one-third (32.3

percent) from 2002 to 2008.

Figures 2(c), 2(d), and 2(e) show the trends for the Departments of Agriculture, Natural Resources, and Environmental Quality. We place these departments together, because each of them is involved with Michigan's outdoor environment. In each of these departments, employment peaked in 2001 or 2002. From the peak until 2008, employment fell by 25.8 percent in Agriculture, 37.7 percent in Natural Resources, and 16.3 percent in Environmental Quality. The weighted average of the employment declines in these three departments is 28.8 percent.

In today's discussions of Michigan's economy, tourism is frequently mentioned as an engine of future economic growth. Michigan tourism is closely linked with the physical environment of the state. Thus, the policy of dramatically decreasing the number of employees who work in the Departments of Agriculture, Natural Resources, and Environmental Quality raises serious questions. One set of questions has to do with the health of the tourism sector, and whether it will truly be able to produce the economic growth that is hoped for. More broadly, the policy raises questions about Michigan's ability to preserve its environment for future generations. Reductions in other parts of the state workforce lead to similar questions regarding the economic health, public safety, public welfare, and public finances of Michigan.

Figure 2(f) shows the employment trends in the Department of Human Services and its predecessor, the Family Independence Agency. From 1969 until 1991, this agency had more employees than any other part of state government. Since then, it has been second only to Corrections. Figure 2(f) shows that employment in this department has decreased by 27.7 percent during the current de-

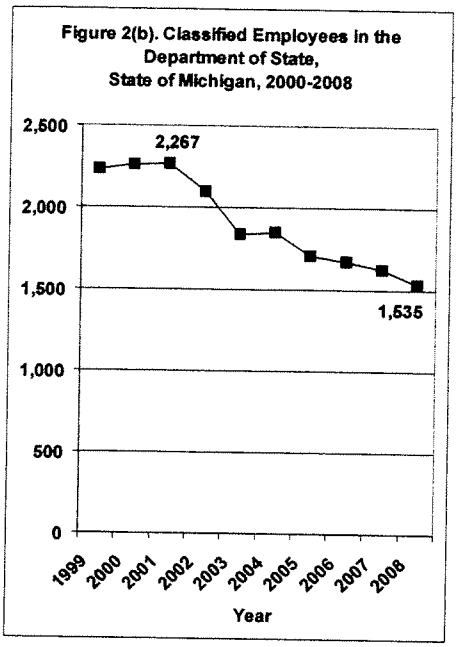


Figure 2(b). Classified Employees in the Department of State, State of Michigan, 2000-2008

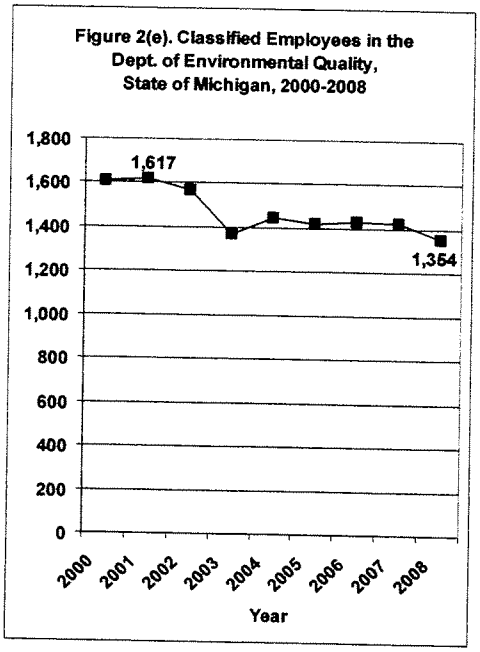


Figure 2(e). Classified Employees in the Dept. of Environmental Quality, State of Michigan, 2000-2008

