The Retrenchment of the State Employee Workforce in Michigan

Charles L. Ballard  
Department of Economics  
Michigan State University  
East Lansing, MI 48824-1038  
b Pallard@msu.edu

Nicole S. Funari  
Federal Aviation Administration  
800 Independence Avenue, S.W.  
Washington, D.C. 20591

August 17, 2009
The Retrenchment of the State Employee Workforce in Michigan

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.
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-
more than their counterparts nation-

tal State employees are paid slightly

the surface, it might appear that the

ger, and 7.2 percent have a doctor-

16.5 percent have a Master’s degree,

workers who completed their

gan employees have substantial

experience, and they are unusually

state workforce

Especially during the 1980s and

90s, there were rapid increases in

number of persons incarcerated in

ichigan prisons. As a result, employ-
nent in the Department of Correc-
tions increased from fewer than 2000

2000 (in the 1960s) to more than

8,000 (in 2001). However,

Figure 2(g) shows that the Depar-
tment of Corrections has not been

spared from employment reductions

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 quar-
terly report, the current average

annual salary of State of Michigan

classified employees is $54,246. Thus,

In 2007, for full-time year-round

workers in the United States, av-

age annual earnings in the labor

market were $51,588. Thus, on

the surface, it might appear that the

state employees are paid slightly

more than their counterparts nation-

wide. However, the State of Michi-
gan 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,

6.5 percent have a Master’s degree,

3.6 percent have a professional de-

gree, and 7.2 percent have a doctor-

ate. Thus, a total of nearly 55 per-
cent 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.

Not surprisingly, earnings for

workers with this type of educa-
tional 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 com-

parable 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 attain-

ment, it would be expected that their

salaries would be above average. In

fact, in view of their educational at-
tainment, it is somewhat surprising

that the state workers are not paid

considerably more.

The data in the preceding para-

graph are roughly comparable with
data for Michigan, from the 2007

American Community Survey. These
data, reported by the House Fiscal
Agency, reveal that state em-

ployees 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.

Table 1 suggests that state em-

ployees 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. How-
ever, for those with higher levels of

educational attainment, the salaries

of state workers fall well short of

those of their private-sector coun-

terparts.

A complete comparison of the

earnings of state workers with the

earnings of private-sector work-

ers 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 mini-
mum, 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 av-

erage 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 doc-
umented 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

Table 1

<table>
<thead>
<tr>
<th>Highest Educational Attainment</th>
<th>Average Earnings for State Workers, As Percent of Average Earnings for Private-Sector Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No High School Completion</td>
<td>54.9</td>
</tr>
<tr>
<td>High School Completion</td>
<td>93.2</td>
</tr>
<tr>
<td>Some College, No Degree</td>
<td>99.4</td>
</tr>
<tr>
<td>Associate’s Degree</td>
<td>94.9</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>72.4</td>
</tr>
<tr>
<td>Master’s Degree</td>
<td>62.2</td>
</tr>
<tr>
<td>Professional Degree</td>
<td>80.4</td>
</tr>
<tr>
<td>Doctoral Degree</td>
<td>76.1</td>
</tr>
<tr>
<td>Overall</td>
<td>102.3</td>
</tr>
</tbody>
</table>
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. 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.

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

More than two-thirds of state employees are covered by collective-bargaining agreements. 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. 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). 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. 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, 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
living.15 would fall slightly short of keeping up with the cost of living. If the inflation trend of recent years were to continue, 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 short of keeping up with the cost of living.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 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.


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.


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.


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.


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.