



The Research Bureau

Public Employee Benefits and the New Normal

The Great Recession has impacted both the private and public sectors, but not in the same way and certainly not to the same extent, as two recent reports have shown.

In December, *USA Today* released a study of the Federal government's employment practices since December 2007. They found that the number of Federal employees making over \$100,000 has risen by 46% during the recession. While the private sector has lost 7.3 million jobs (-6.3%), the Federal government has actually gained 192,700 jobs, an increase of about 10%. The average Federal worker's pay now stands at \$71,206, compared with \$40,331 in the private sector.

In January, the U.S. Bureau of Labor Statistics released its annual report on union membership. For the first time in American history, more union members work for the government than in the private sector. This is due not only to the recession's severe impact on traditionally unionized sectors like manufacturing and construction, but also the relief that government spending has provided to union jobs in the public sector. For example, many teaching positions were spared by the \$80 billion in Federal stimulus funding that has gone to create and preserve jobs in K-12 public education. Only 7.2% of private sector workers nationwide belong to a union vs. 37.4% of government workers, and 46.8% of local government workers.

It used to be said that government workers were paid less than private sector employees which justified the superior benefits and job security afforded to public employees. These two reports, however, provide some of the more recent evidence that this has not been true for some time. There is no question that the benefits are still very good (most workers can only dream of the defined benefit retirement plans and health benefits enjoyed by state and local government employees), but over the years, pay has increased as well, and unionization has played a significant role in this. While compensation for top-level public sector managers remains below those in the private sector, the average salary of a public employee, Federal, state, and local, now exceeds that of the average private sector worker. At the end of last year, the Bureau of Labor Statistics reported that state and local government employers spent an average of \$39.83 per hour for total employee compensation (34% of that on benefits), whereas the total compensation cost for workers in private industry averaged \$27.49 per hour (29% on benefits).

Of course, there are exceptions and public sector employees have not been completely spared during the recession. Unlike the Federal government, states and cities are required to balance their budgets and that has enforced greater fiscal restraint on their part. In order to balance the FY10 budget, Worcester's city manager had to eliminate over 200

municipal positions, including 90 layoffs. Worcester's total workforce has been in steady decline since the last recession: the city now employs around 25% fewer people in FY10 than it did in FY02, even including the Worcester Public Schools, which did not have to make any layoffs during last year's budget cycle.

But despite this decline in overall workforce, as well as other efforts that the city manager has made to reign in collective bargaining agreements and health insurance spending, it remains the case that Worcester spends more on benefits (health insurance and pensions) than any municipal service with the exception of public education. No other departmental budget comes close. As one municipal official recently put it to us while discussing the workforce reductions he has had to make in order to pay for municipal employee health insurance, "at this rate of spending, pretty soon, all we will be able to afford is health insurance."

During the recession, there has been much talk about the "new normal," and the hope that the recession's pain will lead to healthier financial practices about matters such as home-buying and credit-card debt. Many individuals have been forced as a matter of necessity to realign their desires with their capacities: will something similar occur in the public sector as well? With a Federal deficit at about \$1.5 trillion and state and local governments facing pension and health care liabilities that are also in the trillions, will there be a new normal in public finance? How much longer can these levels of spending be sustained?

Roberta R. Schaefer, Ph.D.
President & CEO
The Research Bureau

Stephen D. Eide
Research Associate
The Research Bureau