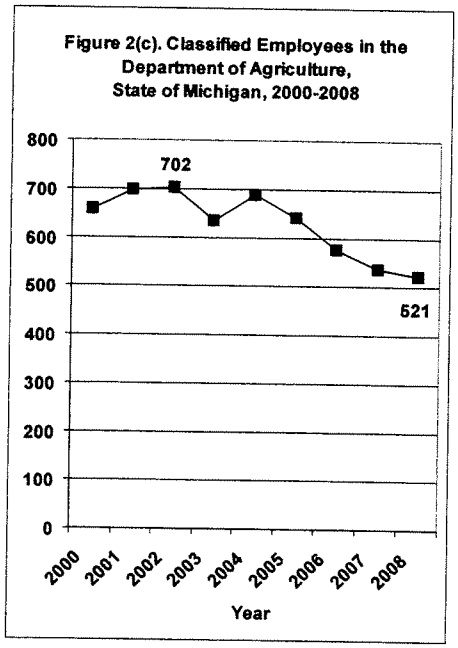


Figure 2(c). Classified Employees in the Department of Agriculture, State of Michigan, 2000-2008

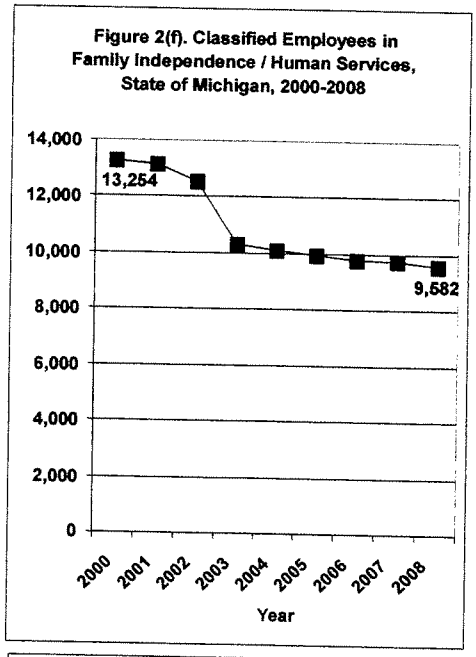


Figure 2(f). Classified Employees in Family Independence / Human Services, State of Michigan, 2000-2008

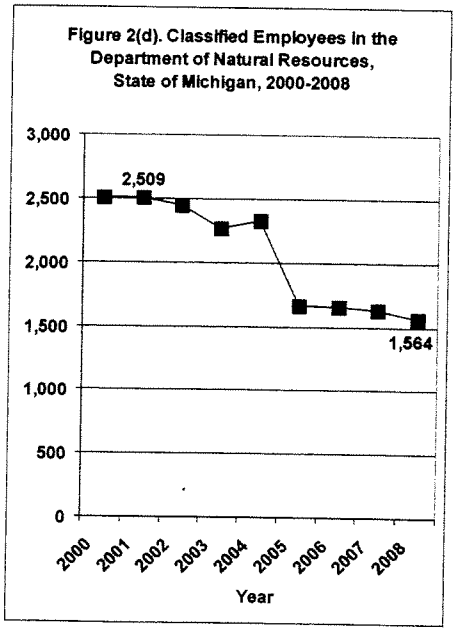


Figure 2(d). Classified Employees in the Department of Natural Resources, State of Michigan, 2000-2008

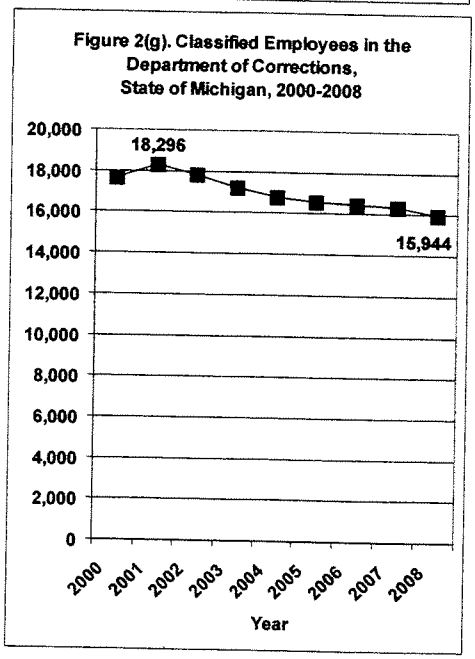


Figure 2(g). Classified Employees in the Department of Corrections, State of Michigan, 2000-2008

cade. In fact, if we compare with the all-time peak of employment in this agency, in 1995, the decrease in employment is 33.6 percent.

Especially during the 1980s and 1990s, there were rapid increases in the number of persons incarcerated in Michigan prisons. As a result, employment in the Department of Corrections increased from fewer than 2000 (in the 1960s) to more than 18,000 (in 2001). However, Figure 2(g) shows that the Department of Corrections has not been spared from employment reductions in recent years. From 2001 to 2008, Corrections employment decreased by 12.9 percent.

III. Pay Levels for State Employees

According to the Civil Service Commission's most recently quarterly report, the current average annual salary of State of Michigan classified employees is $54,246.[4] In 2007, for full-time year-round workers in the United States, average annual earnings in the labor market were $51,588.[5] Thus, on the surface, it might appear that the state employees are paid slightly more than their counterparts nationwide. However, the State of Michigan employees have substantial experience, and they are unusually well educated.

In addition to the 27.5 percent of state workers who completed their education with a Bachelor's degree, 16.5 percent have a Master's degree, 3.6 percent have a professional degree, and 7.2 percent have a doctorate.[6] Thus, a total of nearly 55 percent of state workers have at least a Bachelor's degree, so that the state workforce is considerably more highly educated than the workforce as a whole. This is not an accident. In fact, more than half of the jobs in the state workforce *require* at least a Bachelor's degree, because of the technical skills involved.

Table 1

Highest Educational Attainment	Average Earnings for State Workers, As Percent of Average Earnings for Private-Sector Workers
No High School Completion	54.9
High School Completion	93.2
Some College, No Degree	99.4
Associate's Degree	94.9
Bachelor's Degree	72.4
Master's Degree	62.2
Professional Degree	80.4
Doctoral Degree	76.1
Overall	102.3

Not surprisingly, earnings for workers with this type of educational attainment tend to be well above the average. If we look at all American full-time year-round workers with a Bachelor's degree in 2007, the average earnings were about $66,700. For those with a Master's degree, average earnings are more than $79,600. For those with a professional degree, the comparable figure is about $132,400, and for those with a doctorate, it is about $106,000. Thus, since the state workforce has an unusually high degree of educational attainment, it would be expected that their salaries would be above average. In fact, in view of their educational attainment, it is somewhat surprising that the state workers are not paid considerably more.

The data in the preceding paragraph are roughly comparable with data for Michigan, from the 2007 American Community Survey. These data, reported by the House Fiscal Agency, reveal that state employees earn *less* than their private-sector counterparts, on average, in *each* of eight different categories of educational attainment. The extent of the differences is shown in Table 1.[7]

Table 1 suggests that state employees and private-sector workers in Michigan receive salaries that are roughly comparable, for those with a high-school diploma and for those with a college education that did not end with a Bachelor's degree. However, for those with higher levels of educational attainment, the salaries of state workers fall well short of those of their private-sector counterparts.

A complete comparison of the earnings of state workers with the earnings of private-sector workers would require a sophisticated econometric analysis, controlling for a host of variables. Such an analysis is beyond the scope of this report. Nevertheless, at a minimum, the data in Table 1 contradict the widespread impression that state employees are grossly overpaid.

The last line in Table 1 shows the comparison between *all* state employees and all private-sector workers who were included in the surveys. When we do not control for educational attainment, the average state worker earned slightly *more* than the average private-sector worker. This highlights the dangers of simplistic earnings comparisons that do not control for factors such as education.

In the previous section, we documented the fact that the cuts in the state-employee workforce have been both substantial and widespread. These large employment reductions lead directly to large reductions in the amount of state funds that are

devoted to employee pay.

If we multiply the reductions in the state-employee workforce by the average salary, we can obtain an estimate of the approximate reduction in salary payments. The result is that, by 2008, the employment cuts are associated with an *annual* reduction of more than $600 million in salary payments alone, when we compare with the level of employment that existed in 2001.

As shown in Figure 1, the employment reductions have proceeded fairly steadily since 2001. The state-employee workforce has shrunk, year after year. The figure of more than $600 million in the preceding paragraph is based on a comparison of 2008 employment levels with 2001 employment levels. If we make a similar comparison with 2001, for each of the years from 2002 to 2008, we find an *average* annual reduction of more than $440 million in salary payments alone. Over the entire period, this comes to more than $3 billion.

Even though the state workforce has been reduced significantly, the work that many state employees are asked to do has not been reduced commensurately. Thus, the employees who do remain at work often find themselves in a very difficult situation, since there are practical limits on the ability to do more with less. It should be noted that many in the state workforce (such as social-service caseworkers) have jobs that involve direct personal contacts. In a job of this type, it is difficult to achieve major productivity gains through the use of labor-saving technology.[8] Thus, the workforce reductions can lead to real reductions in the quantity and quality of services that can be provided.

In the next section, we consider other changes in the employment situation, for those who still are employed by the State of Michigan.

Table 2
State Employee Wage Increases and Wage Concessions, Fiscal Years 2002-03 to 2008-09

Fiscal Year	Negotiated Increase	Banked Leave-Time Concession	Furlough	Net Change in Wage
2002-03	2.0%			2.0%
2003-04	3.0%	-5.0%	-2.0%	-4.0%
2004-05	4.0%	-4.0%		0.0%
2005-06	2.0%			2.0%
2006-07	4.0%			4.0%
2007-08	4.0%			4.0%
2008-09	0.0%		-2.4%	-2.4%

IV. Changes in Wages, Benefits, and Other Work Arrangements

More than two-thirds of state employees are covered by collective-bargaining agreements.[9] Collective-bargaining agreements negotiated in 2001, 2004, and 2007 led to wage increases ranging from zero to four percent per year. However, these increases can be misleading, unless they also include concessions in 2003-04 and 2004-05, and in the current fiscal year.

In 2003-04, under a program of "banked leave time", employees worked a 40-hour week, but were paid only for 38 hours. In 2004-05, a 40-hour week was associated with pay for only 38.4 hours. These are reductions of five percent and four percent, respectively. In 2003-04, employees were also required to take 40 hours of unpaid leave under a program of "furlough days". The banked-leave-time program is estimated to have saved $243.8 million for the State of Michigan, and the furlough-day program is estimated to have saved an additional $31.7 million. Another furlough program recently began in June, 2009. Before the end of the current fiscal year, a majority of state employees will take six furlough days.

Table 2 provides an overview of the negotiated wage agreements and the concessions.[10] It makes sense to see how these wage changes compare with the rate of inflation over the same period. The best-known measure of inflation is the Consumer Price Index (CPI).[11] A full comparison with the CPI for the entire period shown in Table 2 is not yet possible, since the 2008-09 contract stretches through September. However, if the CPI were to rise at three-tenths of one percent per month for the rest of this fiscal year, it would say that the cost of living has increased by 21.7 percent during the period covered by Table 2. If, instead, the inflation rate for the rest of this fiscal year is two-tenths of one percent per month, the cost of living would have risen by about 21.1 percent during the period.

The CPI has been criticized on technical grounds.[12] If we continue to assume that the inflation rate for the rest of this fiscal year is two-tenths or three-tenths of one percent per month, but if we instead use the Personal Consumption Expenditures deflator,[13] the increase in the cost of living is between 19.8 percent and 20.5 percent, for the period covered by Table 2.

If we look only at the second column of Table 2, with the officially negotiated increases, the total compounded increase over this seven-year period is approximately 20.5 percent. If this figure is compared with the increases in the cost of living, from the preceding paragraph, it could be said that the pay increases were almost identical to

the increases in the cost of living. However, this simple calculation does not account for the banked-leave-time program or the two furlough programs. These two concessions were sufficient to reduce the total amount of pay received over the period (without discounting) by about 1.6 percent. After this adjustment, the pay increases were slightly smaller than the overall change in the cost of living. (This compares very closely with the change in per-capita income for the state as a whole. From 2001 to 2008, per-capita income in Michigan decreased by about one percent, after adjusting for inflation.[14])

Table 2 presents the wage changes that have already occurred. It should also be noted that the current contract includes a one-percent increase, scheduled for October 1, 2009, and a three-percent increase, scheduled for October 1, 2010. (These changes do not apply to State Troopers and Sergeants.) Over the eight years to which we have given the most attention in this report, the average rate of inflation has been about 2.3% or 2.4%, depending on which price index is used. Thus, if the inflation trend of recent years were to continue for the next two years, the scheduled wage increases would fall slightly short of keeping up with the cost of living.[15]

The preceding paragraphs have dealt with salaries. However, fringe benefits are also an important part of the picture. In the collective bargaining agreement that took effect in October 2008, state employees (other than State Troopers) accepted significant changes to their health-insurance arrangements. As a result of these changes, state employees are experiencing a doubling of their premiums and deductibles. There are also increases in co-pays, and a new charge for an emergency-room visit. Consequently, the employee monthly cost for family coverage more than doubled, from approximately $68 per month in 2006-07 to approximately $142 per month in 2008-09. Before these changes, the employee health-care costs for state employees were lower than the average for other workers in Michigan. After the changes, the state employees faced higher-than-average costs. It is estimated that these changes will generate savings of $300 million for the State of Michigan, over the three-year life of the contract.

Pensions are another important fringe benefit. Before 1997, state employees were eligible for a defined-benefit pension plan. For new employees hired on or after March 31, 1997, the pension was switched to a defined-contribution plan. The Michigan Office of Retirement Services estimates that this change has resulted in savings of $143 million for the State of Michigan from 1997-98 to 2005-06. Over time, those hired since 1997 make up an ever-larger portion of the state workforce. Thus, the annual savings to the state are expected to grow.

V. Conclusion

We have briefly reviewed some key aspects of the employment relationship between the State of Michigan and its employees. We have four key findings:

- In this decade, the number of employees has dwindled substantially, even though workloads have not shrunk proportionally. As a result of the reductions in the workforce, salary payments by the State of Michigan have decreased by more than $3 billion.
- State employees with a high-school education or some college receive salaries that are roughly comparable with their counterparts in the private sector. However, because of the technical demands of many of the jobs performed by state employees, more than half have at least a Bachelor's degree. In terms of salaries, on average, these highly educated state employees fall substantially short of their private-sector counterparts.
- During this decade, salary increases for those who have remained on the payroll have been very close to the rate of inflation. In addition, from 2003 to 2005, state employees accepted a "banked-leave-time" program and a furlough program. These are estimated to have saved the State of Michigan approximately $275 million. Another furlough program began in 2009.
- Beginning in 2008, state employees also accepted increases in their health-insurance premiums, co-pays, and deductibles. Over the three-year life of the current contract, these changes are estimated to save the State of Michigan approximately $300 million. In addition, the switch from a defined-benefit pension system to a defined-contribution pension system is estimated to have saved $143 million for the State of Michigan through 2006, and those savings will accelerate over time.

If we add all of the elements listed here, the total is a saving for the State of Michigan of more than $3.7 billion.

It is far beyond the scope of this paper to determine the "optimal" size of the state workforce, or the "optimal" structure of salaries and fringe benefits for state workers. However, it is indisputable that state employees have already played a very considerable role in helping the State of Michigan to address its budgetary problems.

Notes

1. The Annual Workforce Reports are produced on a fiscal-year basis. In Michigan, the fiscal year begins on October 1 and ends on September 30. The most recent complete report is available at http://www.michigan.gov/documents/mdcs/29th_AWFR_Complete_266650_7.pdf .

2. In Figure 1 and subsequent figures, the years correspond to the calendar year during which the fiscal year comes to an end. Thus, for example, when Figure 1 refers to "2008", this refers to the average number of employees during the fiscal year that began on October 1, 2007, and ended on September 30, 2008.

3. It should be noted that information-technology employees from a variety of departments were consolidated into the new Department of Information Technology, beginning in 2002. Also, human-resources staffers were consolidated into the Civil Service Commission, beginning in 2007. Thus, a portion of the employment reductions shown in Figures 2(a) through 2(g) were due to reorganizations, rather than to outright decreases. However, the total employment in the Department of Information Technology and the increase in the Civil Service Commission represent only about four percent of the total number of state employees in 2008, and only about 3.2 percent of the total in 2001. Thus, the trends for individual departments shown in Figures 2(a) through 2(g) are indicative of genuine decreases in the number of employees. They are not merely the result of the reorganizations of the state workforce.

4. This report, for the Second Quarter of the 2008-2009 Fiscal Year, is available at http://www.michigan.gov/documents/mdcs/WF_2009_2nd_Quarter_Complete_275758_7.pdf#pagemode=bookmarks.

5. The data for this calculation are taken from http://www.census.gov/hhes/www/income/histinc/p32.html. Data for 2008 are not yet available. We report data for the entire United States, because of the lack of high-quality data at this level of disaggregation for the individual states.

6. See "Civil Service Salary and Benefit Comparisons", prepared by the House Fiscal Agency in November 2008.

7. The comparison in Table 1, like any comparison, must be viewed in context. It is based on a survey that includes some university workers, as well as civil service workers. It does not involve a comparison with public-school teachers, because of differences in work schedule, and it does not involve a comparison with workers in hotel and restaurant chains, because of the lack of comparable jobs. In addition, it does not control for a wide variety of factors that could influence wage levels, such as the perceived riskiness of the job. If state workers are perceived to have greater job security than those in the private sector, this would be expected to result in lower wages for state workers, all else equal. The comparison also does not control for age. However, if we were to control for age, the shortfall of state-worker salaries is even more remarkable, since state workers are a few years older, on average, than their private-sector counterparts.

8. The best-known discussion of these issues is William J. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis", American Economic Review 57: 415-426.

9. According to civil-service rules, employees in supervisory, managerial, and confidential positions are not eligible for collective bargaining. Also, some groups of employees who are eligible for collective bargaining have not elected representatives.

10. Table 2 simplifies the wage increases in 2005-06, 2006-07, and 2007-08. In fact, only half of these wage increases came at the beginning of the fiscal year. The other half did not become effective until April. Thus, in present discounted value, the actual increases are slightly smaller than the increases shown in Table 2, since a two-percent increase in October and a two-percent increase in the following April is worth less to the employee than a four-percent increase in October.

11. Data for the Consumer Price Index are available at the website of the Bureau of Labor Statistics, at http://stats.bls.gov/cpi/. The calculations reported here use seasonally adjusted monthly data.

12. For example, see Michael J. Boskin, Ellen R. Dulberger, Robert J. Gordon, Zvi Griliches, and Dale W. Jorgenson, "Consumer Prices, the Consumer Price Index, and the Cost of Living," Journal of Economic Perspectives 12: 3-26.

13. Data for the Personal Consumption Expenditures deflator, as well as a host of other price indexes, are available from the website of the Bureau of Economic Analysis. See Table 1.1.4 at http://www.bea.gov/national/nipaweb/SelectTable.asp?Selected=N.

14. The per-capita income data are from the Bureau of Economic Analysis, at http://www.bea.gov/regional/index.htm#state. The inflation adjustment is based on the Personal Consumption Expenditures deflator.

15. In 2008, the U.S. financial system suffered its greatest shocks since the Great Depression. In an effort to limit the damage, the Federal Reserve has injected unprecedented amounts of liquidity into the economy. Some observers have suggested that this will lead to a substantial increase in inflation. The economy is sufficiently complex that macroeconomic forecasting is never easy, and the difficulties of forecasting are even greater in the current situation. However, it should be acknowledged that there is a real possibility of a substantial increase in the rate of inflation in the next few years. If that were to occur, the margin by which the scheduled wage increases for state employees would fall short of the inflation rate would be correspondingly wider.